
BUSINESS

OVERVIEW OF OUR BUSINESS

We are one of the well-known chicken meat products suppliers in the Fujian Province and we sell our chicken meat products under the “森寶 (Sumpo)” brand. According to the China Meat Association (中國肉類協會), which is a non-profit making organization established by social enterprises from all over the PRC engaging in the production, slaughtering, processing and sales of meat and poultry, we ranked 44th out of 90 amongst the Competitive Enterprises of Meat Products Industry in the PRC (中國肉類食品行業強勢企業) in 2008. The assessment was based on the total sales of those enterprises during the year ended 31 December 2007, and with reference to their respective asset values, equipment, sizes of main business, sales, taxes paid, amount of exports, etc. Our Group was granted the awards of, inter alia, Fujian Province Well-known Trademark (福建省著名商標), Gold Award for Agricultural Enterprises in Fujian Province (福建省品牌農業企業金獎), Agricultural Industrialization 2008 – 2009 – Provincial Leading Enterprise (2008-2009年度農業產業化 – 省級重點龍頭企業) and Fujian Famous Brand Product (福建名牌產品). At the national level, our Group was granted the award of, inter alia, Agriculture Industrialization – National Leading Enterprise for Agriculture Industrialization (農業產業化 – 國家重點龍頭企業). We are currently capable of slaughtering and processing up to approximately 18,000,000 broilers per year. We are the supplier of chicken meat to KFC, Dicos and Mckey (which, in aggregate, accounted for approximately 12.3% of our total revenue in 2009) and other retail and quick-service restaurants. As at 31 December 2009, approximately 84% (in terms of percentage of our total revenue) of our customers (including our distributors) are located in the Fujian Province whilst approximately 16% of our customers are mainly located in other cities of the PRC such as Shanghai, Guangxi, Shantou, Shenzhen, Dongguan and Guangzhou, etc. We also sell some of our products through a number of distributors.

We produce our chicken meat products from white-feathered broilers. We have our own production facilities in the Fujian Province. We currently have 3 breeder farms, 1 hatching facility, 5 broiler breeding farms, 1 animal feeds production facility and 1 slaughtering and processing facility. We own the land on which our animal feeds production facility and slaughtering and processing facility are erected while we lease the land on which our breeder farms, hatching facility and broiler breeding farms are located.

Our production starts with the procurement of the Parent Stock Day-old Chicks from a third party supplier. We will breed the Parent Stock Day-old Chicks into breeders in our 3 breeder farms. The breeders will start to lay broiler eggs from approximately the 25th week to the 66th week after their birth. The broiler eggs are then hatched into chicken breeds in our hatching facility, which will take approximately 21 days. The chicken breeds are then delivered to our 5 broiler breeding farms or sold to the Contract Farmers for breeding. We manufacture animal feeds with our own production facilities and (i) deliver the same to our 5 broiler breeding farms and (ii) sell the same to the Contract Farmers. In the breeding of the chicken breeds, the Contract Farmers are required to purchase the animal feeds from our Group. The chicken breeds will grow into broilers within approximately 37 – 45 days. We will collect the grown broilers from our 5 broiler breeding farms and repurchase the grown broilers from the Contract Farmers, all of which will be delivered to our slaughtering and processing facilities for the production of our chicken meat products. During the Track Record Period, approximately 70% of the broilers used in our production are repurchased

BUSINESS

from the Contract Farmers while approximately 30% are grown in our broiler breeding farms. The broilers will be slaughtered, processed and packaged into our chicken meat products and sold to our customers and distributors.

As at 30 June 2010, we had Contract Farming arrangement with approximately 160 Contract Farmers. We enter into contract with each of the Contract Farmers each year so that we can encourage the Contract Farmers to continuously improve their breeding services and meet our requirements. In order to enhance the communication with the Contract Farmers, our Company and the Contract Farmers have established the Longyan Broiler Industry Association (龍巖市肉雞產業協會), which is a non-profit making organization established by entities and individuals engaging in the production, processing and sales of broilers, animal feeds and feeds additives, for dealing with various issues in connection with Contract Farming, such as the adjustment in the pricing mechanism and the quarantine measures, etc.

We are dedicated to ensuring the high standard of safety and quality of (i) the chicken meat products manufactured by us, and (ii) the raw materials for our production of animal feeds, the Parent Stock Day-Old Chicks, the broiler eggs and the chicken meat products procured from our suppliers who are Independent Third Parties. We have obtained (i) ISO14001 (Environment) and ISO22000 (Food Safety) Certificates in January 2006 and (ii) ISO9001 (Quality) Certificate in March 2008.

We have achieved growth in recent years. Our total revenue increased from approximately RMB436.4 million for the year ended 31 December 2007 to approximately RMB569.2 million for the year ended 31 December 2009, representing a CAGR of approximately 14.2%. Our profit attributable to the owners of our Company increased from approximately RMB42.5 million for the year ended 31 December 2007 to approximately RMB57.0 million for the year ended 31 December 2009, representing a CAGR of approximately 15.8%.

Set out below is the revenue of our Group by products during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Revenue										
Chicken meat products	331,446	75.9	362,104	61.6	364,395	64.0	158,164	60.7	201,736	67.3
Animal feeds	72,447	16.6	188,818	32.1	166,260	29.2	83,368	32.0	80,251	26.8
Chicken breeds	32,526	7.5	36,821	6.3	38,587	6.8	19,127	7.3	17,672	5.9
Total	436,419	100.0	587,743	100.0	569,242	100.0	260,659	100.0	299,659	100.0

BUSINESS

BUSINESS MILESTONES

The following table summarizes various milestones for the evolution of our Group into the present scale of operation:

Time	Event
October 1999	We started to construct: <ul style="list-style-type: none">● our own hatching facility, which was capable of hatching 5,000,000 chicken breeds per year; and● our own slaughtering and processing facility, which was capable of slaughtering and processing up to 6,000,000 broilers per year.
2000	We established our first broiler breeding farm.
July 2000	We established our first breeder farm.
2001	We established another two broiler breeding farms, after that we had an aggregate of three broiler breeding farms.
June 2003	We established another two breeder farms and since then, we have an aggregate of three breeder farms.
August 2003	We installed equipment in our hatching facility and since then, the annual hatching capacity of our hatching facility has been increased to 20,000,000 chicken breeds per year.
2004	After a series of expansion, our slaughtering and processing facility was capable of slaughtering and processing up to 10,500,000 broilers per year from 2004 onwards.
2005	We have further expanded our slaughtering and processing facility and its annual slaughtering and processing capacity was increased to 15,000,000 broilers from 2005 onwards.
21 June 2007	We entered into asset transfer agreement with Longyan Baoshun Poultry Technology Company Limited (“Longyan Baoshun”), pursuant to which Longyan Baoshun agreed to sell, and we agreed to acquire, the animal feeds production facilities of Longyan Baoshun with an annual production capacity of 180,000 tonnes. After completion of such acquisition, we had our own animal feeds production facilities.
2008	After making certain improvement to the slaughtering and processing facility, we have been able to slaughter and process up to 18,000,000 broilers per year from 2008 onwards.

BUSINESS

Time	Event
April 2008	We established two more broiler breeding farms and since then, we have an aggregate of five broilers breeding farms.

PRODUCTION

Production Facilities

We have our own production facilities, which are located in Longyan, Fujian. We currently have 3 breeder farms, 1 hatching facility, 5 broiler breeding farms, 1 animal feeds production facility and 1 slaughtering and processing facility. We are currently capable of (i) breeding (through our broiler breeding farms and the Contract Farmers) approximately 16,500,000 broilers per year and (ii) slaughtering and processing approximately 18,000,000 broilers per year.

As disclosed in the section headed “Future Plans and Use of Proceeds” of this prospectus, our Group intends to construct a new slaughtering and processing plant and establish new breeders farms, hatching facilities and new broiler breeding farms.

The table below sets out our total production capacities before and after the construction of new facilities, the sources of fund for the construction of the new facilities and other relevant information:

Existing facilities	Production capacity of existing facilities per year as at 30 June 2010 (approximate)	Utilization rate as at 30 June 2010	New facilities	Total production capacity per year after expansion (including existing facilities) (approximate)	Expected completion date	Estimated capital expenditure (RMB million) (approximate)	Sources of fund (approximate)
1 slaughtering and processing plant	18,000,000 broilers	93.4%	1 new slaughtering and processing plant	54,000,000 broilers	End of 2011	250.67	Internal resources and debt financing
3 breeder farms	210,000 sets <i>(Note)</i>	80.3%	10 new breeder farms	615,000 sets	First half of 2011 (3 new breeder farms) By 2012 (7 new breeder farms)	98	Proceeds from the Share Offer
1 hatching facility	20,000,000 chicken breeds	91.2%	1 new hatching facility	58,900,000 chicken breeds	First half of 2011	17	Proceeds from the Share Offer

BUSINESS

Existing facilities	Production capacity of existing facilities per year as at 30 June 2010 (approximate)	Utilization rate as at 30 June 2010	New facilities	Total production capacity per year after expansion (including existing facilities) (approximate)	Expected completion date	Estimated capital expenditure (RMB million) (approximate)	Sources of fund (approximate)
5 broiler breeding farms	5,500,000 broilers	100%	10 new broiler breeding farms	15,500,000 broilers	End of 2011 (5 new broiler breeding farms)	140	Proceeds from the Share Offer (as to RMB112 million);
					End of 2012 (5 new broiler breeding farms)		Internal resources and debt financing (as to RMB28 million)

Note: Each female breeder that has been matched with a male breeder for fertilization constitutes one set of breeders. Hence, the number of female breeders is equal to the number of the sets of breeders. For the year ended 31 December 2009, the overall proportion of male breeders and female breeders was approximately 1:8.67.

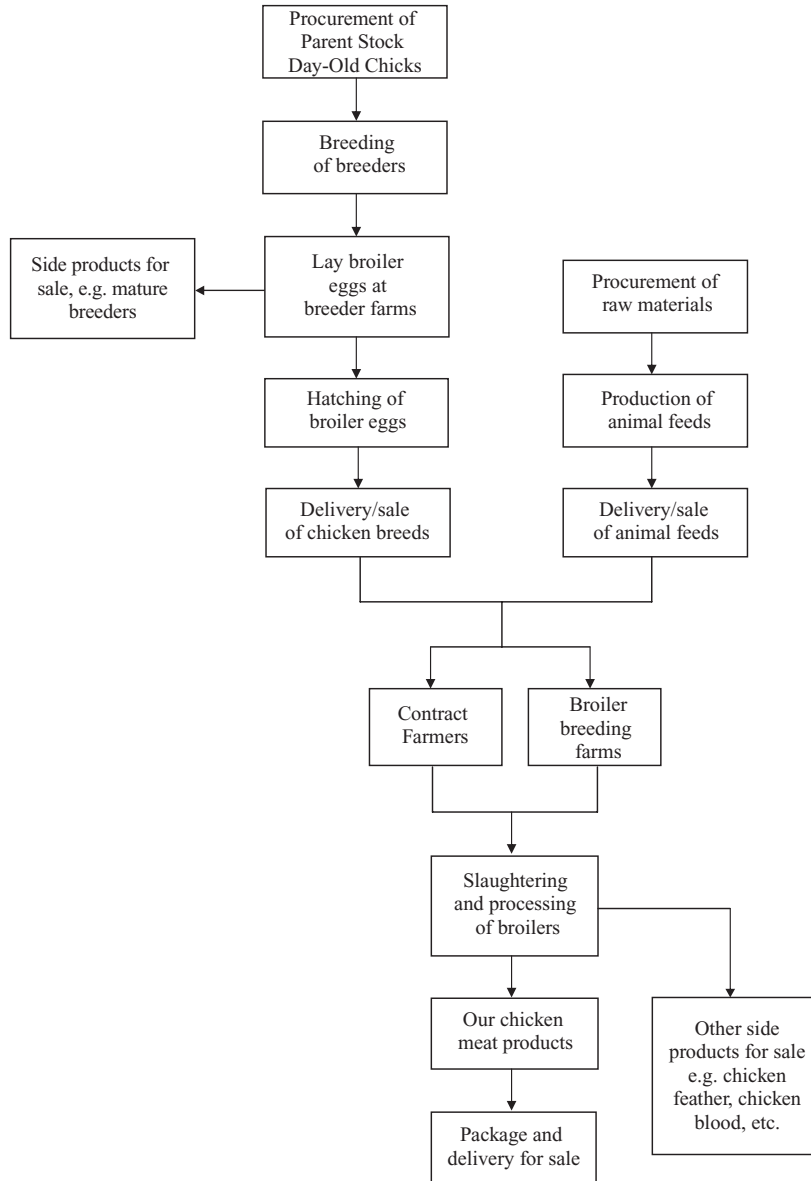
We own the buildings where our animal feeds production facility, slaughtering and processing facility and head office are located and the relevant land on which such buildings are erected and we have obtained the relevant land-use rights certificates and building titles certificates.

We do not own the land on which our breeder farms, hatching facility and broiler breeding farms are located. We enter into lease agreements with the relevant lessors, most of which are village committees or government institutions.

BUSINESS

Production Process

Our production process is set out as follows:



BUSINESS

Procurement of Parent Stock Day-Old Chicks and breeder farms

Our production process starts with our purchase of Parent Stock Day-Old Chicks from Beijing Arbor Acres Poultry Breeding Co., Ltd., an Independent Third Party (the “DOC Supplier”). According to the information published on the website of the DOC Supplier, it is a breeding company in the PRC that produces Arbor Acre Parent Stock broiler breeders. Since its establishment in 1988, the DOC Supplier has been continuously importing grandparent stock breeders to produce and market Arbor Acre Plus (AA+) Parent Stock Day-Old Chicks for sale. Our Group chooses to procure the Parent Stock Day-Old Chicks from the DOC Supplier because the vaccines and quality of the Parent Stock Day-Old Chicks and the number of Parent Stock Day-Old Chicks per batch supplied by the DOC Supplier satisfy the requirements of our Group.

