ENERGROUP HOLDINGS CORP
Form 10-K
March 31, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission File Number 0-28806

ENERGROUP HOLDINGS CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Nevada<br>(State of Incorporation) | 87-0420774<br>(I.R.S. Employer Identification No.) |
| No. 9, Xin Yi Street, Ganjingzi District<br>Dalian City, Liaoning Province, PRC 116039<br>(Address of principal executive offices, including zip code) | +86 411 867 166 96<br>(Registrant’s telephone number, including area code) |

| | |
|---|---|
| Securities registered pursuant to Section 12(b) of the Act: | None |
| Securities registered pursuant to Section 12(g) of the Act: | Common Stock, par value $0.001 per share<br>(Title of Class) |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark whether the registrant is required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes x No o

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

| | |
|---|---|
| Large Accelerated Filer o | Accelerated Filer o |
| Non-accelerated filer o | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of March 11, 2009, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $25.84 million based on a closing price of $4.00 per share of common stock as reported on the Over-the Counter Bulletin Board on such date. On December 31, 2008, we had 21,136,391 shares of our common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

ENERGROUP HOLDINGS CORPORATION

FORM 10-K
For the Year Ended December 31, 2008

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# PART I

## Item 1. BUSINESS

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to growth and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond our control. Forward-looking statements typically are identified by the use of terms such as “look,” “may,” “will,” “should,” “might,” “believe,” “plan,” “expect,” “anticipate,” “estimate” and similar words, although some forward-looking stat are expressed differently. The accuracy of such statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to:

- our ability to timely and accurately complete orders products;
- our dependence on a limited number of major customers;
- political and economic conditions within the PRC;
- our ability to expand and grow our distribution channels;
- general economic conditions which affect consumer demand for our products;
- the effect of terrorist acts, or the threat thereof, on consumer confidence and spending;
- acceptance in the marketplace of our new products and changes in consumer preferences;
- foreign currency exchange rate fluctuations;
- our ability to identify and successfully execute cost control initiatives;
- other risks outlined above and in our other public filings.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We undertake no obligation to update this forward-looking information.

While our management fully intends to make concerted efforts to manage these risks, we cannot assure you that we will be able to do so successfully. See “Risk Factors” beginning on page 21 of this report.

### Our Business

We produce, pack, sell, market and distribute fresh and processed meat products to customers in the People’s Republic of China (“China” or the “PRC”). Our current corporate structure is shown below. We own three PRC operating subsidiaries (collectively, the “Chuming Operating Subsidiaries”):

1. Dalian Chuming Slaughter and Packaging Pork Company Ltd., whose primary business activity is acquiring, slaughtering and packaging of pork;

2.

Dalian Chuming Processed Foods Company Ltd., whose primary business activity is the processing of raw and cooked meat products; and

3. Dalian Chuming Sales Company Ltd., which is responsible for our sales, marketing and distribution activities.

Our three operating subsidiaries are spun off constituents of a former parent company, Dalian Chuming Group Co., Ltd. (the “Group”). Our company is separate and independent from the Group, which operates a different business and has different operations from ours. We took over ownership and control of the three Chuming Operating Subsidiaries from the Group in September 2007 following our corporate reorganization (See subsection entitled “Corporate Reorganization” on page 5 of this report). We are headquartered in the City of Dalian, Liaoning Province of China. Throughout this report, Energroup Holdings Corporation, Precious Sheen Investments Limited, Chuming WFOE and the Chuming Operating Subsidiaries are sometimes collectively referred to as “Chuming.”

Company Overview and History

Our business originated from the founding in 1999 of Dalian Chuming Group Co., Ltd. the former parent of the Chuming Operating Subsidiaries. The Group began as a processor and supplier of fresh and frozen meat and meat products. Among industrialized farming corporations in northeastern China, the Group pursued distinction in the Chinese food industry by maintaining high quality management standards and international safety certifications.

In 2004, the Group established the Chuming Operating Subsidiaries, which now form the core of our business, and these companies began producing and supplying fresh and processed meats under the Chuming brand name. Since then we have rapidly become a significant producer and supplier in China's meat industry, and have achieved consistent profitability and growth since inception. In the first three years of operation, our sales have grown at an average rate of 42% per annum. We sell our products to consumers in northeastern China, which has a population of approximately 108 million. In particular, our current customers are concentrated in the Liaoning Province (which has a population of approximately 42 million), and we are the largest pork producer in Dalian City, which has a population of approximately 3 million, or 6 million including the greater metropolitan area. At present, all of our sales are within China, which is the largest pork-consuming nation in the world, with a total of 42 million metric tons consumed in 2008. Due to the rapid development of the Chinese economy, urbanization and strong income growth, we have observed that pork consumption patterns are changing and consumption levels are continuing to increase.

Our major products are:

- Fresh meat – pork that is processed in a controlled environmental chamber with closely monitored temperatures to ensure quality and safety standards during processing right up to the time of delivery to the consumer.

- Frozen fresh meat – butchered pigs that are processed and immediately frozen, which includes such products as smoked pork, ham and roasts.

- Frozen fresh byproducts – pork byproducts including pig's liver, stomach, intestine, head and hoof.

We are part of an established pork production cycle that culminates in sales of fresh and frozen pork. This cycle includes feedstuff production, pig breeding, slaughtering, processing, packaging and distribution. We are involved in the slaughtering, processing, packaging and distribution aspects of the pork production cycle.

We are the first pork producer in China to receive "Green Food" certification from China's Ministry of Agriculture. Green Food is an innovative certification program unique to China that is awarded to food processors who produce using environmentally sustainable methods and meet certain high technical standards of quality control, safety, and product quality, and generate low levels of pollution. Under strict supervision, control and regulation in production, processing, packing, storage and transportation, Green Food-certified companies must apply these quality control standards from field to customer and regulate the application of inputs, including pesticide, fertilizer, veterinary drug and additives to minimize environmental pollution and prevent toxic and harmful substances from entering the food supply chain. The Green Food certification is based on standards defined by the Codex Alimentarius Commission ("CAC"), a joint body of the United Nations Food and Agriculture Organization and the World Health Organization.

Corporate Reorganization Prior to Going Public

PRC law currently limits foreign ownership of certain companies based in the PRC. In order for us to raise equity capital from investors outside of China, we established an offshore holding company by the name of Precious Sheen Investments Limited ("PSI") in the British Virgin Islands in May 2007. On September 26, 2007, Chuming WFOE entered into share transfer agreements with Dalian Chuming Group Co., Ltd., under which Dalian Chuming Group Co., Ltd. agreed to transfer ownership of the Chuming Operating Subsidiaries to Chuming WFOE. On October 23, 2007, Chuming WFOE completed all required registrations to complete the share transfer, and became the 100% owner of the Chuming Operating Subsidiaries. On November 14, 2007 the Dalian Commerce Bureau approved the transfer of Dalian Chuming Group Co., Ltd.'s 68% interest in Chuming WFOE to PSI, and upon this transfer, Chuming WFOE became a wholly foreign owned enterprise, with PSI as the 100% owner of Chuming WFOE (including its subsidiaries). On December 13, 2007, the PRC government authorities issued Chuming WFOE a business license formally recognizing it as a wholly foreign owned enterprise, of which PSI is the sole shareholder.

