MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition as at 31 December 2007, 2008, 2009 and 30 June 2010 and our results of operations for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2009 and 2010 together with the combined financial information as set out in the accountants' report included as Appendix I to this prospectus and not rely merely on the information contained in this section. The accountants' report has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The following discussion and analysis contain forward looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" of this prospectus.

BUSINESS OVERVIEW

We are one of the well-known chicken meat products suppliers in the Fujian Province of the PRC 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), 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. 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 and other retail and quick-service restaurants. We also sell some of our products through a number of distributors.

We have our own production facilities. We currently have 3 breeder farms, 1 hatching facility, 5 broiler breeding farms, 1 animal feeds production facility and 1 slaughtering and processing facility. Our Group owns the land which our animal feeds production facility, slaughtering and processing facility and head office are erected while we lease the land on which our breeder farms, hatching facility and broiler breeding farms are located.

In addition to our own production facilities, we also have Contract Farming arrangement with approximately 160 Contract Farmers. We sell the chicken breeds and animal feeds to the Contract Farmers for the purpose of breeding the chicken breeds.

We are dedicated to ensuring the high standard of safety and quality of our chicken meat products. We have obtained (i) ISO14001 (Environment) and ISO22000 (Food Safety) Certificates in January 2006 and (ii) ISO 9001 (Quality) Certificate in March 2008.

BASIS OF PRESENTATION

Our combined statements of comprehensive income, combined statements of changes in equity, and combined statements of cash flows as set out in Appendix I to this prospectus for the Track Record Period included the results of operations of our Group of which we were comprised (or where the companies were incorporated/established at a date later than 1

January 2007, for the period from the date of incorporated/established to 30 June 2010) as if the current group structure had been in existence throughout the Track Record Period. Our combined statements of financial position as of 31 December 2007, 2008 and 2009 and 30 June 2010 as set out in Appendix I to this prospectus have been prepared to present the statement of affairs of the companies of which we were comprised as of those dates, as if the current structure of our Group had been in existence as of the respective dates.

The combined financial information included in the accountants' report in Appendix I to this prospectus has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosures required by the Listing Rules.

All material intra-group transactions and balances are eliminated on consolidation.

FACTORS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OUR GROUP

Our Group's financial condition and results of operations have been and will continue to be affected by a number of factors, including those set out below.

Prices and supply interruption of raw materials of our animal feeds

The principal raw materials used in the production of our animal feeds are corn, wheat and soya meal which are procured from government warehouse and other third party suppliers. The price and supply of such raw materials may fluctuate significantly and are affected by various factors, including but not limited to the weather conditions and harvest conditions of the raw materials, the policies of the PRC government and market competition. The cost of our raw materials as a percentage of the total direct material cost amounted to approximately 20.5%, 33.9%, 32.1% and 31.7%, for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, respectively. Fluctuations in the costs of our raw materials and our ability to pass on any increase in raw material costs to our customers will affect our total cost of sales and our gross margins. Our production schedule will be interrupted if we are unable to obtain acceptable quality raw materials on a timely basis.

For further details on the procurement of our raw materials, please refer to the paragraph headed "Purchases and Suppliers" in the section headed "Business" of this prospectus.

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

	Year ended 31 December					Six months ended 30 June	
	2007	2008		2009		2010	
	RMB	*RMB*	*Approximate percentage of change*	*RMB*	*Approximate percentage of change*	*RMB*	*Approximate percentage of change*
Corn (per tonne)	1,838.94	1,858.29	1.1%	1,801.60	(3.1%)	1,987.41	10.3%
Wheat (per tonne)	1,752.83	1,814.32	3.5%	2,000.22	10.2%	2,152.30	7.6%
Soya meal (per tonne)	3,195.14	3,737.50	17%	3,299.06	(11.7%)	3,032.46	(8.1%)

Such price fluctuations will affect our production costs, which in turn affect our gross profit margin. Based on the table above, the average absolute percentage changes per year/period in the average prices of corn, wheat and soya meal were from approximately 5% to 12% during the Track Record Period.

For illustrative purposes only, the following table illustrates the sensitivity of the changes in our gross profit margin in the event that there is a 5% increase or decrease in the prices of each of corn, wheat and soya meal (while keeping the prices of the other two raw materials constant) during the Track Record Period:

	Corn			Wheat			Soya meal		
	5% Decrease (approximately)	Base Case (approximately)	5% Increase (approximately)	5% Decrease (approximately)	Base Case (approximately)	5% Increase (approximately)	5% Decrease (approximately)	Base Case (approximately)	5% Increase (approximately)
Gross profit margin of the Group for the year ended 31 December 2007	20.8%	20.5%	20.2%	20.7%	20.5%	20.3%	20.7%	20.5%	20.3%
Gross profit margin of the Group for the year ended 31 December 2008	16.9%	16.4%	15.9%	16.8%	16.4%	16.0%	16.6%	16.4%	16.2%
Gross profit margin of the Group for the year ended 31 December 2009	17.7%	17.0%	16.3%	17.2%	17.0%	16.8%	17.2%	17.0%	16.8%
Gross profit margin of the Group for the six months ended 30 June 2010	19.0%	18.4%	17.8%	18.6%	18.4%	18.2%	18.6%	18.4%	18.2%

For illustrative purposes only, the following table illustrates the sensitivity of the changes in our gross profit margin in the event that there is a 12% increase or decrease in the prices of each of corn, wheat and soya meal (while keeping the prices of the other two raw materials constant) during the Track Record Period:

	Corn			Wheat			Soya meal		
	12% Decrease (approximately)	Base Case (approximately)	12% Increase (approximately)	12% Decrease (approximately)	Base Case (approximately)	12% Increase (approximately)	12% Decrease (approximately)	Base Case (approximately)	12% Increase (approximately)
Gross profit margin of the Group for the year ended 31 December 2007	21.1%	20.5%	19.9%	21.0%	20.5%	20.0%	21.0%	20.5%	20.0%
Gross profit margin of the Group for the year ended 31 December 2008	17.6%	16.4%	15.2%	17.4%	16.4%	15.4%	16.9%	16.4%	15.9%
Gross profit margin of the Group for the year ended 31 December 2009	18.6%	17.0%	15.4%	17.4%	17.0%	16.6%	17.5%	17.0%	16.5%
Gross profit margin of the Group for the six months ended 30 June 2010	19.8%	18.4%	17.0%	18.8%	18.4%	18.0%	18.9%	18.4%	17.9%

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

Regulatory environment

We operate in the chicken meat and feeds industries, which require us to obtain and maintain various licenses, permits and government approvals in the PRC, and comply with the relevant environmental laws and regulations of the PRC. We are also required to obtain various government approvals and comply with the applicable hygiene and food safety standards in relation to our production process, premises and food products. Our financial condition and results of operation will be adversely affected if we are unable to obtain and maintain the relevant licenses, permits and government approvals. We expect that we will continue to maintain our licenses, permits and government approvals with our stringent quality and hygiene control standards and procedures and therefore we believe that we are well-positioned to benefit from the change in PRC regulatory environment. For further details regarding the existing laws and regulations relevant to our businesses, please refer to the section headed "Industry and Regulatory Overview" of this prospectus.

Level of PRC income tax and preferential tax treatment

Our profit attributable to our Shareholders is affected by the level of income tax that we pay and the level of preferential tax treatment to which we are entitled.

Termination or revision of various types of preferential tax treatment that the subsidiaries of the Group currently enjoy will have a negative impact on the results of the operations and financial condition of the Group. For further details regarding income tax and preferential tax treatment which our Group is subject to, please refer to the sub-section headed "Taxation" in this section.

Our ability to secure reliable Contract Farmers to grow live broilers for the production of our chicken meat products

Our operations depend heavily on a sufficient and stable supply of live broilers. We heavily rely on the Contract Farmers to grow live broilers for the production of our chicken meat products. These Contract Farmers are required to purchase chicken breeds and animal feeds from us, and grow the chicken breeds in accordance with our requirements. We agree to repurchase the grown broilers at an agreed price. The prices at which the broilers are to be repurchased by our Group shall be determined by our Group. We will adjust the repurchase price from time to time with reference to the market circumstances and ensure that the Contract Farmers will have certain amount of profit for each broiler sold by them to our Group. In light of the aforesaid, our Group had not experienced any price pressure from the Contract Farmers during the Track Record Period. There is no assurance that we will be able to engage sufficient number of Contract Farmers to supply live broilers to us in the future and the Contract Farmers may also be engaged by our competitors. In the event that there are other agricultural products and farming services which are more profitable for the Contract Farmers as compared with the Contract Farming arrangement with our Group, the Contract Farmers may refuse to continue to provide, or request for more favourable terms in the provision of Contract Farming services to our Group, which may in turn affect our costs of production and our financial performance may be adversely affected. Therefore, we have been striving to maintaining good relationship with the Contract Farmers by offering better credit terms and providing necessary training to improve their profitability.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant for an understanding of our financial condition and results of operations, and these are set out in detail in note 3 of section II to our combined financial statements in Appendix I to this prospectus. Critical accounting policies are those accounting policies that are the most important to the portrayal and understanding of our financial condition and our results of operations and require the most difficult, subjective or complex judgments of our management, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. The following sections discuss certain critical accounting policies, judgments and estimations applied in the preparation of our combined financial statements.

Revenue recognition

We recognised revenue in the combined statements of comprehensive income provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably. We recognised revenue from the sales of goods when goods are delivered at the customers' premises, which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. We recognised rental income receivable under operating leases in the combined statements of comprehensive income on a straight-line basis over the term of lease. Contingent rentals are recognised income in the accounting period in which they are earned. We recognised interest income as it accrues using the effective interest method.

Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current receivables that are stated at cost or amortized cost are reviewed at the end of each reporting period and our management's judgment is required to determine whether there is objective evidence of impairment. If any such evidence exists, we will determine and recognise any impairment loss as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment loss for equity securities is not reversed.

- For trade and other receivables carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets, where the effect of discounting is material).

Our management's judgment is required to determine the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the combined statements of comprehensive income. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

We review internal and external sources of information at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Lease prepayments; and
- Investments in subsidiaries and jointly controlled entities.

If any such indication exists, our management's judgment is required in estimating the asset's recoverable amount. Our management will also need to assess the value in use, the estimated future cash flows and the appropriate rate to apply in discounting the estimate future cash flows to their present value. We will reverse an impairment loss in respect of assets, if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the combined statements of comprehensive income in the year in which the reversals are recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. We determine the net realisable value based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sales.

We initially measure the agricultural produce at its fair value less costs to sell at the point of lay as mentioned at the paragraph headed "Biological assets and agricultural produce" in this section and subsequently include it under inventory at the lower of cost and net realisable value.

We recognise the carrying amount of those inventories that are sold in the period in which the related revenue is recognised. We recognise the amount of any write-down of inventories to net realisable value and all losses of inventories as an expense in the period the write-down of loss occurs. We recognise the amount of any reversal of any write-down of inventories as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

We review the carrying amount of our inventories for slow moving inventory, obsolescence or decline in market value. These reviews are conducted with reference to inventory aging analyses, projections of expected future saleability of goods and management experience and judgment. If our estimate of net realisable value is below the cost of inventory, we record a provision against the inventories for the difference between cost and net realisable value, which will result in a corresponding increase in our cost of sales.

Biological assets and agricultural produce

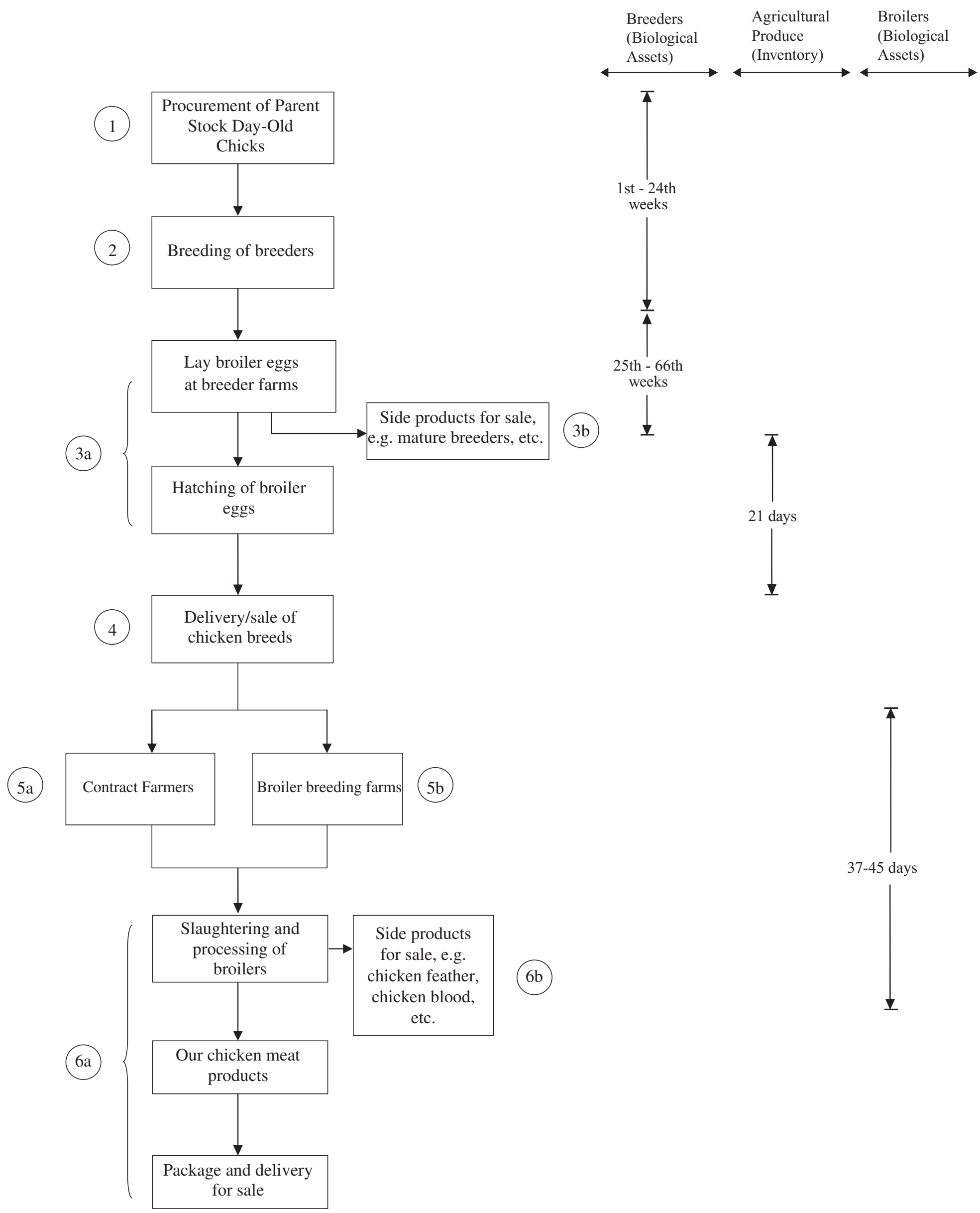
Biological assets comprise our breeders, Parent Stock Day-Old Chicks and chicken breeds. The agricultural produce refers to our broiler eggs bred from our mature breeders. We only procure Parent Stock Day-Old Chicks from qualified breeder farms and we raise them until they are mature enough to lay eggs. Generally, it takes approximately 24 weeks from the date of purchase for Parent Stock Day-Old Chicks to become mature breeders. Other than the broiler eggs laid from our mature breeders, we may also purchase some of the broiler eggs from independent breeder farms. As confirmed by our Directors, for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, approximately 15.5%, 3.2%, nil and nil of total quantity of broiler eggs, respectively, were purchased from independent breeder farms. Such broiler eggs are recognised as part of our inventories under the category of agricultural produce. In our combined statements of financial position, biological assets are recognised as a separate line item under non-current assets and current assets while agricultural produce is recognised as part of inventories.

In accordance with Hong Kong Accounting Standard 41 (Agriculture) ("**HKAS 41**"), our biological assets are stated at fair value less costs to sell, provided that fair value can be measured reliably. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Agricultural produce is initially measured at its fair value less costs to sell at the point of lay. We are required by HKAS 41 to reflect movements in the fair value less costs to sell of our biological assets, with any resultant gain or loss recognised in our combined statements of comprehensive income. The economic benefits of our biological assets are affected by the biological transformation, such as life cycle, of such assets. The fair value changes in biological assets have a direct relationship to the change in expected future economic inflow to our Company.

We recognise the fair value of agricultural produce as revenue in our combined statements of comprehensive income at point of lay in accordance with HKAS 41 and accounted for the agricultural produce as part of inventory under cost method. When the agricultural produce is subsequently hatched into chicken breeds and sold to our Contract Farmers, the related amount previously recognised as revenue under "Fair value of agricultural produce on initial recognition" is reversed and reflected in "Reversal of fair value of agricultural produce due to hatch and disposals" in our combined statements of comprehensive income.

PRODUCTION PROCESSES

The chart below illustrates our production processes of our chicken meat products and the corresponding impacts on our financial statements, which is prepared solely for illustrative purposes only and may not provide a full picture of our financial position. *Actual production processes, including the period of time indicated for each production process, can vary significantly between each product type and specification and/or due to unforeseen circumstances. For illustration purposes, level of materiality is not considered.*



No.	Processes	Activities	Impacts on financial statements
1	Procurement of Parent Stock Day-Old Chicks	We procure Parent Stock Day-Old Chicks from Independent Third Party for breeding into mature breeders.	We record the biological assets (i.e. breeders, Parent Stock Day-Old Chicks) under non-current assets upon receipt.
2	Breeding the breeders	We feed the breeders and at 25th week, the breeders are mature enough to lay eggs (i.e. agricultural produce).	We absorb the cost of animal feeds to the biological assets (non-current assets) and recognise the fair value of hatched eggs (i.e. agricultural produce) as "Fair values of agricultural produce on initial recognition" upon the time of lay.
3a	Hatching of broiler eggs	Broiler eggs are incubated in the hatching facilities and will normally take 21 days for the broiler eggs to hatch into chicken breeds.	We recognise the inventory of broiler eggs upon the time of lay. We record the utilities consumed as production cost under cost of sales and make payment when the bills are due. We recognise the "Reversal of fair value of agricultural produce due to hatch and disposals" when the broiler eggs are hatched into chicken breeds.
3b	Side products for sale, e.g. mature breeders, etc	After the 66th week, those mature breeders are sold and will not be used for the production of our chicken meat products	Upon the sales of side products, we recognise its revenue, net of cost, under "other revenue". For example, the costs of mature breeders would be transferred from biological assets to the cost of side products.