The main terms of the supply contract between our Group and the DOC Supplier are set out below:

- the DOC Supplier shall supply such number of quality AA+ Parent Stock Day-Old Chicks during such period as specified in the contract;
- the Parent Stock Day-Old Chicks shall be vaccinated;
- the DOC Supplier shall deliver the relevant certificates to our Group, including the avian influenza free certificate, the quarantine certificate and the quality poultry certificate;
- the DOC Supplier shall deliver the Parent Stock Day-Old Chicks to the breeder farms of our Group; and
- our Group shall pay a portion of the purchase price on or before a specified date as set out in the contract before the delivery of the Parent Stock Day-Old Chicks and the remaining balance shall be paid by our Group within one month after our Group has inspected and accepted the delivery of the Parent Stock Day-Old Chicks.

By procuring the Parent Stock Day-Old Chicks solely from the DOC Supplier, we can lower the transportation cost as compared with purchasing the same from the US directly and ensure the quality of our chicken meat products is consistent as far as possible. Nonetheless, there are a number of other suppliers in the PRC from which we may procure such Parent Stock Day-Old Chicks of comparable quality. Some of these suppliers are also located in Beijing with competitive breeding capacities on grandparent stock breeders and Parent Stock Day-Old Chicks. Therefore, the Directors are of the view that our business and production will not be adversely affected in the event that the DOC Supplier ceases to supply the Parent Stock Day-Old Chicks to us.

The costs for procuring the Parent Stock Day-Old Chicks from the DOC Supplier for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were approximately RMB1.6 million, RMB4.7 million, RMB2.7 million and

BUSINESS

RMB1.4 million respectively, representing 0.5%, 1.0%, 0.5% and 0.5% of our costs of sales during the same period respectively. The unit cost of the Parent Stock Day-Old Chicks ranged from RMB14 per piece to RMB35 per piece during the Track Record Period.

The Parent Stock Day-Old Chicks will be delivered to our breeder farms in the Fujian Province according to our timetable. The Parent Stock Day-Old Chicks will then be grown in our breeder farms for the purpose of laying broiler eggs. As at 30 June 2010, we have 3 breeder farms, which can accommodate up to approximately 210,000 sets of Parent Stock Day-Old Chicks.

We have installed automated feeding facilities in the breeder farms. The Parent Stock Day-Old Chicks will be grown into breeders in our breeder farms and start to lay broiler eggs from approximately the 25th week to the 66th week after their birth. For each 66-week cycle, each set of the Parent Stock Day-Old Chicks procured by us can, on average, lay approximately 167 broiler eggs which satisfy the quality requirements of our Group.

In order to ensure that our Parent Stock Day-Old Chicks are not infected by epidemics or other diseases or viruses, strict hygiene measures are implemented in our breeder farms. Only specific staff are allowed to enter into the breeder farms and other people who want to enter into the breeder farms are required to undergo comprehensive quarantine procedures including, inter alia, staying in the premises specified by our Group for a certain number of days before entering into the breeder farm. All the transportation vehicles entering and exiting the breeder farms are also required to undergo specific sterilization procedures.

After the 66th week, those mature breeders will be sold and will not be used for the production of our chicken meat products. The revenue derived from the sales of such grown breeders for each of the three years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010 were approximately RMB1.4 million, RMB2.8 million, RMB3.7 million and RMB1.0 million respectively. These revenues were recorded as “other revenue and gains” in the statements of financial position of our Group generated from the sales of our side products and do not form part of the revenue of our main business.

During each of the two years ended 31 December 2008, we have procured some of the broiler eggs from other third party suppliers which satisfy the quality requirements of our Group, representing approximately 15% and 3% of the total quantity of the broiler eggs used for our production during the same period respectively. Our Group has ceased procuring broiler eggs from third party suppliers since 2009.

Hatching

After the mature breeders grown from Parent Stock Day-Old Chicks lay the broiler eggs, we collect and deliver the same to our hatching facility. We select those broiler eggs that can satisfy our quality requirements.

We have our own hatching facility, which is capable of hatching 20,000,000 broiler eggs each year. Broiler eggs are incubated in machines and we carefully monitor and maintain the optimum temperature and humidity throughout the entire hatching process. It

BUSINESS

generally takes approximately 21 days for broiler eggs to be hatched. Hatched chicken breeds are inspected, selected, vaccinated and then delivered to either our broiler breeding farms or the Contract Farmers.

Broiler breeding farms and Contract Farmers

The hatched chicken breeds will be delivered to our broiler breeding farms or the Contract Farmers. As at 30 June 2010, we had:

- (1) 5 broiler breeding farms, which can grow an aggregate of approximately 5,500,000 broilers per year; and
- (2) engaged approximately 160 Contract Farmers, which can grow an aggregate of approximately 11,000,000 chicken breeds per year.

After such chicken breeds are grown up into white-feathered broilers, they will be used to make our chicken meat products. It usually takes approximately 37 – 45 days to breed a chicken breed to a broiler ready for slaughtering. The table below shows the approximate percentage of the sources of our broilers delivered for slaughtering and processing during the Track Record Period:

	Year ended 31 December		Six months ended 30	
	2007	2008	2009	June 2010
Broiler breeding farms	26.9%	28.8%	30.8%	32.6%
Contract Farmers	73.1%	71.2%	69.2%	67.4%

Broiler breeding farms

We have 5 broiler breeding farms, on which a number of broiler sheds are erected and can accommodate an aggregate of not less than 1,000,000 chicken breeds each cycle. Each broiler breeding farm can undergo 5.5 cycles each year and accordingly, the broiler breeding farms can breed in aggregate not less than 5,500,000 broilers per year.

We have specific requirement on the population density of broilers in each broiler shed in order to ensure the even distribution of broilers in the broiler shed. The average population density of broiler in each broiler shed is 9.5 heads per square metre. To the best knowledge of our PRC legal advisors, there are no legal requirements in the PRC on the density of the broilers in the broiler shed.

We have installed automated feeding facilities in the broiler sheds of the broiler breeding farms. We carefully monitor and maintain the optimum temperature and humidity throughout the breeding process.

BUSINESS

In order to ensure that our broilers are not infected by epidemics or other diseases or viruses, strict hygiene measures are implemented in our broiler breeding farms, including:

- specific staff are delegated with the tasks of managing specific sheds in the broiler breeding farms and are required to live in their responsible sheds;
- we apply vaccines obtained by us from authorized manufacturers in the PRC to the broilers, which help to prevent newcastle disease, infectious bronchitis, avian influenza and infectious bursal disease;
- other people who want to enter into the sheds are required to undergo certain hygiene procedure and all the transportation vehicles entering and exiting the broiler breeding farms are also required to undergo specific sterilization procedure;
- our broiler breeding farms are located in areas which are far away from human activities and establishments, providing the optimum environment for the breeding of our broilers. The distance between the farmlands of our broiler breeding farms shall be no less than 500 metres; and
- we adopt an “all-in-all-out” policy, which means that we will deliver all chicken breeds into one shed at the same time and collect all broilers in one shed for slaughtering at the same time. This enables us to easily trace the source of broilers in the event that any epidemics or other diseases break out among those broilers.

After a shed in the broiler breeding farms is vacated, it will be sterilized before another batch of chicken breeds are moved in for breeding.

Contract Farmers

Apart from breeding the chicken breeds in our own broiler breeding farms, we also delegate the breeding tasks to the Contract Farmers.

The table below shows the number of the Contract Farmers engaged by us as at 1 January 2007, 1 January 2008, 1 January 2009, 1 January 2010 and 30 June 2010 respectively and the change in the number of the Contract Farmers during these periods:

Date	Number of Contract Farmers	Change in the number of Contract Farmers (Note)
1 January 2007	177	N/A
1 January 2008	172	-5
1 January 2009	170	-2
1 January 2010	173	+3
30 June 2010	166	-7

BUSINESS

Note: Change in the number of the Contract Farmers is determined by comparing with the number of the immediately preceding period as set out in the table. The decrease in the number of the Contract Farmers was due to, inter alia, expiry of the relevant contracts with some of the Contract Farmers. We have never terminated any of our contracts with our Contract Farmers before their expiry dates.

As at 30 June 2010, we have contractual relationships with approximately 160 Contract Farmers. All the Contract Farmers who provide contract farming services to us are individuals acting in their personal capacities. The breeding capacities of the Contract Farmers range from approximately 4,500 broilers to approximately 48,000 broilers per cycle. The Contract Farmers are not allowed to provide farming services to other parties during the term of their contracts with us.

In the opinion of the Reporting Accountants, although there is lack of freedom of choice on the part of the Contract Farmers, the whole arrangement of selling hatched chicken breeds to the Contract Farmers and repurchasing the broilers thereafter is accounted for as separate purchases and sales transactions as (i) the risks and rewards of hatched chicken breeds are transferred to the Contract Farmers upon delivery and sales of chicken breeds; and (ii) the risks and rewards of the broilers are transferred to our Group upon repurchasing the broilers from the Contract Farmers and our Group's receipt of the same. Since the risks and rewards have been transferred upon delivery of chicken breeds and receipt of broilers, the Sponsor concurred with the view of the Reporting Accountants.

The term of the contracts between our Group and the Contact Farmers is for one year, subject to renewal upon expiry should our Group consider appropriate. We have maintained good relationships with the Contract Farmers over the years and have contractual relationship of more than 5 years with most of the Contract Farmers.

Major terms of the contracts with the Contract Farmers

The major terms of the contracts entered into between our Group and the Contract Farmers are as follows:

- the Contract Farmers shall purchase all chicken breeds and animal feeds from us at the agreed prices as specified in the contracts subject to adjustments determined by us, and are prohibited from purchasing any animal feeds, chicken breeds, other ingredients, medicine, vaccines or equipments from other third parties. In the event that the Contract Farmers are found to be in contravention of this requirement, we may refuse to repurchase the broilers from them;
- if the Contract Farmers identify any defect in the quality of the chicken breeds during the course of breeding, and such defect is due to the fault of the Contract Farmers, the Contract Farmers will be liable for the same. In the event that any chicken breeds are lost due to any reason beyond the control of our Group and the Contract Farmers, our Group will not be liable for such losses. The Contract Farmers shall decide themselves as to whether they should purchase insurance in this regard;

BUSINESS

- we will repurchase from the Contract Farmers, and the Contract Farmers shall be obliged to sell to us, all broilers which satisfy our requirements at the agreed prices, subject to adjustments. We categorize the broilers according to their weights measured by sampling and different repurchase prices will apply to broilers of different weight groups, with the highest prices for broilers with weight within a specific range and lower prices for broilers with weight above or below the said range. The repurchase price will then be calculated with reference to the number of broilers delivered to our Group by the Contract Farmers. We may adjust the prices with reference to the market circumstances and ensure that the Contract Farmers will have certain amount of profit for each broiler sold to our Group;
- the Contract Farmers are prohibited to sell the broilers grown from the chicken breeds supplied by us to any customers other than our Group. If the Contract Farmers are found to be in breach of this restriction, they are liable to pay us penalties as specified in the contract as compensation;
- we may unilaterally terminate the contracts in the following circumstances:
 1. the Contract Farmers are found to have purchased any animal feeds, chicken breeds, other ingredients, medicine, vaccines or machinery from other third parties; and
 2. the Contract Farmers engage in any activities that will severely affect the production of our business;
- in the event that more than 1% of the chicken breeds delivered to a Contract Farm died within one week after delivery, we may proceed to investigate on the cause of death. If such death arises due to the fault of our Group, we will be liable for the losses; and
- if either party is in breach of any of the terms of the contract, the other party may terminate the contract and the defaulting party must compensate the non-defaulting party for any loss arising from the breach.

Compliance of our Group's quality requirements

In order to ensure that the operations of the Contract Farmers meet our Group's quality requirements, we have adopted the following preventive measures:

- before entering into contract with a potential Contract Farmer, we will first inspect the surrounding environment of the farmland where the Contract Farm is going to operate. If the farmland satisfies our requirements, we will delegate our staff to liaise with the potential Contract Farmer on the installation of the relevant breeding facilities and other ancillary facilities. We will also conduct site visit to assess the internal environment, management system and raw material

BUSINESS

management of the relevant farmland. If the farmland and the relevant facilities satisfy our requirements, we will enter into contract with the potential Contract Farmer;

- after entering into contracts with the Contract Farmers, we require the Contract Farmers to sterilize the Contract Farms every week, and the sterilization materials used by them must be changed frequently;
- waste materials generated from the production of broilers and the waste materials of the staff shall be disposed of in a centralized system to prevent environmental pollution;
- dead broilers must be buried or burnt and the locations for burial of dead broilers should be far away from the Contract Farms;
- we require the Contract Farmers to carry out the following procedures:
 1. observe by eye the state of consciousness of the broilers and the distribution of the broilers within the broiler sheds daily;
 2. listen to the broilers' breathing sounds at night;
 3. observe by eye the shape and colour of the excreta of the broilers;
 4. observe by eye the growth of the broilers' feathers and muscles;
 5. observe by eye the broilers' diet habits;
 6. record the type and quantity of animal feeds and volume of water consumed by the broilers daily;
 7. record the usage and dosage of medicine and vaccines applied to the broilers daily;
 8. record the weight of the broilers twice a week;
 9. record any special circumstances;
- we require the Contract Farmers to report the above observations to us from time to time;
- we will conduct sample test on the broilers supplied by the Contract Farmers. The broilers are not allowed to be slaughtered before the test is conducted;
- we will conduct annual review on the Contract Farmers and in the event that any of the Contract Farmers cannot pass our annual review, they will be removed from our list of Contract Farmers;

BUSINESS

- we will conduct medicine test on the broilers supplied by the Contract Farmers when we repurchase the broilers from them. In the event that any of the Contract Farms is discovered for 2 times to have used excessive amount of medicine, we will cease using the Contract Farming services from such Contract Farm; and
- for those Contract Farmers who are determined by our Group to be highly risky (e.g. when there is any infection of animal disease found in their Contract Farms), we will (i) delegate our staff to liaise and communicate with them in order to ensure that they comply with our requirements and (ii) increase the number of site visits to those Contract Farms. In the event that such Contract Farmer is still in violation of our requirements, we will remove him from our list of Contract Farmers.

