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## BUSINESS

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### OVERVIEW OF THE GROUP'S BUSINESS

The Group is a vertically integrated pork supplier principally engaged in hog farming, hog slaughtering and sale of pork. Being one of the largest pork suppliers in Putian City, Fujian Province, Fujian Tianyi contributed to approximately 21.7% of the aggregate output of hogs in Putian City, Fujian Province in 2010.<sup>(Note 1)</sup>

The Group's revenue increased from approximately RMB51.9 million for the year ended 31 December 2008 to approximately RMB444.4 million for the year ended 31 December 2010, representing a CAGR of approximately 192.6%. The Group's net profit increased from approximately RMB15.1 million for the year ended 31 December 2008 to approximately RMB71.7 million for the year ended 31 December 2010, representing a CAGR of approximately 117.9%. The Group's revenue were approximately RMB343.7 million and RMB356.9 million respectively for the nine months ended 30 September 2010 and 30 September 2011, and the Group's net profit for the same period were approximately RMB42.1 million and RMB72.4 million respectively.

The Group's production facilities, including a hog farm and a slaughterhouse, are located at Putian City in Fujian Province. As at the Latest Practicable Date, the Group had also engaged five Contract Farmers to provide hog farming services to the Group. As at the Latest Practicable Date, the Group's slaughterhouse was the only slaughterhouse with a "star-rating" recognition approved and designated by the People's government of Putian City in four districts (Chengxiang District (城廂區), Licheng District (荔城區), Xiuyu District (秀嶼區) and North Meizhouwan Bay Economic Development District (湄洲灣北岸經濟開發區)) out of the five districts and one county in Putian City, and the Group's slaughterhouse is also the only recognised "2-Star" slaughterhouse in Putian City, with the other two "1-Star" slaughterhouses which are of lower rank of recognition.

The Group commenced its operation in 2006 and subsequently became a model business corporation for the "Agricultural Cooperation Projects between Taiwan and Fujian Province (海峽兩岸(福建)農業合作計劃)". In August 2007, the Group successfully applied for and received a subsidy from the Department of Science and Technology of Fujian Province (福建省科學技術廳) for the Group's environmentally friendly hog farming facilities and method. In addition, the Group has received a number of awards from each of the governments of Fujian Province and of Putian City, including but not limited to "Leading Enterprise of Fujian Province's Agricultural Husbandry Industrialisation (福建省農牧業產業化龍頭企業)" and "Leading Enterprise of Fujian Province (省級重點龍頭企業)". The Group is also named as a "National Advanced Entity of Science Popularisation of Rural Area (全國科普及惠農興村先進單位)" by the China Association of Science and Technology (中國科學技術協會). The Group's management system was accredited the ISO 9001:2008 by the Fujian Southeast Standard Certification Centre (福建省東南標準認證中心).

The Directors believe that a well recognised brand with reputation of good product quality could instil confidence among customers in its products and thus enhance the Group's competitiveness in the market. As such, the Group established its own brand "Putian (普甜)" and established its first Point of Sales in July 2007 to market its products under such brand in the retail network.

*Note 1:* The Group's market share in Putian City was calculated by the Group's number of output of hogs divided by the total number of output of hogs in Putian City during the same period as announced by the People's Government of Putian City (莆田市人民政府).

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Prior to 2009, a majority of the Group's revenue had been generated from the sale of commodity hogs. With a view to further developing the downstream market and transforming into a vertically integrated pork supplier, the Group established its own slaughterhouse, with a maximum annual slaughtering capacity of approximately 2,000,000 hogs, which was put into operation in August 2009. With the newly added slaughtering facility, the Group has successfully formed a vertically integrated operational platform comprising hog farming, hog slaughtering and production and sale of pork. Since then, the Group has shifted its principal business focus from the sale of commodity hogs to the wholesale of pork, mainly whole hog carcasses and internal organs, as well as retail of pork marketed under the Group's own brand.

As a result of the change in the Group's business focus, the Group recorded revenue of approximately RMB157.4 million and gross profit of approximately RMB46.6 million for the year ended 31 December 2009, which represented a significant increase of approximately 203.5% and 118.1% respectively compared to those for the year ended 31 December 2008. However, as credit terms offered to the Group's wholesale customers, which were mainly pork product traders, were generally 30 to 90 days whereas customers of commodity hogs settled their purchases upon delivery, trade receivables and trade receivables turnover days of the Group for the year ended 31 December 2009 also increased from 11 days for the year ended 31 December 2008 to 35 days for the year ended 31 December 2009. Moreover, such change in the Group's business focus also changed the cost structure of the Group. The wholesale of pork accounted for 73.5% of the Group's total revenue in the year ended 31 December 2009 and resulted in a decrease in the Group's overall gross profit margin from 41.2% for the year ended 31 December 2008 to 29.6% for the year ended 31 December 2009. While the Group's cost of sales of RMB30.5 million for the year ended 31 December 2008 primarily comprised operating expenses of the Group's hog farm, the Group's cost of sales of RMB110.8 million for the year ended 31 December 2009 also included operating expenses, such as depreciation of equipment and machineries and staff costs, incurred in the Group's operation of the slaughterhouse. The Group's cost of sales for the year ended 31 December 2009, as a result, increased by RMB80.3 million or 263.4% as compared to that for the year ended 31 December 2008. Furthermore, as the Group financed the construction of the slaughterhouse by using short-term borrowing and working capital, the Group recorded net current liabilities of approximately RMB22.9 million and RMB38.5 million as at 31 December 2008 and 2009 respectively. In anticipation of the increase in demand of the Group's products, the Group has also expanded its sales network by developing more Points of Sales in the Fujian Province. This initiative not only significantly increased the Group's sales, but also enhanced the market recognition of the Group.

The Group has implemented stringent measures for its hog farming and pork production process to ensure the safety and quality of its products and to comply with the applicable environmental regulations. The Group also employed an environmentally friendly waste management system which recycles hog wastes as fertiliser.

The Group's products had been accredited, *inter alia*, "Harmless Products to the Public (無公害農產品)" by the Ministry of Agriculture of Fujian Province in February 2008 and March 2011. The Group's brands " and "普甜" were recognised as the "Fujian Province's Famous Brand Product (福建名牌產品)" by the People's Government of Fujian Province in December 2008 and " as the "Fujian Province Famous Trademark (福建省著名商標)" by the Committee of Recognition of Famous

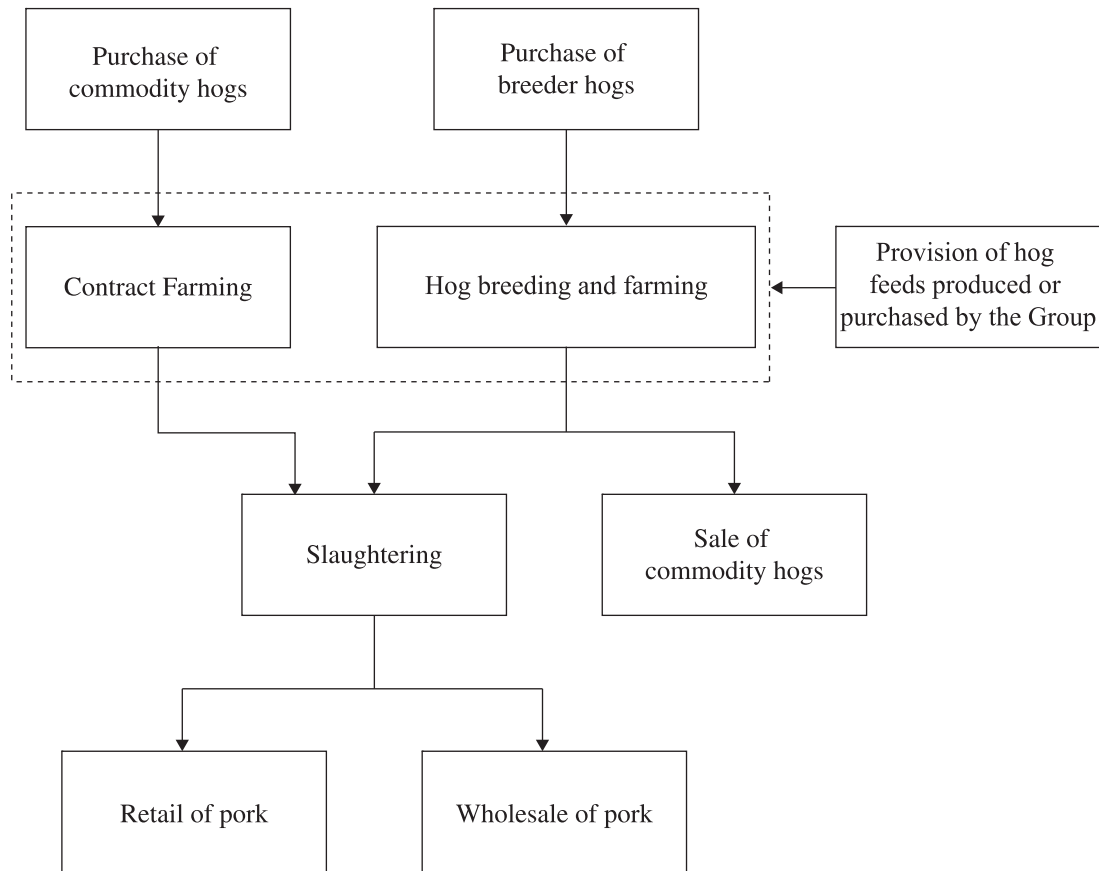
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Trademark of Fujian Province (福建省著名商標認定委員會) in November 2010. Please refer to the section headed “Business — Awards and certificates” in this prospectus for the list of awards and certificates received by the Group.

The following chart briefly illustrates the Group’s current vertically integrated business model:



Under the Group’s vertically integrated business model, the Group is able to ensure quality and safety of its products and help to diversify the risk in connection with the fluctuation of the prices of hogs and/or pork. During the Track Record Period, the Group purchased breeder hogs from two suppliers, who are Independent Third Parties. Piglets farrowed by these breeder hogs are then farmed in the Group’s hog farm. Since April 2009, the Group has been purchasing commodity hogs from Independent Third Parties and engaging Contract Farmers to provide hog farming services to the Group. Feeds provided to hogs are either produced by the Group or procured from feed manufacturers, which some of them were produced in accordance with the Group’s formula. Hogs have either been (i) sold to hog traders or (ii) slaughtered in the Group’s slaughterhouse since August 2009 (slaughtering of the Group’s hogs were outsourced to a third party slaughterhouse in Putian City prior to the commencement in the operation of the Group’s slaughterhouse in August 2009, and third party slaughterhouses in Quanzhou City (from around December 2010 to around August 2011) and Fuzhou City for the supply to the Group’s concession counters at contract supermarkets there) when they reach the stage of finishers. After the hogs are slaughtered, whole hog carcasses together with heads, intestines and certain internal organs are sold through wholesale and various cuts of pork and certain internal organs are sold through

retail under the Group's brand. As at the Latest Practicable Date, the Group had 17 direct sales outlets in Putian City and Fuzhou City and 51 supermarket counters distributed throughout Putian City, Quanzhou City, Zhangzhou City and Fuzhou City of the Fujian Province.

### **COMPETITIVE STRENGTHS**

#### **The only “2-Star” slaughterhouse recognised and approved by the government in the district**

According to the policy implemented by the local governments of Chengxiang District and Putian City which took effect in December 2009, only pork produced by slaughterhouse with at least a “2-Star” recognition can be circulated and distributed within the urban area of Licheng District and Chengxiang District, whereas there are no similar restriction specified concerning other districts, county or area in Putian City.

As at the Latest Practicable Date, the Group's slaughterhouse was the only slaughterhouse with a “star-rating” recognition approved and designated by the government of Putian City in the four districts (i.e. Chengxiang District (城廂區), Licheng District (荔城區), Xiuyu District (秀嶼區) and North Meizhouwan Bay Economic Development District (湄洲灣北岸經濟開發區)) of Putian City and was the only “2-Star” slaughterhouse within the area of Putian City awarded by the Economy and Trading Committee of Fujian Province (福建省經濟貿易委員會).

During the Track Record Period, the Group had enjoyed a significant growth from the sale of whole hog carcasses and pork, driven largely by the commencement of operation of the Group's slaughterhouse in August 2009 which has a maximum annual slaughtering capacity of approximately 2,000,000 hogs. Although the Group's slaughterhouse during the Track Record Period was far from being fully utilised due to the limitation of the Group's hog farming capacity, the Directors are of the view that the increase in the scale of the hog farming model could continue to expand the Group's business.

#### **Vertically integrated business model helps to ensure product quality and promote the Group's reputation**

The Group operates a vertically integrated business model comprising hog farming, hog slaughtering and sales and distribution of pork. The Group's operation of production facilities, including a hog farm and a hog slaughterhouse, has been approved by the local government of Putian City. The Group has also established its own wholesale and direct sales distribution networks. As at the Latest Practicable Date, the Group had 17 direct sales outlets and 51 supermarket counters for the retail of its products.

Adoption of such vertically integrated business model enhances the Group's product range and therefore the flexibility and profitability in selling its products under different market conditions. It also helps to minimise the Group's reliance on third parties suppliers and its exposure to the fluctuation of various production costs (including fluctuation in costs of hog feeds and the prices of hogs). Further, the Group could also closely monitor every process of hog farming and production of pork in order to ensure the quality of the pork, which helps strengthen and promote the Group's reputation and to distinguish the Group from other competitors.

**The Group's owned brand "Putian (普甜)" is a well-recognised brand name**

The Group has developed its sales network for pork marketed under its owned brand "Putian (普甜)", with "P" and "普甜" recognised by the People's Government of Fujian Province as "Fujian Province's Famous Brand Product (福建名牌產品)" in December 2008 and "P" as the "Fujian Province Famous Trademark (福建省著名商標)" by the Committee of Recognition of Famous Trademark of Fujian Province in November 2010.

Apart from the aforesaid, the Group is one of the leading pork suppliers in Putian City, Fujian Province, contributed to approximately 21.7% of the aggregate output of hogs in Putian City, Fujian Province in 2010. The Group received numerous awards from each of Fujian Province government and Putian City government, including but not limited to "Leading Enterprise of Fujian Province's Agricultural Husbandry Industrialisation (福建省農牧業產業化龍頭企業)", "Certificate of Harmless Agricultural Product to the Public, Fujian Province (福建省無公害農產品證書)" and "Leading Enterprise of Fujian Province (省級重點龍頭企業)".

The Directors are of the view that the Group's leading position and the well-recognised brand name would help the Group to maintain customers' loyalty and thus further help to increase the Group's market share.

**The Group has in place stringent control measures on hygiene and product quality**

The Group has in place stringent internal control measures for its production process to ensure the quality of the Group's products complies with the PRC laws and regulations.