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Following this corporate restructuring, PSI became the 100% owner and parent company of Dalian Precious Sheen Investments Consulting Co., Ltd. ("Chuming WFOE"), which in turn owns 100% of the Chuming Operating Subsidiaries: the Meat Company, the Food Company and the Sales Company.

Share Exchange Transaction

In December 2007, we completed a reverse take-over transaction in the form of a share exchange, which resulted in our current corporate structure. On December 31, 2007, we acquired all of the outstanding shares of PSI in exchange for the issuance of 16,850,000 restricted shares of our common stock to the shareholders of PSI, which represented approximately 97.55% of then-issued and outstanding common stock (excluding the shares issued in the Financing). As a result of that transaction, PSI became our wholly owned subsidiary and we acquired the business and operations of Chuming.

Prior to the share exchange transaction, Energroup was a public reporting "shell" company with nominal assets whose sole business was to identify, evaluate and investigate various companies with the intent that, if such investigation warrants, a reverse merger transaction be negotiated and completed pursuant to which Energroup would acquire a target company with an operating business with the intent of continuing the acquired company's business as a publicly held entity.

As a result of the share exchange transaction, PSI (and its subsidiaries) became the 100% owned subsidiary of Energroup Holdings Corporation, and we acquired the business and operations of Chuming.

$17 Million Financing

On December 31, 2007, we completed a $17 million private placement in which we sold and issued 3,863,635 shares of our common stock to fifteen accredited investors for $4.40 per share. After giving to the both the Exchange Transaction and the Financing, we had a total of approximately 21,136,392 shares of our common stock issued and outstanding, and the PSI Shareholders held 16,850,000 of these shares, constituting approximately 79.7% of our issued and outstanding common stock.

Industry Overview

The following overview in certain instances cites to materials that are publicly available without charge. If no citation is provided with respect to certain information presented in this "Industry Overview" section, that information is attributed to our own research regarding the world pork market and China's pork industry.

World Pork Market

According to an October 2008 report of the United States Department of Agriculture (USDA), China is the largest pork producer and consumer in the world. China is the leading producer among other countries in the world by a wide margin, and produces and consumes more than half of the world's pork. The preliminary number for 2008 worldwide production of pork is 96.7 million tons (CWE, carcass weight equivalent). Generous profits in the Chinese swine industry partnered with government subsidies and tax incentives are expected to stimulate production. The USDA forecast for 2009 is that the production in China is expected to expand by more than 3% (1.2 million tons) over 2008 levels.

Pork Production (1,000 Metric Tons, Carcass Weight Equivalent), 2004-2009 (Estimated)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 Oct. |
|---|---|---|---|---|---|---|
| China | 43,410 | 45,553 | 46,505 | 42,878 | 44,593 | 46,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| EU-27 | 21,753 | 21,676 | 21,791 | 22,858 | 22,300 | 22,100 |
| United States | 9,312 | 9,392 | 9,559 | 9,962 | 10,682 | 10,507 |
| Brazil | 2,600 | 2,710 | 2,830 | 2,990 | 3,055 | 3,160 |
| Russian Federation | 1,725 | 1,735 | 1,805 | 1,910 | 2,040 | 2,180 |
| Vietnam | 1,408 | 1,602 | 1,713 | 1,832 | 1,850 | 1,850 |
| Canada | 1,936 | 1,272 | 1,245 | 1,247 | 1,260 | 1,255 |
| Japan | 1,272 | 1,245 | 1,247 | 1,250 | 1,245 | 1,240 |
| Philippines | 1,145 | 1,175 | 1,215 | 1,245 | 1,190 | 1,200 |
| Mexico | 1,150 | 1,195 | 1,108 | 1,150 | 1,142 | 1,170 |
| Korea, Republic of | 1,100 | 1,036 | 1,000 | 1,040 | 1,045 | 1,045 |
| Others | 5,262 | 5,312 | 5,485 | 5,721 | 5,723 | 5,640 |
| Total | 92,073 | 94,551 | 96,156 | 94,730 | 96,710 | 97,862 |

Sources: USDA report, Livestock and Poultry: World Markets and Trade, October 2008.

Note: 2008 data is preliminary and 2009 is forecast.

Pork Consumption (1,000 Metric Tons, Carcass Weight Equivalent), 2004-2009 (Estimated)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 October |
|---|---|---|---|---|---|---|
| China | 43,042 | 45,150 | 46,051 | 42,726 | 44,875 | 46,190 |
| EU-27 | 20,528 | 20,632 | 20,632 | 21,518 | 20,924 | 20,680 |
| United States | 8,817 | 8,673 | 8,636 | 8,966 | 8,604 | 8,566 |
| Russian Federation | 2,338 | 2,486 | 2,639 | 2,803 | 2,979 | 3,139 |
| Japan | 2,529 | 2,509 | 2,452 | 2,473 | 2,498 | 2,488 |
| Brazil | 1,979 | 1,949 | 2,191 | 2,260 | 2,380 | 2,455 |
| Vietnam | 1,386 | 1,583 | 1,731 | 1,855 | 1,889 | 1,889 |
| Mexico | 1,556 | 1,556 | 1,488 | 1,521 | 1,597 | 1,610 |
| Korea, Republic of | 1,336 | 1,311 | 1,420 | 1,499 | 1,499 | 1,468 |
| Philippines | 1,169 | 1,198 | 1,239 | 1,270 | 1,244 | 1,243 |
| Canada | 1,068 | 966 | 973 | 1,023 | 982 | 980 |
| Others | 6,145 | 6,187 | 6,456 | 6,663 | 6,915 | 6,902 |
| Total | 91,893 | 94,200 | 95,908 | 94,567 | 96,386 | 97,610 |

Sources: USDA report, Livestock and Poultry: World Markets and Trade, October 2008.

Note: 2008 data is preliminary and 2009 is forecast.

China’s Pork Industry

According to China’s National Bureau of Statistics, China’s US$176 billion animal husbandry sector is the second largest in the country’s basket of agricultural related industries including farming, forestry and fishery. The present size of the pork and processed meat market in China is an estimated US$32 billion.

Our research indicates that China’s per capita meat consumption was just over 55 kilograms by 2000, which is significantly smaller than the consumption level of over 100 kg per year by western standards. Based on what is known about Chinese culinary culture and habits, however, our management believes that the Chinese population is expected to consume more meat as their disposable income increases. For example, our research indicates that Hong Kong residents, who have a significantly higher per capita income, consumed on average 124 kg of meat in 2000.

The manner in which meat sales are conducted has changed as a result of new hygiene and food safety regulations that were introduced by the Chinese government in 1995. Historically, the great majority of meat sales in China had taken place in open-air markets or on streets, i.e. in free wet markets. These markets provided a location through which the consumer could buy live poultry or freshly slaughtered meat produced direct from local farmers. As a result of the new regulations however, governmental agencies recently have encouraged the replacement of open-air markets by supermarkets and convenience stores, and the market share of open-air markets has continued to decline. Even with these new regulations, however, the open-air markets still currently represent 80% of the overall meat-processing sector in China.

The meat industry in China is characterized by fragmentation, sanitation and hygiene issues, as well as social demographic trends. Supply is extremely localized with limited distribution capability. China’s vast geography and ‘in-development’ transport infrastructure have made it difficult to create national or even regional level competition in the industry. Our management believes that the trend towards greater sales through formal supermarkets and chain stores, coupled with the expansion of our sales and distribution network, will continue to favorably impact our business.