Prevention measures on animal diseases

In order to minimize the risks that our Group's broilers are infected by animal diseases, the following measures are required to be adopted by the Contract Farmers:

- the Contract Farmers are required to use the medicines and vaccines provided by our Group;
- all transportation vehicles and staff going into the Contract Farms are required to undergo sterilization procedure;
- no trees and other plantations with heights of more than 2 metres are allowed in the farmland;
- all grass within a certain area around the broilers sheds shall be removed;
- all waste materials shall not be accumulated in the farmland;
- no wild bird shall be allowed to stay in any buildings erected on the farmland;
- the Contract Farms shall implement pest control measures;
- each of the Contract Farmers is required to record the death rate and the feeds, vaccines and medicines applied to the broilers every day and to submit such records to our Group upon delivery of the grown broilers to our Group;
- our staff will contact the Contract Farmers by phone at regular intervals in order to update the growth status of the broilers and identify any Contract Farms at which site visits are required;
- in the event that more than 1% of the chicken breeds delivered to the Contract Farm die within one week after delivery, we will proceed to investigate the causes of such death;

BUSINESS

- before our Group collects the broilers from a Contract Farmer, the relevant Contract Farmer shall be required to provide the certificate issued by the relevant PRC governmental authority responsible for quarantine, certifying that the relevant batch of broilers pass the quarantine requirements;
- all lorries and baskets for the purpose of transporting the broilers from the Contract Farms to our slaughtering and processing facilities are required to be sterilized from time to time; and
- we have the right to refuse to repurchase those broilers which are infected by diseases or injured.

Emergency measures

We have implemented comprehensive emergency procedures to deal with the outbreak of animal diseases in those broilers raised by the Contract Farmers. If the daily death rate of broilers exceeds 0.3% such that there is possibility of an outbreak of infectious diseases (other than newcastle disease and avian influenza), it will be categorized as a level two outbreak and the Contract Farmers are required to inform us of the same by phone as soon as possible. Our staff and veterinarian team will attend the relevant Contract Farm to assess the situation. If they determine that there is an outbreak of animal diseases, they will formulate the appropriate measures to deal with the situation, such as (i) quarantine of those broilers which have been infected or are suspected of having been infected from those healthy broilers and imposing restrictions against the movement of people and vehicles in the quarantine area, (ii) closure of the relevant broiler shed or farm in accordance with the regulations of the relevant governmental authority, (iii) sterilization of all objects, broiler shed and the ground with specific sterilizing agent, (iv) vaccination of those healthy broilers, and (v) if the circumstances require the mass killing of broilers under the relevant PRC laws and regulations, proceeding with the mass killing of broilers under the supervision of the officials from the relevant PRC governmental authority and recording the details of the same. If the daily death rate of broilers exceeds 0.5% or there is any suspicious case of newcastle disease or avian influenza, it will be categorized as a level one outbreak whereupon we will report the same to the relevant local governmental authority within 24 hours after being notified of the same.

As at the Latest Practicable Date, our Group had 9 veterinarians who have passed the national veterinarian qualification examination of the PRC. Those veterinarians or our technical staff are required to conduct site visits to each Contract Farmer 4 times during each growing cycle of the broilers.

The Directors have confirmed that there has been no infection case found in the broilers bred by our Group and the Contract Farmers during the outbreak of avian influenza in 2004 and 2005 and during the Track Record Period.

BUSINESS

Hygiene requirements

To satisfy our Group's hygiene requirements, we have further implemented the following measures to ensure the hygienic conditions of the Contract Farms:

- all facilities and equipment must be cleansed and sterilized before and after use;
- staff's clothes must be sterilized everyday;
- the walls and floors of the broiler sheds must be easy to wash; and
- the premises must be sterilized with special sterilizing materials.

In terms of licensing and other legal requirements in connection with the Contract Farmers, please refer to the sub-paragraph headed "Licensing" of the paragraph headed "Quality Assurance" under this section.

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; and
- save for the Contract Farming arrangements as disclosed in this prospectus, the Contract Farmers do not have any relationship or dealing with our Group, our substantial Shareholders, Directors, senior management or any of their respective associates and are Independent Third Parties.

Our PRC legal advisors have confirmed that the contracts entered into between our Group and the Contract Farmers as well as the Contract Farming arrangement do not contravene any mandatory provisions of the PRC laws and regulations.

BUSINESS

Animal feeds production

Our broiler breeding farms and the Contract Farmers are required to use the animal feeds manufactured by our animal feeds production facility.

We have our own animal feeds production facility. Our animal feeds production facility occupy a site area of approximately 22,000 sq. m. with a gross floor area of approximately 10,000 sq. m.. We have an aggregate annual animal feeds production capacity of 180,000 tonnes and the details of animal feeds sold during the Track Record Period are as follows:

	Year ended 31 December			Six months ended
	2007	2008	2009	30 June 2010
	(Tonnes)	(Tonnes)	(Tonnes)	(Tonnes)
Chicken feeds	26,287	52,042	55,661	26,918
Pig feeds	1,961	8,881	6,546	3,422
Other feeds	2,008	5,521	2,247	Nil

We procure the raw materials of our animal feeds, including corn, wheat and soya meal from Independent Third Parties. After processing, all animal feeds and other necessary ingredients are then mixed in the required ratio. Lastly, our animal feeds will be delivered to the Contract Farmers while the same will be delivered directly to our breeder farms and broiler breeding farms by lorries specialized for delivery of animal feeds.

During the Track Record Period, our Group also sold animal feeds to Longyan Baoxing. We will cease selling animal feeds to Longyan Baoxing immediately upon Listing.

As the chicken feeds consumed by our chicken breeds are different from other animal feeds that were consumed by other animals such as yellow-feathered chicken or ducks, we also sold other animal feeds to Mr. Huang Youcai (黃悠財) for a total amount of approximately RMB14.89 million during the period between 6 January 2009 and 30 June 2009. Mr. Huang was the general manager of Longyan Baoshun Poultry Technology Company Limited (a company beneficially wholly-owned by Mr. Lin and a 38.26% shareholder of Xiamen Sumpo) during the period between April 2007 and January 2009. He subsequently resigned and commenced his own animal feeds business in early 2009. The Directors confirmed that the transactions between our Group and Mr. Huang were made on normal commercial terms and in the interests of our Group and our Shareholders as a whole.

To ensure the quality of our animal feeds, the whole production process of our animal feeds is controlled by a computerized central control system and we have quality control team to conduct random test on the animal feeds.

To improve the quality of our animal feeds, we conducted research and development on the composition and ingredients of our animal feeds, which aimed to enhance the economic efficiency in our production process. Please also refer to the paragraph headed “Research and Development” of this section.

BUSINESS

Slaughtering and processing

After the chicken breeds in our broiler breeding farms and the Contract Farms are grown up into white-feathered broilers, we will collect the broilers and deliver the same to our slaughtering and processing facility. We have our own slaughtering and processing facility which can slaughter and process up to 18,000,000 broilers per year. Our existing production facilities commenced operation in February 2000, occupying a site area of approximately 19,500 sq. m. and a gross floor area of approximately 9,800 sq.m..

In our slaughtering and processing facility, the broilers will be slaughtered, de-feathered, cleansed and cut into different parts to make different chicken meat products, including but not limited to, chicken wings, chicken breast, chicken legs etc. Please refer to the paragraph headed “Products” of this section for the details of our products.

After the chickens are cut into different parts, they will be weighted, frozen and packaged. We have our own refrigeration facilities which can store up to 1,000 tonnes of chicken meat products. Our products will then be delivered to our customers by refrigerated lorries of our Group or logistics companies. We enter into logistics services contracts with logistics companies to transport our chicken meat products for us at designated route and agreed fee as specified in the contracts.

In order to ensure that our chicken meat products are not contaminated, strict hygiene measures are implemented in our slaughtering and processing facilities, including:

- all our transportation vehicles are required to undergo sterilization procedure after one batch of broilers have been delivered to our slaughtering and processing facilities and vacated from the vehicles. Such vehicles will only proceed to collect and transport another batch of broilers after undergoing the said sterilization procedure;
- the movement of our staff inside the slaughtering and processing facilities is restricted. In particular, our staff in the slaughtering section are not allowed to enter into our processing section;
- all staff and other people entering into our processing section are required to undergo comprehensive hygiene procedures, including cleansing of hands and wearing of sterilized uniforms provided by our Group; and
- the indoor temperature of our processing facility is relatively low.

During the Track Record Period, we also procured certain chicken meat products from third party suppliers which satisfy our internal control requirements for sale to our customers. For details of our internal control requirements on third party suppliers of chicken meat products, please refer to the sub-paragraph headed “Licensing” of the paragraph headed “Quality Assurance” of this section. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the amount of chicken meat products procured by our Group from third party suppliers was approximately

BUSINESS

RMB24.0 million, RMB18.2 million, RMB9.2 million and RMB8.8 million respectively, representing approximately 7.2%, 3.7%, 2.0% and 3.9% of our total costs of purchases during the same period respectively.

PRODUCTS

Our main products include:

- (1) chicken meat products which are marketed under our brand name “Sumpo (森寶)”. We process most parts of the broilers into different types of chicken meat products, including, inter alia, whole frozen chicken, chicken wings, chicken breast, chicken legs etc. We also put different flavourings and seasonings into some of our chicken meat products;
- (2) chicken breeds to be sold to the Contract Farmers for the purpose of breeding into white-feathered broilers; and
- (3) animal feeds to be sold to (i) the Contract Farmers for the purpose of feeding the broilers and (ii) other third parties.

The following table sets out a breakdown of our revenue by product categories during the Track Record Period:

	Year ended 31 December				Six months ended 30 June					
	2007		2008		2009		2009		2010	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue										
Chicken meat products	331,446	75.9	362,104	61.6	364,395	64.0	158,164	60.7	201,736	67.3
Animal feeds	72,447	16.6	188,818	32.1	166,260	29.2	83,368	32.0	80,251	26.8
Chicken breed	32,526	7.5	36,821	6.3	38,587	6.8	19,127	7.3	17,672	5.9
Total	436,419	100.0	587,743	100.0	569,242	100.0	260,659	100.0	299,659	100.0

We also produce other side products during our production process, including (i) mature breeders, (ii) chicken feather, (iii) chicken droppings, (iv) broiler eggs which do not satisfy our production requirements, (v) chicken blood and (vi) unused chicken organs.

BUSINESS

SALES AND CUSTOMERS

During the Track Record Period, our revenue was derived from our sales of chicken meat products, chicken breeds and animal feeds. We have established a broad customer base for our chicken meat products, including fast food shops chains such as KFC and Dicos. We also sell our products to our distributors. During the Track Record Period, our top 5 customers consist of (i) individual and corporate distributors who/which are engaged in the business of sales of frozen food products, and (ii) direct customers, which include a fast food chain, a large food processing enterprise and an individual engaging in the production and sales of animal feeds.

For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales to our five largest customers represented approximately 26.5%, 23.6%, 22.0% and 21.6% of our total revenue respectively. As at the Latest Practicable Date, our five largest customers (save for Mr. Huang Youcai (黃悠財)) had around 4 to 10 years of business relationship with our Group.

Direct sales of chicken meat products to our customers

As at the Latest Practicable Date, we have around 300 customers of chicken meat products while we have over 230 customers of chicken meat products during the Track Record Period. We sell most of our chicken meat products directly to our direct customers, including but not limited to fast food shops chains, restaurants etc. We also supply chicken meat products to Fujian Sumhua and Xiamen Oporto Catering Management Company Limited, details of which are set out in the paragraph headed “Continuing Connected Transactions in which Waivers are Granted” of the section headed “Connected Transactions” of this prospectus. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, approximately 77.5%, 77.1%, 78.8% and 80.9% of our revenue were derived from our sales of chicken meat products by way of direct sales to our customers respectively.

We usually enter into supply contract with our customers, the major terms of which are as follows:

- in usual case, the term of the supply contracts shall be less than 1 year;
- the price and quantity of products to be supplied by our Group shall be negotiated between the relevant parties to the supply contract from time to time and there is no minimum purchase quantities;
- the products to be supplied by our Group must comply with the relevant PRC laws and standards regarding the quality, health and safety of food products, and we are required to provide the relevant permits and certificates as specified in the supply contract;
- the packaging of our products must include certain information, including but not limited to the name of the product, production date and expiry date of the product, storage methods etc.;

BUSINESS

- the customer has the right to reject our products or is entitled to a refund of the selling price in the event that our products do not meet their requirements;
- in the event that our Group is in breach of any term of the supply contract:
 1. we shall be required to pay damages to the customer, the amount of which is equivalent to certain percentage of the selling price of the products as stipulated in the supply contract to the customer, or compensate the customer for all their loss suffered as a result of such breach;
 2. in some of the supply contracts, the relevant customer may unilaterally terminate the contract if our products continuously fail to meet the requirements of the customer or if our products lead to quality issues and the customer is claimed by a third party; and
- in some of the supply contracts, either party may terminate the same by giving prior written notice of a specified period to the other party.

We have a specialized team responsible for providing these customers with customized services.

Sales of chicken meat products to distributors

Another sales channel of our chicken meat products is sales to distributors. Such distributors operate independently of our Group. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, approximately 22.5%, 22.9%, 21.2% and 19.1% of our revenue derived from our sales of chicken meat products were by way of sales to distributors respectively. As at the Latest Practicable Date, we have cooperation with 6 distributors, all of which are Independent Third Parties located in the Fujian Province.