The Group has in place internal control measures for selection of suppliers to ensure the suppliers of the breeder hogs, commodity hogs and raw materials have the necessary licences and permits required under the PRC laws and regulations for the operation of their business. In the Group's hog farm, the Group has implemented measures of epidemic prevention in curtain-barns. There are also emergency measures in place in case of outbreaks of animal diseases. As at the Latest Practicable Date, the Group had a veterinary team consisting of seven specialists, and a hygiene and quality control team consisting of seven personnel to carry out the Group's hygiene and quality control measures. The Group has also adopted various measures and carries out regular inspections by its specialists of veterinary team on the Contract Farms to ensure the quality of hogs farmed by the Contract Farms. During the Track Record Period, there had not been any outbreak of diseases in the hog farm of the Group and the Contract Farms. The Group also implements stringent control measures at its slaughterhouse in order to avoid contamination of pork and to maintain high level of hygiene standards.

As recognition of the Group's stringent quality control standards and internal management system, the Group was awarded ISO 9001:2008 and Good Agricultural Practice certifications by the Fujian Southeast Standard Certification Centre (福建省東南標準認證中心). The Group's products were accredited "Certificate of Origin of Harmless Product to the Public, Fujian Province (福建省無公害農產品產地認證證書)" by Ministry of Agriculture of Fujian Province (福建省農業廳).

The Directors are of the view that stringent product, hygiene and quality controls implemented by the Group would enable the Group to remain competitive as these measures together with the recognitions thereof would provide confidence to the customers in purchasing and consuming the products of the Group.

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### **Experienced management team**

The Group's senior management team, led by Mr. Cai Chenyang, has over 10 years of corporate managerial experience, which helped the Group to grow rapidly during the Track Record Period. Mr. Cai Chenyang, the chairman, chief executive officer and an executive Director of the Company, has served the Group since its commencement of business and has been responsible for formulating the overall business strategy for the Group and identifying business opportunities and overseeing capital financing of the Group. Ms. Cai Shengyin, an executive Director and the chief financial officer of the Group, has over 5 years of experience in accounting and finance. Mr. Yang Zhihai, chief of the production department, possesses over 10 years of experience in food industry and hog farming. Mr. Chen Jinliang, the deputy general manager of the Group, has over six years of managerial experience. The senior management team's in-depth knowledge of the industry and experience provide the Group with competitive advantage to the ever-changing market.

### **BUSINESS STRATEGIES**

#### **Expand hog farming capacity for better utilising the Group's existing production facilities**

Since the Group's slaughterhouse commenced its operation in 2009, the utilisation rate of it had been stood at 15% or below. To better utilise the Group's slaughterhouse and in anticipation of the growing demand for the Group's products, the Group has planned to, based on the standards of the existing hog breeding and farming facilities, construct six additional hog farms in Putian City which include one for farming breeder hogs, three for farming commodity hogs (grow up to 60-day old) and two for farming commodity hogs (grow up to 180-day old) in order to increase the supply of hogs. Prior to the completion of the Group's expansion plan, in particular, the construction of additional hog farms, the Group intends to continue to engage Contract Farmers to increase supply of hogs and hence production volume of the pork to satisfy the market demand.

The Directors believe that the Group's expansion of its capacity of hogs farming will further strengthen its vertically integrated business model and better utilise the production capacity of the Group's slaughterhouse.

#### **Upgrade production facilities to expand product range**

The Group's slaughterhouse is recognised by the local government as a "2-Star" slaughterhouse, in which the Group's products are allowed to be distributed within Putian City. Currently, the Group is engaging in the business of fresh pork production and sale. Under the favourable policy and direction of the Outline in Respect of the Development of the National Hog Slaughtering Industry (2010–2015) of the PRC (全國生豬屠宰行業發展規劃綱要 (2010–2015年)), production of chilled pork and the expansion of production facilities for chilled pork which can be preserved for a longer period and distributed in farther areas are encouraged and supported. Therefore, the Group plans to install additional necessary equipment (including certain freezing facilities for production of chilled pork) and implement all necessary quarantine and control systems in order to apply for a recognition upgrade of the Group's slaughterhouse. The upgrade of the Group's slaughterhouse enables the production of chilled pork and expands the range of products offered by the Group. The Directors believe that the expansion of the range of pork offered by the Group will increase the revenue of the Group and reduce the risk of the Group's business by diversification.



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### **Expand the Group's sale and distribution network and strengthen brand recognition**

The Group plans to further expand its sale and distribution network in order to deepen its market penetration. The Group plans to expand its retail network to up to 80 Points of Sales by 2012 in order to increase its market share in the Fujian Province. The Group also plans to further expand its wholesale network to more cities and sell its products directly to end customers such as restaurants, factories, fast food chains and hotels. In longer term, the Group intends to expand its sale network to higher spending areas in the PRC such as Yangtze River Delta (長三角) and Pearl River Delta area (珠三角) by providing consumers there with high quality and safe pork. Through the establishment of more Points of Sales and the expansion of the Group's distribution network, the Group also intends to further strengthen the Group's brand to build a stronger foundation for its business operation. The Group will continue to promote its own brand which the Directors regard as the Group's corporate image and one of the Group's most valuable assets. The Directors believe that brand image and its recognition are the key factors for the consumers in making their purchase decision. The Group will thus continue to enhance brand image as a symbol for high quality and safe products.

### **PRODUCTION**

#### **Production facilities**

The Group's hog farm is situated on a parcel of land with an aggregate area of approximately 128,700 square meters at Putian City in the Fujian Province. It has 46 curtain-barns, among which two curtain-barns are for farming breeder hogs, one curtain-barn is for artificial insemination and impregnation, five curtain-barns with gestation crates are for the pregnant sows, seven curtain-barns are for farrowing, two curtain-barns are for nursing of weaners, 23 curtain-barns are for farming commodity hogs, one curtain-barn is for production of hog feeds and five curtain-barns are for production of fertilisers, all of which were built according to the Group's environmentally friendly standards as recognised by the Department of Science and Technology of Fujian Province. The Group has obtained a confirmation letter issued by Putian City Chengxiang District Environmental Bureau (莆田市城廂區環境保護局) which, as advised by the PRC Legal Advisers, has the authority and is competent to issue such confirmation, has confirmed that the Group's hog farm complies with the relevant PRC laws and regulations in respect of environmental protection and the geographical requirements under the Delimit Plan. The Group has also obtained the Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證) for its hog farm.

The ancillary production facilities in the Group's hog farm include a veterinary room, an animal clinic, a storage room for medicine and vaccines and a sterilised room. The Group also has hog feed production facilities in its farm, where corn, soya meal, wheat bran and a small amount of feed premixes (consists of minerals and supplements) are mixed into hog feeds for the sole use of the Group's farm or its Contract Farmers. The current estimated output capacity of the Group's hog farm is approximately 36,300 hogs per annum<sup>(Note (1))</sup> based on the capacity of farming 1,500 sows<sup>(Note (2))</sup> during each year of the Track Record Period. For the years ended 31 December 2008, 2009 and 2010 and the nine months

*Notes:*

- (1) Assuming that each sow is pregnant, on average, 2.2 times annually and delivers 11 piglets on each pregnancy (without taking mortality into consideration).
- (2) The actual quantities of sows in the Group's hog farm fluctuated from around 1,200 sows to 1,500 sows during the Track Record Period whereas the maximum farming capacity amounted to around 1,500 sows.

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ended 30 September 2011, the output of the Group's hog farm were 28,149, 40,656, 25,138 and 18,393 hogs respectively, and the utilisation rate of the Group's hog farm was approximately 77.5%, 112.0%, 69.3% and 67.6% respectively for the same period<sup>(Note (3))</sup>. The number of hogs farmed exceeded the capacity of the hog farm for the year ended 31 December 2009 as there was a replacement of sows which were of productivity no longer up to the required standard in 2009 and the Company thus purchased approximately 5,300 piglets from independent suppliers to secure the supply of hogs which was counted as the output of the Group's hog farm and apparently increased the output of the hogs thus the utilisation rate. The utilisation rate of the Group's hog farm decreased in 2010 as the Group transferred around 8,500 piglets to the Contract Farmers.

The Group's slaughterhouse, which is also located at Putian City in the Fujian Province, was built and designed according to the Regulations on the Design of Hog Slaughterhouse and Separated Working Areas (《豬屠宰與分割車間設計規範》(GB50317-2000)標準), and the Requirement and Classification of Hog Slaughtering Enterprise (生豬屠宰企業資質等級要求[SB/T10396-2005]) issued by the Ministry of Commerce. The current maximum slaughtering capacity of the Group's slaughterhouse is approximately 2,000,000 hogs per annum<sup>(Note (4))</sup>. As at the Latest Practicable Date, the Group's slaughterhouse was the only slaughterhouse recognised as a "2-Star" slaughterhouse in Putian City pursuant to the Requirement and Classification of Hog Slaughtering Enterprise. Since the commencement of operation of the Group's slaughterhouse in August 2009, approximately 94,900, 277,500 and 176,400 hogs were slaughtered in the Group's slaughterhouse for the years ended 31 December 2009 and 2010 and nine months ended 30 September 2011 respectively, representing utilisation rates of 4.7%, 13.9% and 11.8% in the respective period. The utilisation rates of the Group's slaughterhouse during the Track Record Period were limited by the output capacity of the Group's farm and the Contract Farms and the decrease in the utilisation rate of the Group's hog farm in 2011 was caused by the decrease in supply of commodity hogs in Putian City due to the ceasion of operation of hog farms affected by the implementation of the Delimit Plan. To increase the utilisation rate, the Group is planning to construct six hog farms with an additional output capacity of approximately 9,400 breeder hogs and approximately 374,500 commodity hogs per year by 2014. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for further details regarding the plan of establishing the said six new hog farms. Although the Group is not prohibited under relevant laws and regulations of the PRC, as advised by the PRC Legal Advisers, from providing slaughtering services to third parties, due to the concerns of the high risk of cross infection among the hogs if they are from different sources, which may adversely affect the quality of the pork produced in the Group's slaughterhouse and taint the Group's reputation, and the fact that provision of slaughtering services is not a business model pursued by the Group, the Group has not provided slaughtering services to third parties through its slaughterhouse, and has no intention to offer such service in the near future.

The Group also plans to upgrade its existing facilities in the Group's slaughterhouse in order to broaden its product range. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for details of the Group's plan on upgrading its slaughterhouse.

*Notes:*

- (3) Utilisation rate is calculated by dividing actual output volume of the Group's hog farm by estimated output capacity.
- (4) The slaughtering capacity is calculated based on the assumption that the slaughterhouse operating at the designed slaughtering capacity of 300 hogs per hour, 360 working days per year and 20 operating hours per day in three shifts.



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### Production process

The following table summarises the usual life span of hogs farmed by the Group:

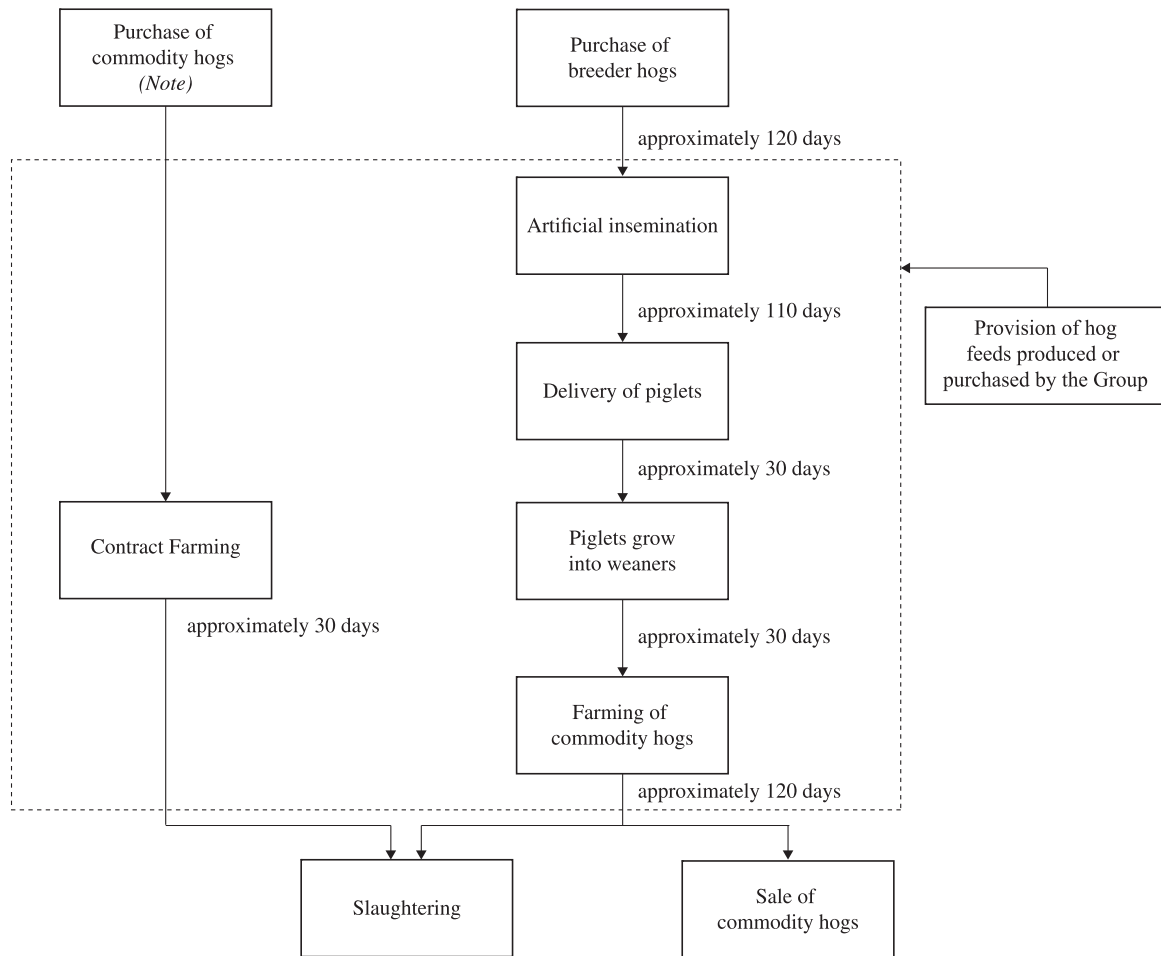
<b>Life span of the hog</b>	<b>Age of hog</b>	<b>Respective curtain-barn in the hog farm</b>	<b>Treatment to the hogs at the end of the stage</b>
1. Piglets	From delivery to around 30-day old	Curtain-barn for farrowing (with mother hogs for nursing purpose)	Transfer to curtain-barn for nursing weaners
2. Weaners	Around 30 to 60-day old	Curtain-barn for nursing weaners	Transfer to curtain-barn for farming commodity hogs
3. Commodity hogs	Around 60 to 180-day old	Curtain-barn for hog farming	Either (i) transfer to area for hogs to be slaughtered and subsequently deliver to the Group's slaughterhouse for slaughtering; or (ii) sold to commodity hog traders

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The Group's production processes are illustrated as follows:



*Note:* Prior to August 2010 the Group purchased commodity hogs of around 60-day old for Contract Farming. Due to the significant decrease in the number of eligible Contract Farmers, since August 2010, the Group has been purchasing commodity hogs of around 150-day old for Contract Farming to shorten its production cycle so as to maintain stable and sufficient hog output capacity.