No.	Processes	Activities	Impacts on financial statements
4	Delivery, sales of chicken breeds	We inspect, select, vaccinate the hatched chicken breeds and then deliver them to our Contract Farmers. The Contract Farmers shall purchase all animal feeds by paying the full price in advance and they are prohibited from purchasing any animal feeds and other ingredients from the market.	We record the sales of animal feeds and chicken breeds to the Contract Farmers upon delivery. We also recognise from inventory to cost of sales upon sales. Cost of chicken breeds comprise of the hatching cost of broiler eggs, cost of animal feeds, etc. All costs incurred in the production process are initially recognised in production cost. Such costs will then be allocated to the cost of sales upon sales.
5a	Re-purchasing the grown broilers from Contract Farmers	Around 37 to 45 days, the chicken breeds turn into grown broilers and are ready for medicine residual and microbial tests on each batch of broilers. We only accept and purchase those broilers which fulfil our quality standards for our downstream business and we make payment on our purchase.	We record the purchase of broilers upon delivery as direct materials under production cost. All costs incurred in the production process are initially recognised in production cost. Such costs will then be allocated to the cost of sales of chicken meat products. Payment may be offset by the outstanding payment at Activity 4 as above.
5b	Broilers raised by our own breeding farm	We breed the chicken breeds in our own broiler breeding farms. After the chicken breeds in our broiler breeding farms are grown up into broilers, we will collect the broilers and deliver to our slaughtering and processing facility.	We recognise the transfer of broilers bred by our Group from biological assets to direct materials under production costs.

No.	Processes	Activities	Impacts on financial statements
6a	Slaughtering, processing of broilers and delivery for sale	Upon receipt of the live broilers we start our chicken meat production process and delivering finished products to our customers via different distribution channels.	We record the sales and cost of sales of chilled and frozen chicken meat upon delivery. We record the inventories for the unsold chilled and frozen chicken meat in our warehouse.
6b	Side products for sale, e.g. chicken feather, chicken blood, etc	We produce other side products during our production process, including chicken feather and chicken blood.	We record the sales of side products, e.g. chicken feather and chicken blood as other income.
7	N/A	We recognise the biological assets at fair value less costs to sell at the reporting date.	We record the change in fair value less costs to sell of biological assets in the combined statements of comprehensive income.

Property, plant and equipment

Items of property, plant and equipment are stated in the combined statement of financial positions at cost less accumulated depreciation and impairment losses. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the combined statements of comprehensive income on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	10 – 30 years
Machinery and equipment	3 – 10 years
Motor vehicles	5 – 8 years
Tools	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. The useful lives are based on our Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

RESULTS OF OPERATIONS

Our combined statements of comprehensive income for the years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010 as set out below is derived from our combined financial statements included in Appendix I to this prospectus.

The continuing operations comprised of the business of (i) slaughtering, production and sales of chicken meat products; (ii) hatching of broiler eggs and sales of chicken breeds; and (iii) production and sales of animal feeds.

The discontinued operation comprised of the business of slaughtering, production and sales of pork.

	Year ended 31 December			Six months ended 30 June	
	2007	*2008*	*2009*	*2009*	*2010*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Continuing operations					
Revenue	436,419	587,743	569,242	260,659	299,659
Cost of sales	(347,012)	(491,148)	(472,545)	(226,423)	(244,586)
Gross profit	89,407	96,595	96,697	34,236	55,073
Other revenue and gains	12,638	15,174	13,700	5,658	7,189
Change in fair value less costs to sell of biological assets	3,058	(2,191)	3,388	(145)	(4,032)
Fair values of agricultural produce on initial recognition	34,880	55,786	57,952	28,960	28,363
Reversal of fair value of agricultural produce due to hatch and disposals	(34,021)	(53,884)	(60,083)	(29,416)	(27,513)
Selling and distribution expenses	(8,354)	(9,481)	(9,295)	(4,763)	(4,160)
Administrative expenses	(23,951)	(19,444)	(22,406)	(10,286)	(16,418)
Finance costs	(4,522)	(9,133)	(8,906)	(4,825)	(5,833)
Other operating expenses	(11,293)	(17,663)	(15,470)	(8,140)	(8,415)
Profit before taxation	57,842	55,759	55,577	11,279	24,254
Taxation	(13,693)	(7,107)	(5,553)	(1,407)	(1,446)
Profit for the period/year from continuing operations	44,149	48,652	50,024	9,872	22,808
Discontinued operation					
Gain/(loss) for the period/year from discontinued operation *(note)*	–	(2,716)	9,371	(10,512)	–
PROFIT/(LOSS) FOR THE PERIOD/YEAR	44,149	45,936	59,395	(640)	22,808

Note: Included in gain/(loss) for the year ended 31 December 2009 was the gain on disposal of pork business of approximately RMB35.0 million.

PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF COMPREHENSIVE INCOME

The following discussion is based on our historical results of operations and may not be indicative of our future operating performance.

Revenue

Revenue represents the sales value of goods sold less returns, discounts, value added taxes and other sales taxes. Our revenue from the continuing operations is mainly derived from the sales of chicken meat products, animal feeds and chicken breeds.

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* *(unaudited)*	*% 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 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

Our total revenue increased from approximately RMB436.4 million for the year ended 31 December 2007 to approximately RMB587.7 million for the year ended 31 December 2008. However, we recorded a negative growth rate of approximately 3.1% in our revenue for the year ended 31 December 2009 due to decrease in the sales of the animal feeds. Chicken meat products had contributed to the largest proportion of our revenue during the Track Record Period, representing approximately 75.9%, 61.6%, 64.0% and 67.3% of our total revenue for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

Our revenue derived from the sales of animal feeds had significantly increased by approximately 160.6% from approximately RMB72.4 million for the year ended 31 December 2007 to approximately RMB188.8 million for the year ended 31 December 2008. The significant increase was mainly due to the acquisition of an animal feeds production plant from Longyan Baoshun Poultry Technology Company Limited in June 2007. The decrease in the sales of animal feeds from approximately RMB188.8 million for the year ended 31 December 2008 to approximately RMB166.3 million for the year ended 31 December 2009 was mainly due to the decrease in the sales of other animal feeds such as duck feeds and yellow-feathered chicken feeds and the decrease in their average selling price. Our revenue derived from the sales of animal feeds represented approximately 16.6%, 32.1%, 29.2% and 26.8% of our total revenue for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

Our sales of chicken breeds was in line with the sales of chicken meat, showing a stable growth during the Track Record Period. Our revenue derived from the sales of chicken breeds represented approximately 7.5%, 6.3%, 6.8% and 5.9% of our total revenue for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

The following table sets out a breakdown of our revenue by sales channels 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 (unaudited)*	*% of total revenue*	*RMB'000*	*% of total revenue*
Revenue										
Direct sales	361,994	82.9	504,896	85.9	491,864	86.4	223,637	85.8	261,088	87.1
Distributors	74,425	17.1	82,847	14.1	77,378	13.6	37,022	14.2	38,571	12.9
Total	436,419	100.0	587,743	100.0	569,242	100.0	260,659	100.0	299,659	100.0

While all the chicken feeds and chicken breeds were directly sold to the Contract Farmers, we sold the chicken meat products and other feeds by either direct sales or through our distributors. As our direct sales normally earn a higher profit margin than the sales through our distributors, we had attached more importance to the direct sales during the Track Record Period in order to improve our profitability. As shown in the table above, the portion of the direct sales to our total revenue has increased during the Track Record Period. Our revenue generated from direct sales represented approximately 82.9%, 85.9%, 86.4% and 87.1% of our total revenue for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

The following table sets out the sales volumes of our (i) chicken meat and animal feeds in terms of weight and (ii) chicken breeds in terms of quantity during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	(tonnes)	*(tonnes)*	*(tonnes)*	*(tonnes)*	*(tonnes)*
Total tonnes sold					
Chicken meat products	30,706	32,651	34,592	16,263	17,727
Animal feeds					
– Chicken feeds	26,287	52,042	55,661	26,176	26,918
– Pig feeds	1,961	8,881	6,546	4,551	3,422
– Others [(1)]	2,008	5,521	2,247	1,942	–
Total animal feeds	30,256	66,444	64,454	32,669	30,340
Total pieces sold					
Chicken breeds	11.6 million	12.3 million	12.9 million	6.4 million	5.9 million

Note:

(1) Others mainly represented duck feeds and yellow-feathered chicken feeds.

As shown in the table above, our sales of chicken meat in term of weight and chicken breeds in term of quantity had shown a stable growth while the sales of animal feeds in term of weight had recorded a decrease of approximately 3.0% from 66,444 tonnes for the year ended 31 December 2008 to 64,454 tonnes for the year ended 31 December 2009. The decrease in the sales of animal feeds was mainly attributable to the termination of production of other feeds in June 2009.

The following table sets out the average selling prices for our major product categories, being chicken meat products, animal feeds and chicken breeds during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB Per tonne	*RMB Per tonne*	*RMB Per tonne*	*RMB Per tonne*	*RMB Per tonne*
Average selling prices *(note 1)*					
Chicken meat products	10,794.11	11,090.21	10,534.18	9,725.13	11,380.29
Animal feeds	2,394.43	2,841.74	2,579.53	2,551.93	2,645.10
– Chicken feeds	2,367.16	2,873.26	2,612.56	2,626.69	2,599.98
– Pig feeds	2,799.12	2,852.46	2,421.57	2,264.16	3,000.04
– Other feeds	2,356.17	2,527.36	2,221.47	2,218.61	– *(note 2)*
Chicken breeds (per piece)	2.80	2.99	2.99	2.99	2.99

Notes:

(1) Average selling prices represented the revenue for the year/period divided by the total tonnes/number of chicken breeds sold for the year/period.

(2) The other feeds production was discontinued in June 2009.

Driven by the increase in market demand, the average selling price of chicken meat products and animal feeds increased from RMB10,794.11 per tonne and RMB2,394.43 per tonne for the year ended 31 December 2007 to RMB11,090.21 per tonne and RMB2,841.74 per tonne for the year ended 31 December 2008 respectively. However, due to economic downturn in late 2008, the average selling price of chicken meat and animal feeds decreased by approximately 5.0% and 9.2%, to RMB10,534.18 per tonne and RMB2,579.53 per tonne respectively for the year ended 31 December 2009.

Cost of sales

The following table sets out a breakdown of our cost of sales for the continuing operations by major product categories and their relative percentage of our total cost of sales during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000* *(unaudited)*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*
Cost of sales										
Chicken meat products	263,896	76.1	316,016	64.3	313,627	66.4	145,252	64.2	164,552	67.3
Animal feeds	68,066	19.6	160,824	32.8	144,991	30.7	73,779	32.6	74,209	30.3
Chicken breeds	15,050	4.3	14,308	2.9	13,927	2.9	7,392	3.2	5,825	2.4
Total	347,012	100.0	491,148	100.0	472,545	100.0	226,423	100.0	244,586	100.0

The following table sets out a breakdown of our cost of sales by production cost and the percentage of such cost to our total cost of sales during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000* *(unaudited)*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*
Cost of sales										
Direct materials	321,404	92.6	459,864	93.6	437,981	92.7	209,977	92.7	226,709	92.7
Direct labour	11,387	3.3	13,238	2.7	16,239	3.4	7,775	3.5	8,077	3.3
Fuel and power	4,600	1.3	6,193	1.3	6,563	1.4	3,258	1.4	3,308	1.4
Overhead	9,621	2.8	11,853	2.4	11,762	2.5	5,413	2.4	6,492	2.6
Total	347,012	100.0	491,148	100.0	472,545	100.0	226,423	100.0	244,586	100.0

Our cost of sales primarily consists of direct material costs, direct labour costs, fuel and power costs and overhead costs. Our direct material costs generally represented over 90% of our cost of sales during the Track Record Period.

Our principal cost of direct materials mainly consists of the cost of broilers purchased from the Contract Farmers, cost of broilers raised by our Group, additives, hatching cost of broiler eggs and raw materials costs related to our animal feeds which primarily comprise of corn, wheat and soya meal.

Direct labour costs primarily consist of wages, insurance and other employee benefits for our production workers.

Overhead costs primarily consist of utilities, properties insurance, operating lease charges and other miscellaneous operational costs.

During the Track Record Period, we maintained the cost of direct materials at a stable level. The cost of our direct materials represented approximately 92.6%, 93.6%, 92.7% and 92.7% of our total cost of sales for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

The following table sets out the average unit cost for our major product categories, being chicken meat products, animal feeds and chicken breeds during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	Per tonne	*Per tonne*	*Per tonne*	*Per tonne (unaudited)*	*Per tonne*
Average unit costs					
Chicken meat(note 1)	8,594.26	9,678.67	9,066.54	8,931.20	9,282.67
– Broilers from Contract Farmers	7,686.77	9,283.62	8,839.15	8,844.82	9,026.12
– Broilers bred by the Group	8,448.86	10,235.64	9,534.72	9,095.43	9,767.21
Animal feeds(note 2)	2,249.64	2,420.43	2,249.54	2,258.41	2,445.96
– Chicken feeds	2,226.74	2,402.17	2,278.21	2,274.46	2,420.83
– Pig feeds	2,593.07	2,572.45	2,020.59	2,191.92	2,643.62
– Other feeds	2,213.91	2,348.01	2,206.18	2,197.89	– *(note 3)*
Chicken breed(note 2) (per piece)	1.30	1.16	1.08	1.16	0.98

Notes:

(1) Average unit costs represented the cost of sales including the cost of broilers purchased from the Contract Farmers for the year/period divided by the total tonnes sold for the year/period.

(2) Average unit costs represented the cost of sales for the year/period divided by the total tonnes/piece of animal feeds and chicken breeds sold for the year/period.

(3) The other feeds production was discontinued in June 2009.

The following table sets out the average unit cost for our major raw materials of animal feeds during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	Per tonne	*Per tonne*	*Per tonne*	*Per tonne* *(unaudited)*	*Per tonne*
Average unit cost					
Major raw materials of animal feeds(note)					
– Corn	1,838.94	1,858.29	1,801.60	1,720.09	1,987.41
– Wheat	1,752.83	1,814.32	2,000.22	1,934.25	2,152.30
– Soya meal	3,195.14	3,737.50	3,299.06	3,166.41	3,032.46

Note: Average unit cost represented the purchase cost of major raw materials for the year/period divided by the total purchase of major raw materials for the year/period.

The following table sets out the yield rate of our broiler eggs during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	%	%	%	%	%
Yield rate (note)	88.2	87.5	88.2	86.7	88.9

Note: Yield rate represented the total number of hatched broiler egg for the year/period minus the number of non-fertilised broiler egg for the year/period and divided by the total number of hatched broiler egg for the year/period.

Gross profit and gross profit margin

The following table sets out our total gross profit and gross profit margin by major 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 gross profit*	*RMB'000*	*% of total gross profit*	*RMB'000*	*% of total gross profit*	*RMB'000* *(unaudited)*	*% of total gross profit*	*RMB'000*	*% of total gross profit*
Gross profit										
Chicken meat products	67,550	75.6	46,088	47.7	50,768	52.5	12,912	37.7	37,184	67.5
Animal feeds	4,381	4.9	27,994	29.0	21,269	22.0	9,589	28.0	6,042	11.0
Chicken breeds	17,476	19.5	22,513	23.3	24,660	25.5	11,735	34.3	11,847	21.5
Total	89,407	100.0	96,595	100.0	96,697	100.0	34,236	100.0	55,073	100.0

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	%	*%*	*%*	*%* *(unaudited)*	*%*
Gross profit margin					
Chicken meat products	20.4	12.7	13.9	8.2	18.4
Animal feeds	6.0	14.8	12.8	11.5	7.5
Chicken breeds	53.7	61.1	63.9	61.4	67.0
Overall	20.5	16.4	17.0	13.1	18.4

Gross profit increased from approximately RMB89.4 million for the year ended 31 December 2007 to approximately RMB96.7 million for the year ended 31 December 2009, representing a CAGR of approximately 4%. In addition, gross profit increased by approximately 60.9% from approximately RMB34.2 million for the six months ended 30 June 2009 to approximately RMB55.1 million for the six months ended 30 June 2010. The significant increase was mainly attributable to the increase in the sales of chicken meat products and its average selling price.

For information on the reasons for the fluctuation of gross profit margins for each business segment, please see "Gross profit and gross profit margin" for the relevant periods in the paragraph headed "Period to Period Comparison of Results of Continuing Operations" below.

Other revenue and gains

Our other revenue and gains primarily consist of sales of side products, interest income, government grants and amortization of financial guarantee contract.

The following table sets out our other revenue and gains during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income on:					
Bank deposits	302	250	593	36	132
Held-to-maturity investment	–	–	267	–	294
Total interest income	302	250	860	36	426
Sales of side products and related products, net	5,995	8,197	9,821	4,605	3,872
Gain on disposal of property, plant and equipment	88	263	–	3	421
Net foreign exchange gain	33	1,246	–	–	–
Government grants	2,889	943	1,987	623	333
Amortization of financial guarantee liabilities	–	3,098	–	–	1,612
Reversal of impairment loss recognised on other receivables	–	–	47	–	–
Net gain/(loss) arising on change in fair value of financial assets at fair value through profit or loss	366	(90)	49	40	(21)
Sundry income	2,965	1,267	936	351	546
	12,638	15,174	13,700	5,658	7,189

Our other revenue and gains were approximately RMB12.6 million, RMB15.2 million, RMB13.7 million and RMB7.2 million for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. Included in the sales of side products and related products, net were the sales of mature breeders, chicken droppings, broiler eggs which do not satisfy our production requirements and unused chicken organs of approximately RMB6.0 million, RMB8.2 million, RMB9.8 million and RMB3.9 million for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. The amortization of financial guarantee liabilities represents the decognition of the financial guarantee contract of related company.