Pork is China's most important source of meat and is consumed at a much higher rate than other categories of meat. The following 2008 USDA Report shows that pork is consumed in China with three and half times greater volume than poultry or "broiler meat" and more than seven times more than beef:

| | Kg Per Person | Relative % |
|---|---|---|
| Beef | 4.7 | 9.8% |
| Broiler Meat | 9.6 | 20% |
| Pork | 33.7 | 70.2% |
| Total: | 48 | 100% |

Sources: USDA report, Livestock and Poultry: World Markets and Trade, October 2008.

Note: 2008 data is preliminary

In addition to a general preference for pork, urbanization and rapid income growth are working in parallel to create more demand for pork and processed pork products. An emerging middle class of relatively high-income consumers is forming in certain Chinese cities. As household incomes rise, these high-income residents consume more of all categories of foods on a per capita basis. According to the Urban Household Survey conducted in 2000 by China's National Bureau of Statistics, pork consumption by low-income residents was 13.4 kg whereas it was 19.6 kg for high-income residents. These residents not only demand a greater quantity of food, but also higher quality (e.g. better cuts of meat, foods that are safer or healthier) and convenience (processed foods). Reports of food poisoning and dangerous chemical residues have given rise to strong demand for "green" foods for which we are certified. We believe that affluent consumers would be willing to pay premium prices for foods which have safety-related certifications, foods with purported health benefits or foods with other desirable attributes. We offer a wide range of food products that appeal to demands for safety, convenience, quality and health attributes demanded by high-income urban consumers.

Our management expects China's meat industry, which includes the meat processing business, to grow due to key driving forces including food safety concerns that we believe will accelerate the transition from the traditional wet market to the modern dry market; rising modern retail channels; government mandates and supports of agricultural and meat processing companies; and consolidating forces.

Transition from "wet-market" to "dry-market"

We believe that food safety is a top concern of Chinese consumers who purchase meat products, and that this will eventually compel modernization of China's meat processing industry. Consumer surveys showed that food safety, nutritional value and taste are the top three concerns of consumers, while price was ranked fourth. Furthermore, surveys showed that 60% of the consumers have a low degree of confidence in meat products in general. There are a number of food safety concerns facing the Chinese pork industry, including swine streptococcus and Foot and Mouth Disease, the use of antibiotics and illegal feed additives such as Clenbutero, pork injected with water and illegal slaughterhouses. China's meat industry traditionally has been dominated by small and family-operated butcher shops that would slaughter the livestock in the open-air marketplaces and without the necessary safety and sterilized equipment. These unsanitary operations create what is commonly known as the "wet market," which currently represents 80% of the overall meat-processing sector. However, the industry is changing rapidly. Along with the prevalent use of refrigerators in urban households, health conscious consumers are demanding more sanitary quality meat products which can only be processed and delivered in a temperature controlled cold chain environment. This presents significant opportunities to meat processors with advanced processing plants and refrigerated transportation capabilities.

Government quality control

Frequent occurrences of food safety scares have hastened the Chinese government's effort in regulating food safety and quality. For example, in 2006 pork containing Clenbutero were found to be sold in several wet markets in Shanghai that resulted in over 330 people being poisoned, and an outbreak of swine Streptococcus in Sichuan Province led to the death of 17 people. In 2007, the swine industry was plagued with a series of eruption of Porcine Reproductive and Respiratory Syndrome (PRRS), also known as Blue Ear Disease. Outbreaks of Blue Ear Disease were still widely reported in many places throughout China in 2008. A number of Chinese organizations are involved in an effort to further improve the Chinese meat industry's safety, hygiene and sanitation standards, including the Ministry of Agriculture, Ministry of Health, State Administration of Quality Supervision, Inspection, and Quarantine, State Food and Drug Administration, and the Ministry of Commerce. Tougher quality standards set for the meat processing industry represent barriers to newcomers while forcing operationally inadequate and financially unsound companies to shut down. Our management anticipates that companies such as ours, with quality meat processing and modern logistics systems, will benefit as they capture market share and build consumer brand loyalty.

Government's strong support of meat processing industry

The main theme of China's 11 th Five Year Plan is the development of China's rural economy. With the widening wealth gap between the rich and poor or between urban and rural regions, China's central government has shifted its focus from urban industrial growth to rural agricultural development aimed at improving the standard of living in the poorer regions. Many preferential policies were enacted to help the farming communities including subsidized livestock insurance and interest free loans. Scaled meat processors are considered active agents in galvanizing the rural economies by providing jobs, injecting capital, and introducing new technology and management expertise to the local economies. The Five Year Plans are a series of economic development initiatives promulgated by the Chinese government; however, they do not constitute binding or substantive policies or regulations. The Chinese economy has been shaped primarily by through the plenary sessions of the Central Committee and National Congresses. The Five Year Plan serves, in part, as a mapping strategy for economic development, setting growth targets, and launching reforms. The plan usually includes detailed economic development guidelines for all its regions and the nation as a whole. As China has transited from a centrally-planned economy to market economy, the name for the 11th Five-Year Plan has been characterized as a "guideline" rather than a strict "plan". The 11th Five-Year Plan covers the period from 2006 to 2011.

National retailers provide platform for growth

The increasingly widespread use of refrigerators in urban Chinese households has attracted many retailers to carry more frozen food products, making available a wide variety of frozen products to consumers. Major domestic retailers, including LianHua have made an impact in introducing more brands of frozen food products in their retail stores. Even more significantly going forward will be the rapid expansion of international hypermarkets in China, including France's Carrefour, the U.S.'s Wal-mart, and Germany's Metro. These retailers with national reach will significantly change the retail industry landscape as they provide the platform for the large branded food companies to efficiently and rapidly distribute their products to large and untapped markets. These international retail chains can also provide excellent export opportunities to scaled, quality meat processing companies.

Industry consolidation benefits scaled players

In the more mature US meat market, the top three producers represent about 50% of the meat industry there. But in China the meat-processing industry is very fragmented with over 3,000 meat-processors most of which are small operators. The top three producers represent less than 5% of the overall market. Pig farms in China are also very fragmented with over 90% of the farms possessing fewer than 10 pigs. As smaller players experience pressure from margin compression and stricter government regulations, we believe scaled meat processors will make attractive acquisitions in order to capture market share, gain scale, secure raw material, and move closer to clients. The combination of stricter hygiene regulations, increasing competition from well-financed players, struggling meat suppliers, and increasing international competition from companies like Hormel will induce major industry shakeout and consolidation in the coming years.

Macro and Demographic Trends

It is widely believed that a middle class is rapidly emerging in China. China's GDP has been growing at over 9% per year for the past 10 years and has created millions of new consumers. Although recent government estimates project slower GDP growth of 7.5% in 2009, in the longer term management still believes the trend toward expansion of the middle class in China will translate into higher demand for pork products.

- Due to the increasing rural migration to urban cities, China expects to double its major cities by 2010 creating new waves of Chinese urban meat consumers. The number of Chinese cities with over 1 million people is projected to reach 125 by 2010 according to the Chinese Academy of Sciences, and cities with over 2 million people are projected to reach 300 by 2020.