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The Group farms its hogs either through its own hog farm or Contract Farms. A breakdown of hogs output from the Group's farm and Contract Farms during the Track Record Period are summarised as follow:

	For the year ended 31 December						For the nine months ended 30 September			
	2008		2009		2010		2010		2011	
	head	% of total	head	% of total	head	% of total	head	% of total	head	% of total
Output of hogs from:										
— the Group's hog farm	28,149	100.0%	40,656	35.9%	25,138	9.0%	13,863	6.2%	18,393	9.9%
— Contract Farms	—	—	72,630	64.1%	254,689	91.0%	209,411	93.8%	166,727	90.1%
Total output of hogs	<u>28,149</u>	<u>100.0%</u>	<u>113,286</u>	<u>100.0%</u>	<u>279,827</u>	<u>100.0%</u>	<u>223,274</u>	<u>100.0%</u>	<u>185,120</u>	<u>100.0%</u>

### Farming of hogs at the Group's hog farm

#### *Procurement of Breeder hogs*

During the Track Record Period, the Group purchased breeder hogs (boars and gilts) from two independent suppliers. Total purchase costs of breeder hogs amounted to approximately RMB2.2 million, RMB0.5 million, RMB0.2 million and RMB0.3 million respectively for the three years ended 31 December 2010 and the nine months ended 30 September 2011, representing approximately 8.1%, 0.2%, 0.1% and 0.1% of the Group's total purchases during the same period respectively.

As boars and sows usually have a useful life span of approximately 24 months and 36 months respectively, purchase of breeder hogs by the Group does not take place every year. According to the Group's policy, sows will usually be replaced if (i) they do not have apparent sexual desire for more than 42 to 60 days; (ii) they experienced miscarriage for three times or more; (iii) they deliver less than 7 piglets for three times or more; (iv) they have had delivery for more than 7 times and only delivered less than 8 piglets at the last delivery; (v) during the nursing process, the death rate of piglets or weaners which feed on the sows' milk is more than 40%; and (vi) their offsprings have genetic problem. For boars, usually those boars utilised for more than 36 months and experience decline in the quality of its semen will be replaced. The Group's veterinary team is responsible for examining the breeder hogs for deciding whether to replace the same. In the event that more than 30 breeder hogs are to be replaced, approval from the deputy general manager is required.

The Group enters into supply contracts with breeder hogs suppliers, and the major terms of the supply contract between the Group and a breeder hogs supplier are as follows:

- the specified species of breeder hog to be purchased/supplied and their respective prices;
- the supplier guarantees that the breeder hogs supplied shall be suitable for breeding; boars supplied shall weigh over 100 kg and the Group can examine the boars' semen at the supplier's site, while the gilts supplied shall weigh between 40 kg and 50 kg;
- the Group is required to arrange payment of deposit, which is equivalent to 30% of the total contract price to the supplier within 3 days from the date of the supply contract;

- the remaining balance of the price shall be paid by the Group within a specified time, i.e. within around 2.5 months from the date of the supply contract but in any event no later than the date of the Group's collection of breeder hogs ordered, otherwise the supplier is entitled to forfeit the deposit;
- the quantity of breeder hogs to be ordered and the time upon which to be collected by the Group;
- the Group is responsible for the transportation costs for the breeder hogs purchased; and
- the supplier shall, upon the signing of the supply contract, mark and reserve the breeder hogs chosen by the Group.

### *Artificial insemination and delivery of piglets*

Breeder hogs supplied to the Group are normally approximately 110-day old, and they will be farmed in the Group's hog farm for another 120 days to reach sexual maturity. The minimum ratio between the number of boars and gilts/sows is around 1 to 80. Boars and gilts/sows are normally kept for breeding purpose for approximately 24 months and 36 months respectively. When the reproductive ability of breeder hogs declines to an unacceptable level according to the Group's internal policy on replacement of sows and farming of such breeder hogs by the Group will no longer be cost-effective, such breeder hogs will be sold by the Group.

Artificial insemination is used for impregnation of gilts or sows, and gilts or sows will be observed for approximately 21 days in separate barns thereafter. Pregnant gilts or sows will then be transferred and farmed at curtain-barns with gestation crates and provided with customised feeds for approximately 90 days and will subsequently be transferred to curtain-barns for farrowing.

### *Nursing of weaners and farming of commodity hogs*

Piglets are nursed with their mothers for approximately 30 days until piglets are weaned. When weaners are further farmed for approximately 30 days and have reached the weight of around 20 kg, they will be farmed at the curtain-barns for commodity hogs for approximately 120 days until they reach the stage of finishers. Finishers will finally proceed to curtain-barns for hogs to be slaughtered, prior to delivery to the slaughterhouse.

The Group has implemented stringent measures of epidemic prevention in its hog farm. There are also veterinarians stationed in the hog farm to ensure that timely and appropriate veterinary attention will be given to hogs when necessary. Curtain-barns are separate with each other barns to avoid spread of animal diseases or cross infection. Please refer to the paragraphs headed "Quality Assurance — Precautionary measures against outbreak of infectious diseases at the Group's hog farm" in this section for further details.

### **Farming of hogs by Contract Farmers**

Since April 2009, with a view to expanding the capacity of hog farming, the Group has adopted a new hog farming model by engaging Contract Farmers, who are Independent Third Parties, for providing hog farming services to the Group. As at 31 December 2009 and 2010 and 30 September 2011, the

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Group had 46, 12, and five Contract Farmers respectively, and save as disclosed herein, all of them did not have any past or present relationships with the Group, the Shareholders, the Directors, senior management of the Group and their respective associates.

During the years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011, the Group's outputs of hogs from its Contract Farmers were approximately 72,630, 254,689 and 166,727, representing approximately 64.1%, 91.0% and 90.1% of the Group's total outputs of hogs respectively during the same period.

Total fees paid to the Contract Farmers during the years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011 were approximately RMB5.4 million, RMB17.2 million and RMB5.1 million respectively, the total fees paid to the Contract Farmers increased significantly in the year ended 31 December 2010 due to the increase in the aggregate farming capacity of the Contract Farms.

During the years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011, the Group engaged 46, nil and three additional Contract Farmers in respect of farming services with the Group respectively whereas the Group terminated the engagement with nil, 34 and 10 Contract Farmers during the respective period. As at the Latest Practicable Date, the Group had five Contract Farmers and aggregate annual farming capacity of those Contract Farmers was approximately 287,000 hogs.

The termination of service contracts with Contract Farmers mentioned above was mainly due to the promulgation of the Delimit Plan by the Putian City government in April 2010 which restricts the operation of local hog farms, including those engaged by the Group to certain geographical locations. Save for those Contract Farmers who failed to comply with the Delimit Plan, the Group did not terminate the farming contract with any of its Contract Farmers due to their non-compliance or breaches of contract during the Track Record Period. Given the above, the Group has been engaging Contract Farmers operating Contract Farms of larger scale and started to purchase commodity hog of around 150-day old (compared to around 60-day old prior to August 2010) to shorten its farming cycle in order to maintain stable supply of hogs for the Group's pork production.

According to the farming contracts entered into between the Group and the Contract Farmers, the Group will provide hogs, hog feeds, medication and vaccinations and technical assistance to the Contract Farmers. In return, the Contract Farmers will provide the necessary farming services for the farming of the Group's hogs. The number of hogs contracted to each of the Contract Farmers depends on their capacities and farming facilities.

All Contract Farmers have signed standard contracts with a term of 1 to 1.5 years. The major clauses of the contracts are as follows:

- healthy hogs weighing about 80 kg will be provided by the Group to the Contract Farmer from time to time during the term of the contract;
- the Group will provide the Contract Farmer with hog feeds, medication and vaccinations;
- the Contract Farmer will be responsible for providing necessary farming facilities and labour that are acceptable to the Group;

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- the Contract Farmer will implement a system of epidemic prevention as instructed by the Group and can only use the hog feeds, medication and vaccinations provided by the Group;
- the Contract Farmer will provide exclusive hog farming services to the Group;
- the Group will pay the Contract Farmer a predetermined fix service fee per hog for provision of hog farming services for a specified period as stipulated in the contract, such period is usually around 30 days;
- in addition to the agreed service fee payable to the Contract Farmer, the Group will be responsible for the transportation expenses of the hogs, which was determined with reference to the distance of transportation involved;
- the Group and the Contract Farmer will calculate the fee payable to the Contract Farmer every month, and such fee shall be paid by the Group to the Contract Farmer after 15 days from the date of conclusion of the amount; and
- in the event that the death rate of hogs farmed by the Contract Farmer exceeds the prescribed rate ranging from 2% to 2.5%, the Contract Farmer will be responsible for the loss of hogs exceeding such prescribed rate.

As advised by the PRC Legal Advisers, all contracts entered into between the Group and the Contract Farmers and the Contract Farming arrangements are legal, valid and enforceable.

Before entering into any farming contracts, the Group's staff will carry out inspection at the intended Contract Farms to ensure that the conditions and facilities of the intended Contract Farms satisfy the Group's requirements.

For each Contract Farm, the Group designates at least one specialist from the Group's veterinary team to closely monitor its operation by regular visits and inspections (i.e. at least once a week) on the Contract Farms. In addition, the Group also requires the Contract Farmers to follow the Group's specific emergency plans in case of an outbreak or possible outbreak of disease among the hogs farmed. The Group will evaluate the extent of compliance with the Group's requirements by the Contract Farmers in order to confirm that the hogs are suitable for slaughtering. Please refer to the paragraphs headed "Quality Assurance — Selection of Contract Farmers and supervision on Contract Farming" in this section for details of the Group's measures to supervise its Contract Farmers.

The death rates of hogs farmed by these Contract Farmers during the Track Record Period were well below the prescribed rate under the contract.



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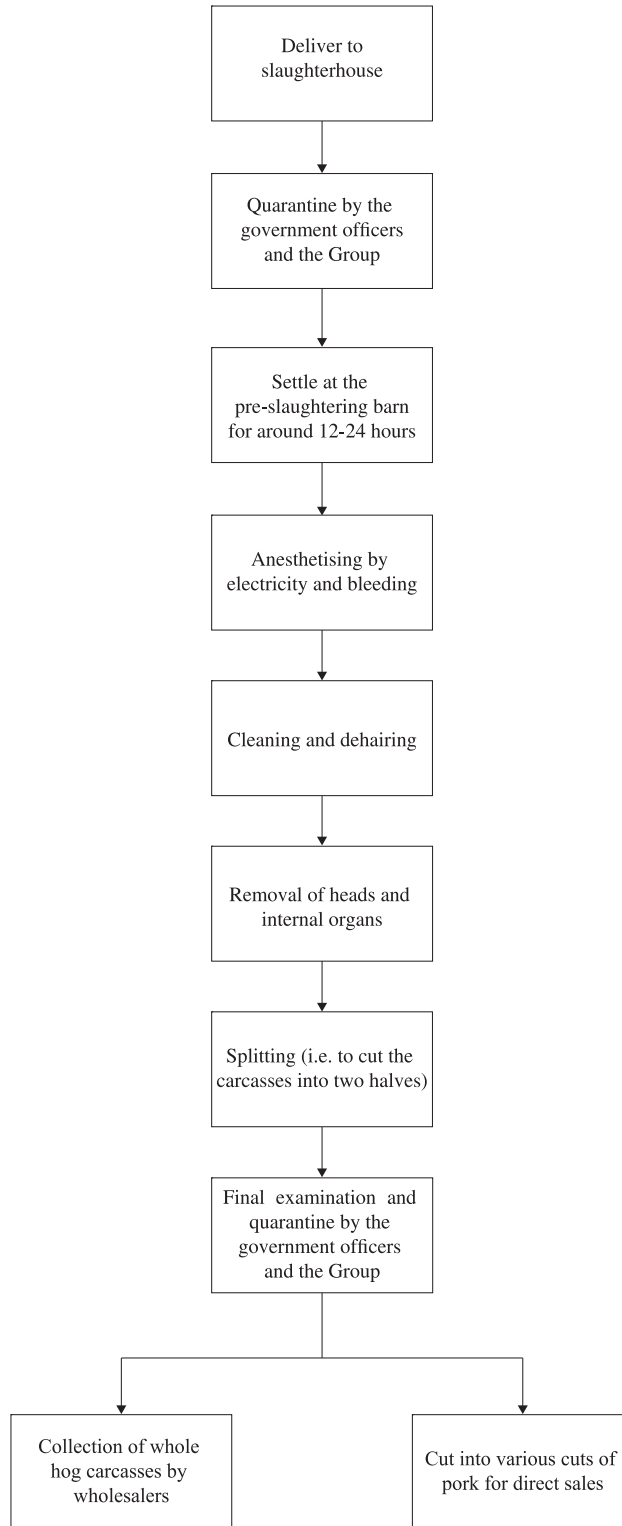
### *Required permits and licences under the relevant PRC laws and regulations for Contract Farmers*

As advised by the PRC Legal Advisers, the Contract Farms are required to obtain an Animal Quarantine Qualification Certificate (動物防疫條件合格證) pursuant to the Law of Animal Epidemic Prevention of the PRC (中華人民共和國動物防疫法) for the operation of hog farm. Further, according to the Delimit Plan, the relevant Contract Farm shall be located in areas as allowed or permitted by the Delimit Plan and shall comply with the relevant regulations as required by the local authorities. As at the Latest Practicable Date, the Group engaged five Contract Farmers and all of them had obtained the Animal Quarantine Qualification Certificate (動物防疫條件合格證). However, out of these five Contract Farmers, three of them were at one time operating without an Animal Quarantine Qualification Certificate (動物防疫條件合格證) during their terms of contract with the Group. As advised by the PRC Legal Advisers, there will not be any legal liability for the Group in this regard. Pursuant to a confirmation letter issued by Putian City Agricultural Bureau (莆田市農業局) on 30 December 2011, the aforesaid Contract Farms currently engaged by the Group satisfy the Law of Animal Epidemic Prevention of the PRC (中華人民共和國動物防疫法), the Delimit Plan and the relevant regulations as required by the local authorities since their engagement. As advised by the PRC Legal Advisers, Putian City Agricultural Bureau (莆田市農業局) has the authority and is competent to issue such confirmation.

To diversify the risk of reliance on a few number of the Contract Farmers, the Group is in the course of locating new and suitable contract farmers who have obtained all necessary licences and permits for the operation and provision of hog farming services. The Group has entered into letters of intent with two potential contract farmers, pursuant to which these potential contract farmers have the intention to provide hog farming services to the Group under similar contract terms offered to existing Contract Farmers. Further, the Group's management has obtained a list of more than 40 recognised hog farms from Putian Animal Husbandry and Veterinary Office (莆田市畜牧獸醫站), which would be able to provide farming services to the Group. Moreover, the Group intends to construct additional hog farming facilities in the future. The annual farming capacity of the Group's hog farms is expected to reach about 9,400 breeder hogs and 374,500 commodity hogs by 2014. Therefore, the Directors are of the view that the Group's reliance on Contract Farming could be gradually reduced. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for further information of the plan of establishment of the said six new hog farms.