Change in fair value less costs to sell of biological assets, fair values of agricultural produce on initial recognition and reversal of fair value of agricultural produce due to hatch and disposals

The change in fair value less costs to sell of biological assets reflected in the combined statements of comprehensive income was primarily due to the changes in fair value of the biological assets.

"Fair value of agricultural produce on initial recognition" as shown in the combined statements of comprehensive income reflects the increase in fair value of agricultural produce upon the time of lay. The fluctuation of this item was primarily the result of the change in the market value of broiler eggs in the local markets and the production and sales volume of broiler eggs. The subsequent hatch and disposals of agricultural produce are reflected in the combined statements of comprehensive income as "reversal of fair value of agricultural produce due to hatch and disposals".

Given the nature of the biological assets and agricultural produces, their fair values less costs to sell have been valued by the following valuation approaches:

Type of biological assets and agricultural produce	Valuation Approach Employed
Parent Stock Day-Old Chicks	Market Approach with reference to market-determined prices
Immature and mature breeders	Income Approach based on present value of expected net cash flows from them discounted at a market determined discount rate
Chicken breeds	Market Approach with reference to market-determined prices
Broiler eggs	Market Approach with reference to market-determined prices
Pig breeders	Market Approach with reference to market-determined prices

Parent Stock Day-Old Chicks, chicken breeds, broiler eggs and pig breeders are valued based on market approach as their market determined prices are available.

Under the prevailing market, only Parent Stock Day-Old Chicks and mature breeders having their egg laying cycles terminated after breeding for 66 weeks are normally transacted on the market. Therefore, the breeders are seldom transacted on the market and their market determined prices are unavailable. In this regard, it is appropriate for us to estimate their fair value less costs to sell by using the income approach rather than the direct comparison approach. The fair value less costs to sell under income approach is measured by discounted cash flow ("DCF") model. Despite the short production cycle of breeders, the DCF model is considered an appropriate method of valuation as there is time lag between cash outflows and cash inflows of the operations where negative net cash flows are observed during the initial stage of the breeding cycle. By discounting all future cash flows into present values, for the same dollar amount, the model can reflect the difference in values of cash flows happened in different points of time along the breeding cycle. The DCF model focuses on the income-producing capability of the breeders. Cash inflows of the model comprise the fair value of broiler eggs to be laid by the breeders from the valuation date to the end of the expected egg laying period and the terminal value of the mature breeders having their egg laying cycles terminated (based on their disposal values). Cash outflows comprise the breeding costs (based on actual costs incurred) as well as costs allowed for wastage due to natural mortality and infertility. The DCF model involves specific assumptions such as the discount rate, yield of egg production per breeder, mortality rate and infertility rate, market price of broiler eggs and related production costs.

The discount rate adopted in the DCF model for each of the years ended 31 December 2007, 31 December 2008 and 31 December 2009 and the six months ended 30 June 2009 and 2010 is 24.84%, 23.73%, 24.77%, 24.18% and 24.48% respectively, which have been developed by the capital asset pricing model ("CAPM") as follows:

$$E(R) = R_f + \beta\ (R_m - R_f) + \epsilon$$

where

$E(R)$ is the discount rate;

R_f is the risk-free rate;

β (the "unlevered beta") is the sensitivity of the expected excess asset returns to the expected excess market returns;

$R_m - R_f$ is the market premium; and

ϵ is the specific risk premium

The following assumptions have been adopted for the CAPM:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
R_f *(Note 1)*	4.452%	2.718%	3.632%	3.166%	3.277%
β *(Note 2)*	0.6034	0.6393	0.6915	0.6770	0.6981
$R_m - R_f$ *(Note 3)*	8.922%	9.403%	8.879%	8.879%	8.879%
ϵ *(Note 4)*	15%	15%	15%	15%	15%

Notes:

1. Yields of 10-year PRC Government Bonds have been taken as risk free rate.

2. Unlevered betas have been determined with reference to the same parameters of the comparable companies engaged in businesses operations similar to the Company in the PRC or other developing countries such as Indonesia and South Africa. They include DaChan Food (Asia) Limited (Stock Code: 3999.HK); Shandong Minhe Animal Husbandry Co., Ltd. (Stock code: 002234.CN); Fujian Sunner Development Company Ltd. (Stock Code: 2299.CN); Henan Huaying Agricultural Development Co., Ltd. (Stock Code: 002321.CN); Venky's (India) Limited (Stock Code: 523261.BOM); Srinivasa Hatcheries Ltd (Stock Code: 526893.BOM); Rainbow Chicken Limited (Ticker Symbol: RBW.JNB); and Yuhe International, Inc. (Ticker Symbol: YUII.NASDAQ).

3. Market risk premium of US stock market adjusted with country risk premium applicable to the PRC has been adopted in the CAPM.

4. Specific risk premium allows for size difference (where the capital value of the assets being valued is substantially lower than the market capitalization of the comparable companies) and the unsystematic risks of the assets being valued. It is also additional return add to the appraised asset due to the difference in size of investment (where the value of appraised asset is lower than the market capitalizations of the comparable companies) and the illiquid nature of the appraised asset. The indicated size and liquidity premium of 15% has been adopted with reference to the 2009 Ibbotson SBBI Valuation Yearbook. Based on the empirical studies as mentioned in the yearbook, there is a spread of return of 7.79% between low-cap companies and smallest-cap companies and this spread of return is attributable to size premium. In addition, there is a spread of return of 6.5% between companies having very liquid shares and companies having illiquid shares and this spread of return is attributable to liquidity premium. Given the aforesaid adjustment factors, a specific risk premium of 15% is added to the CAPM in arriving at the discount rate for the DCF model.

The discount rate adopted in the DCF model is higher than the returns on equity of the comparable companies and this can be justified on the following grounds:

- the market capitalizations of the comparable companies are substantially higher than the capital values of the assets being valued; and

- the assets being valued comprise specific groups of breeders which are subject to greater unsystematic risks in term of risks on physical conditions of the breeders, operational risks, catastrophic risks and market risks than the comparable companies which are continuously operating entities having numerous groups of breeders to diversify away those unsystematic risks to certain extent.

Given the discount rate as mentioned above, each of the projected cash flows of the model is discounted to present value by the following formula:

$PV = CF \times (1 + r/52)^{-n}$

Where

PV	:	Present value of a cash flow at a particular point of time
CF	:	Cash flow of that particular point of time
r	:	discount rate
n	:	number of week between the relevant reporting date and the week when that particular cash flow happens

Since the main purpose of breeders is to produce broiler eggs that are used for further processing down the value chain of the Company, the cash inflows of the breeders are mainly contributed from the values of broiler eggs to be produced by them during their breeding cycles. As all breeders being valued are AA+ branded breeders, the Valuer has made reference to the expected yield of eggs as stated in "Arbor Acres Plus (AA+) Parent Stock Performance Objectives", the technical paper issued by Aviagen Group for the egg laying pattern of the breeders.

The Reporting Accountants are of the view that the source data used is relevant and reliable.

Aviagen Group is a global market leader in poultry genetics and a world's premier poultry research, development and breeding company. It has developed various pedigree lines for the production of commercial broilers and turkeys under its brand names of Arbor Acres (AA), Arbor Acres Plus (AA+), Ross and L.I.R.. Its technical papers as well as breeding guides are commonly accepted references for chicken breeding farmers in breeding chickens of brands developed by Aviagen Group. More details on the background of Aviagen Group can be found via the link http://www.aviagen.com/ss/.

As mentioned in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives, an average of 177 broiler eggs are suggested to be produced from each breeder during its egg laying cycle. According to the records of the Company, an average of 167 broiler eggs can be produced from each breeder bred by the Company during its egg laying cycle. The actual yield of eggs achieved by the Company has been adopted by the Valuer in the DCF model.

Mortality rate of 0.3% per week and infertility rate of 1.5%, having taken into account the historical records of our Group, have been adopted in the valuation model.

The market prices of broiler eggs are based on the market-determined prices prevailing as of the relevant reporting dates net of costs to sell without considering any inflationary effect on market price during the egg laying period of the breeders. The assumptions on market prices of broiler eggs and production costs adopted in the DCF model are set out in the following table:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Market value of broiler eggs per unit	2.0	2.3	2.3	2.3	2.3
Production costs for a breeding cycle	228	304	303	292	287

The direct production costs include the costs necessary to maintain the well being of the breeders from the relevant reporting date to the end of their egg laying cycles and have been determined by reference to total historical costs incurred by our Group. The reasons underlying the drop in production costs include the drop in market prices of animal feeds and improvement on breeding operations of the Company during the Track Record Period.

In addition, the following principal assumptions have been adopted by our Valuer:

- there will be no major change in the existing political, legal and economic conditions in the PRC;
- save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;
- the interest rates and exchange rates will not differ materially from those presently prevailing;
- the breeders are free from any animal diseases, including but not limiting to avian influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;
- the life cycle, natural mortality rates and infertility rates of that particular breed of breeders as given by the Group are fair and reasonable and egg laying pattern of that particular breed of breeders is not materially different from that as shown in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives as published by Aviagen Group which is the developer of AA+ branded chicken;
- the availability of finance will not be a constraint on the breeding of the breeders;

- the production facilities, systems and the technology utilized by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

- the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

- the breeders are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;

- the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and

- the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the breeders.

The Group currently has three breeder farms and five broiler breeding farms on which various sheds are erected. Parent Stock Day-Old Chicks and chicken breeds are moved into a shed at the same time such that all chickens within a shed would be in the same stage of life cycle. For administration purposes, the housekeeper of the shed would keep proper records on the number of chickens moved into the shed and also the number of chicken remaining alive inside the shed every day throughout the breeding period. After the breeding period, the shed would be vacated by moving out all the chickens for sale or for slaughtering. Cages of prescribed dimensions that can contain a certain number of mature breeders or broilers are used for carrying the chickens from the sheds to the prescribed destinations.

The following steps have been taken for undertaking the physical counting by the Reporting Accountants and the Valuer:

- to confirm with the Company the time when the chickens are mature enough for moving out from the sheds for sale or for slaughtering;

- to obtain the housekeeper records in relation to the number of chickens in the sheds by the time when they are moved out from the sheds;

- to obtain the housekeeper records in relation to the daily reduction on the number of chickens within the sheds between the relevant reporting date and the date when they are moved out;

- to count the number of cages containing the chickens at the entrance of the sheds when they are moved out from the sheds; and

- to work out the number of chicken breeds/broilers or breeders as at the relevant reporting date by rolling back the counted number from the counting date to the relevant reporting date using the warehouse records as mentioned above.

The fair value less costs to sell of chicken breeds, Parent Stock Day-Old Chicks and broiler eggs are determined using the direct comparison approach with reference to the selling prices less costs to sell. Selling prices represent the prevailing market prices of livestock, chickens and eggs of similar breed or genetic merit. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding transportation costs, finance costs and income taxes.

Based on the above, the Reporting Accountants had performed the following procedures in accordance with the Hong Kong Standard on Auditing 620 *Using the Work of an Expert* ("HKSA 620"):

- they had made inquiries regarding the source data used and procedures undertaken by the Valuer in the valuations; and

- they had obtained an understanding on the assumptions and methods used.

The Reporting Accountants are of the view that i) the source data is relevant and reliable; and ii) the assumptions (including discount rate) and methods used are appropriate and reasonable based on their knowledge of the business and the results of other audit procedures performed.

The Sponsor has reviewed the bases and assumptions (including discount rate) of the valuation and discussed the same with the management of the Group and the Reporting Accountants and is of the view that they are appropriate and reasonable on the following grounds:

- given the short term nature of the product cycle of this type of biological assets, no material fluctuation of various economic and fiscal factors are expected during their breeding periods;

- the assumed life cycle and output of eggs per breeder are consistent with the information as mentioned in the section headed "Business" of this prospectus; and

- being one of the well-known poultry product suppliers in the market, the Group possesses advanced breeding facilities and experienced management team and staff, and has implemented sound safety and hygiene systems and high feed nutritious standards to ensure the well being of the chickens, the disease-free breeding environment and compliance with the laws and regulations.

Selling and distribution expenses

Selling and distribution expenses primarily consist of transportation costs, sales and marketing expenses, travel expenses and staff costs.

The following table sets out our selling and distribution expenses 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 (unaudited)*	*% of total revenue*	*RMB'000*	*% of total revenue*
Staff costs	2,593	0.6	1,849	0.3	1,799	0.3	806	0.3	817	0.3
Marketing expenses	151	–	978	0.2	1,083	0.2	559	0.2	516	0.2
Transportation expenses	4,243	1.0	5,722	1.0	5,412	0.9	2,910	1.1	2,510	0.8
Others	1,367	0.3	932	0.1	1,001	0.2	488	0.2	317	0.1
	8,354	1.9	9,481	1.6	9,295	1.6	4,763	1.8	4,160	1.4

Our selling and distribution expenses were approximately RMB8.4 million, RMB9.5 million, RMB9.3 million and RMB4.2 million for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. As a percentage of total revenue, our selling and distribution expenses were approximately 1.9%, 1.6%, 1.6% and 1.4% for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively, which have remained stable during the Track Record Period.

Administrative expenses

Administrative expenses primarily consist of staff costs, depreciation of property, plant and equipment, travel expenses and administration-related expenses.

The following table sets out our administrative expenses 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 (unaudited)*	*% of total revenue*	*RMB'000*	*% of total revenue*
Staff costs	6,095	1.4	7,000	1.2	8,596	1.5	4,101	1.6	5,248	1.7
General administrative expenses	7,779	1.8	7,202	1.2	5,835	1.0	2,792	1.1	3,848	1.3
Depreciation and amortization	2,113	0.5	1,758	0.3	2,692	0.5	1,282	0.5	1,394	0.5
Fair value of financial guarantee contract	3,098	0.7	–	–	1,612	0.3	–	–	–	–
Witholding tax	–	–	–	–	–	–	–	–	3,949	1.3
Others	4,866	1.1	3,484	0.6	3,671	0.6	2,111	0.8	1,979	0.7
	23,951	5.5	19,444	3.3	22,406	3.9	10,286	4.0	16,418	5.5

Our administrative expenses were approximately RMB24.0 million, RMB19.4 million, RMB22.4 million and RMB16.4 million for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. During the six months ended 30 June 2010, the withholding tax paid was related to the dividends in respect of the distributable profits of the Group's subsidiaries to their non-resident shareholders. As a percentage of total revenue, our administrative expenses were approximately 5.5% in 2007, approximately 3.3% in 2008, approximately 3.9% in 2009 and approximately 5.5% during the six months ended 30 June 2010 which have remained stable during the Track Record Period.

Finance costs

Our Group's finance costs primarily represent interest on bank borrowings.

Other operating expenses

Other operating expenses primarily consist of maintenance costs representing feeding costs of mature breeders of 24 weeks old or more which are grown from Parent Stock Day-Old Chicks and used for laying broiler eggs. In the opinion of the Directors, the feeding costs of mature breeders are in the nature of operating expenses and accounted for as other operating expenses.

The following table sets out our other operating expenses 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 (unaudited)*	*% of total revenue*	*RMB'000*	*% of total revenue*
Donations	380	0.1	172	–	819	0.1	500	0.2	29	–
Maintenance costs	10,512	2.4	17,044	2.9	14,400	2.5	7,510	2.9	8,114	2.7
Others	401	0.1	447	0.1	251	0.1	130	–	272	0.1
	11,293	2.6	17,663	3.0	15,470	2.7	8,140	3.1	8,415	2.8

Our other operating expenses were approximately RMB11.3 million, RMB17.7 million, RMB15.5 million and RMB8.4 million for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. As a percentage of total revenue, our other operating expenses were approximately 2.6% in 2007, approximately 3.0% in 2008, approximately 2.7% in 2009 and approximately 2.8% during the six months ended 30 June 2010 which have remained stable during the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF CONTINUING OPERATIONS

Six months ended 30 June 2010 compared to Six Months ended 30 June 2009 (unaudited)

Revenue

Our revenue increased by approximately 15.0%, from approximately RMB260.7 million for the six months ended 30 June 2009 to approximately RMB299.7 million for the six months ended 30 June 2010, primarily due to the increase in sales volume and average selling price in the chicken meat products resulting from the recovery of economic condition.

Chicken meat products

– Revenue from sales of our chicken meat products business increased by approximately 27.5%, from approximately RMB158.2 million for the six months ended 30 June 2009 to approximately RMB201.7 million for the six months ended 30 June 2010, primarily as a result of the increase in the average selling price by approximately 17.0% and sales volume by approximately 9.0% of our chicken meat products resulting from the recovery of economic condition.

Animal feeds

– Revenue from sales of our animal feeds business decreased by approximately 3.7%, from approximately RMB83.4 million for the six months ended 30 June 2009 to approximately RMB80.3 million for the six months ended 30 June 2010, primarily as a result of the termination of production of other feeds in June 2009.

Chicken breeds

– Revenue from sales of our chicken breeds business decreased by approximately 7.6%, from approximately RMB19.1 million for the six months ended 30 June 2009 to approximately RMB17.7 million for the six months ended 30 June 2010, primarily due to the decrease in the proportion of broilers sold to the Contract Farmers as some Contract Farmers had temporarily ceased their broiler breeding business during the long holiday period for the Chinese New Year in January 2010.

Cost of Sales

Our total cost of sales increased by approximately 8.0%, from approximately RMB226.4 million for the six months ended 30 June 2009 to approximately RMB244.6 million for the six months ended 30 June 2010, primarily as a result of the increase in the cost of direct materials in the chicken meat business.

Chicken meat products

– Cost of sales for our chicken meat business increased by approximately 13.3%, from approximately RMB145.3 million for the six months ended 30 June 2009 to approximately RMB164.6 million for the six months ended 30 June 2010, primarily as a result of the increase in sales volume of chicken meat products. Besides, we repurchase broilers from the Contract Farmers at an agreed price fixed at the beginning of 2010. Therefore, the increase in the cost of sales of chicken meat product was relatively less than the increase in the sales of chicken meat product.

Animal feeds

– Cost of sales for our animal feeds business increased slightly by approximately 0.6%, from approximately RMB73.8 million for the six months ended 30 June 2009 to approximately RMB74.2 million for the six months ended 30 June 2010, primarily as a result of the increase in the cost of major raw materials, such as corn, wheat and soya meal, which was partially offset by the effect of decrease in sales volume in animal feeds.