- Domestic demand for meat products in China is expected to grow to a projected 100 million metric tons in 2010 from an actual 72.4 million metric tons in 2004 according to Access Asia, an independent research firm. Total production value of meat products are expected to increase to a projected US$120 billion from an actual US$84 billion and per capita meat consumption is expected to increase from an actual 49 kg to a projected 75 kg during the same period. Pork represents the bulk of meat products consumed in China.

With higher standards of living and more a demanding working lifestyle, urban Chinese consumers are purchasing more processed meat products and spending more on dining on meat products outside of the home. Our research indicates that:

- Currently less than an estimated 10% of the meat consumed in China is processed. Meat consumption out of the home has surpassed in-home meat consumption in 11 Chinese provinces, especially in more economically developed regional markets such as Shanghai, Beijing, and Shenzhen, according to the National Bureau of Statistics.

- Chinese consumers have become more conscious of food safety and quality, fueling demand for branded foods. This has become more evident after the occurrence of a series of disease outbreaks across Asia including SARS and the avian flu. With changing lifestyles and food quality awareness, Chinese consumers are seeking more name brands to ensure the quality in processed meat that they purchase.

- The new health-conscious consumer group has become more educated and concerned with the freshness and nutritional value of various meat products. For example, LTMP (low temperature meat product) pork has become more popular recently as urban consumers become aware that LTMP has better nutritional value and fresher taste than the longer-shelf-life HTMP (high temperature meat product) pork products.

Processing of Meat Products in China

In the PRC, regulations relating to the processing of meat products are set forth in the PRC Law of Food Hygiene and the Administrative Measures for the Hygiene of Meat and Meat Products. A PRC food processing company is required to obtain a hygiene permit from the Hygiene Bureau of the relevant districts before it is permitted to apply to the Ministry of Industry and Commerce for a business license. In 2007, the Chinese government issued the Regulation of Hog Slaughtering and started implementation of this regulation since August 1, 2008. The government issued the Measures of Administrating Hog Slaughtering in 2008. These two recent regulations further tightened the regulation of the live pigs market and raised the bar of entry for new competitors, which management believes are advantageous to our market position and will help further our expansion.

A food processing company may not purchase or use meat that has not been inspected and approved by the Animal Supervision Authority. Even if the meat has been so inspected, it must still satisfy other hygiene requirements. Each food processing company must have facilities to conduct regular laboratory testing of its products to ensure food safety requirements are met. For instance, sometimes traceable levels of contaminants and radioactive substances are found in meat products, and these must not exceed certain established national standards.

Food processing companies are required to possess hygienic cold storage facilities, and proper management of such cold storage facilities must be set out. All storage equipment and packing materials must also comply with hygienic standards. All meat products which are packed must be labeled, specifying requisite information such as name of the product, place of manufacture, manufacture date, lot number or code, final consumption date and ingredients. Any meat product to be exported shall be inspected by the Animal and Plant Quarantine Authority when passing through customs. Only meat products which have passed such inspections may be exported.

Business

We are principally engaged in the production, processing, sale and distribution of fresh and prepared meat products in China. Our products are classified as fresh and frozen pork, and prepared foods, which includes prepared pork, seafood and by-products.

Our production facilities are located in Dalian, a coastal city with a population of 3 million (6 million including the greater metropolitan area). Referred to as the "Boston of China" due to its Northeast proximity and port orientation, Dalian is the most affluent city in the Liaoning Province, with a population of 42 million. Dalian serves as a finance and export trade center of Northeast China, and is also the center of the "Buo Sea Economical Zone" ("BSEZ"). According to China's National Bureau of Statistics, the BSEZ covers 12% of the territory and 20% of the population in China, and is the most important economic center in Northern China. The National Bureau of Statistics also projects that these two areas may generate a more rapid growth rate than the overall GDP growth of China in next 10 years. Our facilities include 5 production lines with the slaughtering capacity of 123,318 metric tons and prepared food capacity of 16,000 metric tons. Our prepared food facilities are the largest in Liaoning Province.  In 2008, we renovated and expanded our production facilities for prepared foods, and management believes such improvement will increase our production of prepared foods by another 15,000 metric tons starting in 2009.

Our production lines are imported from international manufacturing automation leader Stork™ of the Netherlands, with the state-of-the-art technology and specialized for their in-process testing and quality controls. Our production facilities are certified under ISO9001 and HACCP. Our pork products are qualified "Green Food" by the National Green Food Development Center and qualified as one of 14 "National Safe Foods" by the National Slaughtering Authentication Center.

Our products are sold under the brand name of "Chuming™." We target consumers who desire high quality pork products. We distribute our products through dealers and agents to more than 242 supermarkets, including Carrefour, Wal-mart, Metro, New-mart, Hymall and others. We also distribute our products to over 3,675 schools, hospitals, factory canteens and restaurants, and more than 860 "Chuming" branded showcase stores or specialty counters in wet markets. These branded showcase stores and specialty counters are resellers of our products with whom we have arrangements to sell our product under the Chuming brand name (the principal difference between branded showcase stores specialty counters being location within a supermarket for the former, and location in a wet market for the latter).

Our business activities are the slaughter, processing, packing and distribution of meat products for sale to clients throughout the PRC. We have a 250,000 square meter campus which houses an international standards-based meat processing plant located in the city of Dalian of the Liaoning Province in the PRC. We have a total of five production lines and an aggregate capacity to slaughter approximately 1.5 million pigs per year. We purchase hogs from more than 3,000 farms in the Liaoning Province and nearby areas, in addition to having an exclusive contract with farms owned and operated by the Group, to supply us with 750,000 live hogs in 2008, 800,000 in 2009, and 800,000 in 2010, at local market prices.  The Group provides breeding pigs, animal feed, vaccination, veterinary services and technology support to our subcontractor pig farmers, resulting in more favorable relations with these small independent suppliers.

Principal Products

We produce, distribute and sell fresh meat and prepared food products under the brand name "Chuming™," through our dealership distribution network, our own sales force and branded showcase stores in the PRC.

We produce two main types of Processed Meat Products – High Temperature Meat Products (HTMPs) and Low Temperature Meat Products (LTMPs).

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High Temperature Meat Products. HTMPs are cooked at a temperature of approximately 121°C and at approximately 2.5 times atmospheric pressure. These meat products can be stored at room temperature and have a shelf life of approximately six months from the date of production. However, the permitted shelf life of these products is 120 days from the date of production, even though the actual shelf life of these products is six months. HTMPs are generally priced lower than LTMP and do not require refrigeration. Therefore, they are affordable and accessible to the average PRC consumer.

Low Temperature Meat Products. LTMPs are cooked at lower temperatures ranging from 65 to 85°C, under 1 atmospheric pressure. These meat products have a shelf life of three months from the date of production if they are stored at a temperature of 0°C. In 2003, we introduced our LTMPs to the PRC market. The Group's R&D studies have shown that LTMPs generally taste better than HTMPs because they are cooked at lower temperatures and thus are able to preserve the taste and nutrients found in the ingredients. The LTMPs generally cater to the taste of consumers in PRC cities who have higher purchasing power.

Currently, we have two main series of products for both HTMP and LTMP: the "Ham" series and the "Sausage" series. The Ham series has chunkier pieces of meat and thus has a meatier texture. It also has a corresponding higher percentage of meat content. The Sausage series has a lower percentage of meat content and has a smoother texture.