**Hog Slaughtering**

The Group's slaughtering process is illustrated in the flow chart below:



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At approximately 180-day old, the hogs farmed by the Contract Farmers or at the Group's hog farm will reach the stage of finisher and will be transferred to the Group's slaughterhouse. On arrival at the Group's slaughterhouse, quarantine of hogs against remains of clenbuterol (瘦肉精) will be conducted randomly by the officer of Animal Quarantine Station of Chengxiang District, Agricultural Bureau of Putian City (莆田市農業局城廂區動物檢疫站) of the Chengxiang District government (the "Government Officer"). Prior to slaughtering, hogs will be separated for around 12 to 24 hours at the pre-slaughtering barns and the Group will conduct another test against clenbuterol (瘦肉精). Upon the completion of the quarantine, the hogs to be slaughtered will be cleansed and will be anesthetised for the act of slaughtering. During the slaughtering processes, the hog's head, intestines, and other internal organs will be removed, and the hogs' carcasses will be cut into two halves (i.e. two whole hogs carcasses).

After the hogs are slaughtered, the Government Officer and the Group will carry out final examination on the whole hog carcasses of the slaughtered hogs. Finally, whole hog carcasses, heads, intestines and internal organs will either be collected by pork product traders or sold at retail. The net weight of hog carcasses together with the internal organs usually account for approximately 75% of the weight of the hog slaughtered. During the slaughtering process, the Group also implements several measures in order to avoid contamination of pork and meet the official hygiene standards. Please refer to the paragraphs headed "Quality Assurance — Preventive measures against clenbuterol and other contaminant in pork before and after slaughtering process" in this section for further details.

### PRODUCTS AND SALES

#### Main products

During the Track Record Period, principal products of the Group were commodity hogs and pork, including whole hog carcasses and various cuts of pork, as well as different side products of hogs such as heads, intestines and other internal organs. Prior to 2009, a majority of the Group's revenue had been generated from the sale of commodity hogs. The commencement of operation of the Group's slaughterhouse in August 2009 enabled the Group to diversify its business into production of pork and to commence the wholesale of whole hog carcasses. The shift of business operation focus to the wholesale and retail of pork significantly increased the Group's revenue and strengthened the Group's distribution network. The revenue derived from sale of commodity hogs decreased significantly and revenue derived from the wholesale of pork has accounted for the largest proportion of the Group's revenue since the year ended 31 December 2009.

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The following table sets out the breakdown of the Group's revenue by product category and sales segment during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
<b>Revenue</b>										
Commodity hogs	42,436	81.8	27,462	17.4	3,024	0.7	3,024	0.9	—	—
Pork										
— retail	9,439	18.2	14,263	9.1	76,058	17.1	40,505	11.8	149,257	41.8
— wholesale	—	—	115,718	73.5	365,285	82.2	300,209	87.3	207,689	58.2
<b>Total</b>	<b>51,875</b>	<b>100.0</b>	<b>157,443</b>	<b>100.0</b>	<b>444,367</b>	<b>100.0</b>	<b>343,738</b>	<b>100.0</b>	<b>356,946</b>	<b>100.0</b>

In addition to the above principal products, the Group also produces and sells certain by-products which are produced along the pork production process, including (i) hog droppings and organic fertilisers produced in the Group's hog farm (please refer to the paragraph headed "Environmental Protection" in this section for details of such fertilisers); and (ii) culled breeder hogs in general reached an age that become no longer cost-effective for breeding purpose. During the Track Record Period, the revenue generated from these by-products was immaterial.

The Group has obtained the Certificate of Origin of Harmless Products to the Public, Fujian Province (福建省無公害農產品產地認證證書) since February 2008. During the Track Record Period, the Group did not market or mark its products as "organic agricultural product (有機農產品)" or "green agricultural product (綠色農產品)".

### Wholesale of pork

Since the commencement of operation of the Group's slaughterhouse in August 2009, a majority of the Group's revenue has been derived from the wholesale of pork, which mainly includes whole hog carcasses, heads, intestines and internal organs of hogs. The Group's wholesale customers mainly include individual local pork product traders who, to the best knowledge and belief of the Directors, normally resell the Group's product to restaurants, hotels or shops at farmer's markets and the sales network of these individual pork product traders are mostly scattered in rural areas of Putian City. It is the Group's strategy to distribute its products through pork product traders to areas where the Group considered not efficient or economical for the Group to directly expand into. The Directors considered that this wholesale strategy not only allows the Group to seize the rural market more expediently but also strive to minimise potential market competitions between the distribution network of the pork product traders and the Group's Point of Sales which are generally located in urban areas. For the years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011, revenue generated from the wholesale of pork represented approximately 73.5%, 82.2% and 58.2% of the total revenue respectively. As at 31 December 2009, 2010, 30 September 2011 and the Latest Practicable Date, the Group had entered into contracts with nine, six and eight individual pork product traders, who are Independent Third Parties and save as disclosed herein, all of them did not have any past or present relationships with the Group, the Shareholders, the Directors, senior management of the Group and their respective associates, among which three of them have been conducting business with the Group since the commencement of operation of the Group's slaughterhouse. The number of the Group's wholesale customers, who are pork product traders, increased in 2010 compared to that of 2009 as the Group had

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only commenced its business of wholesale of pork in August 2009. The number of the Group's wholesale customers decreased in 2011 was mainly attributable to the decrease in wholesale volume due to the decrease in the supply of hogs to the Group as a result of the Delimit Plan and the Group's strategy to prioritise the supply of pork to the Group's retail sale which enjoys a higher profit margin.


As such pork product traders have their own sales networks, they often demand larger quantities of the Group's products than other retail consumers of the Group. The Group determines whether to extend the wholesale contracts by their size of business, market reputation as well as order size. The average prices of the wholesale of pork for the two years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011 were approximately RMB17.7 per kg, RMB18.1 per kg and RMB23.3 per kg respectively, representing a discount of approximately 4.3%, 13.4% and 8.3% to the Group's average prices of the retail pork respectively during the same period.

The Group usually enters into wholesale contracts with pork product traders for a term of around one year, the major terms of the wholesale contracts are as follows:

- prices for pork shall be determined with reference to the prevailing market wholesale prices of hog carcasses from time to time (save that the wholesale contract with the pork product traders purchasing side products, such as head and internal organs of hogs, only has stipulated a fixed price for the side products and subject to further adjustment and negotiation every three months);
- the pork product traders (save for those who only purchase side products) are prohibited from ordering or purchasing pork from other sources or suppliers during the term of the wholesale contract;
- the pork product traders shall keep the information regarding the Group's business and operation confidential;
- in event that the pork product traders cause damage to the Group arising from the breach of any term of the wholesale contract by them, the Group has the right to claim damages. If the damage is serious, the Group may unilaterally terminate the wholesale contract;
- the usual term of the wholesale contracts is one year; either party may terminate the wholesale contract by giving a 7-day prior written notice to the other party in the event that the change in applicable laws and regulations of the PRC renders the fulfillment of the contractual duties impossible; and
- the pork product traders purchase hog's side products only are required to pay the Group a deposit of RMB10,000 at the beginning of the term of the wholesale contract.

During the Track Record Period, the Group had not made any claim for damages against its contracted pork product traders.

**Retail sale of pork**

During the Track Record Period, the Group had been striving to expand its retail sales network by developing its network of direct sales outlets or concession counters at supermarket chains in the PRC. Currently, the Group retails its products, mainly various cuts of pork and internal organs, under its “” brand. The Group’s retail customers mainly include consumers of hogs at Point of Sales as well as canteens, restaurants, food processing factories and individual customers directly purchase in bulk. The average prices of the retail pork during the three years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 were approximately RMB22.3, RMB18.5, RMB20.9 and RMB25.4 per kg respectively. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the retail sales of pork represented approximately 18.2%, 9.1%, 17.1% and 41.8% of the total revenue respectively. As the Group’s trademark and logo are displayed at the Point of Sales to emphasise pork being sold in store are produced by the Group, except for the sale at one of the U.S. supermarket chains, the Directors considered that the establishment of such Point of Sales could strengthen the market awareness of the Group’s brand and enhance customer loyalty to the Group’s pork.

*Direct sales outlets*


The Group opened its first direct sales outlet in Putian City in July 2007 to market its product sold under its “Putian (普甜)” brand. As at 31 December 2008, 2009, 2010 and 30 September 2011 and the Latest Practicable Date, the Group operated 12, 19, 18, 14 and 17 direct sales outlets in Putian City and Fuzhou City respectively. As at the Latest Practicable Date, 15 of them were in Putian and two of them were in Fuzhou City. The Group operates these direct sales outlets on leased premises, which mostly situated at local market places for agricultural products. The Group would consider and estimate the visitor flow when identifying locations for its new direct sales outlet. All the direct sales outlets adopt the same policies, from decoration style and staff uniforms to management principles.

In late 2010, in order to explore other retail sales model for further developing the Group’s retail distribution, the Group entered into two cooperation agreements with Independent Third Parties whereby such Independent Third Parties were responsible for the operations of two respective shops in return for sales incentives calculated based on the shop’s performance. However, due to the Group’s concerns on the management of such kind of sales model such as internal control and the difficulty in monitoring unauthorised sale of non-Group’s pork in the direct sales outlets, in the absence of actual incident of the aforesaid or other breaches to the cooperation agreement, such cooperation agreements were terminated in July and September 2011 respectively and the two shops concerned were closed. The termination of the cooperation agreements is the Group’s precautionary approach to eliminate any potential risk of quality of pork sold under the Group’s brand. The Group currently has no intention to enter into similar cooperation agreements regarding its retail sales operation. In addition to the cessation of the abovementioned cooperation agreements, the Group also closed down a number of its direct sales outlets during the Track Record Period which was mainly due to the closure of the relevant market place where such direct sales outlets situated.

During the Track Record Period, sales derived from the Group’s direct sales outlets represented approximately 14.6%, 6.2%, 7.5%, and 8.0% of the Group’s total revenue respectively.



### *Concession counters at contract supermarkets*

In view of the changing shopping style of local households, in order to capitalise on the customer flows of supermarkets, the Group had begun operating concession counters in local and international supermarket chains for the retail sale of the Group's products since May 2009. Except for the concession counters at one of the U.S. supermarket chains, currently, pork sold through these concession counters are branded under “”. As at 31 December 2008, 2009, 2010 and 30 September 2011 and the Latest Practicable Date, the Group operated nil, five, 28, 47 and 51 concession counters at contract supermarkets. As at the Latest Practicable Date, 20 of them were in Putian City, eight in Fuzhou City, 18 in Quanzhou City and five in Zhongzhou City. During the Track Record Period, sales derived from these concession counters at contract supermarkets represented approximately nil, 0.5%, 2.6% and 14.6% of the Group's total revenue for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 respectively.

The Group's concession counters at contract supermarkets are operated by the Group's staff. As supermarkets usually have long business hours, each concession counter at supermarket usually requires around six to seven sales staff to work on shifts. With the expansion of the numbers of the Group's concession counters, there was a substantial increase in the number of sales staff of the Group during the Track Record Period. As at the Latest Practicable Date, there were 352 staff employed under the Group's sales and marketing department and a majority of them were employed at the Group's concession counters at supermarkets.

According to the contracts signed with the supermarkets, which are all Independent Third Parties, the Group is responsible for the maintenance of the concession counters, providing, *inter alia*, salespersons and uniforms, while the contract supermarkets are responsible for providing the fixtures such as fridges, counters and cashier services. The Group will be required to share a portion of its revenue derived from the concession counters at the contract supermarkets. The aggregate amount of revenue shared by the contract supermarkets were approximately RMB0.1 million, RMB0.7 million and RMB3.0 million for the years ended 31 December 2009 and 2010 and nine months ended 30 September 2011 respectively.

The contracts signed with the supermarkets are on non-exclusive basis. The usual major terms of the contracts are as follows:

- the Group is required to produce copies of all necessary licences for operating its business in the supermarket;
- the Group shall notify the supermarket as to the change in prices of pork sold in concession counter in the supermarket in writing and with the stamp of Fujian Tianyi affixed;
- the Group guarantees that the products sold at the concession counter in the supermarket are of acceptable and merchantable quality. The Group shall be fined for the breach of this term, and repeated breach may give rise to the termination of the contract by the supermarket;
- the supermarket is entitled to share a portion of revenue from the sale in the Group's pork in the relevant concession counter, ranging from approximately 5% to 7% of revenue before tax and under some contract with supermarkets the Group is required to share a portion of its

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revenue before tax ranging from 5% to 7% or to pay a fix fee whichever is higher to the supermarkets, and the calculation and settlement of the share of the supermarket shall be made on a half-monthly basis;

- further, regarding some of the concession counters, the Group will also share an additional portion of revenue of approximately 3% should the monthly sale at the relevant concession counter exceeds an agreed amount;
- in addition to the share of portion of the revenue generated at the concession counters of supermarket, for some contract supermarkets, the Group shall also be responsible for, among others, the advertising, marketing and promotion fee at a fixed amount per concession counter per month;
- the Group shall be liable to compensate the relevant supermarket and its customers for all the losses and damages caused by the defects or quality failure in respect of the Group's pork sold at the relevant concession counter of the relevant supermarket;
- the usual term of the contract is one year; and
- the contract shall be terminated by mutual consent or upon giving a written notice around 15-day to 30-day prior to the intended date of termination by either party as the case may be.

### Customers

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the Group's sales to the Group's five largest customers, who were Independent Third Parties, represented approximately 61.4%, 59.5%, 57.7%, and 55.4% of the Group's revenue respectively. Sales to the Group's largest customer represented approximately 20.7%, 21.0%, 14.8%, and 12.0% of the Group's revenue for the respective period. For the year ended 31 December 2008, all the Group's five largest customers were purchasers of commodity hogs whereas for the years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011, four out of the Group's five largest customers were individual pork product traders. As at the Latest Practicable Date, four of the Group's five largest customers had about two years of business relationship with the Group.

None of the Directors, their respective associates or Shareholders who own five per cent or more of the total issued Shares had any interest in the five largest customers of the Group during the Track Record Period.

### Pricing

The Group determines the prices of pork sold through wholesale and retail with reference to a number of factors, including prevailing market demand and supply, costs of production, market prices for similar products, etc., whereas the prices of the Group's by-products are determined according to the prevailing market conditions.

For more information of the average price of pork sold through wholesale and retail, see the section headed "Financial Information — Description of selected line items of the combined statements of comprehensive income — Revenue" in this prospectus.

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### Settlement methods

#### *Payment arrangement with customers*

During the Track Record Period, payments from the Group's customers were usually settled in the following manner:

- sales to the wholesale customers and contract supermarkets were settled monthly by way of telegraphic transfer; and
- direct sales by the Group's outlets were normally settled in cash which were deposited into the Group's designated bank account daily.

To confirm that the amount deposited by each direct sales outlet of the Group is accurate and to have a better control on the stock at each direct sales outlet, the following steps are implemented to check and control the cash transactions in the Group's direct sales outlets:

- the sales department of the Group retrieves delivery note from the electronic delivery system to record the quantities and prices of the pork being delivered to the direct sales outlets on daily basis;
- the finance department of the Group exports the sales quantities in accordance with the information in the electronic delivery system and compiles the details to prepare the daily sales analysis;
- the daily sales analysis includes information on cash receipts, sales quantities, unit prices, balance quantities of pork not sold and the monetary value;
- the information contains in the daily sales analysis is reconciled against the quantities delivered in the electronic delivery system to ascertain the differences in monetary value representing the outstanding cash receipts from each direct sales outlet; and
- all direct sales outlets are required to submit all of their respective cash receipts and the bank in slip directly to the Group's representatives from the sales or finance department.