Chicken breeds

– Cost of sales for our chicken breeds business decreased by approximately 21.2%, from approximately RMB7.4 million for the six months ended 30 June 2009 to approximately RMB5.8 million for the six months ended 30 June 2010, primarily due to the decrease in the purchase cost of the Parent Stock Day-Old Chicks and the improvement in the fertilisation rate of our broiler eggs.

Gross profit and gross profit margin

Gross profit increased by approximately 60.9%, from approximately RMB34.2 million for the six months ended 30 June 2009 to approximately RMB55.1 million for the six months ended 30 June 2010. Our overall gross profit margin increased from approximately 13.1% for the six months ended 30 June 2009 to approximately 18.4% for the six months ended 30 June 2010, primarily due to the increase in gross profit of chicken meat products business as a result of the increase in the average selling prices of chicken meat products.

Chicken meat products

– Gross profit from our chicken meat products business increased by approximately 188.0%, from approximately RMB12.9 million for the six months ended 30 June 2009 to approximately RMB37.2 million for the six months ended 30 June 2010. The gross profit margin for our chicken meat products increased from approximately 8.2% for the six months ended 30 June 2009 to approximately 18.4% for the six months ended 30 June 2010. This was primarily due to the increase in the average selling price of our chicken meat products by approximately 17.0% as a result of the recovery of economic condition in 2010.

Animal feeds

– Gross profit from our animal feeds business decreased by approximately 37.0%, from approximately RMB9.6 million for the six months ended 30 June 2009 to approximately RMB6.0 million for the six months ended 30 June 2010. The gross profit margin for our animal feeds decreased from approximately 11.5% for the six month ended 30 June 2009 to approximately 7.5% for the six months ended 30 June 2010. This was primarily due to the increase in the unit cost of major raw materials of animal feeds, namely corn and wheat by approximately 15.5% and 11.3% respectively while our average selling price of animal feeds remained stable during both periods. Since the Contract Farmers purchase animal feeds from us at an agreed price fixed at the beginning of 2010, the effect of the increase in the cost of major raw materials of animal feeds was not passed to the Contract Farmers.

Chicken breeds

– Gross profit from our chicken breeds business increased by approximately 1.0%, from approximately RMB11.7 million for the six months ended 30 June 2009 to approximately RMB11.8 million for the six months ended 30 June 2010. The gross profit margin for our chicken breeds increased from approximately 61.4% for the six months ended 30 June 2009 to approximately 67.0% for the six months ended 30 June 2010. This was primarily due to the improvement in the fertilisation rate of our broiler eggs which had directly lowered our production cost.

Change in fair value less costs to sell of biological assets

The loss recognised for the change in fair value less costs to sale of biological assets increased by approximately 2,680.7%, from a loss of approximately RMB0.1 million for the six months ended 30 June 2009 to a loss of approximately RMB4.0 million for the six months ended 30 June 2010. Such increase was primarily due to the decrease in the fair values of the mature breeders as those mature breeders close to the age of 66 weeks old (which is the age laying the least eggs and value of which is therefore the least). Hence, the value of mature breeders diminished.

Change in fair value of agricultural produce on initial recognition

The fair value of agricultural produce on initial recognition decreased slightly by approximately 2.1%, from approximately RMB29.0 million for the six months ended 30 June 2009 to approximately RMB28.4 million for the six months ended 30 June 2010. The decrease was mainly due to the decrease in the quantity of production of agricultural produce for the six months ended 30 June 2010.

It will normally take 21 days for a broiler egg to be hatched into a chicken breed. In the view of this fact, the reversal of fair value of agricultural produce due to sales and disposals was subjected to the production and sales volume of chicken breeds.

The reversal of fair value of agricultural produce due to sales and disposals decreased by approximately 6.5%, from approximately RMB29.4 million for the six month ended 30 June 2009 to approximately RMB27.5 million for the six months ended 30 June 2010. The reversal of fair value was higher than the fair value on initial recognition because fewer chicken breeds were sold during the six months ended 30 June 2010.

Other revenue and gains

Other revenue and gains increased by approximately 27.1%, from approximately RMB5.7 million for the six months ended 30 June 2009 to approximately RMB7.2 million for the six months ended 30 June 2010, primarily as a result of amortization of financial guarantee contract that was derecognised during the six months ended 30 June 2010. The sales of side products and related products, net decreased by approximately 15.9%, from approximately RMB4.6 million for the six months ended 30 June 2009 to approximately RMB3.9 million for the six months ended 30 June 2010 was primarily due to the decrease in sales of mature breeders and chicken droppings.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 12.7%, from approximately RMB4.8 million for the six months ended 30 June 2009 to approximately RMB4.2 million for the six months ended 30 June 2010, primarily as a result of decrease in transportation expenses related to sales of our products. Our transportation expenses decreased by approximately 13.7%, from approximately RMB2.9 million for the six months ended 30 June 2009 to approximately RMB2.5 million for the six months ended 30 June 2010. This is mainly attributable to the termination of production of other feeds in June 2009 which resulted in decrease in transportation expenses. Our selling and marketing expenses as a percentage of our revenue remained stable for the six months ended June 2009 and 2010.

Administrative expenses

Administrative expenses increased by approximately 59.6%, from approximately RMB10.3 million for the six months ended 30 June 2009 to approximately RMB16.4 million for the six months ended 30 June 2010. The increase was mainly as a result of increase in staff costs in connection with improvement in our chicken meat business and the witholding tax in respect of the distributable profits of the Group's subsidiaries. As a result, our administrative staff costs increased by approximately 28.0%, from approximately RMB4.1 million for the six months ended 30 June 2009 to approximately RMB5.2 million for the six months ended 30 June 2010. The increase was due to i) increase in staff salary as a result of the annual salary review range from 5% to 36% depends on the Company's assessment of their staff performance and experience during the salary review period; ii) the increase in the staff salary of our Hong Kong office. Our general administrative expenses increased by approximately 37.8%, from approximately RMB2.8 million for the six months ended 30 June 2009 to approximately RMB3.8 million for the six months ended 30 June 2010 as a result of the increase in various administrative expenses, including entertainment, advertising and rental. Our administrative expenses as a percentage of our revenue for the six months ended 30 June 2010 increased by 1.6% compared with the six months ended 30 June 2009.

Other operating expenses

Other operating expenses increased slightly by approximately 3.4%, from approximately RMB8.1 million for the six months ended 30 June 2009 to approximately RMB8.4 million for the six months ended 30 June 2010 mainly due to the increase in the feeding cost of mature breeders by approximately 8.0% resulting from the increase in the number of mature breeders.

Finance costs

Finance costs increased by approximately 20.9%, from approximately RMB4.8 million for the six months ended 30 June 2009 to RMB5.8 million for the six months ended 30 June 2010, primarily as a result of a increase in interest paid on bank borrowings.

Taxation

Income tax remained stable at approximately RMB1.4 million for the six months ended 30 June 2009 and 2010.

Profit for the period and net profit margin

Profit for the period increased by approximately 131.0% from approximately RMB9.9 million for the six months ended 30 June 2009 to approximately RMB22.8 million for the six months ended 30 June 2010, primarily as a result of the increase in sales volume of our chicken meat business. Our net profit margin increased from approximately 3.8% for the six months ended 30 June 2009 to approximately 7.6% for the six months ended 30 June 2010.

Year ended 31 December 2009 compared to Year ended 31 December 2008

Revenue

Our revenue decreased by approximately 3.1%, from approximately RMB587.7 million for the year ended 31 December 2008 to approximately RMB569.2 million for the year ended 31 December 2009, primarily as a result of the decrease in sales volume in animal feeds.

Chicken meat products

– Revenue from sales of our chicken meat products business increased slightly by approximately 0.6%, from approximately RMB362.1 million for the year ended 31 December 2008 to approximately RMB364.4 million for the year ended 31 December 2009, primarily as a result of the increase in the sales volume by approximately 6% of chicken meat products partially offset by the decrease in the average selling price by approximately 5%. The decrease in the average selling price was primarily due to our strategy to maintain the sales growth in our chicken meat products.

Animal feeds

– Revenue from sales of our animal feeds business decreased by approximately 11.9%, from approximately RMB188.8 million for the year ended 31 December 2008 to approximately RMB166.3 million for the year ended 31 December 2009, primarily as a result of the decrease in the sales of other animal feeds, such as duck feeds and yellow-feathered chicken feeds, and the decrease in the average selling price of animal feeds sold to Contract Farmers resulting from economic downturn. Since the Contract

Farmers purchased animal feeds from us at an agreed price fixed at the beginning of 2009, the effect of the economic recovery in the second half of 2009 had not been reflected in the average selling prices of animal feeds.

Chicken breeds

– Revenue from sales of our chicken breeds business increased by approximately 4.8%, from approximately RMB36.8 million for the year ended 31 December 2008 to approximately RMB38.6 million for the year ended 31 December 2009. It was in line with the increase in sales volume of chicken breeds.

Cost of Sales

Our total cost of sales decreased by approximately 3.8%, from approximately RMB491.1 million for the year ended 31 December 2008 to approximately RMB472.5 million for the year ended 31 December 2009, primarily as a result of the decrease in the sales in our animal feeds business.

Chicken meat products

– Cost of sales for our chicken meat business decreased by approximately 0.8%, from approximately RMB316.0 million for the year ended 31 December 2008 to approximately RMB313.6 million for the year ended 31 December 2009, primarily as a result of the decrease in the repurchase price of broilers from the Contract Farmers and the feeding cost of the broilers of the Group.

Animal feeds

– Cost of sales for our animal feeds business decreased by approximately 9.8%, from approximately RMB160.8 million for the year ended 31 December 2008 to approximately RMB145.0 million for the year ended 31 December 2009, primarily as a result of the decrease in the sales volume of animal feeds resulting from the termination of production of other animal feeds in June 2009.

Chicken breeds

– Cost of sales for our chicken breeds business decreased by approximately 2.7%, from approximately RMB14.3 million for the year ended 31 December 2008 to approximately RMB13.9 million for the year ended 31 December 2009, primarily as a result of the improvement in fertilisation rate of our broiler eggs and no purchase of broiler eggs from other suppliers, which had directly lowered the production cost in our chicken breeds business.

Gross profit and gross profit margin

Gross profit increased by approximately 0.1%, from approximately RMB96.6 million for the year ended 31 December 2008 to approximately RMB96.7 million for the year ended 31 December 2009. Our overall gross profit margin remain stable at 16.4% and 17.0% for the year ended 31 December 2008 and 2009 respectively.

Chicken meat products

– Gross profit from our chicken meat business increased by approximately 10.2%, from approximately RMB46.1 million for the year ended 31 December 2008 to approximately RMB50.8 million for the year ended 31 December 2009. The gross profit margin for our chicken meat products increased from approximately 12.7% for the year ended 31 December 2008 to approximately 13.9% for the year ended 31 December 2009. This was primarily due to the fact that decrease in the average selling price was less than decrease in the average unit costs of our chicken meat products.

Animal feeds

– Gross profit from animal feeds business decreased by approximately 24.0%, from approximately RMB28.0 million for the year ended 31 December 2008 to approximately RMB21.3 million for the year ended 31 December 2009, primarily as a result of the decrease in average selling price. The gross profit margin for our animal feeds decreased from approximately 14.8% for the year ended 31 December 2008 to approximately 12.8% for the year ended 31 December 2009. This was primarily due to the decrease in the average selling price of animal feeds to the Contract Farmers resulting from economic downturn. Since the Contract Farmers purchased animal feeds from us at an agreed price fixed at the beginning of 2009, the effect of the economic recovery in the second half of 2009 had not been reflected in the average selling prices of animal feeds.

Chicken breeds

– Gross profit from our chicken breeds business increased by approximately 9.5%, from approximately RMB22.5 million for the year ended 31 December 2008 to approximately RMB24.7 million for the year ended 31 December 2009. The gross profit margin for our chicken breeds increased from approximately 61.1% for the year ended 31 December 2008 to approximately 63.9% for the year ended 31 December 2009. This was primarily due to no purchase of broiler eggs from other suppliers was required as a result of the improvement in the fertilisation rate of our broiler eggs which had directly lowered our production cost.

Change in fair value less costs to sell of biological assets

The fair value less costs to sell of biological assets changed, from a loss of approximately RMB2.2 million for the year ended 31 December 2008 to a gain of approximately RMB3.4 million for the year ended 31 December 2009. Such change was primarily due to the increase in the fair values of the mature breeders as there were less mature breeders close to the age of 66 weeks old (which is the age laying the least eggs and value of which is therefore the least) as at 31 December 2009 than those as at 31 December 2008.

Change in fair value of agricultural produce on initial recognition

The fair value of agricultural produce on initial recognition increased slightly by approximately 3.9%, from approximately RMB55.8 million for the year ended 31 December 2008 to approximately RMB58.0 million for the year ended 31 December 2009. Such increase was due to the increase of production quantity of broiler eggs.

It will normally take 21 days for a broiler egg to be hatched into a chicken breed. In the view of this fact, the reversal of fair value of agricultural produce due to sales and disposals was subjected to the production and sales volume of chicken breeds.

The reversal of fair value of agricultural produce due to sales and disposals increased by approximately 11.5%, from approximately RMB53.9 million for the year ended 31 December 2008 to approximately RMB60.1 million for the year ended 31 December 2009. The reversal of fair value was higher than the fair value on initial recognition because more chicken breeds were sold during the year ended 31 December 2009.

Other revenue and gains

Other revenue and gains decreased by approximately 9.7%, from approximately RMB15.2 million for the year ended 31 December 2008 to approximately RMB13.7 million for the year ended 31 December 2009, primarily as a result of no foreign exchange gain having been incurred and no financial guarantee contract having been amortized during the year ended 31 December 2009. The sales of side products and related products, net increased by approximately 19.8%, from approximately RMB8.2 million for the year ended 31 December 2008 to approximately RMB9.8 million for the year ended 31 December 2009 was primarily due to the increase in sales of mature breeders and chicken droppings.

Selling and distribution expenses

Selling and distribution expenses decreased slightly by approximately 2.0%, from approximately RMB9.5 million for the year ended 31 December 2008 to approximately RMB9.3 million for the year ended 31 December 2009, primarily due to the termination of the production of other feeds in June 2009 which resulted in the decrease in transportation expenses and sales and marketing staff costs. Our selling and marketing expenses as a percentage of our revenue remained stable for the years ended 31 December 2008 and 2009.

Administrative expenses

Administrative expenses increased by approximately 15.2%, from approximately RMB19.4 million for the year ended 31 December 2008 to approximately RMB22.4 million for the year ended 31 December 2009, primarily as a result of an increase in staff salaries during the annual salary assessment and the fair value of change of financial guarantee contract recognised. As a result, our administrative staff costs increased by approximately

22.8%, from approximately RMB7.0 million for the year ended 31 December 2008 to approximately RMB8.6 million for the year ended 31 December 2009. Our depreciation and amortization under administrative expenses increased by approximately 53.1%, from approximately RMB1.8 million for the year ended 31 December 2008 to approximately RMB2.7 million for the year ended 31 December 2009 as a result of the purchase of additional property, plant and equipment. Our administrative expenses as a percentage of our revenue remained stable for the years ended 31 December 2008 and 2009.

Other operating expenses

Other operating expenses decreased by approximately 12.4%, from approximately RMB17.7 million for the year ended 31 December 2008 to approximately RMB15.5 million for the year ended 31 December 2009 mainly due to the decrease in the feeding cost of mature breeders by approximately 15.5% resulting from the decrease in the average selling price of animal feeds.

Finance costs

Finance costs decreased by approximately 2.5%, from approximately RMB9.1 million for the year ended 31 December 2008 to RMB8.9 million for the year ended 31 December 2009, primarily as a result of repayment of bank loan.

Taxation

Income tax decreased by approximately 21.9%, from approximately RMB7.1 million for the year ended 31 December 2008 to approximately RMB5.6 million for the year ended 31 December 2009, primarily as a result of a decrease in taxable profit from the animal feeds business.

Profit for the year and net profit margin

Profit for the year remained stable for the year ended 31 December 2008 and 2009. Our net profit margin slightly increased from 8.3% for the year ended 31 December 2008 to 8.8% for the year ended 31 December 2009.

Year ended 31 December 2008 compared to Year ended 31 December 2007

Revenue

Our revenue increased by approximately 34.7%, from approximately RMB436.4 million for the year ended 31 December 2007 to approximately RMB587.7 million for the year ended 31 December 2008, primarily as a result of the increase in sales volume in all of our three businesses.

Chicken meat products

– Revenue from sales of our chicken meat products business increased by approximately 9.2%, from approximately RMB331.4 million for the year ended 31 December 2007 to approximately RMB362.1 million for the year ended 31 December 2008, primarily due to the increase in the average selling price and sales volume of our chicken meat products by approximately 2.7% and 6.3% respectively resulting from increase in market demand.

Animal feeds

– Revenue from sales of animal feeds business increased by approximately 160.6%, from approximately RMB72.4 million for the year ended 31 December 2007 to approximately RMB188.8 million for the year ended 31 December 2008, primarily as a result of the increase in the selling price of animal feeds due to the increase in market demand and the acquisition of an animal feeds production plant during 2007 which allowed us to sell animal feeds directly to the Contract Farmers.

Chicken breeds

– Revenue from sales of chicken breeds business increased by approximately 13.2%, from approximately RMB32.5 million for the year ended 31 December 2007 to approximately RMB36.8 million for the year ended 31 December 2008, primarily as a result of the increase in sales volume and unit selling price of chicken breeds sold to the Contract Farmers.

Cost of Sales

Our total cost of sales increased by approximately 41.5%, from approximately RMB347.0 million for the year ended 31 December 2007 to approximately RMB491.1 million for the year ended 31 December 2008, primarily as a result of the increase in sales volume across all of our three businesses.

Chicken meat products

– Cost of sales for our chicken meat products business increased by approximately 19.8%, from approximately RMB263.9 million for the year ended 31 December 2007 to approximately RMB316.0 million for the year ended 31 December 2008, primarily as a result of the increase in the feeding cost of the broilers of the Group and the repurchase price of broilers from the Contract Farmers, which were the principal material of our chicken meat products.