The range of products we offer includes more than 300 varieties of hams and sausages. The following is a summary of some of the types of Fresh and Processed Meat Products that we manufacture and how they are categorized:

Fresh Pork

Chinese people generally perceive that fresh meat retains a better flavor as compared with frozen meat. As such, the price of fresh pork meat is approximately 20% higher than frozen pork meat. The other producers of fresh pork meat in the PRC are generally farm-based suppliers, which supply the areas around the farms. The key difference between our fresh pork and that of farm-based suppliers is that our fresh pork is produced and packed in a highly controlled sanitized environment in our own facilities. Therefore, consumers have added assurance that our fresh pork meat is safe for consumption.

In order for the pork to remain fresh, at our facilities the pigs are slaughtered and then processed within 30 minutes. The meat is then cooled but not frozen at a temperature between 32° F (0° C) and 39.2° F (4° C) for about 20 hours. Following this cooling process, fresh pork is cut into various parts in a sterilized room with the constant temperature of 12° C. This reduces the risk of exposure to germs and bacterial contamination. Before delivery, the fresh pork is kept in our storage room at a controlled temperature of 0 to 4° C. The meat is stored in airtight sterilizing rooms filled with ozone, which acts as a sterilizing agent, killing remaining germs and bacteria in the meat.

With our own temperature-controlled vans and trucks, we deliver the fresh pork to our customers including dealers, supermarkets and branded showcase specialty stores. The entire process of cold production, cold storage and cold delivery is what we refer to as the "cold chain system." This cold chain system ensures the freshness and quality of our product. Our fresh pork products have an average shelf life of 7 days from the date of production.

Frozen Pork

In the production of our frozen pork, the meat is frozen at -31° F (-35° C) to -40° F (-40° C) for 48 hours. It is then stored or transported at a constant temperature of between -0.4° F (-18° C) to -13° F (-25° C). Since frozen pork can be preserved for longer periods of time, our frozen meat products are ideal for distribution across longer distances to the Northeast and North China as well as potentially to international markets such as Korea, Russia and Japan. These products have an average shelf life of 180 days from the date of production. We also sell our frozen pork to restaurants, supermarkets and fresh food markets.

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Prepared Food Products

Our prepared food products include prepared pork, seafood and pig by-products, which accounted for 11.57% of our 2008 revenues.

Prepared Pork Products. Our prepared pork products are mainly LTMPs, which are cooked at lower temperatures ranging from 65° C to 85° C and under atmospheric pressure. These meat products generally have a shelf life of 30 days from the date of production if they are stored at a temperature ranging from 0° C to 4° C. For LTMPs, we currently have two series and more than 300 products. These foods are all made from the fresh pork that we produce. The following is a description of the types of prepared pork products we offer:

Ham

- Chuming Cumin Ham
- Cooked Ham
- Roast Ham
- Premium Ham
- Sandwich Ham
- Square Ham
- Chunky Ham
- Baby Ham
- Salted Loin
- Smoked Ham

Sausage

- Diary Sausage
- Garlic Sausage
- Spicy Sausage
- Chinese Sausage
- Taiwan Sausage
- Baby Sausage

Seafood Products. Our prepared seafood products are made from fish, shrimp and other varieties of seafood. With our techniques of prepared food production, we prepare seafood products such as fish sausage and shellfish sausage. Seafood products accounted for 6.2% of our revenue for the full year of 2008. Due to the abundance of seafood in

Dalian, located on the Northern coast of China, as well as relatively high profit margins for these products, we plan to expand our seafood output in the future. The following is a description of the varieties of seafood products we offer:

- Seafood sausage
- Baked Fish Sausage
- Barbequed Prawn Sausage
- Crab Sausage
- Scallop Sausage
- Squid Sausage

Pig By-Products. In China, virtually all parts of the pig are valued for consumption and are used in local cuisine. Pig "by-products" that are not typically used or sold in other parts of the world are prepared and sold in the Chinese market. This includes pig innards, pig skin, pig tails, lard and pig heads. Pig liver, stomach, intestine, head and hoofs are commonly used in Chinese cuisine and are sold to a ready market.

We produce our products through two of the Chuming Operating Subsidiaries: (i) the Meat Company in Wangfangdian, and (ii) the Food Company in Dalian.

Our fresh and frozen pork is produced by our subsidiary Meat Company. The Meat Company's facilities cover 150,000 square meters and utilize state-of-art slaughtering and cutting lines imported from Stork Co. of the Netherlands. The Meat Company has a slaughtering capacity of 250 pigs per hour, which are 1,500,000 pigs per year at full capacity. Our cutting line has a capacity of 30,132 metric tons per year. Our cold and freezing storage facilities can store up to 6,000 metric tons of fresh products. The fresh pork and frozen pork produced by the Meat Company are typically sold either in whole carcass form or in cuts.

The prepared foods are produced by our subsidiary Food Company, located in the Ganjingzi District of Dalian. The Food Company, which includes a 10,000 square meter processing facility. There are three prepared food production lines including one pork processing line with the capacity of 10,000 metric tons, one seafood sausage production line with the capacity of 4,500 metric tons and one deli by-product production line with the capacity of 1,500 metric tons. In 2008, we renovated and expanded our production facilities to increase the production of our prepared foods. We started using our additional production facilities in January 2009. Management believes, with the improvement and expansion of our production facilities, the production of our processed foods will increase by 15,000 metric tons from 15,000 metric tons in 2008 to 30,000 metric tons in 2009. All of the Food Company's production line equipment is imported from Germany and features state-of-the-art technology. Based on our own market research on our competitors, management believes that the Food Company is now the largest prepared food production plant in the Liaoning Province.

Supply of Pigs

We do not rear pigs, but instead purchase them from our former parent company, the Group and from other suppliers who aggregate supply from local pig farms. We purchase live pigs from the Group and third party suppliers on a cash-on-delivery basis. While the Group's breeding operations are well developed and large scale, most of the pig farming in the PRC is generally not well commercialized. Our third party suppliers aggregate supplies from hundreds of small pig farms, which are typically operated as independent family-owned farms. One advantage of decentralized supply is that we obtain competitive market pricing for our supply of pigs. Another advantage is that any outbreak of livestock disease is likely to be confined to a one or more of these farms and would not affect our entire supply. Potential disadvantages from a decentralized supply of pigs include variations in quality of stock, and potential variation in quantity and timing of the supply of hogs to our plant for processing. However, because all pig farmers who supply pigs to us are all located within the greater Dalian City metropolitan area (within a two hour radius by truck), the logistical issues have so far not interfered with our ability to secure a steady supply of hogs. Since we have around 6,000 local pig farmers who will supply hogs to us, we ordinarily are able to obtain a reasonably stable supply of hogs, even when some farms cannot meet our requests for any reason. Also, because our former parent company, Group, acquires pigs directly from independent farmers then sell pigs to us in lots (under our Hog Procurement Agreement), to some extent we have minimized the potential disadvantages discussed above.

Our pig suppliers supply us with regular quantities of pigs per based on the current prevailing market price of pigs on the day of delivery. We typically order a certain number of pigs per day from each of the farms that supply us pigs. For instance, if we expect to order 80,000 pigs per annum from a supplier, that supplier will supply somewhere between 240 and 260 pigs per day.