During the Track Record Period, the Group's sales were all denominated in RMB and the Group did not have any hedging policy against foreign exchange risks.

### Credit policy

Apart from the direct sales which are settled in cash at the Points of Sales, the Group normally offers a credit period of not more than 90 days to pork product traders and contract supermarkets, taking into account, *inter alia*, their business reputation and payment record.

The Group will demand payment from the relevant pork product traders and contract supermarkets for overdue balances. When the Group considers that recovery is remote, the amount will be considered irrecoverable and be written off.

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For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the Group's trade receivables turnover days were approximately 11, 35, 30 and 39 days respectively. The Group has adopted a policy of making impairment for trade receivables, based on monthly review of the Group's trade receivables. During the Track Record Period, no provision for impairment of trade receivables was made.

### Sales returns

In order to ensure that all of the Group's products comply with the relevant PRC laws and regulations, the Group carries out stringent inspections and tests on each stage of the production. The Group generally does not offer any sales return or refund policy to its customers. If the Group receives a complaint from a customer in relation to defects of the Group's products, the Group will investigate the complaint and resolve it by the most appropriate solution. If the Group decides that such defect is the responsibility of the Group and a refund is the most appropriate solution, then the Group will refund to the customer the purchase price. During the Track Record Period, the Group did not receive any material complaint from its customers and did not make any refund.

### PURCHASES AND SUPPLIERS

During the Track Record Period, the Group made the following principal purchases for its operation:

- raw materials for hog feeds production including corn, soya meal, wheat bran and feed premix;
- breeder hogs (i.e. boars and gilts) for hog breeding in the Group's hog farm; and
- commodity hogs for further farming in Contract Farms.

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, purchase costs of raw materials for hog feeds (including corn, soya meal, wheat bran and feed premix) represented approximately 87.0%, 49.7%, 56.6%, and 19.8%, purchase costs of breeder hogs represented approximately 8.1%, 0.2%, 0.1%, and 0.1% and purchase costs of commodity hogs represented approximately 4.9%, 49.1%, 42.5%, and 79.5% of the Group's total costs of purchases for the said period respectively.

During the Track Record Period, the Group's five largest suppliers included suppliers for hogs (breeder hogs and commodity hogs) and raw materials for hog feeds (including corn, soya meal, wheat bran and feed premix). As at 30 September 2011, four out of the Group's five largest suppliers were individual suppliers of commodity hogs, and the remaining one was a supplier of raw materials for hog feeds. Further, two of the Group's five largest suppliers as of 30 September 2011 had about two years of business relationship with the Group.

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, purchases from its five largest suppliers represented approximately 96.3%, 40.8%, 39.1%, and 58.2% of the Group's total purchases respectively. Purchases from the Group's largest supplier represented approximately 59.0%, 21.4%, 13.6%, and 22.3% of the Group's total purchases for the said period respectively. Except for one of the five largest suppliers for the year of 2008, Hongyuan Feeds

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Operation Department of Chengxiang District Putian City (莆田市城廂區宏遠飼料經營部), none of the Directors, their respective associates or Shareholders who owned five per cent or more of the total issued share capital of the Company had any interest in any of the five largest suppliers during the Track Record Period. Hongyuan Feeds Operation Department of Chengxiang District Putian City (莆田市城廂區宏遠飼料經營部) was a related company owned by an associate of a Director. Purchases from such related company accounted for approximately 17.4% and 1.8% of the Group's total purchases for the years ended 31 December 2008 and 2009 respectively. Such transactions, which were entered into between the Group and the related company on arm's length basis and on normal commercial terms, were discontinued in June 2009.

### **Selection of suppliers**

The Group's suppliers include suppliers of raw material for hog feeds and hogs (collectively "Raw Materials"), which are chosen based on their product quality, reliability of supply and product price.

#### *Purchase of Raw Materials*

The Group has conducted inspections on the potential suppliers of Raw Materials and compiled a list of "qualified suppliers" which is reviewed and amended regularly. The purchase department of the Group will place purchase orders to those suppliers that are on the list.

The Group only purchases Raw Materials from the qualified suppliers. Pursuant to the relevant internal policy of the purchase department, the Group has in general the following requirements for its purchase department:

- the purchase department shall determine the volume of Raw Materials purchased pursuant to the requests made by other departments of the Group. All purchase requests shall usually be made on the last week of each month by the respective departments to the purchase department;
- the requests shall specify the quantity, quality and technical requirements for the requested Raw Materials;
- the purchase department will first check the stock/inventories of the requested Raw Materials to confirm that the requested purchases are necessary;
- the purchase department shall make enquiries to various "qualified suppliers" (if possible) to compare their respective prices for the requested Raw Materials before confirming the purchase;
- based on the purchase requests from all other departments of the Group, a monthly purchase plan shall be prepared by the purchase department and shall be approved by the general manager of the Group; and
- the purchase department shall purchase in accordance with the approved monthly purchase plan.

### Suppliers of commodity hogs

The Group's commodity hogs suppliers, who are Independent Third Parties, are mainly local individual hog traders who source commodity hogs from different hog farms, which may be situated within or outside of Putian City, according to the Group's requirements.

For each of the three years ended 31 December 2008, 2009, 2010 and the nine months ended 30 September 2011, the Group procured approximately 1,640, 205,040, 168,310 and 167,250 commodity hogs from one, 20, 22 and 22 commodity hogs suppliers respectively, a majority of which had about two years of business relationship with the Group as at 30 September 2011, and save as disclosed herein, all of them do not have any past or present relationships with the Group, the Shareholders, the Directors, senior management of the Group and their respective associates. Further, none of these commodity hogs suppliers had been engaged as a Contract Farmer by the Group during the Track Record Period. In April 2009, the Group started Contract Farming and needed a much larger quantity of commodity hogs for the supply to its Contract Farmers for further farming to accommodate the expected expansion of the Group's production capacity of pork for the new slaughterhouse, hence the number of commodity hogs suppliers increased significantly in 2009. The decrease in the number of hogs purchased for further farming by Contract Farmers in the year ended 31 December 2010 was mainly due to the promulgation of the Delimit Plan in April 2010 which restricted the operation of some of the Contract Farmers formerly engaged by the Group. However, as advised by the PRC Legal Advisers, the Delimit Plan regulates the location where farming activities can take place within Putian City and does not impose restriction on the quantity of commodity hogs supplied in Putian City. The commodity hogs supplied to the Group may come from a source outside Putian City where the Delimit Plan may not be applicable.

As advised by the PRC Legal Advisers, there is no requisite licence for operating the business of trading of commodity hogs, as long as the hogs traded are procured from a legal source (i.e. from farms which had complied with all applicable regulations or laws, including but not limited to, the geographical requirements under the Delimit Plan and possessing Animal Quarantine Qualification Certificate (動物防疫條件合格證)). The Group would only admit hogs with Animal Quarantine Certificate (動物檢疫合格證明), which, as advised by the PRC Legal Advisers, is only issued to hogs supplied by the qualified hog farms holding a valid Animal Quarantine Qualification Certificate (動物防疫條件合格證).

Most of the suppliers of commodity hogs have entered into supply contracts with the Group for a term of around 1 year. The major terms of the supply contracts are as follows:

- the Group shall place purchase orders at least 3 days in advance of each purchase and inform the hog supplier the quantity of hogs required;
- the Group will, with the arrangement made by hog suppliers, inspect the quality and weight of the hogs to be supplied by the relevant hog farms in order to confirm the purchase;
- the hog suppliers are responsible for the transportation expenses for delivering the hogs to the designated place as instructed by the Group; and
- either party to the supply contract may terminate the supply contract by tendering to the counter party a one-month prior written notice.



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The terms of the supply contracts entered into with the suppliers of commodity hogs do not specify the product liabilities of the suppliers of commodity hogs. As advised by the PRC Legal Advisers, the Group shall resort to the provisions under the Law of PRC on The Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法) and/or the Contract Law of the PRC (中華人民共和國合同法) to claim for damages from the suppliers of commodity hogs should the Group encounter any claims regarding product liability and suffer loss from using the commodity hogs so supplied.

To the best knowledge and belief of the Directors, the Group's suppliers of commodity hogs have not been materially affected by the outbreak of PRRS, or other animal diseases and the scandal of illegal use of clenbuterol.

### **Settlement arrangement with suppliers**

#### *Settlement arrangement with suppliers of commodity hogs*

According to the contract entered into between the Group and each of the suppliers of commodity hogs, the Group is not required to settle the purchase amount upon collection of the hogs. The Group and the suppliers of commodity hogs will agree on the amount payable on a monthly basis, and settle the amount thereafter. During the Track Record Period, the Group was not required to pay any deposits to suppliers of commodity hogs. However, some of the suppliers of commodity hogs may request the Group to provide a certain amount of guarantee before the purchase of the commodity hogs in order to secure the stable supply of commodity hogs to the Group, and such amount of guarantee is determined on a case by case basis and shall not be set-off by the amount of purchase of commodity hogs by the Group and shall be refunded only when the relevant supply contract is terminated. During the Track Record Period, a sum of RMB2.0 million, as of 30 September 2011, was paid by the Group to the commodity hogs suppliers as guarantees for securing the stable supply of commodity hogs. As of the Latest Practicable Date, such guarantee provided to the commodity hogs suppliers had been returned to the Group.

#### *Settlement arrangement with suppliers of breeder hogs*

According to the contract entered into between the Group and each of the suppliers of breeders hogs, the Group is required to pay a deposit of around 30% of the cost of breeder hogs at the time of entering into the supply contract and shall fully settle the remaining balance upon collections of breeder hogs ordered.

#### *Settlement arrangement with suppliers of raw materials for hog feeds*

According to the contract entered into between the Group and each of the suppliers of raw materials for hog feeds, the Group is required to agree and confirm the volume of raw materials for hog feeds supplied by the supplier to the Group on a monthly basis and the Group shall settle the relevant amount within 15 days of such confirmation.

### **Inventory control**

Given the nature of the Group's business and operation, the Group usually keeps a low level of inventories, which mainly comprise hog feeds and their raw materials (including corn, soya meal, wheat bran and feed premix), organic fertilisers, and minimal amount of pork that are not sold on the day of

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slaughtering. Except for hog medicines and vaccinations, which are purchased on a monthly basis, the Group plans its purchase on a weekly basis. To avoid interruption of its business operation, the Group has adopted a policy to maintain inventory of hog feeds for at least three to seven days.

As at 30 September 2011, the balance of the Group's inventories amounted to approximately RMB4.6 million. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the inventory turnover days of the Group were three days, three days, eight days, and five days respectively.

The Group has implemented internal controls on the raw materials of hog feeds and hog medicine. According to the internal policy of the Group, raw materials for hog feeds, feed premix and hog medicine are required to be stored at a dry place with good ventilation. Hog feeds shall be put on wooden shelves to avoid moisture from the ground. Hog medicine is required to be kept in the pharmacy of the Group's hog farm and shall be marked with clear labels of their names, model numbers, place of origins and expiry dates. Staff of the pharmacy updates record of all the hog medicines at least once a week.

The Group has its facilities for storage of hog feeds and other raw materials of hog feeds. In addition, minimal amount of unsold pork are stored in the freezing room in the Group's slaughterhouse. The pork products stored in the freezing room are usually purchased and collected by the Group's pork product trader within a short period of time and thus were not classified and recorded as inventory as the amount of such unsold pork was insignificant and would soon be resold. The Group made no provision for impairment against its inventories during the Track Record Period.

### LICENCES AND PERMITS

Under the relevant PRC laws and regulations, the Group is required to have the following licenses and permits necessary for its business operation:

- Certificate of Designated Location for Slaughterhouse of Hogs (生豬定點屠宰證)
- Animal Quarantine Qualification Certificate (動物防疫條件合格證)
- Fertiliser Registration Certificate (肥料正式登記證)
- Livestock and Poultry Breeders Production Operation Permit (種畜禽生產經營許可證)
- Pollutant Discharge Permit (排放污染物許可證)
- Water Intake Permit (取水許可證)

As advised by the PRC Legal Advisers, as at the Latest Practicable Date, the Group had obtained all necessary approvals, permits, consents, licences and registrations required for the Group's business operations and all of them were in force and valid. The Group will renew the relevant licences and permits before their respective expiry dates. The Group did not encounter any difficulties in renewal of any licenses necessary for its business operations during the Track Record Period.

### QUALITY ASSURANCE

The Directors believe that quality control is one of the most important factors to provide high quality products and contributes to the success of the Group's products.

The Group sets stringent internal control policies for its production process to ensure that the Group's products comply with the PRC laws and regulations along every step of its production process. As recognition of the Group's stringent quality control standards, the Group was awarded ISO 9001:2008 and China Good Agricultural Practice Certificate issued by the Fujian Southeast Standard Certification Centre (福建省東南標準認證中心).

The Group has implemented internal control policy at different stages in its production processes:

#### **Quality control at procurement of breeder hogs and commodity hogs**

In order to ensure the quality of the hogs (both breeder hogs and commodity hogs) purchased by the Group is acceptable and in compliance with the Group's requirements, in addition to the requirements mentioned under the paragraphs headed "Purchases and suppliers — Selection of suppliers — Purchase of Raw Materials" in this section, the Group has also adopted the following internal procedures and requirements to examine and check the quality of the breeder hogs and commodity hogs supplied before purchase and delivering the hogs to the Group's hog farm or Contract Farms:

- the specialists of the Group's veterinary team before confirming the purchase of commodity hogs, shall require the suppliers of breeder hogs and commodity hogs to produce (i) the Animal Quarantine Certificate (動物檢疫合格證明) and (ii) the Certificate of Disinfection of Vehicle for Transportation Animals Or Animal Products (動物及動物產品運載工具消毒證明) to demonstrate that the hogs supplied are from legal sources and has passed the quarantine conducted in the origin of the hogs pursuant to the Measures for the Administration of Animal Quarantine (2010) (動物檢疫管理辦法2010); and
- the specialists of the Group's veterinary team will also randomly check the body parts of the hogs to be purchased in order to confirm if there is any sign of disease or infection before the Group confirms the purchase order.

#### **Pre-cautionary measures against outbreak of infectious diseases at the Group's hog farm**

There are various swine diseases and animal diseases that affect hogs, including but not limited to, FMD and influenza A (H1N1). Even the Group's operation is not adversely affected by prevailing animal diseases, such animal diseases may affect the confidence of customers to consume pork and will lead to a decrease in the price of pork. During the outbreak of influenza A (H1N1) which was alleged to be caused by swine flu in early 2009, the average price of commodity hogs sold by the Group dropped from RMB15.4 per kg in March 2009 to RMB11.1 per kg in May 2009.