Animal feeds

– Cost of sales for our animal feeds business increased by approximately 136.3%, from approximately RMB68.1 million for the year ended 31 December 2007 to approximately RMB160.8 million for the year ended 31 December 2008, primarily as a result of the increase in our sales volume due to the acquisition of an animal feeds production plant during 2007.

Chicken breeds

– Cost of sales of our chicken breeds business decreased by approximately 4.9%, from approximately RMB15.1 million for the year ended 31 December 2007 to approximately RMB14.3 million for the year ended 31 December 2008, primarily as a result of the improvement in production efficiency and fewer broiler eggs were purchased from other suppliers which had directly lowered the production cost in our chicken breeds business.

Gross profit and gross profit margin

Gross profit increased by approximately 8.0%, from approximately RMB89.4 million for the year ended 31 December 2007 to approximately RMB96.6 million for the year ended 31 December 2008, primarily as a result of the increase in sales in the animal feeds business. Our overall gross profit margin decreased from approximately 20.5% for the year ended 31 December 2007 to approximately 16.4% for the year ended 31 December 2008, primarily as a result of the decrease in the gross profit of our chicken meat products business.

Chicken meat products

– Gross profit from our chicken meat products business decreased by approximately 31.8%, from approximately RMB67.6 million for the year ended 31 December 2007 to approximately RMB46.1 million for the year ended 31 December 2008. The gross profit margin for our chicken meat products decreased from approximately 20.4% for the year ended 31 December 2007 to approximately 12.7% for the year ended 31 December 2008. This was primarily due to the fact that the extent of increase in the average selling price of chicken meat products of approximately 2.7% resulting from increase in market demand could not compensate the extent of increase in the repurchase price of broilers from the Contract Farmers of approximately 20.8%. Such increase in the repurchase price of broilers from the Contract Farmers was primarily due to the increase in the feeding cost.

Animal feeds

– Gross profit from our animal feeds business increased by approximately 539.0%, from approximately RMB4.4 million for the year ended 31 December 2007 to approximately RMB28.0 million for the year ended 31 December 2008. The gross profit margin for our animal feeds business increased from approximately 6.0% for the year ended 31 December 2007 to approximately 14.8% for the year ended 31 December 2008. The increase in gross profit margin for animal feeds was primarily due to i) the increase in the average selling price of animal feeds due to the increase in market demand; ii) the acquisition of an animal feeds production plant during 2007 which enabled us to enjoy economies of scale.

Chicken breeds

– Gross profit from our chicken breeds business increased by approximately 28.8%, from approximately RMB17.5 million for the year ended 31 December 2007 to approximately RMB22.5 million for the year ended 31 December 2008. The gross profit margin for our chicken breeds increased from approximately 53.7% for the year ended 31 December 2007 to approximately 61.1% for the year ended 31 December 2008. This was primarily due to the decrease in purchase of broiler eggs from other suppliers and the improvement in the fertilisation rate of our broiler eggs.

Change in fair value less costs to sell of biological assets

The fair value less costs to sell of the biological assets changed from a gain of approximately RMB3.1 million for the year ended 31 December 2007 to a loss of approximately RMB2.2 million for the year ended 31 December 2008. Such change was primarily due to the decrease in the fair values of the mature breeders as there were more mature breeders close to the age of 66 weeks old (which is the age laying the least eggs and value of which is therefore the least) as at 31 December 2008 than those as at 31 December 2007.

Change in fair value of agricultural produce on initial recognition

The fair value of the agricultural produce on initial recognition increased by approximately 59.9%, from approximately RMB34.9 million for the year ended 31 December 2007 to approximately RMB55.8 million for the year ended 31 December 2008. Such increase was due to the increase of production quantity of broiler eggs.

It will normally take 21 days for a broiler egg to be hatched into a chicken breed. In the view of this fact, the reversal of fair value of agricultural produce due to sales and disposals was subjected to the production and sales volume of chicken breeds.

The reversal of fair value of agricultural produce due to sales and disposals increased by approximately 58.4%, from approximately RMB34.0 million for the year ended 31 December 2007 to approximately RMB53.9 million for the year ended 31 December 2008. The reversal of fair value was higher for the year ended 31 December 2008 due to the quantity of broiler eggs hatched into chicken breeds increased by approximately 28% during the year.

Other revenue and gains

Other revenue and gains increased by approximately 20.1%, from approximately RMB12.6 million for the year ended 31 December 2007 to approximately RMB15.2 million for the year ended 31 December 2008 due to the gain recognised upon the release of financial guarantee contract to related company in 2008. The sales of side products and related products, net increased by approximately 36.7%, from approximately RMB6.0 million for the year ended 31 December 2007 to approximately RMB8.2 million for the year ended 31 December 2008 was primarily due to the increase in sales of mature breeders and chicken droppings.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 13.5%, from approximately RMB8.4 million for the year ended 31 December 2007 to approximately RMB9.5 million for the year ended 31 December 2008, primarily as a result of an increase in transportation expenses in respect of the increase in the sales volume of all our business. As a result, our selling and marketing staff costs decreased by approximately 28.7%, from approximately RMB2.6 million for the year ended 31 December 2007 to approximately RMB1.8 million for year ended 31 December 2008 because less selling and marketing staff were employed due to economy of scale. Our transportation expenses increased by approximately 34.9%, from approximately RMB4.2 million for the year ended 31 December 2007 to approximately RMB5.7 million for the year ended 31 December 2008 as a result of the improvement in the sales in all our business. Our selling and marketing expenses as a percentage of our revenue remained stable for the years ended 31 December 2007 and 2008.

Administrative expenses

Administrative expenses decreased by approximately 18.8%, from approximately RMB24.0 million for the year ended 31 December 2007 to approximately RMB19.4 million for the year ended 31 December 2008. As a result, our general administrative expenses decreased by approximately 7.4%, from approximately RMB7.8 million for the year ended 31 December 2007 to approximately RMB7.2 million for the year ended 31 December 2008 as the Group had tightened control on the administrative expenses. Our administrative expenses as a percentage of our revenue decreased from approximately 5.5% for the year ended 31 December 2007 to approximately 3.3% for the year ended 31 December 2008 was primarily due to the Group was able to enjoy better economies of scale.

Other operating expenses

Other operating expenses increased by approximately 56.4%, from approximately RMB11.3 million for the year ended 31 December 2007 to RMB17.7 million for the year ended 31 December 2008, mainly due to the increase in the average number of our mature breeders and the increase in the purchase cost of animal feeds for our mature breeders. This resulted in the increase in the maintenance cost of our breeders by approximately 62.1%.

Finance costs

Finance costs increased by approximately 102.0%, from approximately RMB4.5 million for the year ended 31 December 2007 to approximately RMB9.1 million for the year ended 31 December 2008, primarily as a result of an increase in our interest expenses due to increase in interest rates and increase in bank borrowings.

Taxation

Income tax decreased by approximately 48.1%, from approximately RMB13.7 million for the year ended 31 December 2007 to approximately RMB7.1 million for the year ended 31 December 2008, primarily as a result of an decrease in income tax rate across our business segments and tax exemption with respect to the income derived from the processing of frozen chicken meat business since 1 January 2008.

Profit for the year and net profit margin

Profit for the year increased by approximately 10.2%, from approximately RMB44.1 million for the year ended 31 December 2007 to approximately RMB48.7 million for the year ended 31 December 2008, primarily as a result of the increase in sales volume across all of our three business segments. Our net profit margin decreased from approximately 10.1% for the year ended 31 December 2007 to approximately 8.3% for the year ended 31 December 2008.

DISCONTINUED OPERATION

Discontinued operation represented the pork operation of Fujian Sumhua and our Group that has been discontinued since December 2009, with a view to facilitating us to focus on the production of chicken meat products. The pork business and the chicken meat business are two distinct and separate businesses and thus, not much synergy nor economies of scale can be achieved from the two businesses. Before our disposal of the same, the pork business was a separately identifiable and managed business division under Fujian Sumhua. In this connection, the pork business was operated under separate management, the accounts of which was recorded under separate books and records from the continuing operations. The financial results, assets and liabilities of the pork business were separated from the continuing operations of our Group. As at 31 December 2008, the net assets of the discontinued operation amounted to approximately RMB141.1 million, while the net losses from the discontinued operation for the year ended 31 December 2008 and for the period ended 30 November 2009 (before the disposal of the discontinued operation by our Group) amounted to approximately RMB2.7 million and approximately RMB25.6 million, respectively.

The following table is a summary of our revenue generated from and expenses incurred by the pork business during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Revenue	–	334,764	520,031	259,788	–
Cost of sales	–	(325,915)	(503,428)	(250,776)	–
Gross profit	–	8,849	16,603	9,012	–
Other revenue and gains	–	5,384	4,552	631	–
Selling and distribution expenses	–	(8,043)	(28,098)	(9,715)	
Administrative expenses	–	(5,592)	(6,723)	(5,681)	
Finance costs	–	(2,558)	(8,152)	(4,458)	
Other operating expenses	–	(756)	(3,780)	(301)	–
Loss for the period/year	–	(2,716)	(25,598)	(10,512)	–
Gain on disposal of operation	–	–	34,969	–	–
	–	(2,716)	9,371	(10,512)	–
Ratio Analysis					
Gross profit ratio	–	*2.64%*	*3.19%*	*3.47%*	–
Net loss ratio	–	*(0.81%)*	*(4.92%)*	*(4.05%)*	–

The pork operation had recorded a relatively low gross profit ratio during the Track Record Period. It was mainly due to low selling price resulting from market competition.

The increase in net losses of the discontinued operation during the Track Record Period was primarily due to the combined effects of a proportionately higher increase in selling and distribution expenses, administrative expenses, finance costs and other operating expenses resulting from the low utilization rate of the production capacity given that the pork operation only commenced in 2008. Since the size of the pork operation was far from being able to enjoy any economies of scale, the gross profit generated from the pork business could not compensate the expenses incurred to maintain the daily operation of the pork business.

LIQUIDITY AND CAPITAL RESOURCES

On a combined basis, we funded our operations primarily from cash flow from operating activities and proceeds of short-term and long-term bank borrowings. We require cash primarily for our production and operating activities, and capital expenditures on property, plant and equipment.

The following table is a summary of our combined statements of cash flows during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net cash generated from operating activities	53,157	18,938	5,977	82,524	137,782
Net cash used in investing activities	(148,018)	(106,878)	(24,072)	(28,264)	(47,682)
Net cash generated from/(used in) financing activities	98,270	63,175	60,363	(13,147)	(47,817)
Net increase/(decrease) in cash and cash equivalents	3,409	(24,765)	42,268	41,113	42,283
Cash and cash equivalents at the beginning of the period/year	40,734	43,893	19,787	19,787	61,259
Effect of foreign exchange rate changes	(250)	659	(796)	(446)	704
Cash and cash equivalents at the end of the period/year	43,893	19,787	61,259	60,454	104,246

Operating activities

During the Track Record Period, we derived our cash inflow from operating activities principally from the receipt of sales of our products. Our cash outflow from operating activities was principally for purchases of raw materials.

For the six months ended 30 June 2010, we had an operating cash flow before movements in working capital of RMB38.4 million and net cash generated from operating activities of approximately RMB137.8 million, the movements in working capital was primarily due to an increase in trade and other payables of approximately RMB66.4 million and a decrease in amounts due from related parties of approximately RMB28.1 million. The increase in trade and other payables was primarily due to increase in amount of bills payable. The decrease in amount due from related parties due to the repayment from related parties for the outstanding amount as at 31 December 2009.

For the year ended 31 December 2009, we had an operating cash flow before movements in working capital of RMB73.7 million and net cash generated from operating activities of approximately RMB6.0 million, the movements in working capital was primarily due to increase in amount due from related parties of approximately RMB130.3 million. The increase in amount due from related parties was primarily due to the disposal of Fujian Sumhua and its subsidiaries in December 2009. These cash outflows were partially offset by an increase in amounts due to related parties and trade and other payables of approximately RMB141.6 million and RMB12.3 million respectively.

For the year ended 31 December 2008, we had an operating cash flow before movements in working capital of RMB85.6 million and net cash generated from operating activities of approximately RMB18.9 million, which was primarily contributed by operating cash flows before changes in working capital of approximately RMB85.6 million and an increase in trade and other payables of approximately RMB13.9 million. This increase were partially offset by an increase in inventories of approximately RMB36.2 million and an increase in trade and other receivables of RMB22.6 million. The increase in trade and other receivables was primarily due to increase sales volume across all of our three business segments. The increase in inventories and the increase in trade and other payables were both primarily due to increase in purchases of raw materials to cope with the expanded scale resulted from the increased production capacity and to meet the demand for our products.

For the year ended 31 December 2007, we had an operating cash flow before movements in working capital of RMB80.5 million and net cash generated from operating activities of approximately RMB53.2 million, the movements in working capital was primarily a decrease in trade and other receivables of approximately RMB48.4 million. These cash inflows were partially offset by a decrease in trade and other payables of approximately RMB28.0 million and a decrease in amounts due to related parties of approximately RMB30.8 million.

Investing activities

During the Track Record Period, we derived our cash inflow from investing activities principally from the proceeds from disposal of subsidiaries and disposal of property, plant and equipment. Our cash outflow for investing activities was principally for purchases of property, plant and equipment.

For the six months ended 30 June 2010, we had net cash used in investing activities of approximately RMB47.7 million, which was primarily due to the increase in pledged bank deposits.

For the year ended 31 December 2009, we had net cash used in investing activities of approximately RMB24.1 million, which was primarily from the net cash inflow from disposal of subsidiaries being offset by our payments for acquisition of property, plant and equipment in the aggregate amount of approximately RMB39.0 million and purchase of held-to-maturity financial assets of approximately RMB6.0 million.

For the year ended 31 December 2008, we had net cash used in investing activities of approximately RMB106.9 million, which was primarily due to our payment for acquisition of property, plant and equipment in relation to the construction in progress in respect of our office buildings, dormitories and slaughtering and processing plant of Fujian Sumhua in the aggregate amount of approximately RMB109.3 million.

For the year ended 31 December 2007, we had net cash used in investing activities of approximately RMB148.0 million, which was primarily due to our payment for acquisition of property, plant and equipment in relation to the construction in progress in respect of our office buildings, dormitories and slaughtering and processing plant of Fujian Sumhua in the aggregate amount of approximately RMB155.5 million.

Financing activities

During the Track Record Period, we derived our cash inflow from financing activities principally from an increase in proceeds from bank borrowings and proceeds from issuance of new shares. Our cash outflow from financing activities related primarily to our repayment of bank borrowings and amount due to a shareholder.

For the six months ended 30 June 2010, we had net cash used in financing activities of approximately RMB47.8 million. This amount was primarily due to repayment on the bank borrowing of approximately RMB78.8 million and repayment of RMB55.0 million to a shareholder, which were offset by a new loan from bank of RMB86.0 million.

For the year ended 31 December 2009, we had net cash generated from financing activities of approximately RMB60.4 million. This amount was primarily due to borrowing of approximately RMB175.1 million new loans from banks for the acquisition of fixed assets for the expansion of our production capacity and proceeds from issuance of new shares of approximately RMB35.8 million, which was partially offset by repayment of approximately RMB132.7 million loans and repayment of approximately RMB17.8 million to a shareholder.

For the year ended 31 December 2008, we had net cash generated from financing activities of RMB63.2 million. This amount was primarily due to borrowing of RMB195.4 million new loans from banks for the acquisition of fixed assets for the expansion of our production capacity, which was partially offset by repayment of approximately RMB98.2 million loans and repayment of approximately RMB34.0 million to a shareholder.

For the year ended 31 December 2007, we had net cash generated from financing activities of approximately RMB98.3 million. This amount was primarily due to additional borrowing of approximately RMB150.2 million from banks for the acquisition of fixed assets for the expansion of our production capacity, which was partially offset by repayment of approximately RMB33.8 million loans and repayment of approximately RMB18.2 million to a shareholder.

NET CURRENT ASSETS/LIABILITIES

Details of our current assets and current liabilities at the end of each reporting period during the Track Record Period are as follows:

	As at 31 December			As at 30 June	As at 30 October
	2007	2008	2009	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current assets – continuing operations					
Inventories	41,818	43,946	38,835	35,860	42,256
Biological assets	3,617	4,820	5,096	5,191	7,804
Trade and other receivables	53,835	34,238	68,247	42,875	43,427
Prepaid lease payments	1,048	289	290	290	1,296
Amount due from a shareholder	–	–	17,854	5,433	–
Amounts due from related parties	8,152	2,067	232,715	204,619	2,643
Financial assets at fair value through profit or loss	156	66	115	94	94
Held-to-maturity investment	–	–	6,000	6,000	–
Income tax recoverable	–	1,630	–	–	–
Pledged bank deposits	–	–	–	47,451	47,451
Cash and bank balances	43,893	16,179	61,259	104,246	122,032
	152,519	103,235	430,411	452,059	267,003
Current assets – discontinued operation	–	82,877	–	–	–
Total	152,519	186,112	430,411	452,059	267,003

	As at 31 December			As at 30 June	As at 30 October
	2007	**2008**	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current liabilities – continuing operations					
Trade and other payables	(62,441)	(44,857)	(67,742)	(134,182)	(111,565)
Amount due to a shareholder	–	–	(23,994)	–	(35,031)
Amounts due to related parties	(742)	(4,058)	(9,997)	(2,341)	(2,278)
Financial guarantee liabilities	(3,098)	–	(1,612)	–	–
Bank borrowings	(98,190)	(122,695)	(136,850)	(144,000)	(134,950)
Dividends payable	–	–	(60,000)	(16,606)	–
Current tax liabilities	(10,268)	–	(3,801)	(790)	(1,700)
	(174,739)	(171,610)	(303,996)	(297,919)	(285,524)
Current liabilities – discontinued operation	–	(77,292)	–	–	–
	(174,739)	(248,902)	(303,996)	(297,919)	(285,524)
Net current (liabilities)/assets					
– continuing operations	(22,220)	(68,375)	126,415	154,140	(18,521)
– discontinued operation	–	5,585	–	–	–
Total	(22,220)	(62,790)	126,415	154,140	(18,521)

Our net working capital had worsened from the year ended 31 December 2007 to the year ended 31 December 2008. We recorded a net current liabilities position of approximately RMB22.2 million as at 31 December 2007, compared to a net current liabilities position of approximately RMB62.8 million as at 31 December 2008. Our net current liabilities position of approximately RMB22.2 million as at 31 December 2007 was primarily attributable to our use of short-term borrowings to fund our long-term capital requirements, which reflected our management's expectation and optimism that our financial performance will continue to improve in the coming years. This was also aimed at maintaining a greater flexibility in managing our financing costs. Our net current liabilities position increased to approximately RMB62.8 million as at 31 December 2008, partly due to our reduction of cash and bank balances and increase in amount of bank borrowings. These factors that increased our net current liabilities position were partially offset by our decrease in trade and other payables.