The table below shows the number of distributors engaged by us as at 1 January 2007, 1 January 2008, 1 January 2009, 1 January 2010 and 30 June 2010 respectively and the change in the number of our distributors during these periods:

Date	Number of distributors	Change in the number of distributors (Note)
1 January 2007	5	N/A
1 January 2008	5	Nil
1 January 2009	6	+1
1 January 2010	6	Nil
30 June 2010	6	Nil

Note: Change in the number of distributors is determined by comparing with the number of the immediately preceding period as set out in the table.

During the period between 1 January 2007 and 30 June 2010, our Group has not unilaterally terminated any of our contracts with our distributors before their expiry dates.

BUSINESS

The table below shows the respective years of relationship with our Group, principal business activities, sales regions and other information of the existing distributors being engaged by our Group as at the Latest Practicable Date:

Distributor	Years of relationship with our Group	Principal business activities	Designated Sales Regions	Date and duration of the distributorship agreement	Minimum monthly sales required (tonnes)
1	10	Sales of frozen chicken meat, duck meat, pork, shrimps and seafood products	Zhangzhou district	1 January 2010; 1 year	120
2	10	Sales of frozen poultry meat products and aquatic products	Xiamen district	1 January 2010; 1 year	220
3	10	Sales of frozen food products	Quanzhou district	1 January 2010; 1 year	180
4	10	Sales of frozen chicken meat, duck meat, pork, shrimps and seafood products	Quanzhou district	1 January 2010; 1 year	250
5	3	Sales of frozen chicken meat, duck meat and pork products	Xiamen district	3 January 2010; 1 year	Not specified in agreement
6	7	Pre-packaged and individually packaged food products, frozen food products	Longyan district	25 July 2009; 2 years	800

Our distributors are only allowed to sell our products through specific sales channels in those areas as specified in the distributorship agreements. According to the terms of the distributorship agreements, we may also sell our chicken meat products by way of direct sales in those regions covered by the distributors. We engage distributors to sell our products because they are able to reach those end-customers within their respective designated sales regions that we do not have access of. Our staff are required to conduct regular visits or interviews with the distributors not less than once every month so as to facilitate our Group to obtain their overall customer profiles. Under normal circumstances, the distributors will have to sell our chicken meat products at higher prices than the prices

BUSINESS

at which we sell our chicken meat products to the distributors in order to gain profits from their trading activities. In light of the aforesaid, the Directors believe that it is highly unlikely that there is any overlap of customers between our Group and the distributors.

Any interested party may submit an application to our Group to become one of our distributors. After receipt of the application, we will conduct a survey on the market and conduct review on the experiences, credit, business and investment capability of the applicant. If the applicant passes our assessment, our Group will proceed to enter into distributorship agreement with the applicant and the applicant will then become one of our distributors.

Terms of distributorship agreement

We enter into non-exclusive distributorship agreements with our distributors, the term of which is usually 1 to 2 years, and the main terms of which are generally as follows:

- our Group authorizes the distributors to act as principals in their sales of our chicken meat products to their end customers. The distributors shall sell the products of our Group within the area as specified in the distributorship agreements and are not allowed to sell the products outside such area;
- (for most of the distributorship agreements) the distributors shall be required to achieve a minimum monthly sales amount as specified in the distributorship agreement. In the event that any distributor fails to achieve the required minimum monthly sales amount for 3 consecutive months, our Group shall be entitled to terminate the distributorship agreement;
- the relationship between the distributors and our Group does not constitute an employment relationship or joint venture or any other investment relationship;
- our Group shall determine the wholesale and retail pricing policy of our products from time to time;
- the distributors shall comply with the pricing policy of our Group and they are not allowed to deliberately reduce the selling price of our chicken meat products which will result in unfair competition with other distributors;
- the distributors are required to ensure the image and brand of our chicken meat products and are not allowed to do any act which will affect the image and brand of our Group's products. The distributors are also required to facilitate and implement all marketing and promotional activities of our Group. In the event that any of our distributors has done any act which has a negative impact on the image of our Group, we are entitled to terminate the relevant distributorship agreements;
- the distributors may refuse to accept the products of our Group if our products do not comply with the food safety regulations in the PRC or do not satisfy the standards required by the distributors;

BUSINESS

- our staff will conduct regular visits or interviews from time to time with the distributors to understand the current market situations in order to formulate our sales strategy and monitor their inventory levels;
- the distributors are not allowed to deliberately accumulate inventory;
- if we discover that any of our distributors deliberately accumulates inventory or is in breach of any term of the relevant distributorship agreement, we may consider (i) downgrading them whereupon they will have to purchase our products at a less favourable price, or (ii) even terminating our relationship with them; and
- either party may terminate the contract of distributorship by giving 45 days' prior written notice to the other party. Written agreement shall be made if both parties agree to terminate the contract. If the party receiving notice of termination intends to object, it must do so within 10 days, otherwise its silence will constitute consent to the termination.

There is no restriction under the distributorship agreements prohibiting the distributors to sell the products of other suppliers. There is no provision regarding product liabilities in the distributorship agreement.

To the best knowledge of the Directors, the customers of the distributors comprise of retail shops in the market for individual consumers, catering service providers, etc.. We recognize our sales once our products have been sold to the distributors and all titles and risks in connection with such products will also be passed to the distributors. After the distributors have acknowledged receipt of those products, they will not be entitled to any recourse from our Group if they fail to sell our products to the end customers thereafter.

We have not implemented any sales rebate or incentive policies for the distributors.

In the event that excessive medicines or micro-organisms are found in our chicken meat products, the distributors may return the products to our Group. Losses will be recorded by our Group for sales return.

Management on distributors

In order to promote our products, to ensure compliance with the terms of the distributorship agreements and to manage the operation of our distributors, we have, as at the Latest Practicable Date, appointed 6 sales officers to (i) conduct interviews from time to time with the distributors to collect their feedback; (ii) observe the sales performance of our products so as to understand the market situations; and (iii) conduct on-site checking on the respective selling prices of our products at randomly selected outlets of their customers, including the retail shops, to ensure compliance with our pricing policy.

In addition, in order to ensure the stable supply of our products in the market, our distributors are not allowed to deliberately accumulate inventory. Although we do not have access to the sales and stock records of our distributors, in order to ensure that there will not be any deliberate accumulation of inventory at our distributor level, our sales officers

BUSINESS

will conduct (i) on-site checking at the randomly selected outlets of their customers and (ii) visits or interviews with the distributors not less than once every month in order to understand their sales performance and evaluate their inventory levels. If any of our distributors is found to be deliberately accumulating inventory or is in breach of any term of the relevant distributorship agreement, we may consider selling our chicken meat products at a less favourable price to them or even terminating our relationship with the relevant distributors.

Given that (i) our chicken meat products are perishable in nature, (ii) the distributors are required to pay the purchase price of the chicken meat products supplied to them by our Group within a specified period as determined by our Group and (iii) the distributors bear all the risks in connection with such chicken meat products after our delivery of the same to them, the Directors are of the view that the risk that the sales of our chicken meat products at the distributor level cannot truly reflect the market demands is minimal.

Sales to our largest distributor represented approximately 4.8%, 4.3%, 3.6% and 3.0% of our total revenue and sales to our five largest distributors represented approximately 17.1%, 14.1%, 11.9% and 11.9% of our total revenue during each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively.

The Directors have confirmed that all the distributors engaged by our Group during the Track Record Period:

- are Independent Third Parties; and
- have not breached any terms of the distributorship agreements.

Sales of chicken breeds to the Contract Farmers

As mentioned in the sub-paragraph headed “Production Process” under the paragraph headed “Production” of this section, we enter into contracts with the Contract Farmers, who are required to purchase all chicken breeds from us at agreed prices as specified in the contracts. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, approximately 7.5%, 6.3%, 6.8% and 5.9% of our revenue was derived from our sales of chicken breeds to the Contract Farmers respectively.

Sales of animal feeds to the Contract Farmers and other parties

Pursuant to our contracts with the Contract Farmers, the Contract Farmers are required to purchase all animal feeds from us at agreed prices as specified in the contracts. We also sell some of our animal feeds to Longyan Baoxing for the operation of its pork business, which will cease upon Listing.

For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, approximately 16.6%, 32.1%, 29.2% and 26.8% of our revenue was derived from our sales of animal feeds respectively.

BUSINESS

For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010:

- (i) the amounts of sales of animal feeds attributable to Contract Farmers were approximately RMB62,226,000, RMB149,531,000, RMB145,417,000 and RMB69,985,000 respectively, representing approximately 85.9%, 79.2%, 87.5% and 87.2% of our total sales of animal feeds respectively; and
- (ii) the amounts of sales of animal feeds attributable to other parties were approximately RMB10,221,000, RMB39,287,000, RMB20,843,000 and RMB10,266,000 respectively, representing approximately 14.1%, 20.8%, 12.5% and 12.8% of our total sales of animal feeds respectively.

Sales of side products

We sell our side products, including (i) mature breeders, (ii) chicken feather, (iii) chicken droppings, (iv) broiler eggs which do not satisfy our production requirements, (v) chicken blood and (vi) unused chicken organs, to our customers by way of direct sales.

We also sell some of our side products to Fujian Sumhua, details of which are set out in the paragraph headed “Continuing Connected Transactions in which Waivers are Granted” of the section headed “Connected Transactions” of this prospectus.

Customers

For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales to our five largest customers represented approximately 26.5%, 23.6%, 22.0% and 21.6% of our total revenue respectively while our sales to the largest customer represented approximately 8.9%, 7.9%, 8.1% and 8.9% of our total revenue respectively. As at Latest Practicable Date, our five largest customers (save for Mr. Huang Youcai (黃悠財)) had around 4 to 10 years of business relationship with our Group.

None of our Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of our Company (immediately following the completion of the Share Offer and taking no account of any Shares which may be taken up under the Over-allotment Option) has any interest in any of the five largest customers of our Group during the Track Record Period.

BUSINESS

The table below summarizes the revenue and the customer profiles of each type of our products during the Track Record Period:

	Revenue for the year ended 31 December 2007 <i>(RMB'000)</i>	Revenue for the year ended 31 December 2008 <i>(RMB'000)</i>	Revenue for the year ended 31 December 2009 <i>(RMB'000)</i>	Revenue for the 6 months ended 30 June 2010 <i>(RMB'000)</i>	Customer profiles
Chicken meat products					
Direct sales	257,021	279,257	287,017	163,165	<ul style="list-style-type: none"> ● Quick service restaurants ● Retail shops in the market for individual consumers ● Catering service providers ● Xiamen Oporto ● Fujian Sumhua
Sales to distributors	74,425	82,847	77,378	38,571	
Animal feeds					
Direct sales	72,447	188,818	166,260	80,251	<ul style="list-style-type: none"> ● Contract Farmers ● Longyan Baoxing ● Other third parties
Chicken breeds					
Direct sales	32,526	36,821	38,587	17,672	Contract Farmers

Pricing of our products

Our Group's products are not subject to any price control or regulations by the PRC governmental authorities. We determine the price of our products with reference to the market circumstances or our business strategy to be adopted from time to time.

The prices of our chicken meat products in the direct sales to our customers are determined through negotiations with our customers with reference to the amount of purchases, the cost of production and the market circumstances. We also formulate pricing policy which shall be followed by the distributors.

The prices of our chicken breeds are determined with reference to their grades and the market circumstances. The grades of the chicken breeds are categorized in accordance to the respective time of hatching of the chicken breeds.

The prices of our animal feeds are determined with reference to the cost of raw materials, the processing costs, the packaging costs and the usual profit margin in the industry.

BUSINESS

The prices of our side products are determined with reference to the market circumstances and the tender price.

During the Track Record Period, the prices of our Group's chicken meat products were not universally the same among our customers. We may also consider offering discounts to our customers in order to encourage them to purchase our products in bulk or settle their purchase prices earlier.

Payment method

Arrangement with the Contract Farmers

According to the contract entered into between our Group and the Contract Farmers:

- when a Contract Farmer has confirmed the number of chicken breeds he is going to order, the Contract Farmer shall pay certain amount of deposit for each chicken breed (the "Deposit");
- the Contract Farmer shall fully pay the price in advance for the chicken breeds and the relevant vaccines before delivery of chicken breeds (the "Advance Payment");
- upon repurchase of the broilers from the Contract Farmers, we may either pay the repurchase price to the Contract Farmers directly, or if the Contract Farmers intend to order the next batch of chicken breeds, we may set off the Advance Payment for the next batch of chicken breeds and vaccines to be delivered to the Contract Farmers from the repurchase price payable by our Group;
- the Contract Farmers may request for deferred payment of the purchase price for the animal feeds, provided that:
 - (1) the Contract Farmer requesting for deferred payment shall provide the guarantee from those persons specified in the contract; and
 - (2) upon our repurchase of the broilers from the Contract Farmer, we will first deduct the amount equivalent to the deferred payment payable by the Contract Farmer from the repurchase price of the broilers payable by us to the Contract Farmer and then pay the difference to the Contract Farmer.

Arrangement with our customers

During the Track Record Period, our Group's sales, all of which were denominated in RMB, to:

- our key customers were settled by telegraphic transfer; and
- the distributors were settled by banker's draft, telegraphic transfer or cheque.

BUSINESS

Our Group has not implemented any hedging policies against currency risks. Our Group recognizes sales upon sales of our products to the customers.

Credit Policy

For some of our customers, we will deliver our products to them upon receipt of the relevant purchase price. We also offer a credit period between 15 – 70 days to some of our customers including distributors with reference to their business reputation, financial capability, capital sufficiency etc..

We will proceed to demand our debtors with balances that are overdue to settle their outstanding invoices. When our Group considers that recovery is remote, the amount considered irrecoverable will be written off.

By adopting such credit policy, our account receivables are minimal. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the trade receivables turnover days of our Group were approximately 19 days, 13 days, 22 days and 22 days respectively. Our Group adopted a policy to make provision for impairment of trade receivables when there is objective evidence that our Group will not be able to collect all amounts due according to the original terms of receivables. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, provisions for impairment of trade receivables of approximately nil, RMB325,000, nil and nil were charged to our Group's combined statements of comprehensive income respectively, representing approximately nil, 0.1%, nil and nil of our Group's respective turnover.