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In view of this, the Group has implemented strict internal controls for sanitisation, hygiene, disease control and veterinary care in the Group's hog farm. According to the Group's internal policy, all vehicles and people entering the hog farm must first be sanitised. All visitors must wear clean overalls and boots provided by the Group and staff uniforms must be sterilised daily. Sanitising station is set up at the entrance of the Group's hog farm so that all people and vehicles must be disinfected before entry.

Emergency measures are in place in case of outbreaks of animal diseases. The Group has established an emergency unit for outbreak of material infectious diseases. The emergency unit consists of personnel of several members of senior management and front-line staff at the Group's hog farm. In the event that outbreak of infectious diseases or suspected outbreak takes place, the emergency unit will be responsible for (i) arranging veterinarians to conduct quarantine against all the hogs in the Group's farm and to make necessary reports to the Veterinarian Department of Chengxiang District of Putian City (莆田市城廂區畜牧獸醫局); (ii) isolating hogs which are suspected to be infected; (iii) conducting a thorough and immediate sterilisation to all curtain-barns; (iv) in case of outbreak of FMD, PRRS or other material diseases among the hogs, conducting extermination of hogs as instructed by the local governmental authority and conducting sterilisation of all the infrastructure in the Group's hog farm; (v) burying and sterilising the bodies of the exterminated or dead hogs during the outbreak of disease in accordance with applicable standards; and (vi) observing the recovered hogs until the end of the outbreak of disease and incubation period.

The Directors confirmed that there had not been any outbreak of diseases in the hog farms contracted by, or directly operated by the Group during the Track Record Period.

### **Selection of Contract Farmers and supervision on Contract Farming**

Before entering into any farming contracts, the Group's staff will carry out inspection at the intended Contract Farms to ensure that the conditions and facilities of the intended Contract Farms satisfy the Group's requirements.

The Group has adopted the following major criteria in selecting a Contract Farmer:

- the Contract Farmer shall have at least one year of experience in hog farming;
- the Contract Farm shall have a farming capacity of not less than 1,500 hogs;
- the Contract Farm shall be linked by roads accessible by normal trucks; and
- the curtain-barn shall be at least 100 meters away from the closest residential building.

To ensure the Contract Farms' compliance with the Group's requirements during Contract Farming, the Group designates at least one specialist from the Group's veterinary team to closely monitor each of the Contract Farms by regular visits and inspections on the Contract Farms at least once a week. When inspecting the Contract Farms, the veterinary team of the Group will check, *inter alia*, the overall health condition, the appetite of the hogs and the performance of the staff of the Contract Farm in relation to the farming of the hogs. The veterinary team of the Group will also give advice to the Contract Farmers in improving the health condition of the hogs including the daily water intake and daily feeds intake for hogs at different stages, the proportion of ingredients for feeds for hogs at different stages. The Group

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will evaluate the extent of compliance with the Group's requirements by the Contract Farmers through (i) reviewing the death rate of the hogs, which the Contract Farmers are contractually bound to compensate the loss incurred by the Group for death of hogs exceeding the prescribed limit of death rate under the relevant farming contracts; and (ii) checking the quality of the hogs farmed by the Contract Farmers through examining whether such hogs have the sign of FMD, swine fever and swine erysipelas (豬丹毒) by the Group's veterinary team prior to slaughtering to ensure the quality of hogs.

### **Preventive measures against clenbuterol (瘦肉精) and other contaminants in pork before and after slaughtering process**

Clenbuterol is a class of steroid and additive that stimulates muscle development and burns fat in hogs to produce leaner pork. However, consumption of pork tainted by clenbuterol may cause health problems to consumers, therefore the use of clenbuterol has become a concern to the general public. The average selling price of pork per kg at the Point of Sales decreased from RMB26.2 per kg in March 2011 to RMB23.4 per kg in April 2011 when there was an outbreak of clenbuterol scandal in the PRC.

To prevent the illegal use of clenbuterol and other contaminants in pork, during the slaughtering process, hogs are examined by the government officer and the Group to ensure the safety and quality of the pork. In particular, according to the internal policy of the Group:

- test conducted by the government officer focuses on checking if there is any remains of clenbuterol (瘦肉精) found in the hogs picked randomly;
- staff of the Group will then conduct urine testing for any remain of clenbuterol again;
- after hog slaughtering processes, the final examination will be conducted by both the government officer and the specialists of the Group's veterinary team. An Animal Products Quarantine Qualification Certificate (動物產品檢疫合格證明) and Livestock and Poultry Quarantine Qualification Certificate (牲畜產品檢驗合格證) with the stamps from both local authority and the Group affixed will be issued thereafter;
- the staff of the Group will also conduct examination on samples of the pork to check if the sample contains any contaminants including Escherichia coli and the percentage of bacteria contained in such sample;
- the records for the tests of clenbuterol and contaminants are made and kept for Group's review and tracing if necessary; and
- in case there is any sign of epidemic disease, such as FMD and PRRS, found during the quarantine before slaughtering, the delivery of hogs to the Group's slaughterhouse will be put on hold, and the Group will report the situation to the relevant local authority immediately. Operation of the Group's slaughterhouse shall also be suspended immediately.

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In order to avoid contamination of pork and to ensure the compliance with the legal hygiene standards, the following control measures are implemented in the Group's slaughterhouse pursuant to the Group's internal policy, including but not limited to:

- (1) sewage system is installed in the Group's slaughterhouse to emit water used for cleaning bodies of slaughtered hogs;
- (2) designated vehicles are used strictly for delivering either separately live hogs and raw pork meats;
- (3) all staff must be sanitised before and after work; and
- (4) the Group's slaughterhouse is divided into different areas, and the staff's movement across different areas of the Group's slaughterhouse are restricted to avoid cross infection.

### **The Group's veterinary, quality and hygiene control personnel**

As at the Latest Practicable Date, the Group's veterinary team comprised nine specialists, three of whom held a valid Veterinarian Registration Certificate for Rural Area (農村獸醫登記證). Of the nine members of the veterinary team, four have obtained a diploma while five have obtained a bachelor degree in veterinary sciences or other related disciplines.

The Group has also established a quality and hygiene control team, which consisted of seven staff as at the Latest Practicable Date. The team is responsible to Mr. Yang Zhihai, one of the members of the senior management of the Group in charge of the production department. Two members of the team had more than five years of experiences in the hog and pork industry, and all of the team members were graduated from universities with bachelor degree or diploma in related disciplines, including food safety and examination studies, veterinary studies, animal science and application and engineering in food nutrition and science. The leader of the Group's quality and hygiene control team is also a registered quarantine personnel (檢疫員) recognised by Occupational Skills Testing Authority of Fujian Province (福建省職業技能鑒定指導中心). Further, one of the members is a veterinarian recognised by the Bureau of Human Resources of Fujian Province (福建省人事廳), whereas one of the other members is a registered food examination personnel (食品檢驗工) recognised by Occupational Skills Testing Authority of Wuhan City (武漢市職業技能鑒定指導中心).

The Directors believe that through imposing the stringent internal control measures in different stages of its production process under its vertically integrated business model, the quality and hygiene of the Group's products can be safeguarded. During the Track Record Period and up to the Latest Practicable Date, the Group had not received any material complaint from its customers regarding the quality and hygiene of its products and had not experienced any material losses or claims relating to the quality and hygiene of its products.

**RESEARCH AND DEVELOPMENT**

To improve the technique of hogs farming and the quality of the pork, the Group entered into a cooperation agreement for a term of five years with the School of Animal Science (動物科學學院), Fujian Agriculture and Forestry University (福建農林大學) in August 2011, for conducting researches on breeding and nurturing of hogs, nutrition of hogs, epidemic prevention and supervision of food safety and providing relevant techniques. In return, the Group shall retain students as research interns and provide them with research platform, food and accommodation. The annual expenses for this research project shall not exceed RMB80,000.

The Group also entered into a cooperation agreement with School of Biological Science and Engineering (生物科學與工程學院) of Fuzhou University (福州大學) in May 2011 pursuant to which the university shall establish “Laboratory of meat product (肉製品研究室)” and conduct researches on techniques of preservation, processing and storage of meat products and develop relevant equipments, facilities and quality control system. There is no schedule for the said project stipulated under the said cooperation agreement. Pursuant to the cooperation agreement, any intellectual property right arises in respect of the said research project will be shared between both parties. As at the Latest Practicable Date, there was no expenses incurred in relation to the said collaboration work with Fuzhou University.

As at the Latest Practicable Date, the Group’s research and development team consisted of three staff who possesses five to 11 years of experience in the hog and pork industry. The team is led by Mr. Yang Zhihai, one of the members of the senior management of the Group in charge of the production department. All of the members of the Group’s research and development team were graduated from Fujian Agriculture and Forestry University (福建農林大學) (previously known as Fujian Agriculture University (福建農業大學)) with a bachelor degree or diploma in animal science or food nutrition. Two of the members of the Group’s research and development team hold a valid Veterinarian Registration Certificate for Rural Area (鄉村獸醫證). For further details of the background of Mr. Yang Zhihai, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus.

The Group had spent approximately RMB103,000, RMB126,000, RMB147,000 and RMB66,000 during the years ended 31 December 2008, 2009 and 2010 and nine months ended 30 September 2011 on research and development, which mainly consisted of the salary of the staff of the research and development team and the expenses incurred in relation to the collaboration work with university and research institutes.

**PRODUCT LIABILITY**

The Group will not make any refund nor recall any defective products sold to the customers or pork product traders unless such defects is the responsibility of the Group and refund is the most appropriate solution. Please refer to the paragraphs headed “Products and sales — Sales returns” in this section for further elaboration on the Group’s policy on sales returns.

In order to minimise the potential product liability claims against the Group, the Group has implemented quality control and internal control measures, details of which are set out in the paragraphs headed “Quality assurance” and “Production” in this section respectively.



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The PRC Legal Advisers have confirmed that, as at the Latest Practicable Date, there were no provision under the laws and/or regulations of the PRC imposing compulsory product liability against a producer or otherwise requiring the purchase of insurance against producer's product liability. To the best knowledge and belief of the Directors, it is a common practice for hog/pork industry players not to maintain any product liability insurance. Alternatively, unsatisfied customers may resort to the provisions under the Law of PRC on The Protection of Consumer Rights And Interests (中華人民共和國消費者權益保護法), which protects the legitimate rights and interests of consumers. Consumers suffering from personal injury or property damage resulting from their purchase or use of commodities or the receipt of services shall have the right to claim compensations in accordance with the abovesaid law.

The Group did not, during the Track Record Period, receive any complaint or product liability claim from its customers nor did it make any product recall or refund.

### COMPETITION

As at the Latest Practicable Date, there were only 3 slaughterhouses in Putian City which had received a "star-rating" recognition. Among them, two were "1-Star" slaughterhouses situated in Xianyou County and Hangjiang District respectively and the Group's slaughterhouse, being the only recognised "2-Star" slaughterhouse in Putian City, is the highest ranking of recognition among the slaughterhouses in Putian City. In addition, there were 29 designated slaughterhouses (非機械化生豬定點屠宰場) which did not employ a mechanical slaughtering process situated within the boundary of Putian City as at 31 December 2010. Pursuant to the Implementation of Policies on Restoring the Quality and Safety of Hog Products in Putian City (莆田市生豬產品質量安全專項整治方案), the Group is able to circulate its products in a larger area in Putian City (i.e. urban areas of Licheng District and Chengxiang District in Putian City (the "Allowed Area")) comparing to other competitors or local pork market participants.

Since the local market for hog farming is highly fragmented and there are numerous market participants of smaller scale compared to the Group, the Group still faces competition from local market participants. The Group contributed approximately 21.7% of the aggregate output of hogs in Putian City in 2010. Further, as confirmed by the Working Committee of Designated Slaughtering Management of Putian City (莆田市牲畜定點屠宰管理工作領導小組), the Group's slaughterhouse slaughtered approximately 279,700 hogs in 2010, whereas the "1-Star" slaughterhouses in Xianyou County and Hanjiang District slaughtered around 105,900 hogs and 123,500 hogs respectively in 2010. To the best knowledge and belief of the Directors, there is no other publicly available information regarding the market shares of the key market players in the hog and pork industry in Putian City. Nevertheless, the Directors believe that these local competitors are relatively small in scale and do not possess the relevant technical and product development capabilities comparable to those of the Group. Among the local competitors, the Group is the only "2-Star" slaughterhouse which is allowed to distribute its products to the Allowed Area. In terms of the destination of delivery of the Group's products, revenue generated from sales to the Allowed Area accounted for approximately 11.4% and 26.6% of the Group's total revenue for the year ended 31 December 2010 and the nine months ended 30 September 2011 respectively. Currently, the Group has obtained a strong market position in Putian City. The Directors also believe that the Group's vertically integrated business model, coupled with its emphasis on quality of pork and reliability, will help maintain its strong market position and enable it to continue to expand its sales network in Putian City.

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In addition, the Group's vertically integrated business model strengthens the Group's market competitiveness over its competitors which usually engage in only one or certain processes of production along the supply chain of pork products (i.e. hog feeds production, hog farming, hog slaughtering or sales and distribution of pork products). The Directors consider that the vertically integrated business model enables the Group to diversify the risks against the fluctuation of the prices of hogs and/or pork. The Group believes that the major competitive factors to succeed in the pork production industry include, *inter alia*, technical expertise, product quality, production capability and capacity, customer base and brand recognition, customer service and management capability.

To the best knowledge and belief of the Directors, other than the Group, no entity (either individual or company) operates a vertically integrated business model which combines hog farming, hog feeds production, slaughtering and sales and distribution of pork in Putian City. Though the Group has not conducted and is not aware of any formal survey of the total market size and market share information of the Group and other market participants in the pork production industry, the Group considers that some market participants with easier access to financial resources and longer operating history may be competitors to the Group. The Group nevertheless believes that its well-recognised brand name, established relationship with customers, stringent quality and hygiene control can distinguish the Group from its competitors.