In order to ensure a consistent supply of fresh pork to our customers, we have made agreements with over 6,000 pig farms in the Dalian, to supplement our usual supply of live pigs. These pig farms have agreed to guarantee us a supply of approximately 350,000 pigs in 2008. Our suppliers have an aggregate capacity to supply us with approximately 1,100 pigs per day.

We normally pay a higher than average price per pig, which is typically RMB 1.25 per kg above the average market price for live pigs, in order to acquire what we believe to be a higher quality supply of pigs. Although we pay a premium for a higher quality supply of pigs, our management believes that the benefits of this strategy outweigh the costs because of the goodwill that results from providing a consistently high-quality product to our customers.

We pay different "market prices" for live pigs depending on quality and weight. Incoming live pigs are graded by our quality control personnel based on a number of criteria (including fat content, health of the animal, absence of injuries, the net weight), into several categories including "Grades 1- 4" and "below-grade," with Grade 1 being the highest quality (and accordingly the highest price per kilogram). We then determine prevailing market prices for live pigs for these various grades based on market data drawn from the local marketplace, which fluctuates daily. Approximately 80% of the live pigs purchased by us are in the Grade 1 and Grade 2 categories. For example, for the first quarter of 2008, approximately 80% of the live pigs purchased by us were Grade 1 and 2, with the remainder in Grade 3 and 4. Since we generally select higher-quality pigs (Grades 1 and 2) among all live pigs available for purchase in the marketplace, as a result we pay a higher than average price per kilogram for our overall supply of live pigs.

In 2006, 2007 and 2008, we paid a total of $ 59.2 million, $ 110.4 million and $ 125.6 million, respectively, for our total supply of live pigs. We paid the Group an aggregate of $61.7 million and $–––72.7 million for live pigs during the years of 2007 and 2008, respectively, and the amounts paid were determined as described above.

Under our Long-Term Hog Procurement Agreement between the Group and Meat Company, the Group agreed to supply no less than 800,000 live hogs in 2009, 800,000 in 2010, and 800,000 in 2011, and the price for the hogs is set at the fair market price at the time of delivery.

In 2007, we experienced a severe supply shortage of hogs that was unanticipated. According to China Livestock and Products Annual Report 2007 dated September 2, 2007 by the USDA Foreign Agriculture Service, the severe supply shortage of hogs in 2007 was because of a series of outbreaks of Porcine Reproductive and Respiratory Syndrome (PRRS), also known as Blue Ear Disease, in China from May 2006. In 2007, we processed approximately 791,440 pigs through December 31, 2007, which were 208,560 short of our target of 1,000,000 pigs for 2007. The problem of Blue Ear Disease persisted through 2008, and many of such cases were widely reported throughout China. In 2008, we processed approximately 806,427 pigs through December 31, 2008, which were 193,573 short of our target of 1,000,000 pigs for 2008. Due to the shortage of supply of hogs, during 2008 the government started offering subsidies and tax incentives to pig farmers in an effort to stimulate production. However, the positive effects of such government incentives may take some time to realize. Pigs normally have a growth cycle of 175 days before they are full grown and slaughtered, and with the outbreaks of the Blue Ear Disease, the supply of pigs remained tight and the price of pork remained high in 2008 as a result of the shortage of supply. The average pork price increased by 28 percent in 2008 compared to 2007.

We participate in a breeding program with local farmers – under this program, after a careful selection process, every participating breeder must have a pig farmer provide a guarantee of supply, who must be responsible for making up any differences between the agreed amount and actual number of pigs supplied to us. This program has been in existence since 1998. Management believes that since our breeding program has successfully increased farmer income and tax revenue in our region, our local government has welcomed these programs.

Among our suppliers, Zheng Baojiang, Zhang Jihuan, Wang Fujie, Ge Hongqi, and Chen Lienhe are the most successful pig farmers in our supply chain, and they supplied an aggregate of 12,500, 10,000, 9,000, 8,500 and 7,000 hogs respectively through each of the 12 months of 2008, contributing to 5.8% of our total supply.

In addition to the quality of our suppliers' stock, and their health and safety controls, we have a quality control system of our own to ensure that pigs supplied to us are healthy and fit for human consumption. We require that pigs supplied to us be accompanied by required health certificates, and each must weigh at least between 90kg and 100kg. If the pigs meet the above criteria, we are then obligated to accept delivery of the pigs. (A pig that weighs between 90 and 100 kg, has more saleable meat per kilogram. If it is below this weight range, the ratio of meat to innards would be lower, resulting in less saleable meat per kilogram).

Customers and Distribution Methods of the Products

Customers

We have three primary types of customers for our products, which are (1) city and town households, (2) canteens and restaurants, and (3) food processing companies.

We have found that Chinese households prefer fresh pork to frozen pork. Consumers typically buy fresh pork in small quantities, in frequent visits to markets where it is sold. Households usually choose the supermarkets, the wet market, or Chuming™ branded showcase stores to buy the fresh pork based on convenience. This type of customer accounted for 92% of our revenues in 2008.

Canteens include the cafeterias of government agencies, schools, factories and hospitals. These customers, including restaurants, often purchase our pork from Chuming™ branded showcase stores or directly from agents or wholesalers of the Company. This customer segment accounted for 6% of our revenues in 2008.

In addition to the above two types of customers, we also provide branded food processing companies with fresh and frozen pork. However, this customer segment accounted for less than 2% of our revenue in 2008. Since our sourced pigs are of good breed and have undergone strict quality control in the production process, these food processors regularly rely on our pork as an ingredient in their products. Our clients in this segment include Taiwan Dachan, a feed supplier and food processor in Taiwan. These food processing companies typically gain access to our products through Chuming agents or wholesalers.

Our largest customer accounted for approximately 26%, 8.8% and 9% respectively of our total turnover for the years ended December 31, 2006, 2007 and 2008. Our top five customers accounted for approximately 71%, 45% and 37.5% of our total turnover for the years ended December 31, 2006, 2007 and 2008, respectively. None of our directors, their associates or any significant shareholder of the Company has any interest in any of our five largest customers.

Distribution Network

Our distribution network is organized and divided by geographic markets and sales regions, including: Dalian Metropolitan, Eastern Liaoning, Western Liaoning, Jilin, Heilongjiang and Hebei markets. In each market, we have a team led by a sales officer whose objective is to expand the Chuming sales network by developing potential dealers, agents and wholesalers, and to maintain the existing network by assisting our sellers. Our Sales Company works with dealers, agents and wholesalers, who then submit orders directly to us.

Sales by Region for the Year Ended December 31, 2008

| | |
|---|---|
| Dalian | 59% |
| Shenyang | 24% |
| East Liaoning | 5% |
| North Liaoning | 3% |
| West Liaoning | 3% |
| Others | 6% |

Retail Strategy

To differentiate ourselves, we have a unique retail strategy to complement our wholesale operations. We sell our product to “showcase stores” which are owned and operated by independent operators. These specialty boutique-type stores must have the same design and physical layout and must follow our operating methodologies. These storefronts are highly visible with the Chuming™ brand name. We also set merchandising and pricing policies and all employees must undergo a mandatory training program. There are currently over 860 such boutique stores in Liaoning Province, providing high brand recognition and communicating a message of quality that will benefit all channels. These boutique stores target the new middle class that desire and can afford high quality goods and services. They provide particular convenience to a typical busy two-income, middle-class family which shops frequently after work. Most of these boutique shops are located in Dalian and the major cities of Liaoning Province. Each store has a minimum monthly sales requirement depending on the city and store.