Sales returns

We conduct checks and supervision on each stage of the production lines in order to ensure that the quality and safety of our products comply with our internal requirements and the requirements under the relevant PRC laws, regulations and rules. Our Group also adopts a no recourse sales policy.

If we receive any complaint from any of our customers regarding any defects in the products, we will assess the complaint of each customer/consumer on a case-by-case basis and formulate the appropriate solution to such complaint. If we are responsible for the defects in the products and consider that repurchase of the products from the customer is an appropriate way to address the complaint of the customer, we will proceed to do so and refund the relevant purchase price to the customer. We have not encountered any sales returns during the Track Record Period.

PURCHASES AND SUPPLIERS

During the Track Record Period, we procure the following for the production of our chicken meat products:

- raw materials for the production of our animal feeds, including corn, wheat and soya meal, from government warehouse and other third party suppliers;

BUSINESS

- Parent Stock Day-old Chicks from a sole third party supplier; and
- live broilers from the Contract Farmers.

During the Track Record Period, we also procured some of the broiler eggs and chicken meat products from our suppliers.

For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the costs of raw materials for the production of our animal feeds (including corn, wheat and soya meal) accounted for approximately 40.0%, 51.5%, 50.8% and 49.6% of our total costs of purchases respectively while the costs of the Parent Stock Day-Old Chicks accounted for approximately 0.5%, 0.9%, 0.6% and 0.6% of our total costs of purchases respectively.

During the Track Record Period, our Group's 5 largest suppliers consist of suppliers of broiler eggs, chicken meat products and raw materials for the production of animal feeds, which consist of a hatching farm operated by an individual, private corporations and government warehouse. As at the Latest Practicable Date, the shortest term of relationship which we have had with our top 5 suppliers is less than one year, whilst the longest one is approximately 3 years.

For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our purchases from the five largest suppliers represented approximately 15.0%, 19.1%, 38.7% and 40.8% of our total purchases respectively while our purchases from the largest supplier represented approximately 7.1%, 8.9%, 18.5% and 13.3% of our total purchases respectively.

During the Track Record Period, all of our Group's domestic purchases were settled in RMB. Some suppliers required us to pay full amount or a deposit equivalent to 5% – 10% of the our total purchase and they will deliver the raw materials upon payment of the remaining balance. Some suppliers offered our Group with credit terms of around 15 days to three months.

None of our Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of our Company (immediately following the completion of the Share Offer and taking no account of any Shares which may be taken up under the Over-allotment Option) has any interest in any of the five largest suppliers of our Group during the Track Record Period.

Inventory control

The inventories of our Group mainly consist of chicken meat products, broiler eggs, animal feeds and their raw materials which mainly include corn, wheat and soya meal. As at 30 June 2010, inventories of the continuing operations of our Group totalled approximately RMB35.9 million. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the inventory turnover period of the continuing operations of our Group was approximately 34 days, 32 days, 32 days and 28 days respectively.

BUSINESS

Our production planning department will approve the annual production plan. With reference to the annual production plan, we will compile the annual purchase plan. We will also compile quarterly purchase plan, monthly purchase plan and weekly purchase plan. The amount of purchase for each type of raw materials is generally determined based on the production plan of our Group. In order to maintain a continuous production cycle, our Group maintains at least a week's inventory of raw materials.

It is our Group's policy to keep around one month's inventory level, subject to review by the management from time to time.

As an inventory control policy for our finished products (i.e. chicken meat products), we will make provision for impairment against our inventories on an annual basis if the costs of our chicken meat products as inventories are greater than the recoverable amount of the same.

Our Group has a warehouse in our animal feeds production facility. During the Track Record Period, our Group carried out inventory checks from time to time.

QUALITY ASSURANCE

The Directors believe that high quality and standards are crucial to our Group's success.

We have a quality control team consisting of 11 members as at the Latest Practicable Date and some of them have received tertiary education in, inter alia, biology, food science and livestock veterinarian, and have had experiences in food examination and research. They are responsible for the quality assurance of our products, including the formulation of quality standard and quality control. Our Group's products have undergone internal production control and quality assurance control and rigorous testing. We are dedicated to ensuring the high standard of safety and quality of (i) the chicken meat products manufactured by us, and (ii) the raw materials for our production of animal feeds, the Parent Stock Day-Old Chicks, the broiler eggs and the chicken meat products procured from our suppliers who are Independent Third Parties. We have obtained (i) ISO14001 (Environment) and ISO22000 (Food Safety) Certificates in January 2006 and (ii) ISO9001 (Quality) Certificate in March 2008.

Our Group has adopted a stringent quality and management control system which oversees the entire production process in order to ensure the quality of our products are up to standards.

Our Group has adopted the following quality control system to ensure the quality of our products:

Selection of Suppliers

Suppliers of our Group include, inter alia, suppliers of raw materials for our production of animal feeds, Parent Stock Day-old Chicks, broiler eggs and chicken meat products (collectively, the "Procurement Materials") are chosen based on the supplier's ability to achieve timely and quality supplies to our Group.

BUSINESS

Purchase of Procurement Materials

Upon receipt of the notice of our purchase department, our quality control team will proceed to examine the Procurement Materials and provide their results of examination in respect of the same. All substandard Procurement Materials which do not satisfy with our production requirements will be returned to the suppliers.

In order to ensure that all our staff comply with our internal requirements on the procurement of Procurement Materials from third party suppliers, we have implemented the following major internal control measures:

- our staff responsible for procurement will assess and choose the appropriate suppliers. In normal circumstances, they should approach at least two or more potential suppliers before making a choice. The suppliers must possess the relevant certificates issued by the PRC governmental authority;
- our staff responsible for quality control will check the materials procured by our purchase department in order to ensure that such materials comply with the relevant quality requirements of our Group;
- our Group requires potential suppliers of raw materials for our production of animal feeds to provide relevant quality certificates and requests for samples of such raw materials to be supplied to ensure that the materials satisfy our requirements;
- our sales department will record the complaints received from our customers. Such complaints shall then be forwarded to our purchase department for investigation and our purchase department is required to report the result of investigation to our sales department;
- the staff in our purchase department will communicate from time to time on the quality and punctuality of the supplies. If any problem arises, record shall be made for the purpose of annual assessment;
- our purchase department will organize annual assessment on the suppliers, and members of the assessment committee shall comprise representatives from the technical control department, the quality control department, the purchase department and the financial department; and
- specific staff will be assigned with the task of compilation and maintenance of the records of the suppliers. No other staff shall be allowed to amend the records without the permission of the head of our purchase department.

Selection of the Contract Farmers

The farmers will submit their application to our Group for breeding broilers as our Contract Farmers, setting out the location and area of their farmlands, the proposed number of broilers for their breeding and the distance between their farmlands and our production

BUSINESS

facilities. Upon receipt of such application, our technical staff will assess as to whether the farmland of the Contract Farmer is suitable for breeding of broilers, such as the water supply, the electricity facilities and the accessibility of the farmland concerned.

Selection Criteria of the Contract Farmers

In order to ensure that the Contract Farmers will be able to satisfy the requirements of our Group, we have adopted the following selection criteria to select our Contract Farmers:

- (i) the farmland has to be situated at a location which is far away from railway, main transportation network, area with frequent traffic and residential area, but must be easily accessible. The distance between the farmlands of the Contract Farmers shall be no less than 500 metres;
- (ii) the landscape is required to be flat with low humidity;
- (iii) there should be sufficient clean water supply and electricity supply to the farmland;
- (iv) the soils on which the broilers sheds are erected must be of suitable quality;
- (v) the broilers sheds should be equipped with proper feeding system, drainage system and ventilation;
- (vi) we have specific requirements on (aa) the dimension and the direction of the broilers sheds and (bb) the distances between each of the broilers sheds;
- (vii) each of the Contract Farmers is required to arrange two other Contract Farmers or two other individuals with stable income and assets to act as his guarantors to guarantee the due performance of his obligations;
- (viii) the Contract Farmers must be law-abiding citizens; and
- (ix) we have no specific requirement on the relevant experience of the Contract Farmers, but we provide technical support to the Contract Farmers from time to time.

Controls on the Contract Farmers

In order to ensure the quality of broilers supplied by the Contract Farmers, the contracts entered into between the Contract Farmers and us require that: (1) the Contract Farmers must collect the animal feeds from our animal feeds production facility; (2) the Contract Farmers are prohibited from adding any additional ingredients to the animal feeds; (3) if the Contract Farmers identify any defects in the quality of the chicken breeds during the course of breeding, they must report the same to us; (4) all medicines, vaccines and equipment required to be used by the Contract Farmers for breeding chicken breeds must be procured by us and the Contract Farmers are not allowed to procure medicines and vaccines supplied by other parties; (5) the Contract Farmers are required to record the number of dead broilers and the medicines used every day and confirm that they have used the medicines in compliance with the requirements of our Group; and (6) the Contract Farmers

BUSINESS

must purchase all animal feeds from us at the prices specified in the contracts and are prohibited from purchasing any animal feeds and other ingredients from the market. We will also provide technical consultancy services to the Contract Farmers free of charge and inspect the facilities of the Contract Farmers.

Production process

During each stage of our production process, our quality control team conducts checking through our central control system to ensure that our semi-finished products comply with the required standards of our Group. We will also conduct sample checks on the animal feeds manufactured by our Group.

Quality control

Our quality control team conducts, which include but not limited to: (i) checking the live broilers before slaughtering; (ii) checking the internal organs and other tissues of the broilers after slaughtering to detect any potential defects; (iii) randomly examining the quality of the products such as their shapes, weights, quantity, packaging and labelling; and (iv) inspecting the refrigeration facilities and reviewing the inventory management in our chicken meat products warehouses on a monthly basis to ensure that there will not be any degradation of product quality during storage.

Hygiene standards control

To ensure high standards of hygiene of our chicken meat products, our quality control team conducts checks and inspections of our production facilities from time to time to ensure compliance with our internal hygiene requirements. Other areas of inspection relating to hygiene control include checking: (i) the water supply and draining systems; (ii) the cleansing and sterilization process of the machineries; (iii) the equipment and tools in our production premises; (iv) our pest control and staff clothing; (v) the personal hygiene of our staff; and (vi) the vehicles used for delivery of our products to ensure appropriate refrigeration facilities are in place to keep the freshness and quality of our chicken meat products.

Furthermore, the segregation of our production premises is strategically designed so that cross-infection or contamination can be minimised.

BUSINESS

In order to ensure that the bacteria levels do not exceed the permitted standards under the Fresh and Frozen Poultry Product National Standards of the PRC (《鮮、凍肉雞產品中華人民共和國國家標準》) (the “National Standard”), we conduct bacteria tests on, inter alia, the following at regular intervals according to the internal standards implemented by our Group:

Item tested	Frequency of bacteria test	Requirement under our internal standard
Frozen chicken meat products	Once per month	Less than 5×10^4 colony-forming units per gram (<i>Note 1</i>)
Production facilities (e.g. the table for cutting chicken meat)	Once per week	Less than 8×10^2 colony-forming units per square centimeter (<i>Note 3</i>)
Water used in our production (e.g. tap water)	Once per week	Less than 100 colony-forming units per millilitre (<i>Note 2</i>)
Air in our production premises	Once per week	Less than 9 colony-forming units found in a sterilized containers being put in the premise for 5 minutes (<i>Note 3</i>)

Notes:

1. According to the National Standard, the bacteria level of frozen chicken meat products is 5×10^5 colony-forming units per gram.
2. According to the relevant national standards of the PRC on drinking water quality, the limit of bacteria level of drinking water is 100 colony-forming units per millilitre.
3. To the Directors’ best knowledge, there are no specific national standards on the bacteria level in this regard.

The Directors confirm that none of our chicken meat products have been found to have exceeded the bacteria level permitted under the National Standard or our internal standard during the Track Record Period. We do not sell chicken meat products that have been found to have exceeded the bacteria level under the National Standard.

We also conduct tests on the quality and ingredients for every batch of raw materials for the production of animal feeds we purchase. The Directors further confirm that all our raw materials for the production of animal feeds purchased during the Track Record Period satisfied the requirements of our quality tests. It is our Group’s policy to return any raw materials of animal feeds that do not meet our requirements.

BUSINESS

Our production staff will record and evaluate the complaints from our customers on the quality of our chicken meat products at regular intervals in order to assess the quality of our chicken meat products.

Licensing

We have implemented comprehensive internal control measures on licensing which are required to be complied with by our staff.

Third party suppliers of broiler eggs, Parent Stock Day-Old Chicks and chicken meat products

We require our third party suppliers of broiler eggs to produce the Poultry Breeders Production Operation Permit (種畜禽生產經營許可證) and the Poultry Breeders Quarantine Qualification Certificate (種畜檢疫合格證) as specified in our contracts with such suppliers. Since 2009, we have ceased procuring broiler eggs from any third party suppliers due to improvement of fertilization rate of our broiler eggs. If we decide to do so again in the future, we will procure the same from those third party suppliers which possess the licences and permits required by us.

We require our supplier of Parent Stock Day-Old Chicks to produce the Certificate of No Avian Influenza (無禽流感證書), the Place of Production Quarantine Certificate (產地檢疫證) and the Poultry Breeders Qualification Certificate (種畜合格證), all as specified in our contracts with such supplier.

We also require our third party suppliers of chicken meat products to produce the County Border Exit Animal Quarantine Certificate (出縣境動物檢疫證), the Vehicles Sterilization Certificate (車輛消毒證) and the Place of Production Quarantine Certificate (產地檢疫證) as specified in our contracts with such suppliers.

Distributors

We require our distributors to produce to us the relevant permit required for their business before we enter into contracts with them.