### AWARDS AND CERTIFICATES

After years of development, the Group's products and operations have earned a number of recognitions, a summary of which is as follows:

Awards/Certificates	Issuing Organisation	Date of Issue	Expiry Date
Leading Enterprise of Fujian Province's Agricultural Husbandry Industrialisation 2007-2008 (2007-2008年度福建省農牧業產業化龍頭企業)	Ministry of Agriculture of Fujian Province (福建省農業廳) and Financial Department of Fujian Province (福建省財政廳)	August 2007	N/A
Origin of Harmless Products to the Public, Fujian Province (福建省無公害農產品產地認證證書)	Ministry of Agriculture of Fujian Province (福建省農業廳)	February 2008 and renewed in March 2011	March 2014
Certificate of Recognition of Advanced Quality Management (Quality standards recognised: GB/T19001-2000 and ISO 9001:2000) (質量管理體系認證證書)	Fujian Southeast Standard Certification Centre (福建省東南標準認證中心)	25 April 2008	24 April 2011
Certificate of Harmless Agricultural Product to the Public, Fujian Province (福建省無公害農產品證書)	Agricultural Products Quality Safety Centre of Ministry of Agriculture of China (農業部農產品質量安全中心)	June 2008 and renewed in August 2011	September 2014

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<b>Awards/Certificates</b>	<b>Issuing Organisation</b>	<b>Date of Issue</b>	<b>Expiry Date</b>
Leading Enterprise of Fujian Province (省級重點龍頭企業)	Leading Committee of Fujian's Agricultural Industrialisation (福建省農業產業化工作領導小組)	September 2008	N/A
Fujian Province's Famous Brand Product (福建名牌產品)	People's Government of Fujian Province	December 2008	December 2011
2-Star Slaughterhouse Enterprise (二星級屠宰企業)	Economy and Trading Committee of Fujian Province (福建省經濟貿易委員會) (Document reference: Minjingmaoshichang [2009] No. 839) (閩經貿市場[2009] 839號文件)	2 December 2009	N/A (*Note)
Fujian Province Famous Trademark (福建省著名商標)	Committee of Recognition of Famous Trademark of Fujian Province (福建省著名商標認定委員會)	November 2010	November 2013
Certificate of Origin of Harmless Products to the Public, Fujian Province (福建省無公害農產品產地認證證書)	Ministry of Agriculture of Fujian Province (福建省農業廳)	11 March 2011	March 2014
Certificate of Recognition of Advanced Quality Management (Quality standards recognised: GB/T19001-2008 and ISO 9001:2008) (質量管理體系認證證書)	Fujian Southeast Standard Certification Centre (福建省東南標準認證中心)	14 April 2011	13 April 2014
China Good Agricultural Practice Certificate (中國良好農業規範認證證書)	Fujian Southeast Standard Certification Centre (福建省東南標準認證中心)	14 April 2011	13 April 2014
National Advanced Entity of Science Popularisation of Rural Area in of 2011 (2011年全國科普惠農興村先進單位)	China Association of Science and Technology (中國科學技術協會)	June 2011	N/A
Hazard Analysis and Critical Control Point (HACCP) System Certificate (危害分析與關鍵控制點(HACCP) 體系認證證書)	Fujian Southeast Standard Certification Centre (福建省東南標準認證中心)	13 July 2011	12 July 2014

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Awards/Certificates	Issuing Organisation	Date of Issue	Expiry Date
Certificate of Harmless Agricultural Product to the Public (無公害農產品證書)	Agricultural Products Quality Safety Centre of Ministry of Agriculture of China (農業部農產品質量安全中心)	3 August 2011	September 2014

*Note:* According to an enquiry made by the PRC Legal Advisers to the Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會), the “Star-rating” recognition may be subject to review by the relevant local authority responsible for the grant of such recognition two years after the recognition was granted. However, there is no expiry date for such recognition nor such recognition be rendered invalid should the local authority choose not to initiate the review at the end of the two-year period of granting such recognition. As at the Latest Practicable Date, the review on the Group’s “2-Star” recognition had yet to be initiated.

As advised by the PRC Legal Advisers, when the process of reviewing the “2-Star” recognition is initiated, the Group shall submit for review all the relevant papers, including but not limited to the design of the slaughterhouse, work flow in the slaughterhouse, list of facilities and the reports on examination of the pork produced by the slaughterhouse. After reviewing the relevant documents submitted, the relevant local authority shall arrange an on-site visit to the slaughterhouse before confirming the result of such review.

### ENVIRONMENTAL PROTECTION

The Group is subject to the PRC national and local environmental laws and regulations, including the Environmental Protection Law of the PRC (中華人民共和國環境保護法), The Law on the Prevention and Treatment of Water Pollution of the PRC (中華人民共和國水污染防治法) and The Law on the Prevention and Treatment of Air Pollution of the PRC (中華人民共和國大氣污染防治法). In particular, there are environmental regulations concerning the treatment of wastewater produced by the slaughtering and processing facilities. The Group is also subject to annual inspection by the regulatory authorities on the extent of compliance with these PRC laws and regulations.

#### Measures at the Group’s hog farm

The Group adopts an environmentally friendly waste management system. Such system is different from the traditional waste management system which consumes a massive amount of water and produces a large amount of wastewater. The Group covers the floor of curtain-barns in the Group’s hog farm with sawdust to absorb and mix with hog wastes. After the hogs are moved out of the curtain-barns, such mixtures are removed from the curtain-barns and subsequently fermented to become organic fertilisers. By adopting this waste management system, the Group only discharges a small amount of wastewater which had minimal effect to the surrounding environment, reduces the emission of smell and presence of insects, and recycles the hog wastes to become organic fertilisers. These organic fertilisers are by-products produced during the Group’s hog farming process. The Group has obtained a Registration of Fertiliser (肥料正式登記證) from the Ministry of Agriculture of Fujian Province in relation to the sale of its organic fertilisers. In November 2010, the Group has entered into an agreement with Gardening Unit of Construction Bureau of Putian City (莆田市建設局園林管理處) in relation to the sale of the organic fertilisers produced by the Group. As at the Latest Practicable Date, the revenue generated from sales of organic fertilisers was immaterial.

The Group maintains its own water treatment facilities to provide quality drinking water for consumption by its hogs. Water from underground sources is subject to six rounds of filtration. The filtered water has a much lower content of various impurities and ions including manganese, iron, chloride, fluoride and nitrous compounds.

As advised by the PRC Legal Advisers, the Group has obtained a confirmation letter issued by Putian City Chengxiang District Environmental Bureau (莆田市城廂區環境保護局) which has the authority and is competent to issue such confirmation, confirming that the hog farming activities conducted by the Group satisfy and comply with all the relevant PRC laws and regulations in relation to environmental protection. During the Track Record Period and up to the Latest Practicable Date, the Group had not been fined or received any complaints from the relevant environmental protection authorities.

### **Measures at the Group's slaughterhouse**

The wastewater produced during the operation of the Group's slaughterhouse is filtered by the Group's on-site wastewater disposal system in order to reduce the level of pollutants down to an acceptable level in accordance with the Standards of Wastewater & Pollutant Emission by Meat Processing Industry (GB13457-92) (《肉類加工工業水污染物排放標準》(國家標準GB13457-92)). The on-site wastewater disposal system is directly linked to the designated sewage network of the local government and is disposed centrally, such that the wastewater treated and discharged from the Group's slaughterhouse would have minimal effect to the surrounding environment.

In the production of high-heat steam during the slaughtering process, the Group uses smokeless coals which produces by-products such as fuel dust and sulphur dioxide. The Group uses marble and water film scrubbing dust collection technology (麻石水膜除塵工藝) to filter the fuel dust and sulphur dioxide so as to reduce the level of pollutants down to an acceptable level according to the Emission Standard of Atmosphere Pollutants from Boiler (GB13271-2001) (《鍋爐大氣污染物排放標準》(國家標準GB13271-2001)) before releasing the same. The Group is also required, during its slaughtering process, to produce noise level within the range allowed by Category I of Noise Standard for Industrial Enterprise (GB12348-2008) (《工業企業廠界環境噪聲排放標準》(國家標準GB12348-2008)), i.e. to generate noise less than or equal to 55 decibel in daytime and 45 decibel in nighttime.

The Group has designated an environmental engineer who holds a bachelor degree in environmental engineering with one year of experience in the relevant practice to be responsible for advising the senior management of the Group in formulating and implementing the environmental and safety measures. In addition, the Group has entered into an agreement with an external professional environmental engineering agent which holds the relevant qualifications to advise the Group on environmental engineering and provide maintenance services for the Group's wastewater system for a term commencing from 1 January 2012 and ending on 1 January 2013 at an annual fee of RMB200,000.

During the Track Record Period, the Group's expenses for compliance with applicable environmental protection rules and regulations increased from approximately RMB154,000 in 2008 to approximately RMB1,776,000 in 2009 which represents mainly the construction cost of the wastewater disposal and sewage treatment system in the Group's newly constructed slaughterhouse, and such expenses increased from approximately RMB1,266,000 in 2010 to approximately RMB5,502,000 in the nine months period ended 30 September 2011 due to the procurement of equipment for the wastewater disposal and sewage treatment system in the Group's slaughterhouse. The estimated amount for

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environmental protection related expenses is approximately RMB6,124,000, RMB144,000 and RMB144,000 for the three years ending 31 December 2012, 2013 and 2014 respectively. The estimated amount for the year ending 31 December 2012 is significantly higher than the previous years as the Group plans to install the environmental protection facilities in its six new hog farms to be constructed.

It is the Group's intention to construct six additional farms for hog breeding and farming and to upgrade its existing slaughterhouse. All of these hog farms will be constructed in accordance with the standards of the existing hog farm and the Group shall obtain all necessary environmental protection licences and comply with all environment protection laws and regulations.

The PRC Legal Advisers have confirmed that the Group has obtained all the required certificates and approvals and its existing business operations are in compliance with the applicable environmental protection laws and regulations in the PRC. On the basis of the foregoing, the Directors confirmed that they are not aware of any other environmental protection laws and regulations which may affect the Group's operation in any material aspects as at the Latest Practicable Date.

As at the Latest Practicable Date, the Group did not encounter any non-compliance issue in respect of any applicable environmental laws and regulations nor any complaints from any customers or the general public in respect of the same. During the Track Record Period and up to the Latest Practicable Date, the Group had not been fined or received any complaints from the relevant environmental protection authorities.

### PRODUCTION SAFETY

According to the internal policy of the Group, the Group's senior management is responsible for formulating production safety measures for all production lines and departments of the Group. Procedures of proper operation of different machineries and guidelines on maintenance and storage of production materials with dangerous substance are provided to the Group's employees and posted in the Group's slaughterhouse and hog farm. In addition, production technique and safety trainings for staff handling boiler, pressure container and other higher-technique work would be held and arranged by the Group. Regarding the production facilities with potential danger, the Group would arrange regular checks and maintenance to ensure the regularity and safety of the operation of such facilities. Employees who fail to comply with the Group's internal production guidelines and safety measures would be penalised. In case of emergency or occurrence of major accidents in the Group's production facilities, the Group would promptly report to the relevant local authority.

As at the Latest Practicable Date, the Group had not been adjudged by any relevant PRC governmental authority for non-compliance with any production safety requirements under the relevant PRC laws and regulations, nor had it received any complaints from its employees or the public in relation to the production safety of the Group.

The Directors are of the view that the production safety measures currently in place are in line with the market practice of the relevant industry in which the Group is engaged, and there are no safety laws and regulations in the PRC which may affect the Group's production in any material respect. The Directors are not aware of any material issues in respect of the Group's production safety and there was no material production safety accident during the Track Record Period.



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### INSURANCE

The Group maintains integrated insurance policies on its own properties against damage thereto. It provides social security insurance policy to its employees as required by the relevant PRC laws and regulations. The Group also provides accident insurance policy to front-line employees. Since most of the products of the Group are not sold to end-customers, the Group has not maintained any product liability insurance. The Directors are of the view that this is in line with the general practice of the industry in the PRC in which the Group is engaged. The Directors are also of the view that the Group has sufficient insurance coverage for its current business operations.

### LEGAL PROCEEDINGS

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

### PROPERTIES

#### Owned properties

As at the Latest Practicable Date, the Group owned the following two parcels of land:

- The land located at Xixu Village and Jiaoxi Village, Huating Town, Chengxiang District, Putian City (莆田市城廂區華亭鎮西許村、郊溪村) with an aggregate site area of approximately 128,700 square meters, on which the Group's hog farm is situated. The Group has obtained all relevant land use rights and building ownership certificates in respect of this parcel of land and the buildings constructed thereon, except for the building ownership certificates and the relevant approvals of 23 buildings, with a gross floor area of approximately 11,000 square meters. Of these 23 buildings, 14 are used for housing and farming of hogs, one for staff quarter and the rest are used for storage and ancillary facilities. The Group is in the course of application for the construction and planning permits in order to obtain the relevant building ownership certificates and expects to obtain all the necessary building ownership certificates within six months from the date of this prospectus. The Directors confirm that the progress of the application for the outstanding building ownership certificates will be reviewed and reported in the Company's financial reports to be published in accordance with Chapter 13 of the Listing Rules after Listing. According to a written confirmation issued by Putian Chengxiang Construction Bureau (莆田市城廂建設局), it is confirmed that the delay in issuing the relevant building ownership certificate to the Group regarding the said 23 buildings was caused by the modification in the plan and design of the building concerned. It is also confirmed that all the applications for the requisite documents for applying for the relevant building ownership certificate are now being processed, and there is no intention to order the Group to relocate from the said 23 buildings in its hog farm. As advised by the PRC Legal Advisers, Putian Chengxiang Construction Bureau is competent to issue the said confirmation and therefore there will be no legal impediment for the Group to obtain the relevant construction and planning permits, to complete the acceptance inspection and to obtain the relevant building ownership certificates. Since the engagement of the Contract Farmers in 2009 for the provision of hog farming services to the Group, the contribution to the total output of hogs by the Group's own hog farm was not significant and



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represented approximately 9.9% of the total output for the nine months ended 30 September 2011. Even if the Group is ordered to cease using the said 23 buildings, for which relevant building ownership certificates are under applications, the Group may renovate the remaining barns or buildings in the Group's hog farm and relocate the hogs and facilities therein easily and the relevant costs, which include mainly renovation costs, would amount only to approximately RMB0.6 million. Based on the above, the Directors consider that the aforesaid 23 buildings are not crucial to the operation of the Group and should the Group be ordered to relocate from these buildings, the financial impact to the Group would be immaterial.

- The land located at Hualin Industrial Zone, Chengxiang District, Putian City (莆田市城廂區華林工業園) with an aggregate site area of approximately 36,000 square meters, on which the Group's office and slaughterhouse are situated. The Group has obtained both the relevant land use rights and the building ownership certificates covering all the buildings erected on the land.

Further details of the Group's owned properties are disclosed in the property valuation report set out in Appendix IV to this prospectus.

### **Leased properties**

As at the Latest Practicable Date, the Group had leased 20 properties in the PRC from Independent Third Parties, among which two were used as offices, one was used as warehouse, 17 were used as the Group's direct sales outlets. The Group has also leased one property in Hong Kong from an Independent Third Party for office use.

The relevant lessors of 13 leased properties in the PRC were unable to provide relevant legal documents to demonstrate their respective ownership or legal title to the properties. Among these properties, one situated in Quanzhou City was used as office and staff dormitories, one in Fuzhou City was used as a warehouse and the rest 11 leased properties were occupied as the Group's direct sales outlets. As advised by the PRC Legal Advisers, in the event that the relevant lessors are not the owners or do not possess legal use right of the properties, the lease agreements may be considered invalid by the relevant authorities. Should the lease agreements be deemed invalid, as advised by the PRC Legal Advisers, the relevant lessors should be held liable for any losses suffered by the Group.

As at the Latest Practicable Date, the Group had registered two of the lease agreements in the PRC, while the other 18 lease agreements have not yet been registered pursuant to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法) as the relevant lessors were either unable to produce the relevant ownership or legal title or unwilling to cooperate with the Group. The Group tried to apply for the registration on its own, however, the relevant authorities did not accept the Group's application for registration of the lease agreements. Pursuant to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the relevant authorities may order the parties to the lease agreements to register the lease agreements and, should they fail to do so, may impose a fine of RMB1,000 to RMB10,000 for each non-registered lease agreement. As advised by the PRC Legal Advisers, the validity of the lease agreements should not be affected by the non-registration thereof. Nevertheless, the Group has requested the relevant lessors to cooperate with the Group to register the lease agreements.