Dealers, agents and wholesalers who we work with serve their own diverse distribution channels. Our affiliated dealers organize their sales to stores and supermarkets, such as Carrefour, Wal-mart, Hymall, New-mart and Metro. Our affiliated agents assist in identifying locations and opening Chuming™ branded showcase stores in their region, important to expanding our revenues. Our affiliated wholesalers typically organize the sales to canteens and restaurants as well as food processing companies. In some regions, our affiliated agents will also directly contact local canteens and restaurants.

Chuming’s Distribution Network

We have our Chuming™ branded counters in large stores and supermarkets, which are the most important and highly visible locations to enhance our brand and image. Since large supermarkets such as Carrefour and Wal-mart have strict requirements to approve any suppliers, having Chuming™ counters in these mega-retailers’ flagship stores reinforces the consumer confidence in our products. We have Chuming™ counters in more than 242 large supermarkets located in Northeast China and the Hebei Province.

Our most popular product, fresh pork, is sold primarily though our Chuming™ branded showcase stores. Chuming™ showcase stores are usually located in high-density, urban residential areas easily accessible by our customers. The Chuming™ showcase stores also save time compared to long lines sometimes found at large supermarkets. Chuming™ showcase stores are all equipped with refrigerators to keep the pork fresh. We have established more than 860 Chuming™ showcase stores now operating in Dalian and throughout the Liaoning Province.  In the next few years, we aim to increase the number of our Chuming™ branded franchise stores to more than 1,000 outlets.

We provide operators of showcase stores and specialty counters with equipment (refrigerated showcases, signage, uniforms, heating equipment for processed food and other equipment), labels and packaging, technical assistance, and permission to sell our products under the Chuming™ brand name. These operators pay us an equipment deposit (to cover the cost of equipment), a trademark usage guarantee deposit, a uniform fee (for the cost of employee uniforms), a one-time start-up fee to cover the costs of certain materials, and an ongoing fee of approximately 0.5% of the total purchase amount of the products these operators purchase from us. Operators agree to sell our products exclusively, and may sell other products only with our consent. Operators are responsible for payment of their own taxes and government fees, leasing expenses, and other operating costs. If an operator is terminated, we will refund the equipment deposit upon return of the equipment, and the trademark deposit if the operator has complied with the trademark usage guidelines we provide to them. We generally reward high-volume operators with discounts and incentives on a case-by-case basis.

Delivery

In China, one of the main obstacles to expanding market share and developing national brands has been logistical management during processing. We address this issue by equipping our processing plant with modern technologically advanced, state-of-the art equipment and production lines. Our advanced logistical infrastructure includes the use of bar coding and electronic interchange to enhance the speed and accuracy of data flow. Over the years, we have built an extensive logistical system that includes 36 contracted refrigerated container trucks that allow us to better preserve the meat and to expand our market scope by delivering food to farther retail points. As a result, we have been able to make deliveries within a 500km radius of our Dalian processing plant. Furthermore, our modern information technology system adds additional competitive advantage as it provides us real time market and production data which in turn enables us to capitalize on the timely information regarding market pricing, inventory levels, and changes in demand.

After orders are gathered and processed at the Sales Company, our products are delivered utilizing our transportation fleet and through pick-up by certain accounts at our facilities. The quality of our fresh pork is highly dependent on the storage room and delivery vehicles once they leave the chill room. We currently own 36 temperature-controlled vehicles, which we employ in our operations to help guarantee the freshness of pork at the point of delivery to customer locations in our primary market which is within a two-hour radius of Dalian.

Quality Control

We maintain all required licenses and certificates from the relevant central and local government authorities with regard to our pork production business. In 2005, we were awarded ISO 9001:2000 certification that covers our production, research and development and sales activities. ISO 9001 certification indicates that our abattoirs and pork production operations comply with international standards of quality assurance established by the International Standards Organization. All of Chuming's production lines have also passed the Hazard Analysis and Critical Control Point (HACCP) test, which is certified by Moody International Certification Ltd.

We currently have 82 Quality Control (QC) personnel who run and refine our quality assurance system. This system is divided into two sections: Meat Production Supervision and Processed Meat Supervision. The 82 employees who work in our quality assurance program consist of 34 quality control engineers and 48 staff. All members of the QC team are trained technicians with qualifications and experience in animal husbandry, quarantines and veterinary medicine. The quality control laboratory meets and exceeds all standards set by the authorities and relevant agencies in the PRC.

In addition, government inspectors regularly and permanently work in our slaughtering and packaging plant every shift. They examine animals before slaughter, supervise sanitation, inspect carcasses and internal organs for diseases during the slaughtering and processing procedures, and then certify carcasses and packaged products as to consumer readiness.

As discussed in the above section regarding our principal products, the pork products produced from freshly slaughtered pigs at our facilities are chilled or frozen after slaughtering to prevent deterioration of the meat caused by bacteria or chemical changes. The chilled and frozen pork are maintained within the requisite temperature ranges, during subsequent handling, transportation and distribution to retain freshness and to prevent deterioration of the meat.

Competition

We are currently one of the largest meat producers in the three northeast provinces of Jilin, Liaoning and Hei Longjiang. According to management's estimates, in Liaoning Province, we are the market leader for both fresh pork with 9.6% market share and for meat products with a 2.7% market share. Management estimates that in Dalian, we are the market leader for fresh pork with a 52% market share, and shares the lead position for meat products with a 23% market share. As we expand geographically, we expect to encounter additional regional and local competitors. Our management believes that all food segments in China compete on the basis of price, product quality, brand identification and customer service, and that we are well positioned in all of these areas.

Major Domestic Competitors

Currently, our primary competition comes from the domestic players that operate in a very fragmented industry environment. Presently, there is no clearly dominant producer in the PRC pork industry. The three largest producers in China, Shuanghui, People's Food and China Yurun, together capture less than 5% of the total market. Most of the companies in the industry tend to focus on different product and market segments. Shuanghui has the largest market share in the HTMP pork segment, while Yurun is the leader in the LTMP space. Both companies have done well in the top tier markets. People's Food, on the hand, tends to focus more of its distribution efforts on smaller cities, where mass distribution is more difficult, and typically does not sell through large retail channels. On the other hand, about 40% of China Yurun's sales are through supermarket and hypermarket chains. In terms of geographical focus, we believe People's Food has a strong presence in Northeastern China, and China Yurun has announced plans to expand into the Northeast with plans for two new plants in Shenyang and Harbin.

New International Entrants

After China joined the WTO, many domestic industries were opened to international competition, including the meat-processing industry. Foreign companies have already entered China's major cities, mainly though the major hypermarkets such as Carrefour. So far, domestic players have an advantage in the introduction of new products based on local tastes and distribution in below Super-tier cities such as Beijing and Shanghai. Tyson Foods, Inc., U.S.A. has a joint venture with Shanghai Ocean Wealth Fish Products Corporation Limited. Hormel Foods Corporation, U.S.A., has set up representative offices in China in 1995 and currently operates processing factories in Shanghai and Beijing.