According to the relevant PRC laws and regulations, it is prohibited to produce, sell and process the animal products which are infected by animal diseases. Both our Group and the third party suppliers shall apply for and obtain the quarantine certificates and marks before selling the animal products. As confirmed by our Directors, all the animal products sold by our Group have passed the quarantine tests. However, our Group could not rule out the possibility that these products may be infected by animal diseases after they are sold to the customers. As advised by our PRC legal advisors, neither our Group nor the third party suppliers will bear any consumer claims or legal responsibilities should the products be infected by animal diseases, provided that such products have passed the quarantine tests pursuant to the relevant PRC laws and regulations. We have not experienced any claims from the customers of our products due to any infection of animal diseases during the Track Record Period.

BUSINESS

Our Directors confirm that all the existing major third party suppliers of raw materials (i.e. corn, wheat and soya meal), Parent Stock Day-Old Chicks and chicken meat products and all the distributors engaged by our Group as at the Latest Practicable Date possess all the licences and permits as required by our Group.

Contract Farmers

As confirmed by our PRC legal advisors, in order to carry out Contract Farming, the Contract Farmers are required to obtain the Pollutant Discharge Permit (排污許可證) and the Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證) 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) respectively. As at 30 June 2010, we have Contract Farming arrangement with approximately 160 Contract Farmers but none of them has obtained the said permit and certificate as at the Latest Practicable Date.

According to the Provisional Administrative Measures on the Pollutant Discharge Permit of the Fujian Province (《福建省排放污染物許可證管理暫行規定》), the applicants for the Pollutant Discharge Permit shall satisfy the following requirements: (i) their farmland should not be located at those regions expressly prohibited by the relevant PRC governmental authorities to discharge any pollutant; (ii) they have to satisfy the industrial technology policy of the relevant authorities; (iii) no incident of serious pollution or environmental disaster has taken place during the previous 2 years and (iv) the pollutants should be discharged in accordance with the standard set by the relevant PRC governmental authorities and the amount of the pollutants discharged should not exceed the limit set by the relevant PRC governmental authorities. According to the Measures on Animal Epidemic Prevention Qualification Examination (《動物防疫條件審查辦法》), the applicants for the Animal Epidemic Prevention Qualification Certificate shall satisfy the relevant PRC authorities as to the location and the setting of the farms and have to possess the required facilities, staff and control system as required.

As advised by our PRC legal advisors and confirmed by the relevant local governmental authorities, in the event that the Contract Farmers fail to obtain the said permit and certificate, they will normally be ordered to rectify and pay fines ranging from RMB300 to RMB3,000 and RMB1,000 to RMB10,000 respectively but will not be required to cease their breeding activities. According to our PRC legal advisors, the relevant laws do not specify the consequence for failure to comply with the order to rectify.

Taking into account the time required for the preparation works, it normally takes 3 months to obtain such permit and certificate. The total cost involved in obtaining such permit and certificate is estimated to be within the range of RMB18,000 to RMB40,000 for each Contract Farmer. To the best of knowledge of our Directors, given that the relevant local governmental authorities have not strictly enforced such requirements and in view of the efforts and costs to be involved in obtaining such permit and certificate, it is uncommon for the contract farmers in the same region (including our Contract Farmers) to take the initiative to apply for such permit and certificate.

BUSINESS

We have obtained written confirmations from (i) the Environmental Protection Bureau of Xinluo District, Longyan City (龍岩市新羅區環境保護局) and the Animal Husbandry, Veterinarian and Aquatic Products Bureau of Xinluo District, Longyan City (龍岩市新羅區畜牧獸醫水產局) on 1 November 2010 confirming that the Contract Farmers in Longyan have not been penalized for failure to obtain the Pollutant Discharge Permit (排污許可證) and the Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證) and they will not require the Contract Farmers of Longyan to cease operation or supplying broilers; and (ii) the Environmental Protection Bureau of Shanghang County (上杭縣環境保護局) and the Animal Husbandry, Veterinarian and Aquatic Products Bureau of Shanghang County (上杭縣畜牧獸醫水產局) on 1 and 8 November 2010 respectively confirming that the Contract Farmers of Shanghang County have not been penalized for violation of relevant laws, regulations and rules on environmental protection and pollutant discharge and failure to obtain the Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證). The Directors are not aware of any of the Contract Farmers having been penalized for not having obtained the relevant permit and certificate during the Track Record Period and up to the Latest Practicable Date.

The geographical area governed by the governmental authorities of Xinluo District and Shanghang County as mentioned in (i) and (ii) above cover approximately 60% and 30% of the Contract Farmers respectively. Our PRC legal advisors have confirmed that the aforesaid governmental authorities have the authority to issue such confirmations, which are unlikely to be revoked by other governmental authorities of higher hierarchy.

We have also placed emphasis on the selection criteria of our Contract Farmers and our internal control measures, which include, but not limited to, (1) conducting annual reviews on the Contract Farmers, (2) conducting medicine tests when necessary in order to check as to whether excessive medicines have been applied to the broilers and weighing the broilers on a sampling basis upon the receipt of every batch of broilers from the Contract Farmers on the broilers supplied by the Contract Farmers, and (3) conducting site visits from time to time to update the growth status of the broilers. During the Track Record Period, no major quality issue has been found from the broilers supplied by the Contract Farmers and we are satisfied with the quality of the same. The Directors confirm that our Group has performed the aforesaid reviews, medicine tests and site visits on the Contract Farmers on a regular basis and all the Contract Farmers have satisfied our requirements. In addition, we have been closely monitoring the progress and status of enforcing the relevant rules and regulations by the relevant PRC governmental authorities and would require our Contract Farmers to apply for the necessary permit and certificate within a specified period if and when the relevant PRC governmental authorities decide to enforce such rules and regulations.

In order to rectify the failure of the Contract Farmers in obtaining the said permit and certificate, we will endeavour to assist all the Contract Farmers to apply for such permit and certificate in the long run. Our target is to have at least 70% to 75% of our Contract Farmers to have obtained such permit and certificate by 31 December 2012. We have undertaken to the Sponsor, the Lead Manager, the Sole Bookrunner and the Underwriters that we will require the Contract Farmers to satisfy all the relevant requirements for obtaining the said certificate and permit before our renewal of any contracts with the Contract Farmers. The Directors are of the view that, even if some Contract Farmers are

BUSINESS

unable to satisfy the requirements for obtaining the said certificate and permit and thus cannot continue to provide contract farming services to us, we will still be able to find alternative Contract Farmers who can satisfy such requirements to provide contract farming services to us. Among those Contract Farmers, our aim is that not less than 30% of the Contract Farmers will have obtained such permit and certificate during the period between 1 January 2011 and 31 December 2011 and an additional of not less than 40% to 45% of our Contract Farmers will have obtained such permit and certificate during the period between 1 January 2012 and 31 December 2012. We will also endeavour to assist the remaining of our Contract Farmers to obtain the said permit and certificate or to meet the requirements for obtaining the same. However, if any of the Contract Farmers fails to obtain the said permit and/or certificate within the aforesaid timeframe, we will cease to engage it to provide Contract Farming services to us and will replace such Contract Farmer(s) with new farmer(s) who has/have obtained the required permit and certificate in order to ensure the stability of our supply of broilers. We will disclose the progress of the application of the said permit and certificate by the Contract Farmers and the renewal of the same in our interim and annual reports after Listing.

To ensure that the Contract Farmers will be able obtain such permit and certificate if required to do so, Mr. Lin has given an irrevocable undertaking under the Underwriting Agreement in favour of the Company, pursuant to which Mr. Lin has personally undertaken to settle the costs to be involved in obtaining such permit and certificate first in the event that the Contract Farmers cannot afford such costs. Based on the maximum number of Contract Farmers during the Track Record Period (i.e. 177), the maximum estimated costs involved in obtaining such permit and certificate possibly to be borne by Mr. Lin under the undertaking will be approximately RMB7.1 million. Further, Mr. Lin has also undertaken to the Company to settle any fines imposed by the PRC governmental authorities on the Contract Farmers for failing to obtain such permit and certificate if such Contract Farmers are unable to pay the fines. Based on the maximum number of the Contract Farmers during the Track Record Period (i.e. 177) and the maximum fine of RMB13,000 per Contract Farmer arising from such failure, the maximum amount of the said fines is estimated to be approximately RMB2.3 million.

Based on the above, the Directors are of the view that our operation will not be adversely affected even if the aforesaid requirements are strictly enforced by the relevant PRC governmental authorities. Nonetheless, our Directors would like to emphasize that our Group and the Contract Farmers are separate legal entities and we have no obligation to verify or be responsible for the legal and regulatory compliance of the Contract Farmers. The Contract Farmers shall assume the legal liabilities for any violation of laws and regulations on their own. Our PRC legal advisors have also confirmed that, should there be any violation of laws and regulations by the Contract Farmers, our Group is entitled to claim for damages suffered by the Group.

As advised by the Sponsor's PRC legal advisors, since (i) the relevant PRC laws and regulations do not stipulate a quota for the permit and certificate, every Contract Farmer may apply for the same and (ii) given the criteria for obtaining the permit and certificate are generally objective known standard, fulfillment of such criteria does not subject to any governmental approval and it is up to the Contract Farmers to demonstrate fulfillment, there should not be any legal impediment hindering the Contract Farmer's application of such permit and certificate if the Contract Farmers are asked to do so. In view of the aforesaid, the Sponsor is of the view that there should not be any legal impediment for the Contract

BUSINESS

Farmers to apply for such permit and certificate if they are asked to do so. In any event, even if any of the Contract Farmers fails to obtain such permit and certificate when requested, the Sponsor believes that it should not cause any interruption to our Group's operation, since, as advised by our PRC legal advisors, the consequence for the failure to obtain for such permit and certificate is normally limited to order for rectification and imposition of fines only, which Mr. Lin has already personally undertaken to settle the same if the relevant Contract Farmer is unable to pay the fines.

The Sponsor noted that none of the Contract Farmers has obtained the required Pollutant Discharge Permit (排污許可證) and the Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證) as at the Latest Practicable Date. Nonetheless, having considered:

- the policy as currently adopted by the relevant PRC governmental authorities in the relevant region of not strictly enforcing against the Contract Farmers the relevant rules and regulations;
- the Group's emphasis on its internal control measures to ensure the quality of the broilers supplied by the Contract Farmers and the fact that no major quality issue has been found in the broilers supplied by the Contract Farmers during the Track Record Period;
- the fact that the Contract Farmers and the Group are separate legal entities and the Group has no obligation to verify or be responsible for the legal and regulatory compliance of the Contract Farmers;
- the fact that the Group has taken appropriate actions to consult its PRC legal advisors as to the feasibility of the Contract Farmers to obtain the required permit and certificate;
- the confirmations obtained from some of the relevant PRC governmental authorities showing the remote possibility of the Contract Farmers being penalized because of their failure to obtain such permit and certificate; and
- the concrete plan of the Group to assist the Contract Farmers to obtain such permit and certificate during the forthcoming two years,

the Sponsor is of the view that (1) the Directors are serious in regulatory compliance matters by having taken appropriate actions and sought advice and confirmations from its PRC legal advisors and the relevant PRC governmental authorities to ensure the Group's operation is in compliance with the relevant rules and regulations; and (2) the Group's internal control measures are effective to ensure the quality of supplies from the Contract Farmers notwithstanding the absence of the aforesaid licences.

BUSINESS

PRODUCT LIABILITY

Our Group adopts a no recourse sales policy. Once our products have been sold and delivered to our customers (including both direct customers and distributors), all risks and liabilities in connection with such chicken meat products are transferred to our customers, who/which shall not be entitled to any recourse from our Group. Upon claims from our customers, our Group will consider recalling our products if the same are found to have excessive remains of medicine, microorganisms or the texture of which is unsatisfactory.

According to the Product Quality Law of the PRC (中華人民共和國產品質量法) (as amended in 2000) and the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法), if products purchased by consumers are of sub-standard quality but not defective, the retailers will be responsible for the repair, exchange, or refund of the purchase price of the sub-standard products and for the compensation to the consumers for their losses (if any). However, in the event that the manufacturers are held liable for the sub-standard products, the retailers are entitled to seek reimbursement from the manufacturers for the compensation paid by the retailers to the consumers. If the products are defective and cause any personal injuries or property damage, the consumer may claim compensation from the manufacturer, distributor or retailer. Retailers or distributors who have already compensated the consumers are entitled to claim reimbursement from the relevant manufacturers.

During the Track Record Period, we have obtained all the necessary licences and permits required for our business operations and we have not encountered any difficulties in the renewal of the same. Our bacteria tests on our chicken meat products have complied with the Fresh and Frozen Poultry Product National Standards of the PRC (《鮮、凍肉雞產品中華人民共和國國家標準》) and we procured our raw materials, Parent Stock Day Old Chicks and frozen chicken meat products from third party suppliers which have obtained the necessary licences and permits. Furthermore, we have not received any product liability claims from our customers or the consumers during the Track Record Period. In light of the aforesaid, the Directors believe that our chicken meat products sold during the Track Record Period have complied with the Food Safety Law of the PRC (中華人民共和國食品安全法) which is applicable to our chicken meat products.

In order to minimize the possibility of any product liability claims from any of our customers and distributors, we have implemented the quality assurance and internal control measures, including, inter alia, hygiene requirements on our Contract Farmers and broiler breeding farms, requirements on our third party suppliers to obtain and produce to us the relevant licences and permits, details of which are set out in the paragraphs headed “Production” and “Quality assurance” of this section respectively.

BUSINESS

COMPETITION

The chicken meat production industry is capital-intensive in nature, which requires vast area of land for breeding of chicken breeds and broilers and comprehensive production facilities for the slaughtering and processing of chicken meat products. Significant amount of resources have to be put on food safety and hygiene.