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As at the Latest Practicable Date, the Group had not been notified by the relevant authorities that (i) the lease agreements of the properties are invalid; or (ii) the Group should effect registration procedures with them.





The sales outlets where the relevant lessors could not provide their respective legal ownership documents and the lease agreements were not registered contributed approximately RMB2.1 million, RMB2.7 million, RMB11.1 million and RMB10.9 million to the Group's total revenue or approximately 4.0%, 1.7%, 2.5% and 3.1% of the Group's total revenue for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 respectively, for which the Directors consider were immaterial to the Group as a whole.


In addition, the lease agreement of one of the Group's leased properties was expired. This leased property was used as a direct sales outlet of the Group. As advised by the PRC Legal Advisers, given the Group still uses the leased property and the lessor thereof continues to receive rent, it is presumed that the lessor and the Group agree to continue the lease. Therefore, this expired lease agreement remains valid but with no fixed lease terms. The Directors confirm that there are readily available properties for lease on the market and the relevant lessor of the said property has provided the Group with the right of first refusal should he choose to lease out the properties in the future.

In the event that any of the Group tenancy regarding its direct sales outlets is revoked due to the legal defects and the Group is required to cease the operation of the relevant direct sales outlet, the Directors believe that there should be no difficulty for the Group to relocate the direct sales outlet to other premises as there is an abundant supply in leasable properties in Putian City. Further, as most of the facilities in the Group's direct sales outlets are not fixture, the Directors believe that only minimal relocation cost (i.e. renovation cost, transportation cost and labour cost) at around RMB50,000 for each direct sales outlet affected will be involved should the Group be required to relocate its direct sales outlets to other premises and therefore this shall not cause interruption to the Group's business and operation.

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

### INTELLECTUAL PROPERTY RIGHTS

During the Track Record Period, the Group's products sold at the Points of Sales were under the trademarks of , 普甜 PUTIAN and  except for one U.S. supermarket chain, and the Group's fertilisers produced from hog waste were sold under the trademarks of  and 怡浓. Except  which is under application, these trademarks have been registered by the Group in the PRC and have a valid period of ten years with the commencement date ranging from March 2009 to January 2010 and will expire between March 2019 and January 2020.

The Group has registered the trademarks of , 普甜 PUTIAN and POTIM in Hong Kong with valid period of ten years commencing from 26 April 2011 or 13 May 2011. Please refer to the paragraph headed 'Intellectual Property' in Appendix VI to this prospectus for the details of the Group's intellectual property rights.

As confirmed by the Directors, during the Track Record Period, there had not been any intellectual property infringement claims against the Group.

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### REGULATORY COMPLIANCE

During the Track Record Period, there were the following incidents of non-compliance with the laws and regulations of the PRC relevant to the operation of the Group:

- The Group has not obtained building ownership certificates covering all buildings erected on the Group's land situated at Xixu Village and Jiaoxi Village, Huating Town, Chengxiang District, Putian City (莆田市城廂區華亭鎮西許村、郊溪村). Please refer to the paragraph headed "Property — Owned properties" in this section for further details and particulars. The Group is in the course of applying for the relevant outstanding building ownership certificates, and the PRC Legal Advisers advise that there will be no legal impediment for the Group to obtain the relevant building ownership certificates.
- The Group had 20 leased properties in the PRC as at the Latest Practicable Date. The relevant lessors of 13 leased properties had not provided the Group with the relevant valid building ownership certificates, and 18 lease agreements had not been registered with the relevant authorities. Please refer to the paragraphs headed "Properties — Leased properties" in this section for further details and particulars. As advised by the PRC Legal Advisers, the validity of the lease agreements should not be affected by the non-registration thereof.
- During the Track Record Period, the Group had borrowed from and advanced to a related party unsecured and interest-free loans. As advised by the PRC Legal Advisers, the amount due from or to a related party (collectively, the "Amounts") did not comply with the General Principles of Loans (貸款通則). However, given that (1) the Amounts were settled in 2010 and there was no dispute among the parties with respect to the Amounts; (2) the Amounts were used in the normal operation but not for any illegal purpose; (3) the Group had not earned any interests or other benefit from the amount due from a related party; and (4) there was no specific administrative penalty imposed on the Group in respect of the amount due to a related party under General Principles of Loans (貸款通則) as at the Latest Practicable Date, the PRC Legal Advisers 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. Please refer to notes 22 and 26 in "Appendix I — Accountants' Report" to this prospectus for the disclosure of the identities of the related party and the relevant amount of loans. The Directors confirm that no loan arrangement in breach of the General Principles of Loans (貸款通則) will continue and be allowed after the Listing.
- Due to high turnover of the Group's employees and different level of acceptance of the social security system among them, Fujian Tianyi has not made full contribution payment to employee social insurance (including employee pension, employment injury insurance, maternity insurance, unemployment insurance and medical insurance) and housing provident fund in accordance with the relevant PRC rules and regulations. As advised by the PRC Legal Advisers, for the outstanding contribution in respect of the employee social insurance payable prior to 1 July 2011, the relevant local administrative authorities may require Fujian Tianyi to pay the outstanding contributions within a prescribed time limit, failing which Fujian Tianyi would have to pay, in addition to its unpaid contribution, a maximum overdue penalty of 0.2% per day on the unpaid contribution from the date when the amount becomes overdue to the date when the full payment is made. For the unpaid contribution since 1 July

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2011, Fujian Tianyi may be ordered to pay the unpaid contribution and an overdue penalty of 0.05% per day on the unpaid contribution from the date when the amount becomes overdue to the date when the full payment is made.

As regards the housing provident fund, according to the PRC Legal Advisers, Fujian Tianyi may be ordered by the relevant housing provident fund management centre to pay the outstanding contributions within a prescribed time limit. If Fujian Tianyi fails to do so, the relevant housing provident fund management centre may force Fujian Tianyi to pay the outstanding contribution.

Fujian Tianyi has obtained a confirmation from each of the Centre of Social Employment Security Insurance of Putian City (莆田市社會勞動保險直屬中心) and Housing Provident Fund Management Centre of Putian City (莆田市住房公積金管理中心), both dated 28 September 2011, confirming that Fujian Tianyi had not been subject to any administrative penalty in the past and may continue to make the contribution by following its current practice and the authorities would not make retrospective claims on Fujian Tianyi's previous acts. In respect of medical insurance, Fujian Tianyi has obtained confirmations from the Medical Insurance Administrative Centre of Chengxiang District of Putian City (莆田市城廂區醫療保險管理中心) dated 28 September 2011 and 8 November 2011 respectively confirming that Fujian Tianyi has registered with the centre, has made the monthly contribution in a timely manner and should continue to make the relevant contribution in accordance with the relevant rules and regulations and the authority would not make retrospective claims on Fujian Tianyi's previous acts. Regarding the unemployment insurance, pursuant to a confirmation from the Unemployment Insurance Management Centre of Putian City (莆田市失業保險管理中心) dated 8 November 2011, Fujian Tianyi has registered with the centre and made the monthly contribution in a timely manner in accordance with the relevant rules and regulations, and the center would not make retrospective claims on Fujian Tianyi's previous acts. According to the PRC Legal Advisers, the risk of Fujian Tianyi being ordered to pay the outstanding contributions to the employee social insurance and housing provident fund is relatively low. Nevertheless, the Controlling Shareholders have given an indemnity to the Group in respect of any liabilities arising from the non-compliance with the relevant rules and regulations in relation to the employee social insurance and housing provident fund. As advised by the PRC Legal Advisers, Fujian Tianyi has registered with the Medical Insurance Administrative Center of Chengxiang District of Putian City (莆田市城廂區醫療保險管理中心) and made relevant contribution monthly. As the centre accepts Fujian Tianyi's contributions and Fujian Tianyi has not received any notifications or warnings from the centre for any non-compliance, the PRC Legal Advisers are of the view that the risk of Fujian Tianyi being ordered to pay the outstanding contribution to medical insurance is relatively low. Given the above, the Group has made no provision regarding the unpaid amount of employee social insurance and housing provident fund of RMB5.8 million from 1 January 2008 to 31 October 2011.

According to the confirmation from each of the Centre of Social Employment Security Insurance of Putian City (莆田市社會勞動保險直屬中心), Housing Provident Fund Management Centre of Putian City (莆田市住房公積金管理中心), the Medical Insurance Administrative Centre of Chengxiang District of Putian City (莆田市城廂區醫療保險管理中心) and the Unemployment Insurance Management Centre of Putian City (莆田市失業保險管

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理中心), all dated 8 November 2011, that Fujian Tianyi has made full contributions for its eligible employees to the employee social insurance (including employee pension, employment injury insurance and maternity insurance), housing provident fund, medical insurance and unemployment insurance since 1 November 2011.

As advised by the PRC Legal Advisers, all the aforesaid local authorities, namely Centre of Social Employment Security Insurance of Putian City (莆田市社會勞動保險直屬中心), Housing Provident Fund Management Centre of Putian City (莆田市住房公積金管理中心), Medical Insurance Administrative Centre of Chengxiang District of Putian City (莆田市城廂區醫療保險管理中心) and Unemployment Insurance Management Centre of Putian City (莆田市失業保險管理中心), are competent and have the authority to issue the respective confirmations under the applicable laws and regulations of the PRC.

As at the Latest Practicable Date, no enforcement actions were taken by the relevant PRC authorities against Fujian Tianyi for any of the non-compliance as mentioned above.

As advised by the PRC Legal Advisers, throughout the Track Record Period and as at the Latest Practicable Date, save as disclosed above, the Group possessed all valid and legally required approvals, permits, consents, licences and registrations for its business operations in the PRC. The Group has never failed the regular tests and inspections by the PRC regulatory authority, nor has it ever been refused of the renewal application of its business licences and other licences necessary for its business operations. The PRC Legal Advisers have also confirmed that, save as disclosed above, the Group has not contravened any of the applicable PRC laws and regulations in all material aspects. The Group has not received any notice of non-compliance with any laws and regulations affecting the hog farming and pork production, slaughtering industry and the Group's business since its commencement of operation in 2005. Please refer to the section headed "PRC Regulatory Overview" in this prospectus for the relevant laws and regulations applicable to the Group's business operations in the PRC.

To prevent the occurrence of any non-compliance of laws, rules and regulations in future, the Directors have taken or will undertake the following steps and measures to further enhance the Group's corporate governance practices and the effectiveness of its internal control procedures:

- (1) prior to Listing, the Directors and the Group's senior management attended training sessions conducted by the Company's legal advisers on general on-going obligations and duties of Directors under the Listing Rules and the Takeovers Code;
- (2) prior to Listing, the Directors received and reviewed a detailed memorandum prepared by the Company's legal advisers setting out general Listing Rules and Hong Kong companies law requirements and obligations of the Directors after Listing;
- (3) prior to Listing, the Company has engaged Fujian Xiixiang Law Firm (福建廈祥律師事務所) as a PRC law and regulations compliance adviser to oversee the Group's internal control systems and procedures in order to ensure the compliance with all applicable laws and regulations;
- (4) Ms. Cai Shengyin, an executive Director and Chief Financial Officer of the Company, has been appointed to be the Company's designated officer responsible for overseeing the Company's compliance with relevant laws and regulations in the PRC and to liaise with Fujian Xiixiang Law Firm regarding compliance issues;

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- (5) the appointment of CICL as the compliance adviser to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules;
- (6) the Company's company secretary, who is also a qualified accountant and the Company's financial controller, is responsible for, *inter alia*, ensuring the Group's compliance with the Listing Rules and other statutory requirements, and implementing internal control and corporate governance and practices; and
- (7) the setting up of an audit committee which comprises all the independent non-executive Directors who have the duties to, among other things, review the internal control systems and procedures for compliance with the relevant accounting, financial and Listing Rules requirements. The audit committee has adopted written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The audit committee will, upon due and careful inquiries, disclose its major view regarding the Company's compliance and internal control related matters in its annual report for each of the two financial years immediately after Listing.

Further, the Group has implemented the following internal policies in order to prevent any non-compliance of laws, rules and regulations in future:

- (1) regarding the legality of lease agreements for the Group's direct sales outlet or business, the Group will in the future only enter into lease agreement with lessor who is able to produce to the Group the relevant building ownership certificate and all other necessary documents to prove the lessor's title before entering into the lease agreement. Such documents will be further reviewed by the senior management of the Group before execution of the lease agreement. All the lease agreements executed by the Group shall be kept by the legal sub-division of the Group to be established and which shall closely monitor the registration of all the Group's lease agreements;
- (2) regarding the legality of the Contract Farmers engaged by the Group, before entering into farming contract with the respective Contract Farmers, the Group will assign a staff to conduct due diligence against the Contract Farmers and liaise with the relevant local authority to evaluate whether the Contract Farmers validly and legally exist and have obtained all necessary permits and licences. The documents regarding such due diligence of Contract Farmers shall be further reviewed by the senior management of the Group before confirming the execution of farming contract. All executed farming contracts shall be kept by the legal sub-division of the Group to be established. The legal sub-division of the Group will also promptly advise should there be any changes in laws and regulations concerning and affecting the Contract Farmers;
- (3) regarding the settlement of social security and housing provident funds, the Group will designate a staff to regularly review the number of valid employment agreements of the Group and to make monthly report regarding the relevant amount of social security and housing provident funds payable to the relevant local authorities. Such monthly report shall be further reviewed by another designated staff. One member of the senior management shall also be designated to regularly review the records and reports regarding the social security



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and housing provident funds and to keep contact with the relevant local authorities in order to be informed of any changes to the relevant rules and regulations on social security and housing provident funds; and

- (4) regarding the entering into of construction contracts or material agreements, the Group will designate a staff to conduct necessary due diligence of the subject matters of such construction or material contract and to seek advice on all necessary licences and permits required for the performance of such construction or material contract. The materials on such due diligence will be further reviewed by another staff of the Group before confirming the execution of such construction or material contract. A member of senior management will also be designated to overlook the process of entering into such construction or material contract and to confirm if all necessary permits and licences have been obtained for the purpose of carrying out construction or material contract and if all the relevant laws and regulations have been complied with. The executed construction or material contract shall be kept by the legal sub-division of the Group which shall advise and review from time to time the performance of the construction or material contract.

The Group has also established an internal control committee in March 2010, which, as at the Latest Practicable Date, consisted of eight members including an external professional compliance adviser who is a certified public accountants of the PRC. The internal control committee will meet regularly and shall review the reasonableness of the costs and expenses incurred by different departments of the Group and to review, advise on and amend, if necessary, all internal protocol and regulations of different departments of the Group. The internal control committee shall also supervise the implementation of the internal regulations by different departments of the Group and to provide further advice on compliance with the applicable internal regulations. The internal control committee shall report to the Company's audit committee directly and regularly.

The Directors consider that the above steps and measures will effectively help strengthen the Group's abilities to undertake and monitor various internal control and corporate governance practices and to prevent future occurrence of those non-compliance instances as mentioned above. The Directors are of the view that implementation of these measures will enable the Company to more effectively identify and handle various compliance matters and to monitor compliance of the Group with applicable laws, rules and regulations in a timely manner.