Our net working capital improved during the year from 31 December 2008 to 31 December 2009. We recorded a net current assets position of approximately RMB126.4 million as at 31 December 2009, compared to a net current liabilities position of approximately RMB62.8 million as at 31 December 2008, primarily due to our improvement in financial and business performance as reflected in the increased effect in our amount due from a shareholder, amounts due from related parties and cash and bank balances, reduction in trade and other payables and disposal of pork business in December 2009.

Our net working capital improved during the period from 31 December 2009 to 30 June 2010. We recorded a net current assets position of approximately RMB126.4 million as at 31 December 2009, compared to a net current assets position of approximately RMB154.1 million as at 30 June 2010. Our net current asset position of approximately RMB154.1 million as at 30 June 2010 was primarily attributable to our improvement in financial and business performance, as reflected in increase in cash and bank balances and reduction in dividends payable and amount due to a shareholder.

As at 31 October 2010, we had net current liabilities of approximately RMB18.5 million. This was primarily due to i) the acquisition of Fujian Baojiashun major assets of which consists of prepaid lease payments and building valued at approximately RMB81.0 million; ii) the settlement of the dividends to the shareholders of approximately RMB50.0 million; iii) the repayment of bank borrowings of approximately RMB49.0 million. As at 31 October 2010, based on the management account of the Group, the net book values of the property, plant and equipment and prepaid lease payments were approximately RMB136.1 million and RMB55.8 million respectively.

With our internal cash to be generated and the proceeds from the Share Offer, we expect our net current liability position will not continue after the Listing.

During the Track Record Period, we had made use of bulk purchase to negotiate for better purchase terms and implemented a more stringent internal control system regarding purchases and sales cycle to better monitor the daily operation of our Group. In addition, we had implemented stringent internal policies for the approval of our capital expenditures. These measures were taken to ensure that our Group would have sufficient working capital to finance our operations. We also anticipate that our Group's business performance will continue to improve, thereby generating more cash flow from our operations and reducing our reliance on bank borrowings to finance our working capital requirements.

INVENTORY ANALYSIS

During the Track Record Period, inventories were one of the principal components of our current assets. It is imperative that we manage and control our level of inventories. The value of our inventory of the continuing operations accounted for approximately 27.4%, 23.6%, 9.0% and 7.9% of our total current assets as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

The following table is a summary of our balance of inventories at the end of each of the reporting periods during the Track Record Period:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inventories – continuing operations				
Frozen and chilled meats	17,198	17,504	16,075	15,920
Animal feeds	4,393	2,681	4,158	1,900
Processed foods	811	1,126	636	570
Agricultural produce *(Note a)*	3,095	4,997	2,866	3,716
Raw materials	15,141	15,656	13,819	12,629
Consumables	707	1,327	849	739
Packaging	473	655	432	386
	41,818	43,946	38,835	35,860
Inventories – discontinued operation	–	34,044	–	–
Total	41,818	77,990	38,835	35,860

Note:

(a) Movements of the agricultural produce, representing broiler eggs, during the Track Record Period are summarised as follows:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the period/year	2,236	3,095	4,997	2,866
Increase due to lay	34,880	55,786	57,952	28,363
Decrease due to hatch and disposals	(34,021)	(53,884)	(60,083)	(27,513)
At the end of the period/year	3,095	4,997	2,866	3,716

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	units	*units*	*units*	*units*
At the beginning of the period/year	1,125,121	1,572,132	2,037,528	1,274,560
Increase due to lay	17,472,449	22,314,230	23,180,983	11,345,018
Decrease due to hatch and disposals	(17,025,438)	(21,848,834)	(23,943,951)	(11,099,021)
At the end of the period/year	1,572,132	2,037,528	1,274,560	1,520,557

Our inventories of continuing operations decreased by approximately 7.7%, from approximately RMB38.8 million as at 31 December 2009 to approximately RMB35.9 million as at 30 June 2010, primarily due to the slight decrease in demand of animal feeds during the six months ended 30 June 2010 as some Contract Farmers had temporarily ceased their broiler breeding business during the long holiday period for the Chinese New Year in January 2010. and the level of inventories of animal feeds and raw materials were therefore decreased by approximately RMB2.3 million and RMB1.2 million as at 30 June 2010 respectively.

Our inventories of continuing operations decreased by approximately 11.6%, from approximately RMB43.9 million as at 31 December 2008 to approximately RMB38.8 million as at 31 December 2009, this is because i) a decrease of approximately RMB2.1 million in agricultural produce as more broiler eggs had been hatched into chicken breeds as at 31 December 2009 and ii) a decrease of RMB1.8 million in raw materials due to the decrease in the average unit cost of major raw materials of animal feeds.

Our inventories of continuing operations remained stable as at 31 December 2007 and 2008. A slight increase of approximately 5.1% was primarily due to the increase in the quantity of agricultural produce as at 31 December 2008 as a result of an increase in the broiler eggs laid by the breeders near the end of the year.

Our inventories mainly comprised of raw materials such as corn, wheat, soya meal and additives, finished products such as animal feeds, chicken meat and processed foods. We adopt stringent inventory control since our inventory is perishable in nature, and periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. We manage our inventory levels based principally on the anticipated demand and the prevailing market price of a particular product. We usually store finished products for a short period before delivering them to our customers. We have our own refrigeration facilities to store our raw materials and finished products, and engage external refrigeration facility providers to store our raw materials.

During the Track Record Period, we made provisions for obsolete inventories for discontinued operation of RMB0.03 million for the year ended 31 December 2008. We made no provisions for obsolete inventories for continuing operations for the years ended 31 December 2007 and 2009 and the six months ended 30 June 2010.

The following table sets out the average inventory turnover days of continuing operations for the Track Record Period:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
Average inventory turnover day	34	32	32	28

Notes:

(1) Average inventory turnover days is equal to the average inventory divided by costs of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year and divided by two.

(2) Average inventory turnover days for the six months ended 30 June 2010 is equal to the average inventories divided by cost of sales and multiplied by 181 days. Average inventory is equal to inventory at the beginning of the period plus inventory at the end of the period and divided by two.

The average inventory turnover days of continuing operations remained stable at 28 days to 34 days for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, primarily as a result of strict control on our inventory management.

As at 31 October 2010, approximately 88.1% of the inventories as at 30 June 2010 had been used or consumed.

TRADE RECEIVABLES ANALYSIS

The following table sets out the aging analysis of our trade receivables, net of impairment losses, at the end of each of the reporting periods during the Track Record Period:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Aging analysis of trade receivables – continuing operations				
Within 30 days	7,797	2,939	37,051	23,947
31 days to 70 days	13,730	12,264	11,077	1,062
71 days to 180 days	129	929	842	5
Over 180 days	972	2,769	203	155
	22,628	18,901	49,173	25,169
Trade receivables – discontinued operation	–	26,075	–	–
Total	22,628	44,976	49,173	25,169

Our customers generally settle their purchases in cash upon or shortly after delivery. We however give a credit period between 15 and 70 days to our key customers.

The following table sets out those trade receivables that are past due but not considered impaired. These related to a number of independent customers for whom there is no recent history of default.

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	–	–	–	–
31 days to 70 days	75	312	127	369
71 days to 180 days	129	1,188	842	5
Over 180 days	972	2,770	203	155
	1,176	4,270	1,172	529

The following table sets out our average trade receivables turnover days of the continuing operations for the Track Record Period:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
Average trade receivables turnover days	19	13	22	22

Note:

(1) Average trade receivables turnover days is equal to the average trade receivables divided by revenue and multiplied by 365 days. Average trade receivables is equal to trade receivables at the beginning of the year plus trade receivables at the end of the year and divided by two.

(2) Average trade receivables turnover day for the six months ended 30 June 2010 is equal to the average trade receivables divided by revenue and multiplied by 181 days. Average trade receivables is equal to trade receivables at the beginning of the period plus trade receivables at the end of the period and divided by two.

The average trade receivables turnover days increased from 13 days for the year ended 31 December 2008 to 22 days for the six months ended 30 June 2010 was primarily due to longer credit period granted to certain of our existing customers. As there was no recent history of default, we offered a more relaxed credit period to certain of our existing customers and have taken account of their credit-worthiness and historical write-off experience. Such extension of the credit period up to 180 days to 15 of our existing customers as at 30 June 2010 is not an on-going policy of our Group. The trade receivables which were subject to extension of credit period amounted to approximately RMB529,000 for the six months ended 30 June 2010.

We make impairment losses on trade receivables resulting from inability of the customers to make the required payments. This is based on the aging of the trade receivable balance, customer credit-worthiness and historical write-off experience. During the Track Record Period, certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2008, trade receivables of approximately RMB325,000 was impaired, and had been fully provided for.

In the view of the Reporting Accountants, the impairment losses on trade receivables recognised by the Group during the Track Record Period were adequate.

As at 31 October 2010, approximately 98.3% of the trade receivables outstanding as at 30 June 2010 had been settled and therefore no impairment was considered necessary.

TRADE PAYABLES ANALYSIS

Our trade payables primarily relate to the purchase of raw materials from our suppliers, with payment period range from 15 days to 90 days for trade payables.

The following table sets out the aging analysis of our trade payables at the end of each of the reporting periods during the Track Record Period:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Aging analysis of trade payables – continuing operations				
Within 30 days	31,670	25,297	17,644	20,717
31 days to 90 days	2,043	5,575	5,738	1,589
91 days to 180 days	695	224	246	386
Over 180 days	2,429	4,504	6,884	336
	36,837	35,600	30,512	23,028
Trade payables – discontinued operation	–	14,140	–	–
Total	36,837	49,740	30,512	23,028

The following table sets out our average trade payables turnover days of the continuing operations for the Track Record Period:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
Average trade payables turnover days	39	27	26	20

Note:

(1) Average trade payables turnover days is equal to the average trade payables divided by cost of sales and multiplied by 365 days. Average trade payables is equal to the trade payables at the beginning of the year plus trade payables at the end of the year and divided by two.

(2) Average trade payables turnover day for the six months ended 30 June 2010 is equal to the average trade payables divided by cost of sales and multiplied by 181 days. Average trade payables is equal to trade payables at the beginning of the period plus trade payables at the end of the period and divided by two.

The average trade payables turnover days decreased from 39 days for the year ended 31 December 2007 to 20 days for the six months ended 30 June 2010, was predominantly due to prompt settlement on our trade payables. We have settled our trade payables on a timely basis in order to maintain good relationships with our suppliers and to ensure that the supply of our raw materials can be met so that we can compete with our market competitors.

As at 31 October 2010, approximately 95.8% of the trade payables outstanding as at 30 June 2010 were settled.

Amounts due from/(to) related parties

Due to the disposal of the pork business carried out by Fujian Sumhua in December 2009, the amount due from Fujian Sumhua were reclassified as amount due from related parties and such amount was settled on a regular basis. As at 31 December 2009, the amount due from Xiamen Sumpo represented the amount receivable in relation to defer cash consideration receivable on the disposal of the pork business and the net of the amount due to Xiamen Sumpo at the year end date. In this regard, we recorded amounts due from related parties of approximately RMB8.2 million, RMB4.5 million, RMB232.7 million and RMB204.6 million as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively.

During the Track Record Period, the balances of amounts due to related parties represented fund transfer from certain related parties. In this regard, we recorded amounts due to related parties of approximately RMB0.7 million, RMB4.9 million, RMB10.0 million and RMB2.3 million as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively.

The balances which were in trade nature, are unsecured, interest-free and had a credit period of 30 days. The balances outstanding as at 30 June 2010 would be settled on a regular basis.

The balances which were in non-trade nature, are unsecured, interest-free and recoverable/repayable on demand. The balances outstanding as at 30 June 2010 were settled prior to the Listing.

As advised by our PRC legal advisors, the amounts due from/to related parties (collectively, the "Amounts") did not comply with the General Principles of Loans (貸款通則). However, given that (1) the Amounts have already been settled prior to the Listing and there was no dispute among the parties with respect to the Amounts; (2) the amount was used in our normal operation but not for any illegal purpose; (3) we had not earned any interests or other benefit from the amounts due from related parties; and (4) there are no specific administrative penalties imposed on us in respect of the amount due to related parties under General Principles of Loans (貸款通則), our PRC legal advisors are of the view that the risk that the Group would be subject to any administrative penalties as a result of the Amounts is remote.

Amount due from/(to) a shareholder

As part of the Reorganization in preparation for the Listing, we sought new investors to our Group and the amount due from a shareholder represented consideration receivable from Golden Prince on the acquisition of equity interest in our Group as at 31 December 2009 and such consideration receivable was settled on 8 February 2010. As at 30 June 2010, the balance of amount due from a shareholder represented fund transfer to Mr. Lin. In this regard, we recorded amount due from Golden Prince of approximately RMB17.9 million and amount due from Mr. Lin of approximately RMB5.4 million as at 31 December 2009 and 30 June 2010 respectively.

All of the amount due from/(to) a shareholder were unsecured, interest-free and recoverable/repayable on demand, and the balance outstanding as at 30 June 2010 were settled prior to the Listing.

TAXATION

Hong Kong

No Hong Kong profits tax was provided for the Track Record Period as there were no assessable profits arose from such period.

Overseas

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and, accordingly, is exempted from payment of the Cayman Islands income tax.

PRC

Substantially all the revenue of the Group during the Track Record Period was derived in the PRC and was therefore subject to the PRC income tax.

On 16 March 2007, the National People's Congress of the PRC promulgated the new Enterprise Income Tax Law of the PRC ("**New Tax Law**"), which had come into effect on 1 January 2008 and superseded the PRC Foreign Invested Enterprise and Foreign Enterprise Income Tax Law and the Temporary Regulations on Enterprise Income Tax of the PRC at the same time. The New Tax Law consolidated the two separate tax regimes for domestic enterprises and foreign invested enterprises and imposed a unified enterprise income tax rate of 25% for both types of enterprises.

Under the New Tax Law, enterprises that were enjoying a preferential tax rate prior to the promulgation of the New Tax Law would be subject to a grace period of five years from the effective date of the New Tax Law. Enterprises which enjoyed a fixed period of tax exemption and reduction under the old applicable rules and regulations continued to enjoy such preferential tax treatment until the expiry of such prescribed period.

The applicable PRC enterprise income tax rates for our main operating subsidiaries during the Track Record Period are set out below:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	%	*%*	*%*	*%*	*%*
				(unaudited)	
Fujian Sumpo					
– chicken meat	27	Fully exempted	Fully exempted	Fully exempted	Fully exempted
– animal feeds	27	25	25	25	25
Longyan Baotai	Fully exempted	Fully exempted	Fully exempted	Fully exempted	Fully exempted
Xiamen Sumpo Trading	15	18	20	20	22

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a tax rate of 27% for the year ended 31 December 2007 and at a tax rate of 25% for the years ended 31 December 2008 and 2009, except for the following:

(i) Pursuant to the Ministry of Finance's Notice on Preferential Enterprise Income Tax on Agricultural Products (《國家税務總局關於發佈享受企業所得税優惠政策的農產品初加工範圍(試行)》的通知) ("Order [2008] No. 149"), issued on 20 November 2008, effective on 1 January 2008, Fujian Sumpo was entitled to enterprise income tax exemption with respect to the income derived from the processing of frozen chicken meat products during the period between 1 January 2008 and 7 September 2018.

(ii) Pursuant to the Ministry of Finance's Notice on Enterprise Income Tax (《國家税務總局關於企業所得税若干優惠政策的通知》) ("Order [1994] No. 001"), issued on 29 March 1994, effective on 1 January 1994, and the Ministry of Finance's Approval on the Implementation of Preferential Income Tax for Newly Established Enterprises (《國家税務總局關於新辦企業所得税優惠執行口徑的批覆》) ("Order [2003] No. 1239"), issued on 18 November 2003, Longyan Baotai is entitled to enterprise income tax exemption with respect to the income derived from broilers breeding during the period between 1 January 2006 and 31 December 2010.

(iii) Before the promulgation of the New Tax Law, as Xiamen Sumpo Trading is located in the Xiamen Special Economic Zone, it was only required to pay corporate income tax at the reduced rate of 15%. As a result of the New Tax Law, it was required to pay enterprise income tax at the reduced rate of 18% for the year ended 31 December 2008, 20% for the year ended 31 December 2009, 22% for the year ending 31 December 2010, 24% for the year ending 31 December 2011 and 25% for the year ending 31 December 2012.

Pursuant to the new PRC Enterprise Income Tax Law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends received by the Group from its PRC subsidiaries are subject to the above-mentioned withholding tax.