In southern China, there are only a small number of large-size chicken meat producers. We consider that Fujian Sunner Development Co., Ltd (福建聖農發展股份有限公司), which is a company listed on the Shenzhen Stock Exchange and based in the Fujian Province, and Wens Food Group (溫氏食品集團) which is based in Guangdong, are our major competitors. According to the 2009 China Poultry Breeding and Meat and Egg Products Production Report (2009年中國畜禽養殖和肉類蛋品生產報告) published by the China Egg Net (中國禽蛋門戶網), the total production quantity of poultry meat for the year ended 31 December 2009 was approximately 16.0 million tonnes. According to the information as revealed from the China Egg Net, the China Egg Net is a website organized by the China Meat Association and authorized by the relevant PRC governmental authority. The production quantity of chicken meat of our Group for the year ended 31 December 2009 was approximately 34,000 tonnes, hence it can be estimated that our chicken meat products represented approximately 0.21% of the market share of the poultry meat market in the PRC. Our ability to compete against our competitors depends on, to a significant extent, our capability to build up and maintain the confidence of the consumers to our products and expand our markets to other area of the PRC. For details of our competitive strength, please refer to the paragraph headed “Competitive Strengths” of this section.

Our competitors, whether local or foreign, may have more and better financial resources, experiences and market reputation as compared to ours. Nevertheless, we believe that the Listing would enhance our financial resources and strengthen our market position and allow us to compete with local and foreign competitors.

RESEARCH AND DEVELOPMENT

We are committed to high-quality products and are dedicated to research and development.

Our research and development team comprises 19 staff. We conduct research on, inter alia, the composition and ingredients of our feeds, the efficiency in the breeding of our broilers, the control of epidemics and the production process of our chicken meat products. Our research and development expenses incurred during each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were approximately RMB0.9 million, RMB1.5 million, RMB1.6 million and RMB1.0 million respectively.

BUSINESS

We also had cooperation arrangements with other institutions, such as government institutions and commercial institutions, including:

- cooperation with the local government to jointly conduct research on feed composition and efficiency, processing of ancillary products of broilers, determination of the genders of the chicken breeds, epidemic prevention and control, design of broilers sheds and design of biological sewage filtering system; and
- cooperation with commercial institutions in the improvement of our information management system.

We now have cooperation arrangement with universities on the establishment of the Postdoctoral Scientific Research Station (博士後科研工作站) for the postgraduates of universities, which will be completed in 2012.

The intellectual property rights in (i) the research results in respect of our Postdoctoral Scientific Research Station shall be jointly owned by our Group and the relevant universities we are cooperating with; (ii) the research results in respect of our cooperation with the local government shall be solely owned by our Group or as determined by the relevant national and provincial laws, and (iii) the research results in respect of our cooperation with the commercial institution shall either be jointly owned by our Group and the relevant commercial institution or solely owned by our Group, depending on the terms of our contract with the relevant commercial institution.

Some of the aforesaid projects have been completed, the research results of which have been applied as part of our production process and the Directors confirm that the revenue generated solely from such research results is difficult to be quantified.

COMPETITIVE STRENGTHS

Our vertically integrated operation enables us to achieve economies of scale

Our production process is highly vertically integrated. We have our breeder farms, animal feeds production facility, hatching facility, broiler breeding farms and slaughtering and processing facility. In this regard, we are able to operate independently with minimal reliance on third party suppliers and exposure to fluctuation in the costs of various factors of production. Such operation also enables us to manage our production process in an efficient manner and achieve economies of scale, which in turn maintain our price competitiveness of our chicken meat products in the market.

Our production base is situated at a strategic location which is benefited by the economic policies of the PRC government

Our production base is located in Longyan, a city in the Fujian Province. Longyan is located in a transportation hub well connected by highway and railway to other important cities of the PRC, including but not limited to Shanghai, Xiamen, Guangzhou and Shenzhen. Such location of our production base enables us to reach other market easily and efficiently.

BUSINESS

As at 31 December 2009, approximately 84% (in terms of percentage of our total revenue) of our customers (including our distributors) were located in the Fujian Province, the PRC, whilst approximately 16% of our customers were mainly located in other cities of the PRC such as Shanghai, Guangxi, Shantou, Shenzhen, Dongguan and Guangzhou, etc.. We plan to further expand our customers network to other cities of the PRC in the future.

Fujian is benefited by the economic policy of the PRC government. According to the 《關於支持福建省加快建設海峽西岸經濟區的若干意見》 (Certain Opinion regarding support of the Fujian Province in enhancing the establishment of the economic zone on the west shore of the Taiwan Strait) promulgated by the State Council on 6 May 2009, the State Council is determined to further enhance the economic development of the Fujian Province. Such policy will definitely benefit the business development of our Group.

In order to capture such opportunities, the local government of Longyan is also implementing certain policies such as awarding government grants to breeder farms and granting tax benefits, details of which are set out in the sub-paragraph headed “Level of PRC income tax and preferential tax treatment” under the paragraph headed “Factors affecting financial condition and results of operations of our Group” of the section headed “Financial Information” of this prospectus, to strengthen its existing industries, including the chicken meat processing industry currently carried out by our Group. Our Company is confident that such government policy will enhance the business of our Group.

We have established a comprehensive food safety and hygiene system and quality control system

The safety and hygiene of our chicken meat products are crucial to the success of our Group. If we sell contaminated products to the public, the confidence of the consumers on our products will be seriously affected, which will in turn adversely affect our business. We have established a comprehensive food safety and hygiene system and quality control system in order to guarantee the quality of our chicken meat products. We are dedicated to ensuring the high standard of safety and quality of (i) the chicken meat products manufactured by us, and (ii) the raw materials for our production of animal feeds, the Parent Stock Day-Old Chicks, the broiler eggs and the chicken meat products procured from our suppliers who are Independent Third Parties. We have obtained (i) ISO14001 (Environment) and ISO22000 (Food Safety) Certificates in January 2006 and (ii) ISO9001 (Quality) Certificate in March 2008. For further details about our food safety and hygiene system and quality control system, please refer to the paragraph headed “Quality Assurance” of this section.

We also have our own production facilities for our animal feeds. We use our own animal feeds for the breeding of our broilers and all Contract Farmers are also required to use our animal feeds for feeding the broilers and are prohibited to use animal feeds procured from third parties.

We have also implemented strict hygiene measures on our breeder farms, broiler breeding farms and slaughtering and processing facility. All our broilers are grown in sheds which only specific staff are allowed to have access to and all staff who entered such site are required to undergo comprehensive hygiene procedure before entering such site.

BUSINESS

Such hygiene measures require significant costs and may not be able to be implemented by small-size producers selling similar products. By implementing such comprehensive hygiene procedures, the safety and hygiene of our chicken meat products can be guaranteed and the consumers will be confident with our products.

We have a well-recognized brand name

We market and sell our chicken meat products under our brand name “Sumpo (森寶)”. Our brand name “Sumpo (森寶)” was accredited as China Top Brand Agricultural Product (中國名牌農產品) by the Ministry of Agriculture of the PRC and Fujian Province Well-known Trademark (福建省著名商標) by Fujian Provincial Well-Known Trademarks Recognition Committee. We are now in the course of applying for “China Well-known Trade Mark (中國馳名商標)”. We also have certain trade marks, details of which are set out in the paragraph headed “Intellectual Property Rights” of this section.

In addition to the aforesaid, we have also obtained a number of other awards, which demonstrate the market recognition of our brand name, including the “National Leading Enterprise for Agriculture Industrialization (農業產業化—國家重點龍頭企業)”, “Fujian Top Brand Product (福建名牌產品)”, “China Brand in Meat Industry with Significant Influence (中國肉類產業影響力品牌)”, “Gold Award for Agricultural Enterprises in Fujian Province (福建省品牌農業企業金獎)” etc. Details of such awards are set out in the paragraph headed “Awards and Certificates” of this section.

We believe that our brand name provides us with a foundation to further strengthen our business development and market share.

We have established a stable customer base and a network of distributors

We commenced our business in 1998 and we have established a stable customer base during the past 13 years. We are the supplier of chicken meat to KFC, Dicos and Mckey and other retail and quick-service restaurants. Due to the large amount of chicken meat products demanded by these customers and the consistency requirements of such products, it is difficult for producers with smaller production capacities to compete with our Group in attracting the orders from these customers. We have also established a network of distributors, which help us to sell our chicken meat products to the end-customers. As at 31 December 2009, approximately 84% (in terms of percentage of our total revenue) of our customers (including our distributors) were located in the Fujian Province, the PRC, whilst approximately 16% of our customers were located in other cities of the PRC such as Shanghai, Guangxi, Shantou, Shenzhen, Dongguan and Guangzhou, etc. The designated regions covered by our distributors are Zhangzhou, Xiamen, Quanzhou and Longyan, all of which are located in the Fujian Province.

BUSINESS

BUSINESS STRATEGIES

Continuing to increase market coverage

We are determined to continue to increase our market share. In order to increase our market coverage, we believe that increasing the supply of chicken meat products and maximizing sales will play a key role in our future expansion. We have purchased the land use rights of a piece of land adjacent to our existing production base for the purpose of constructing another production base for our Group with a production capacity of slaughtering and processing approximately 36,000,000 broilers each year by 2011. The increase in our production capacity will help our Group to meet the increase in the demand for our products. Our Group is now in the course of preparing for the application of all the necessary approvals and permits. Save for the aforesaid, we have no other major milestones achieved as far as the new slaughtering and processing plant is concerned.

Apart from increasing our production capacity, we will aim specifically at maximizing our sales and profitability. We will focus on maintaining a close relationship with our customers with a view of boosting our growth and consolidating our position in the market.

Enhancing marketing and distribution and exploring new opportunities

We plan to enhance our marketing efforts and sales network and expand our market coverage to other parts of the PRC, including, inter alia, Guangxi, Chongqing, Sichuan, Hunan, Hubei and Zhejiang. We also plan to explore new business opportunities in the future by increasing our cooperation with other reputable production enterprises in the PRC. We will continue to solidify our relationships with our distributors in marketing our products and brands. In addition, we also plan to develop different seasoned chicken meat products to meet our customers' demands. With respect to our major customers, including KFC, Dicos and Mckey, we will continue to strengthen our customer services by providing more customized services, such as establishing an efficient distribution network for the delivery of our chicken meat products to our customers with fast food chains in the southern part of the PRC and improving the tastes of our chicken meat products, to satisfy their particular needs. As at the Latest Practicable Date, we did not have any concrete timetable for the proposed expansion. However, we will endeavour to carry out our plans after Listing.

Enhancing our brand image and recognition

We believe that brand names and image are among the key factors in consumers' purchasing decision. We will continue to build our brand names and image. High level of hygiene and sanitation are important to the safety of our chicken meat products. We implement strict and comprehensive measures at our chicken meat production facilities to reinforce occupational health protection and the hygiene at the production site. All our staff are required to wear uniform and undergo a comprehensive cleansing and sterilisation process before entering into the production site. There is strict temperature control at the production site throughout the entire production process to maintain the freshness of the chicken meat. Movements of our staff between different areas of the production sites are restricted in order to avoid cross-contamination.

BUSINESS

LICENCES AND PERMITS

Our Group is required to obtain the following licences and permits to carry out our business and operation:

- Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證);
- National Industrial Products Production Permit (全國工業產品生產許可證);
- Animal Feeds Production Enterprise – Inspection Eligibility Certificate (飼料生產企業審查合格證);
- Additives Mixed Animal Feeds Production Permits (添加劑預混合飼料生產許可證);
- Export Food Products Enterprise – Filing Certificate (出口食品生產企業備案證明);
- Animal Feeds Production Enterprise – Consumable Animal (Pig) Feeds for Export – Registration Certificate (出口食用動物(豬)飼用飼料生產企業登記備案證);
- Food Products Circulation Permit (食品流通許可證);
- Poultry Breeders Production and Operation Permit (種畜禽生產經營許可證); and
- Pollutant Discharge Permit (排放污染物許可證).

As advised by our PRC legal advisors, as at the Latest Practicable Date, our Group has obtained all the approvals, permits, consents, licences and registrations required for our business and operations and all of them are in force. We will renew our licenses and permits before their respective expiry dates. Our Group has not experienced any refusal of renewal of the licenses necessary for our operations during the Track Record Period.

AWARDS AND CERTIFICATES

After years of development, our products and operations have accomplished a number of milestones and we have obtained a number of awards and certificates, a summary of which is set out below:

BUSINESS

Awards/Certificates	Award/Issuing Organization	Date of Issue	Expiry Date
Agriculture Industrialization – National Leading Enterprise for Agriculture Industrialization (農業產業化 – 國家重點龍頭企業)	● Ministry of Agriculture of the PRC	September 2004	December 2005
	● National Reform and Development Commission	April 2007	December 2008
	● Ministry of Finance of the PRC	May 2008	December 2009
	● Ministry of Commerce of the PRC	March 2010	June 2012
	● The People's Bank of China		
	● State Administration of Taxation		
	● China Securities Regulatory Commission		
● All China Federation of Supply and Marketing Cooperatives			
First Group of Model Enterprise for Recycling Economy (福建省第一批循環經濟示範企業)	Fujian Provincial Economic and Trade Commission	July 2005	
Top 100 Key Industrial Enterprises in Fujian Province (福建省百家重點企工業企業)	Fujian Provincial Economic and Trade Commission	August 2005 March 2009	2005-2007 2009-2011
National Food Safety – 100 Best Technologically Advanced Entity (全國食品安全百佳先進單位)	● China Food Security Annual Conference Organizing Committee	24 September 2005	2005-2006
Technological Innovative Organization in Agricultural Products Processing (農產品加工企業技術創新機構)	Ministry of Agriculture of the PRC	December 2005	N/A
National New Rural Development – Top 100 Model Enterprises (全國新農村建設 – 百強示範企業)	● Township Enterprises Bureau, Ministry of Agriculture of the PRC ● China Township Enterprises Association	2006	N/A
Fujian Base with Agricultural Products and Broilers without public hazard (福建無公害農產品肉雞基地)	Agriculture Bureau of Fujian	June 2006	June 2009