Tax Recognition

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the combined statement of comprehensive income except to the extent that they relate to items recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Management's judgment is required to assess the probability of future taxable profits. Our assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

An analysis of the income tax charges during the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
PRC enterprise income tax					
– current year	14,131	7,601	5,522	1,391	1,430
Deferred income tax	(438)	(494)	31	16	16
	13,693	7,107	5,553	1,407	1,446

The following table sets out the reconciliation between tax expenses and accounting profit at the applicable tax rate for the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit/(loss) before taxation					
– Continuing operations	57,842	55,759	55,577	11,279	24,254
– Discontinued operation	–	(2,716)	9,371	(10,512)	–
	57,842	53,043	64,948	767	24,254

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Income tax using the PRC enterprise income tax rate	14,461	13,192	16,246	192	2,267
Tax exemption for subsidiaries operating in the PRC	(2,632)	(3,463)	(5,195)	(1,563)	(2,505)
Tax effect of the expenses not deductible for tax purpose *(note (a))*	1,775	1,190	181	298	2,122
Tax effect of income not taxable for tax purpose *(note (b))*	(417)	(4,219)	(12,324)	(89)	(1,219)
Utilisation of tax losses previously not recognised	(324)	(90)	–	–	–
Over/(under) provision for previous year	–	247	(56)	–	–
Over/(under) provision for the year	(168)	65	–	–	–
Tax effect of tax loss not recognised	1,436	679	6,399	2,388	–
Tax effect of unrecognised temporary difference	(438)	(494)	302	181	781
Income tax expenses	13,693	7,107	5,553	1,407	1,446
Effective tax rates on continuing operations	23.7%	12.7%	10.0%	12.5%	6.0%

The decrease in the effective tax rate from 23.7% in 2007 to 12.7% in 2008 was mainly due to the tax exemption with respect to the income derived from the processing of frozen chicken meat products of Fujian Sumpo. A further decrease in the effective tax rate from 12.7% in 2008 to 10.0% in 2009 was due to the decrease in taxable profit derived from the trading of animal feeds of Fujian Sumpo.

During the year ended 31 December 2007, Fujian Sumpo was entitled to enterprise income tax at a tax rate of 27% with respect to the income derived from the processing chicken meat products and the trading of animal feeds which contributed the majority of taxable profit for the year ended 31 December 2007. Xiamen Sumpo Trading was entitled to enterprise income tax at a reduced tax rate of 15% with respect to the income derived from the trading of chicken meat products.

On March 16 2007, the National People's Congress promulgated the new PRC Enterprise Income Tax Law, under which the PRC adopted a uniform tax rate of 25% for all enterprises. According to the Notice, enterprises which are entitled to enjoy tax incentive shall have a grace period of five years commencing from 1 January 2008 before they are required to pay the corporate income tax at the rate of 25%.

During the year ended 31 December 2008, the taxable profit contributed by Fujian Sumpo was the income derived from the trading of animal feeds at a tax rate of 25%. Xiamen Sumpo Trading was entitled to enterprise income tax at a reduced tax rate of 18% with respect to the income derived from the trading of chicken meat products.

During the year ended 31 December 2009, Fujian Sumpo was entitled to tax refund with respect to the enterprise income tax paid for the income derived from the processing of chicken meat products for the year ended 31 December 2008. During the year, Fujian Sumpo was only subject to enterprise income tax at a tax rate of 25% with respect to the income derived from the trading of animal feeds which contributed the majority of the taxable profit for the year ended 31 December 2009. Xiamen Sumpo Trading was entitled to enterprise income tax at a reduced tax rate of 20% with respect to the income derived from the trading of chicken meat products.

During the six months ended 30 June 2010, Fujian Sumpo was entitled to enterprise income tax at a tax rate of 25% with respect to the income derived from the trading of animal feeds which contributed the majority of its taxable profit for the six months ended 30 June 2010. Xiamen Sumpo Trading was entitled to enterprise income tax at a reduced tax rate of 22% with respect to the income derived from the trading of chicken meat products.

Notes:

(a) Non-deductible expenses mainly comprise non-deductible entertainment and promotion expenses incurred by those members of our Group established in the PRC for PRC enterprise income tax purpose, general administrative expenses incurred by those members of our Group incorporated in the Cayman Islands and/or the BVI where no profits tax is imposed and fair values change in biological assets and agricultural produce. The significant increase in the tax effect of the expenses not deductible for tax purpose for the six months ended 30 June 2010 was mainly due to the general administrative expenses incurred by our subsidiary, including staff wages, legal and professional fees and various office rates incorporated in the BVI where no profit tax is imposed.

(b) Non-taxable income mainly comprises gain from disposal of pork business and dividends received in PRC subsidiaries. During the year ended 31 December 2009, the significant increase in the tax effect of income not taxable for tax purpose was primarily due to the gain from disposal of pork business. The significant increase in the tax effect of income not taxable for tax purpose for the six months ended 30 June 2010 was mainly due to the dividends declared by our PRC subsidiaries to Fujian Sumpo, the immediate holding company of our PRC subsidiaries.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits during the Track Record Period as dividends subject to PRC witholding tax had only been declared subsequent to 31 December 2009 and such dividends had been fully paid during the six months ended 30 June 2010.

The Directors are of the view that i) the Group has made all required tax filings under the relevant tax laws and regulations in the PRC; ii) given that the Group is not subject to any income tax in the Cayman Islands and the BVI, the Group has paid all outstanding tax liabilities and is not subject to any dispute with the tax authorities; iii) all sales and purchases made between subsidiaries are on the same basis as those made to the Group's external customers and suppliers.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the financial resources presently available to our Group, including banking facilities and other internal resources, and the estimated net proceeds of the Share Offer, our Group has sufficient working capital for our present requirements, that is, for at least the next 12 months commencing from the date of this prospectus.

PROPERTY, PLANT AND EQUIPMENT

Our property, plant and equipment consist of buildings, machinery and equipment, motor vehicles, tools and construction in progress. We had net book values of approximately RMB230.5 million, RMB316.3 million, RMB104.7 million and RMB97.4 million as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively. The increase in property, plant and equipment from approximately RMB230.5 million as at 31 December 2007 to approximately RMB316.3 million as at 31 December 2008 were primarily due to the construction in progress in respect of our office buildings, dormitories and slaughtering and processing plant of Fujian Sumhua. The substantial decrease from approximately RMB316.3 million as at 31 December 2008 to approximately RMB104.7 million as at 31 December 2009 was due to the disposal of Fujian Sumhua.

BIOLOGICAL ASSETS

The following table sets out the value of our biological assets as at the end of each of the reporting periods:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Parent Stock Day-Old Chicks and immature breeders	4,532	5,656	5,888	4,546
Mature breeders	6,197	4,012	6,127	4,495
Chicken breeds	3,617	4,820	5,096	5,191
Pig breeders	–	3,154	–	–
	14,346	17,642	17,111	14,232

The numbers of biological assets are summarised as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	'000	*'000*	*'000*	*'000*
Parent Stock Day-Old Chicks and immature breeders	56	96	62	64
Mature breeders				
– 25-40 weeks	90	67	76	16
– 41-66 weeks	46	55	51	138
Chicken breeds	735	768	662	643
Pig breeders	–	1	–	–
At the end of the period/year	927	987	851	861

Compare biological assets as at 31 December 2007 with 2008

After excluding the value of pig breeders of approximately RMB3.2 million, the value of our biological assets increased from approximately RMB14.3 million for the year ended 31 December 2007 to approximately RMB14.5 million for the year ended 31 December 2008. The total quantity and total value of our biological assets as at 31 December 2007 and 2008 remained relatively stable. Set out below are the detailed analysis of the each items.

Parent Stock Day-Old Chicks and immature breeders (collectively, the "Immature Breeders")

The quantity of Immature Breeders increased by approximately 71.4% from 56,000 to 96,000, but the value of Immature Breeders increased only by approximately 24.8% from approximately RMB4.5 million to approximately RMB5.7 million. It was because there were more Immature Breeders at young age (which is less grown and value of which is therefore cheaper) as at 31 December 2008 than those as at 31 December 2007.

Mature breeders

Although the quantity of mature breeders decreased by approximately 10.3% from 136,000 to 122,000, the value of mature breeders decreased by approximately 35.3% from approximately RMB6.2 million to approximately RMB4.0 million. It was because there were more mature breeders close to the age of 66 weeks old (which is the age laying the least eggs and value of which is therefore the least) as at 31 December 2008 than those as at 31 December 2007.

Chicken breeds

While the quantity of chicken breeds increased by approximately 4.5 % from 735,000 to 768,000, the value of chicken breeds increased by approximately 33.3% from approximately RMB3.6 million to approximately RMB4.8 million. It was because the average age of chicken breeds as at 31 December 2008 was older than those as at 31 December 2007. The value of chicken breeds is normally the older, the more expensive it will be.

Compare biological assets as at 31 December 2008 with 2009

Excluding the value of pig breeders of approximately RMB3.2 million as at year ended 31 December 2008, the value of our biological assets increased from approximately RMB14.5 million to approximately RMB17.1 million as at 31 December 2009. This was primarily due to the increase in the value of mature breeders as at 31 December 2009. Set out below are the detail analysis of the each items:

Immature Breeders

The quantity of Immature Breeders decreased by approximately 35.4% from 96,000 to 62,000, but the value of Immature Breeders increased only by approximately 4.1% from approximately RMB5.7 million to approximately RMB5.9 million. It was because there were more Immature Breeders at older age (which is more grown and value of which is therefore higher) as at 31 December 2009 than those as at 31 December 2008.

Mature breeders

The quantity of mature breeders increased slightly by approximately 4.1% from 122,000 to 127,000, the value of mature breeders increased by approximately 52.7% from approximately RMB4.0 million to approximately RMB6.1 million. It was because there were less mature breeders close to the age of 66 weeks old (which is the age laying the least eggs and value of which is therefore the least) as at 31 December 2009 than those as at 31 December 2008.

Chicken breeds

While the quantity of chicken breeds decreased by approximately 13.8 % from 768,000 to 662,000, the value of chicken breeds increased slightly by approximately 5.7% from approximately RMB4.8 million to approximately RMB5.1 million. It was because the average age of chicken breeds as at 31 December 2009 was older than those as at 31 December 2008. The value of chicken breeds is normally the older, the more expensive it will be.

Pig breeders

As the actual operation of the pork business of the Group only commenced in around July 2008, but which was disposed in December 2009, there was only one balance of approximately RMB3.2 million shown as at 31 December 2008.

Compare biological assets as at 31 December 2009 with 30 June 2010

The value of our biological assets decreased from approximately RMB17.1 million to approximately RMB14.2 million as at 31 December 2009. This was primarily due to the decrease in the value of mature breeders as at 30 June 2010. Set out below are the detail analysis of the each items:

Immature Breeders

The quantity of Immature Breeders increased slightly by approximately 3.2% from 62,000 to 64,000, but the value of Immature Breeders decreased by approximately 22.8% from approximately RMB5.9 million to approximately RMB4.5 million. It was because there were more Immature Breeders at young age (which is less grown and value of which is therefore cheaper) as at 30 June 2010 than those as at 31 December 2009.

Mature breeders

The quantity of mature breeders increased by approximately 21.3% from 127,000 to 154,000, the value of mature breeders decreased by approximately 26.6% from approximately RMB6.1 million to approximately RMB4.5 million. It was because there were more mature breeders close to the age of 66 weeks old (which is the age laying the least eggs and value of which is therefore the least) as at 30 June 2010 than those as at 31 December 2009.

Chicken breeds

While the quantity of chicken breeds decreased by approximately 2.9 % from 662,000 to 643,000, the value of chicken breeds increased slightly by approximately 1.9% from approximately RMB5.1 million to approximately RMB5.2 million. It was because the average age of chicken breeds as at 30 June 2010 was older than those as at 31 December 2009. The value of chicken breeds is normally the older, the more expensive it will be.

INFORMATION ABOUT THE VALUER OF OUR BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE

The valuations of biological assets and agricultural produce were arrived at on the basis of valuation carried out by our Valuer which has appropriate qualifications and recent experiences in valuation of similar assets. The team members of Asset Appraisal Limited include Mr. Tse Wai Leung and Ms. Sandra Lau. Mr. Tse Wai Leung, a director at Asset Appraisal Limited, is a professional member of the Royal Institution of Chartered Surveyors (MRICS), a professional member of the Hong Kong Institute of Surveyors (MHKIS) and a professional member of the China Institute of Real Estate Appraisal (CIREA), a charterholder of the Chartered Financial Analyst Institute (CFA) and a member of the Global Association of Risk Professional (FRM). He has over 15 years of appraisal experiences in different kinds of assets such as property assets, industrial assets, biological assets, mining rights and assets, technological assets and financial assets in the PRC, Hong Kong, Singapore and Thailand.

Ms. Lau Sze Wing, Sandra, a director of Asset Appraisal Limited, is a professional member of the Australian Property Institute (APPI), a professional member of the Hong Kong Institute of Surveyors (MHKIS) and a registered professional surveyor in Hong Kong (RPS). She has over 13 years of appraisal experiences in different kinds of assets such as property assets, industrial assets, biological assets, mining rights and assets, technological assets and financial assets in the PRC, Hong Kong, Australia and New Zealand.

Among the professional institutions mentioned above, the Royal Institution of Chartered Surveyors, the Australian Property Institute and the Hong Kong Institute of Surveyors are members of the International Valuation Standards Committee (IVSC) and are governed by the International Valuation Standards laid down by IVSC.

Asset Appraisal Limited and/or its team members have provided biological asset valuation services for the following listing applicants or listed issuers:

- Valuation of pig breeders, slaughter pigs and piglets for Guangnan (Holdings) Limited (Stock Code:1203.HK) – the valuation exercise was carried out by Mr. Tse Wai Leung in 2001 when he was working for his previous employer. In this valuation exercise, he undertook valuation for a pig raising entity situated in the PRC. Since the ultimate products of the business were biological assets and agricultural produces namely slaughter pigs and piglets, he was required to assess the market value of these assets.

- Valuation of Sophora Alopecuroides crop and sunflower seed for Wing Hing International (Holdings) Limited (Stock Code: 621.HK) – the valuation exercise was carried out by Mr. Tse Wai Leung of Asset Appraisal Limited in 2008. In this valuation exercise, he undertook valuation for a crop growing entity situated in the PRC. Since the ultimate products of the business were agricultural produces namely Sophora Alopecuroides crop and sunflower seed, he was required to assess the market value of these assets.

- Valuation of tapioca chips for Asia Cassava Resources Holdings Limited (Stock code: 841.HK) – the valuation exercise was carried out by Mr. Tse Wai Leung of Asset Appraisal Limited in 2008. In this valuation exercise, Mr. Tse assisted the reporting accountant of the company to ascertain the net realizable value of tapioca chips, an agricultural produce which were held by the company as inventories.

- Valuation of raw milk and milk fat solid extracted from dairy cows for China Jin Hui Mining Corporation Limited (Stock code: 462.HK) – the valuation exercise was carried out by Ms. Lau Sze Wing, Sandra and Mr. Tse Wai Leung of Asset Appraisal Limited in 2009. In this valuation exercise, they undertook valuation for various diary farms situated in New Zealand. Since the ultimate products of the business were agricultural produces namely raw milk and milk fat solid, they were required to assess the market value of these assets.

- Valuation of tilapia fish and shrimp for Fulbond Holdings Limited (Stock Code: 1041.HK) – the valuation exercise was carried out by Ms. Lau Sze Wing, Sandra and Mr. Tse Wai Leung of Asset Appraisal Limited in 2009. In this valuation exercise, they undertook valuation for the seafood breeding entity situated in the PRC. Since the ultimate products of the business are biological assets namely tilapia fish and shrimp, they were required to assess the market value of these assets.

- Valuation of vegetable, fruit, fruit trees and tea trees of Le Gaga Holdings Limited (Ticker Symbol: GAGA.NASDAQ) – the valuation exercise was carried out by Ms. Lau Sze Wing, Sandra and Mr. Tse Wai Leung of Asset Appraisal Limited in 2009. In this valuation exercise, they undertook valuation for vegetable, fruit, fruit trees and tea trees in the plantation bases of the client.

The Sponsor is of the view that the Valuer is appropriately qualified to provide the valuation of the Group's biological assets and agricultural produces on the following grounds:

- the Valuer has previous experiences in valuing biological assets and agricultural produces and is familiar with the nature of this kind of assets as to the selection of appropriate valuation methods and valuation parameters; and

- the team members of the Valuer are holding professional memberships of renowned international appraisal institutions which are governed by the International Valuation Standards laid down by IVSC in valuing biological assets.

INDEBTEDNESS

Borrowings

The following table sets out our borrowings at the end of each of the reporting periods during the Track Record Period and up to 30 October 2010:

	As at 31 December			As at 30 June	As at 30 October
	2007	**2008**	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank borrowings – secured	148,190	245,005	175,050	162,200	114,950
Bank borrowings – unsecured	17,500	17,500	–	20,000	20,000
Total bank borrowings	165,690	262,505	175,050	182,200	134,950
Loan from other banking facilities	5,390	5,750	3,060	3,060	1,260
	171,080	268,255	178,110	185,260	136,210

Carrying amount repayable:

	As at 31 December			As at 30 June	As at 30 October
	2007	**2008**	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
On demand or within one year	98,190	167,695	136,850	144,000	134,950
More than one year but less than two years	13,590	14,060	40,630	40,000	–
More than two years but less than five years	59,300	86,500	630	1,260	1,260
	171,080	268,255	178,110	185,260	136,210
Less: Amounts due within one year shown under current liabilities	98,190	167,695	136,850	144,000	134,950
	72,890	100,560	41,260	41,260	1,260

The following table sets out the range of interest rates for our outstanding bank borrowings as at the end of each of the reporting periods:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	% *per annum*	% *per annum*	% *per annum*	% *per annum*
Interest rates	2.4 to 7.7	2.4 to 7.8	2.4 to 5.9	2.4 to 5.3

Our borrowings increased by approximately 56.8%, from approximately RMB171.1 million as at 31 December 2007 to approximately RMB268.3 million as at 31 December 2008. This was primarily due to the increase in our borrowing to finance the operation of the pork business. Our borrowings decreased by approximately 33.6%, from approximately RMB268.3 million as at 31 December 2008 to approximately RMB178.1 million as at 31 December 2009. This was primarily due to the disposal of the pork business in December 2009.

As at 31 December 2009, our Group's total indebtedness was RMB178.1 million, consisting of short-term secured bank loans and bank overdrafts in the aggregate amount of approximately RMB136.9 million and long-term bank borrowings in the aggregate amount of RMB41.3 million.

As at 30 October 2010, our Group's total indebtedness of approximately RMB136.2 million consisting of bank borrowings of all subsidiaries of the Company including but not limited to Fujian Hetai and Fujian Baojiashun.