BUSINESS

Awards/Certificates	Award/Issuing Organization	Date of Issue	Expiry Date
Fujian Province Well-Known Trademark (福建省著名商標)	Fujian Provincial Well-Known Trademarks Recognition Committee	6 September 2006 December 2009	5 September 2009 December 2012
Model Entity for Corporate Culture Establishment in Fujian Province (福建省企業文化建設示範單位)	<ul style="list-style-type: none"> ● Publicity Department of Fujian Provincial Committee of Chinese Communist Party ● Ideology and Political Education and Research Society for Fujian ● Fujian Provincial Enterprises Culture Association 	December 2006	N/A
Provincial Enterprise Technology Centre (省級企業技術中心)	<ul style="list-style-type: none"> ● Fujian Provincial Economic and Trade Commission ● Fujian Provincial Department of Science & Technology ● Fujian Provincial Department of Finance ● Fujian Provincial Office, State Administration of Taxation ● Fujian Local Taxation Bureau ● Fuzhou Customs District of the PRC ● Xiamen Customs District of the PRC 	December 2006	
National Model Enterprise for Processing and Export of Agricultural Products (全國農產品加工出口示範企業)	Ministry of Agriculture of the PRC	December 2006	
Products without public hazard (無公害產品)	Agricultural Products Quality Safety Centre of Ministry of Agriculture of the PRC	February 2007	
Enterprise with contractual compliance and credibility of Fujian Province 2005 – 2006 (2005 – 2006 年度福建省守合同重信用企業)	Administration for Industry & Commerce of Fujian	April 2007	N/A
Gold Award for Agricultural Enterprises in Fujian Province (福建省品牌農業企業金獎)	Fujian Provincial People's Government	November 2007	November 2010

BUSINESS

Awards/Certificates	Award/Issuing Organization	Date of Issue	Expiry Date
Enterprise on Processing of Agricultural Side Products of Fujian Province – Top 50 Enterprise on National Market Coverage (2006年度福建農副產品加工業企業 – 國內市場佔有率50強)	<ul style="list-style-type: none"> ● Assessment Committee on Market Coverage of Fujian Enterprises ● Enterprise Information Centre of Fujian Province 	September 2007	
China Top Brand Agricultural Product (中國名牌農產品)	Ministry of Agriculture of the PRC	4 February 2008	February 2011
Enterprise with advanced quality management of Fujian Province 2007 (2007年福建省質量管理先進企業)	Fujian Provincial Bureau of Quality and Technical Supervision	March 2008	March 2009
Competitive Enterprise in the Meat Industry of the PRC (中國肉類食品行業強勢企業)	China Meat Association	May 2008	May 2011
Postdoctoral Programme Research Station (博士後科研工作站)	<ul style="list-style-type: none"> ● Ministry of Human Resources and Social Security of the PRC ● Management Committee for Postdoctoral Programme 	June 2008	
Agricultural Industrialization 2008-2009 – Provincial Leading Enterprise (2008-2009年度農業產業化 – 省級重點龍頭企業)	Working Steering Committee on Agricultural Industrialization of Fujian Province	September 2008	
Model Enterprise for Food Safety (食品安全示範單位)	Organizing Committee for China Food Security Annual Conference	20 September 2008	September 2008 to September 2009
Fujian Famous Brand Product (福建名牌產品)	Fujian Provincial People's Government	August 2008 January 2010	August 2011 January 2013
Enterprise with contractual compliance and credibility of Fujian Province 2007 – 2008 (2007 – 2008年度福建省守合同重信用企業)	Administration for Industry & Commerce of Fujian	December 2008	N/A

BUSINESS

Awards/Certificates	Award/Issuing Organization	Date of Issue	Expiry Date
China Brand in Meat Industry with Significant Influence (中國肉類產業影響力品牌)	China Meat Association	September 2009	September 2012
Innovative Enterprise of Fujian Province (福建省創新型企業)	<ul style="list-style-type: none"> ● Fujian Provincial Department of Science & Technology ● Fujian Provincial Economic and Trade Commission ● State-owned Assets Supervision and Administration Commission of Fujian Provincial Government ● Fujian Labour Union 	September 2009	

ENVIRONMENTAL PROTECTION

We are subject to the PRC national and local environmental laws and regulations, including but not limited to “Environmental Protection Law of the PRC”, “The Law on the Prevention and Treatment of Water Pollution of the PRC” and “The Law for the Prevention and Treatment of Air Pollution of the PRC”. In particular, there are environmental regulations concerning the treatment of waste water produced by our slaughtering and processing facility and we are subject to annual inspection by the regulatory authorities for compliance with these laws and regulations. We have not received any notice of non-compliance with any such laws or regulations since we commenced operation in 1998.

As our Group and the Contract Farmers are separate legal entities, our Group has no obligation to supervise the Contract Farms and is not liable for any legal and regulatory non-compliance of the Contract Farmers. The Contract Farmers shall be liable themselves for any non-compliance with the relevant laws and regulations.

Our operation produces waste water of approximately 280,000 tonnes per year, and emits ashes and sulphur dioxide as well as other waste materials including used packing materials and chicken parts.

We have installed waste water disposal system in our slaughtering and processing facility in compliance with the relevant laws and regulations in the PRC. The waste water system can filter our waste water so as to reduce the level of pollution before disposal of the same. It is also linked to the designated water disposal network of the local government and is disposed of centrally so that it will not cause pollution arising from random disposal. Our turbines are also installed with filtering equipment to reduce the ashes to be emitted to the atmosphere. Other waste materials are collected by our Group and transported by the environmental authority of the local government to the landfill.

The expenses relating to the environmental matters incurred by the Group (including the costs of compliance with applicable rules and regulations) for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 amounted to approximately RMB1.93 million, RMB0.70 million, RMB1.20 million and RMB0.39 million respectively. The Directors expect that the cost of compliance with applicable rules

BUSINESS

and regulations for the six months ending 31 December 2010 and the year ending 31 December 2011 will be approximately RMB0.78 million and RMB10 million respectively. The expected cost of RMB10 million to be incurred by our Group during the year ending 31 December 2011 will be used for setting up the new environmental protection facilities at the new slaughtering and processing plant with a production capacity of 36,000,000 broilers per year and with new breeder farms, new hatching facility and new broiler breeding farms, details of which are set out in the section headed “Future Plans and Use of Proceeds” of this prospectus. The said expected costs will be utilized in the following manner: (i) approximately RMB2.66 million for the acquisition of various equipment for environmental protection, (ii) approximately RMB4.40 million for the construction of various sterilization and filtering facilities, (iii) approximately RMB1.05 million for sewage treatment, (iv) approximately RMB245,000 for sewage disposal and rubbish transportation fees, (v) approximately RMB1.05 million for purchasing the chemicals to be used in the sewage treatment facilities, and (vi) approximately RMB0.6 million for other related expenses.

As at the Latest Practicable Date, we had not encountered any non-compliance issue in respect of any applicable laws and regulations on environmental protection or any complaints from our customers or the public in respect of environmental protection issues.

Our Directors are of the view that there are no environmental protection laws and regulations which may affect our production in any material respect. Our PRC legal advisors confirmed that our existing production activities and products are in compliance with the applicable environmental protection laws and regulations in the PRC. With respect to those new environmental protection facilities to be installed at the new production plant of our Group, they are required to pass the environmental protection facilities inspection and acceptance to be conducted by the relevant PRC governmental authority before production can be commenced.

PRODUCTION SAFETY

Our customers do not impose any requirements with respect to production safety measures. As at the Latest Practicable Date, we have not been adjudged by the relevant PRC governmental authority for any non-compliance with any production safety requirements under the PRC laws and regulations or received any complaints from our customers or the public in relation to the production safety of our Group.

Our Directors are also of the view that the production safety measures currently adopted are in line with the market practice of the industries in which our Group is engaged in.

INSURANCE

We maintain integrated insurance coverage on our properties and fixed assets, production facilities and equipment against property damage. We also provide social security insurance in accordance with the relevant laws and regulations of the PRC. Since most of our products are not sold to end-customers and our products require further processing

BUSINESS

before the same can be consumed by individual consumers, we do not maintain any product liability insurance. The Directors believe that this is in line with the general practice of our Group's industry in the PRC.

Our Directors are of the view that we have maintained sufficient insurance coverage for our business and operations.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, there was no litigation or arbitration pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition or results of operations.

PROPERTIES

Our head office and production facilities are located at No. 688 Deng Gao Dong Lu, Xinluo District, Longyan, Fujian, the PRC. Our breeder farms, hatching facilities and broiler breeding farms are situated in various locations in Longyan, Fujian Province.

Owned Properties

Our Animal Feeds Production Plant and our Slaughtering and Processing Plant

With respect to our animal feeds production plant and our slaughtering and processing plant, we have obtained the land use rights certificates in respect of 2 parcels of land located at Xinluo District with site area of approximately 22,000 sq.m. and 19,500 sq.m. respectively.

Our animal feeds production plant and our slaughtering and processing plant comprise several buildings and ancillary structures. We have obtained the building ownership certificates in respect of those buildings and ancillary structures.

Our Office and Dormitory Buildings

With respect to our office building, we have obtained the land use rights certificates in respect of the two parcels of land located at Xinluo District with an aggregate site area of approximately 117,000 sq. m. We have also obtained building ownership certificates in respect of those buildings and ancillary structures with a total gross floor area of approximately 18,000 sq.m..

We have also leased out a portion of some of those buildings situated at Xinluo District with a total gross floor area of approximately 3,600 sq.m. to Fujian Sumhua, details of which are set out in the paragraph headed "Exempt Continuing Connected Transactions" of the section headed "Connected Transactions" of this prospectus.

The lease agreement of the said premises has not been registered with the relevant PRC governmental authority. However, as advised by our PRC legal advisors, the non-registration of a lease in the PRC will not affect the legality and validity of the lease.

BUSINESS

Our Investment Property

We own a parcel of land located at Xinluo District with a gross floor area of approximately 543.78 sq.m. and have obtained the state-owned land use rights certificate and the relevant building ownership certificates in respect of the same.

The investment property is currently leased to an Independent Third Party. Our Group holds and leases such investment property because our Group invested in another company in the PRC in the past. That company returned the investment of our Group by way of transferring the ownership in the investment property which was subject to a lease at the material time.

Leased Properties





We do not own the land on which our breeder farms, hatching facility and broiler breeding farms are located.

As at the Latest Practicable Date, we leased various parcels of farmlands with an aggregate area of approximately 821,000 sq.m., from various Independent Third Parties.

We have also leased a unit from Xiamen Sumpo which is being used as offices of our Group. Since Xiamen Sumpo is the associate of Mr. Lin, the lease agreement under the aforesaid lease arrangement will constitute continuing connected transaction of our Group upon Listing under the Listing Rules. Please refer to the paragraph headed “Exempt Continuing Connected Transactions” of the section headed “Connected Transactions” of this prospectus for further details.


Details of the aforesaid properties owned and leased by our Group are set out in Appendix IV to this Prospectus.

INTELLECTUAL PROPERTY RIGHTS

During the Track Record Period, our chicken meat products were sold under the trademarks of , ,  and . Those trademarks have a valid period of ten years commencing from the last quarter of year 2000 and will expire in late 2010. These trademarks are important to our Group and therefore applications have been made to the relevant authority for the renewal of the trademarks in the PRC for classes 29 and 31 on 17 August 2010, which were still pending approval from the relevant authority as at the Latest Practicable Date. According to the opinion of our PRC legal advisors, there is no legal impediment for the renewal of the aforesaid trademarks in the PRC upon their expiry in late 2010. Some of those trademarks were originally owned by Xiamen Sumpo and other owners and Fujian Sumpo is one of the joint owners of other trademarks under classes 29 and 31. All the said trademarks under classes 29 and 31 are in the process of being transferred to Fujian Sumpo at nil consideration. The applications for the transfers have already been submitted to the relevant authority. For the details, please refer to the paragraph headed “Intellectual Property” in Appendix VI to this prospectus. These trademarks are solely used for our Group’s business under classes 29 and 31. Class 29 relates to meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams,

BUSINESS

compotes; eggs, milk and milk products; edible oils and fats, whilst class 31 relates to agricultural, horticultural and forestry products and grains not included in other classes; live animals; fresh fruits and vegetables; seeds, natural plants and flowers; foodstuffs for animals; malt.

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. Therefore, the risk of the Controlling Shareholders causing any adverse effect on our Group's goodwill or reputation in relation to our Group's products is minimal. However, they may use such trademarks for the business and products outside classes 29 and 31 and register such trademarks outside classes 29 and 31. To the best knowledge of the Directors, the Controlling Shareholders have registered some of the said trademarks outside classes 29 and 31 in the PRC but have not used the said trademarks in any products as at the Latest Practicable Date. As our Group is not the owner of such trademarks outside classes 29 and 31, the Controlling Shareholders' use of such trademarks outside classes 29 and 31 will not constitute continuing connected transactions of our Group under the Listing Rules. Given that our Group has no control over how the Controlling Shareholders use the trademarks in classes other than 29 and 31, in order to protect our Group's interest, the Controlling Shareholders have agreed to indemnify our Group for any loss or damages suffered by our Group as a result of the Controlling Shareholders' continuous use of the said trademarks. For details of the said undertaking and indemnity given by the Controlling Shareholders, please refer to the paragraph headed "Non-Competition Undertakings" under the section headed "Relationship with the Controlling Shareholders" of this prospectus. Further, our Company (i) has successfully registered such trademarks under classes 29 and 31 in Hong Kong and (ii) has applied to register the trademark of  under classes 29 and 31 in Hong Kong.

Further details of our intellectual property rights are set out in the paragraph headed "Intellectual Property" in Appendix VI to this prospectus.

REGULATORY COMPLIANCE

As advised by our PRC legal advisors, as at the Latest Practicable Date, our Group has obtained all the approvals, permits, consents, licences and registrations required for our business and operations and all of them are in force. We have never failed in the regular inspections of the PRC regulatory authority nor experienced any refusal of the renewal application of our business licence and other licences necessary for our operations. Our PRC legal advisors have also confirmed that our Group has not contravened the applicable PRC laws and regulations in all material aspects.

Please refer to the section headed "Industry and Regulatory Overview" of this prospectus for the relevant laws and regulations applicable to our Group's business and operation in the PRC.