Some of our bank loans were guaranteed by the Controlling Shareholders, their respective associates or other parties, including Longyan Longjin Credit Guarantee Company Limited (龍岩市龍津信用擔保有限公司) and Mr. Chen Dongpei (a member of our senior management). Longyan Longjin Credit Guarantee Company Limited is principally engaged in the business of provision of credit guarantee to small-to-medium enterprises and is an Independent Third Party. All the guarantees provided by the aforesaid persons have been released.

Except as disclosed in this sub-paragraph headed "Borrowings", our Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 31 December 2009. We confirm that there has not been any material change in our indebtedness since 31 December 2009.

Gearing ratio

Our gearing ratios were approximately 39.0%, 47.9%, 31.9% and 32.4% as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. Gearing ratio is calculated by dividing interest-bearing bank borrowings with the total assets as at the respective year/ period end.

Our gearing ratio increased from approximately 31.9% as at 31 December 2009 to approximately 32.4% as at 30 June 2010, primarily due to increase of borrowings during the period.

Our gearing ratio decreased from approximately 47.9% as at 31 December 2008 to approximately 31.9% as at 31 December 2009, primarily due to the disposal of pork business segment in 2009.

Our gearing ratio increased from approximately 39.0% as at 31 December 2007 to approximately 47.9% as at 31 December 2008, primarily due to the increase in bank borrowings to maintain the operation of pork business.

Contingent Liabilities

As at 30 June 2010, our Group had no material contingent liabilities. Our Group is currently not involved in any material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving our Group. If our Group was involved in such material legal proceedings, it would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

As at the end of each of the reporting periods, the Group had commitments for future minimum lease payments in respect of farms and office premises under non-cancellable operating leases from selected farmers at an agreed price based on the area of the farm, which fall due as follows:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	240	393	1,671	1,558
In the second to fifth year inclusive	3,926	3,947	4,769	4,497
After the fifth year	3,026	2,911	2,670	2,550
	7,192	7,251	9,110	8,605

Operating lease payments represent rentals payable by the Group for some of its farms and office premises. Leases in respect of farms are negotiated for a term of fifteen to fifty years with fixed rentals. Leases in respect of office premises are negotiated for a term of one to two years with fixed rentals.

Capital commitments

We had the following commitments of capital expenditure, which were not provided for in our combined financial statements:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commitments for the acquisition of property, plant and equipment	15,816	25,874	202	77

CAPITAL EXPENDITURES

Capital Expenditures during the Track Record Period

The following table sets out our Group's historical capital expenditures during the Track Record Period:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Historical capital expenditures				
Property, plant and equipment	28,126	15,682	26,718	554
Construction in progress	84,858	93,447	9,303	–
Buildings	42,521	183	2,980	427
Land use rights	4,648	–	–	–
Total	160,153	109,312	39,001	981

Our Group's capital expenditures for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 principally consisted of expenditures on acquisitions of property, plant and equipment, and construction in progress.

The decrease in the capital expenditures from approximately RMB160.2 million as at 31 December 2007 to approximately RMB109.3 million as at 31 December 2008 was primarily due to the construction in progress in respect of our office buildings, dormitories and slaughtering and processing plant of Fujian Sumhua. The decrease in the capital expenditures from approximately RMB109.3 million as at 31 December 2008 to approximately RMB39.0 million was primarily due to the completion of the construction work. Upon the completion of our office buildings, dormitories and slaughtering and processing plant of Fujian Sumhua, our capital expenditures decreased substantially from approximately RMB 39.0 million as at 31 December 2009 to approximately RMB1.0 million as at 30 June 2010.

Planned Capital Expenditure

For the six months from 1 July 2010 to 31 December 2010, we expect that the capital expenditures of approximately RMB100 million primarily for the expansion of our production capacity, including the construction of new production facilities, improvement in our existing productions facilities and purchase of production equipment and facilities for our animal feeds, chicken meat and processed foods operations.

Our Group's projected capital expenditures are subject to revision based upon any future changes to our business plan, market conditions, economic and regulatory environment.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Share Offer, cash generated from our operating activities and proceeds from bank loans. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies except as included under the paragraphs headed "Contractual and Capital Commitments" and "Indebtedness" above.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set forth in our combined financial statements included in the accountants' report set forth in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

DISTRIBUTION RESERVES

As at 30 June 2010, the Company did not have any distributable reserves.

DIVIDEND POLICY

In 2009, Sumpo Holdings declared and paid a dividend of RMB60 million to the shareholders. In 2010, Sumpo Holdings further declared a dividend of RMB75 million to its shareholders, RMB50 million of which had been settled by way of deducting the receivables due from the shareholders of Sumpo Holdings on 31 August 2010 and the remaining RMB25 million had been settled by way of cash in November 2010. Past payments and non-payments of dividends are not indicative of our future dividend policy.

We currently do not have any plans to distribute regular dividends immediately after the Listing, although this is subject to change. Our Board may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are in the normal course of our business and are exposed to various types of market risks as follows.

Fair Value Changes of Biological Assets and Agricultural Produce

During the Track Record Period, our results have been affected by change in fair values of biological assets less costs to sell, fair values of agricultural produce on initial recognition and reversal of fair value of agricultural produce due to sales and disposals.

Fair value change sensitivity analysis

For those biological assets and agricultural produce whose fair values are measured by direct comparison approach, no sensitivity analysis is deemed necessary as no assumption on specific parameters has been employed in the valuation with reference to the market determined prices.

For those biological assets the fair values of which are measured by the income approach, namely breeders, our Valuer has performed a sensitivity analysis on their fair values as at 30 June 2010 as determined by the income approach by varying the discount rate, the selling prices of broiler eggs and the direct production costs of broiler eggs.

The following table illustrates the sensitivity of the fair value of the breeders less costs to sell as at 30 June 2010 when the discount rate is adjusted downward by 100 basis points and upward by 100 basis points:

	Adjusting 100 basis points downward	Base case	Adjusting 100 basis points upward
Discount rate	23.48%	24.48%	25.48%
Fair value less costs to sell (RMB million)	9.08	9.04	9.00

The following table illustrates the sensitivity of the fair value of the breeders less costs to sell as at 30 June 2010 when there is 5% increase or decrease in the selling prices of broiler eggs:

	5% decrease in selling price	Base case	5% increase in selling price
Selling price of broiler eggs (RMB/egg)	2.185	2.30	2.415
Fair value less costs to sell (RMB million)	7.79	9.04	10.29

The following table illustrates the sensitivity of the fair value of the breeders less costs to sale as at 30 June 2010 when there is 5% increase or decrease in the direct production costs of broiler eggs:

	5% decrease in production costs	Base case	5% increase in production costs
Production costs (RMB/breeder)	273	287	301
Fair value less costs to sell (RMB million)	9.90	9.04	8.18

Note 1: Based on the costs of equity generated from Bloomberg below, we note the expected rate of return should be ranged from 10% to 15% for comparable companies. However, given the risk associated with a particular asset (i.e. the breeders) is much greater than the risk associated with a company, especially a listed company, the Directors are of the view that the discount rates adopted in the DCF are fair and reasonable.

Market comparables

Name of Company	Stock Code	Cost of Equity
DaChan Food Asia Ltd	HKE: 03999	14.85%
Shandong Minhe	SHE: 002234	13.57%
Fujian Sunner	SSE: 002299	13.66%
Henan Huaying Agri Development	SHE: 002321	13.66%
Venky's India Ltd	BOM: 523261	12.16%
Srinivasa Hatcheries	BOM: 526893	10.38%
Rainbow Chicken	JNB: RBW	13.72%
Yuhe International Inc	NASDAQ: YUII	11.42%
	Average	12.93%

Note 2: The Valuer is of the view that the range adopted in the sensitivity analysis is the reasonably likely range in which the value of the numerical parameters may deviate from the base case level.

As far as discount rate is concerned, the major varying element is risk free rate (with long term Government bond rates acting as its proxy). In analyzing the 10-year PRC Government Bond rates between November 2009 and November 2010 (as shown in the Bloomberg screenshots below), it is observed that the highest and lowest rate is 4.128% and 3.249% respectively, with a range of 0.879%. The standard derivation of the change of the same set of bond rates is 2.08%. Therefore, the selected level of variation (i.e. ±1% to the base case discount rate or from 96% to 104% of the base case discount rate) is considered to be adequate to cover the expected range of possible outcomes for this variable.

As far as selling price of broiler eggs and production costs are concerned, given the target inflation rate of not exceeding 4% as set by the PRC Central Government, the selected level of variation (i.e. from 95% to 105% of the base case level) is considered to be adequate to cover the expected range of possible outcomes for these variables.

Based on the sensitivity analysis shown above, the fair values of breeders less the costs to sell are highly sensitive to change in the selling price of broiler eggs but relatively less sensitive to change in the discount rate.

Credit Risk

Our Group is exposed to credit risk in the event of our customers are unable to pay amount in full when due. It arises primarily from our Group's trade receivables, amounts due from a shareholder and amounts due from related parties. Our Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. Our Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by our senior management. Our Group's diversified customer base ensures that there are no significant concentrations of credit risk for a particular customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined statement of financial position.

Interest Rate Risk

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

Our management considered that our exposure to interest rates risks on its variable-rated borrowing is limited. A 50 basis point increase or decrease is used when reporting interest rate internally to our key management personnel and represents management's assessment of the possible change in interest rates. A 50 basis point change in interest rate with all other variables were held constant, did not have a significant effect on our Group's profit for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

Currency Risk

As most of our Group's monetary assets and liabilities are denominated in RMB and our Group conducts its business transactions principally in RMB, the currency risk of our Group is not significant and our Group currently does not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

In the opinion of the Directors, since the currency risk is minimal, no sensitivity analysis is presented.

Business Risk

Our Group is exposed to financial risks arising from changes in the prices of livestock and livestock's agricultural products and the change in cost and supply of feed ingredients, all of which are determined by ever-changing market forces of supply and demand and other factors. The other factors include, inter alia, environmental regulations, weather conditions and livestock diseases. Our Group has little or no control over these conditions and factors.

Our Group is subject to risks relating to its ability to maintain animal health status. Livestock health problems could adversely impact production and consumer confidence. Our Group monitors the health of its livestock on a regular basis and has procedures in place to reduce potential exposure to infectious diseases. Although policies and procedures have been put into place, there is no guarantee that our Group will not be affected by epidemic diseases.

Save for the Parent Stock Day-Old Chicks, our Group manages its exposure to fluctuation in the price of the key raw materials used in the operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

Liquidity Risk

Our Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, our Group monitors and maintains a level of cash and bank balances which are considered to be adequate by our management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilization of borrowings on a regular basis.

RECONCILIATION OF APPRAISED PROPERTY VALUES WITH NET BOOK VALUES

Further information on our property interest is set out in Appendix IV to this prospectus. Our Valuer has valued the properties owned by us as of 31 October 2010. The text of its letter, summary of valuations and valuation certificate are set forth in Appendix IV to this prospectus.

The table below shows the reconciliation of the net book value of the property interests from our audited financial statements as of 30 June 2010 to the valuation of the property interests as of 31 October 2010:

	RMB'000
Reference value *(note (i))*	120,520
Net book value as of 30 June 2010 (as included in the accountants' report in Appendix I to this prospectus) *(note (ii))*	34,914
Additions	83,432
Movements for the four months ended 31 October 2010	
– Depreciation and amortization	(2,533)
Net book value as of 31 October 2010	115,813
Valuation surplus	4,707
Attributable to:	
Owners of the Company	4,236
Non-controlling interests	471
	4,707

Notes:

(i) The figures represents the reference value adopted by the management in respect of those properties without relevant title documents and such reference value is arrived at with reference to the property valuation report which set forth in Appendix IV in this prospectus. The reference value is based on assumptions that such properties can be freely transferred in the open market.

(ii) The net book value represents the sum of the closing net book amount of prepaid lease payments, buildings and investment property as at 30 June 2010 as stated in the accountants' report set out in Appendix I of this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

The Directors forecast that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix II to this prospectus, the forecast of the Group's combined profit attributable to owners of the Company for the year ending 31 December 2010 will be approximately RMB54.0 million. Please refer to the section headed "Profit Forecast" in Appendix II to this prospectus.

The forecast combined profit attributable to owners of the Company of approximately RMB54.0 million for the year ending 31 December 2010 includes an estimated gain arising from changes in fair values less costs to sell of biological assets of RMB2.6 million for the year ended 31 December 2010. The gain arising from changes in fair values less costs to sell of biological assets is calculated i) on the same basis that has been adopted by the Group in valuing its biological assets and ii) on the assumption that there will be no material change in the key parameters which have been used by the Valuer in determining the fair value of the Group's biological assets as at 30 June 2010. The forecast fair value of the Group's biological assets as at 30 June 2010 and 31 December 2010 is valued by the Valuer (including the underlying assumptions). The extent of any gain arising from changes in fair value less costs to sell of biological assets for the year ending 31 December 2010 is dependent on market conditions and other factors that are beyond our control.

Sensitivity analysis

Key assumptions underlying valuation of the Group's breeders as at 31 December 2010 are set out below:

Estimated fair value less costs to sell (RMB)	10,679,000
Estimated selling price of broiler egg (RMB/per piece)	2.3
Estimated direct production costs of broiler egg (RMB/per egg laying cycle of mature breeders)	287
Discount rate	24.58%

The following table illustrates the sensitivity of the combined profit attributable to the owners of the Company to levels of the estimated fair value less costs to sell of the Group's breeders for the year ending 31 December 2010 by varying the discount rate:

	Adjusting 500 basis points upward	**Adjusting 200 basis points upward**	**Adjusting 100 basis points upward**	**Adjusting 100 basis points downward**	**Adjusting 200 basis points downward**	**Adjusting 500 basis points downward**
Increase/(decrease) in profit attributable to owners of the Company *(RMB'000)*	(291)	(118)	(59)	59	118	291

Note: For the discount rates shown above, ±200 and ±500 basis points have been included for illustration purpose only. For the basis of the ranges adopted in this sensitivity analysis, please refer to Note (2) of paragraph "Quantitative and Qualitative Disclosures about Market Risks" under this section.

The following table illustrates the sensitivity of the combined profit attributable to the owners of the Company to levels of the estimated fair value less costs to sell of the Group's breeders for the year ending 31 December 2010 by varying the selling price of broiler egg:

	5% increase in the selling price of broiler egg	**2% increase in the selling price of broiler egg**	**1% increase in the selling price of broiler egg**	**1% decrease in the selling price of broiler egg**	**2% decrease in the selling price of broiler egg**	**5% decrease in the selling price of broiler egg**
Increase/(decrease) in profit attributable to owners of the Company *(RMB'000)*	1,462	585	292	(292)	(585)	(1,462)

The following table illustrates the sensitivity of the combined profit attributable to the owners of the Company to the levels of the estimated fair value less costs to sell of the Group's breeders for the year ending 31 December 2010 by varying the direct production costs of broiler egg:

	5% increase in the direct production costs of broiler egg	2% increase in the direct production costs of broiler egg	1% increase in the direct production costs of broiler egg	1% decrease in the direct production costs of broiler egg	2% decrease in the direct production costs of broiler egg	5% decrease in the direct production costs of broiler egg
Increase/(decrease) in profit attributable to owners of the Company *(RMB'000)*	(1,025)	(410)	(205)	205	410	1,025

This sensitivity illustration is intended for reference only, and any variation could exceed the amounts indicated. Investors should note in particular that (i) this sensitivity illustration is not intended to be exhaustive and is limited to the impact of changes in key assumptions including the fair value of biological assets less costs to sell, the selling price of broiler eggs and the direct production costs of broiler egg; (ii) the profit forecast is subject to further and additional uncertainties. While we consider that for the purposes of the profit forecast what we believe is the best estimate of, among other assumptions, the change in fair value less costs to sell of biological assets for the year ending 31 December 2010, our actual revaluation on the change in fair value less costs to sell of biological assets for the year ending 31 December 2010 may differ materially from our estimate and is dependent on market conditions and other factors that are beyond our control.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there are no circumstances which, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set forth here to illustrate the effect of the Share Offer on our net tangible assets as of 30 June 2010 as if it had taken place on 30 June 2010.

The unaudited pro forma statement of adjusted net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as of 30 June 2010 or any future date following the Share Offer. It is prepared based on our combined net assets as of 30 June 2010 as derived from our combined financial statements set forth in the accountants' report in Appendix I, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the accountants' report as set forth in Appendix I to this prospectus.

	Audited combined net tangible assets attributable to owners of our Company as at 30 June 2010	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per share**	**Unaudited pro forma adjusted combined net tangible assets per share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$0.80 per share	210,312	254,410	464,722	0.29	0.34
Based on an Offer Price of HK$0.60 per share	210,312	187,595	397,907	0.25	0.29

Notes:

(1) The audited combined net tangible assets attributable to owners of the Company as at 30 June 2010 is based on the combined net assets attributable to owners of the Company of RMB210,312,000 as at 30 June 2010 extracted from the accountants' report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from Share Offer are based on the Offer Shares and the Offer Price of HK$0.80 or HK$0.60 per share, being the high or low end of the stated offer price range, after deduction of the underwriting fees and related expenses payable by the Company of approximately HK$23,000,000 or HK$21,000,000 (equivalent to approximately RMB19,776,000 or RMB18,057,000) and taking no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1.00 to RMB0.8566, the prevailing rate quoted by the People's Bank of China on 20 December 2010.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 1,600,000,000 shares in issue immediately after the Share Offer and the Capitalisation Issue become unconditional but takes no account of any Shares which may be taken up under the Over-allotment Option and any Shares which may fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company.

(4) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK$1.00 to RMB0.8566, the prevailing rate quoted by the People's Bank of China on 20 December 2010.

(5) By comparing the valuation of the property interests of the Group as set out in Appendix IV to this prospectus after taking into account a reference value of RMB120,520,000 for certain properties and the audited net book value of these properties as of 30 June 2010, the valuation surplus was approximately RMB4,707,000. The valuation surplus of the property interests will not be incorporated

in the Group's combined financial statements in the future. If the valuation surplus was to be included in the combined financial statements, an additional depreciation charge of approximately RMB169,000 per annum would be incurred.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 June 2010 and there is no event since 30 June 2010 which would materially affect the information shown in our combined financial statements included in the accountants' report set forth in Appendix I to this prospectus, in each case except as otherwise disclosed herein.