Advertising and Promotional Activities

Advertising and promotional expenses were $1,764,788, $2,241,062 and $869 for the years ended December 31, 2008, 2007, and 2006, respectively. Our advertising and marketing expenditures decreased considerably from $2,241,062 in 2007 to $1,764,788 in 2008, partly attributable to outsourcing some of the marketing and promotion of our products to our independent sales agents, and in return the Company gave them bigger discounts and incentives on our products. The Company believes that advertisements can be handled more effectively at a regional and local level by the sales agents individually, and at the same time it is also more cost effective for the Company. In 2008, we allocated more of our resources to increase the advertising and promotional activities aimed at higher performing regions, retailers and supermarkets.

Advertisements are principally for Processed Meat Products and Fresh Pork and are targeted at consumers in the Northeast PRC. We advertise periodically in the local media to create and maintain public awareness of our products and branding. These activities include television commercials, radio, magazine and newspaper advertisements, and exhibitions. We increase the frequency of advertisements whenever new products are launched.

Intellectual Property Rights

Through our advertising efforts and the consistent quality of its products, our management believes that consumers in the PRC have come to associate our “Chuming™” brand name with quality meat products. Thus, our management believes that the goodwill in the “Chuming™” branding is a valuable asset to us. The “Chuming” trademark and rights to the “Huayu” trademark application in the PRC are owned by Dalian Chuming Industry Development Co., Ltd., a subsidiary of the Group. We have been granted a perpetual fully paid up license to use both of these trademarks in connection with our business, under two trademark agreements with Dalian Chuming Industry Development Co., Ltd.

We believe that the protection of our brand names is important to our marketing efforts and believe that we have taken appropriate steps to protect our brand. We have not discovered any counterfeiting or any infringements of our Chuming™ or Huayu brand names during the three years prior to the date of this report.

We require all resellers who we work with, including specialty counters and showcase store operators, to comply with our trademark usage policy, and require them to pay trademark usage guarantee deposits. We also have approximately 42 employees who randomly inspect the facilities of the over 792 operators we work with to ensure compliance with our policies and other guidelines. We will generally terminate our business relationship with operators found violating our policies.

Research and Development

We have two operations, a Meat Engineering Center and a Sea Products Center, focused on the development of new products to the market. In addition to meeting the taste demands of consumers, these groups focus on quality, nutrition and safety standards. These groups draw upon a 25-employee research and development staff, including three professors in the field of animal nutrition and biology, supporting the safe and rapid introduction to the market of new products, specifically in the areas of seafood and meat by-products. We currently have more than 125 products available to consumers, with the average rate of three new products ready for the market per month. We are also working on anti-freezing experiments to facilitate preservation of our meats so as to minimize or eliminate the use of chemical preservatives.

Government Approval and Regulation of Principal Products

The Chinese government is actively promulgating a plan for “safe meat” and is expected to raise the proportion of slaughtering automation to over seventy percent of all meat and actively enforce authorized slaughtering and quarantine. Government initiatives take the form of benefits ranging from special grants, subsidized financing, preferential tax policies, and direct government funding and other types of subsidies aimed at encouraging the modernization of the meat industry. In addition, while it is possible that the Chinese central or provincial governments may enact more stringent regulations that raise standards for the meat processing industry, we believe that our company is currently a leader in meat processing safety standards, and would not be affected by such increased standards.

Compliance with Environmental Laws

We own two wastewater treatment plants on premise with a daily treating capacity of six hundred tons for each plant. Those plants were designed to comply with the Integrated Wastewater Discharge Standard of the PRC and the Environmental Protection Regulation of Dalian City. To the knowledge of our management, we have been in full compliance with environmental protection regulations during at least the past three years.

Employees

We currently have approximately 670 employees, the composition of which is as follows:

| | R&D and Engineering | Production | General and Administrative | Sales and Marketing | Quality Control | Total |
|---|---|---|---|---|---|---|
| Meat Company | 12 | 189 | 24 | 12 | 15 | 252 |
| Food Company | 18 | 166 | 12 | 8 | 12 | 216 |
| Sales Company | 0 | 0 | 20 | 182 | 0 | 202 |
| Total | 30 | 355 | 56 | 202 | 27 | 670 |

We and our predecessor companies have experienced excellent employee retention, which we believe is a result of our consistently-applied management policies and proactive employee benefit program participation. The average tenure is four years for factory workers and twelve years for management staff. All employees are provided with health insurance, unemployment insurance and retirement benefits that are provided by the government. We make regular payments into these government-sponsored health insurance and retirement programs for each employee. Additionally, we provide free meals and accommodations to all employees on shift.

Certain of our employees are represented by a labor union which is governed by PRC Company and Labor Laws. There have been no adverse labor incidents or work stoppages in our history or our predecessor companies. Management believes that our relationship with our employees and the union are good.

Corporate Information

Our principal executive offices are located at No. 9, Xin Yi Street, Ganjingzi District, Dalian City, Liaoning Province, PRC 116039. Our main telephone number is +86 411 867 166 96 and our fax number is +86 411 867 166 90.

## RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this report before making an investment decision with regard to our securities. The statements contained in or incorporated into this report that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

### Risks Relating to Our Business

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a limited operating history. Our holding company in China, Chuming WFOE, and the companies that form its present subsidiaries were incorporated in 2004. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the meat industry in China. Some of these risks and uncertainties relate to our ability to:

- maintain our market position in the meat business in China;
- offer new and innovative products to attract and retain a larger customer base;
- attract additional customers and increase spending per customer;
- increase awareness of our brand and continue to develop user and customer loyalty;
- respond to competitive market conditions;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and
- υπγραδε our technology to support additional research and development.

If we are unsuccessful in addressing any of these risks and uncertainties, our business may be materially and adversely affected.

If there are any interruptions to or decline in the amount or quality of our live pigs, raw pork or other major raw material supply, our business could be materially and adversely affected.

Live pigs and raw pork are the principal raw materials used in our production. We procure approximately 58% of our live pigs from Group, and the remainder from various of third party suppliers who are independent farmers. Our third party suppliers may not continue to be able to supply an adequate number of live pigs to satisfy our present and future production needs. The supply of pigs is dependent on the output of pig farms, which may be affected by outbreaks of diseases or epidemics. Our current suppliers may not be able to provide live pigs of sufficient quality to meet our stringent quality control requirements. Any interruptions to or decline in the amount or quality of our live pig supply could materially disrupt our production and adversely affect our business. In addition to live pigs, we also use additives and packaging in our production, which we source from third party suppliers. Any interruptions to or decline in the amount or quality of our additives or packaging supply, could also disrupt our production or sales and adversely affect our business.

We are vulnerable to increases in the price of live pigs and other operating costs, and we may not be able to entirely offset these increasing costs by increasing the prices of our products, particularly our processed meat products.

We purchase agricultural products, such as live pigs, for use in our production process and for resale. The price of such commodities is subject to fluctuations that are attributable to a number of factors, such as the price of animal feed, diseases and infections, and weather conditions. If for example, worldwide and local grain prices should increase, this would affect the price of animal feed, which may increase the price of live pigs. Higher pig prices may force us to raise the prices we charge our customers for our products, however we may not always be able to pass on the entire amount of price increases to our customers, and/or consumers might cut back on consumption of meat products.

During 2007 and 2008, prices of live pigs rose sharply. If the costs of raw materials or other costs of production and distribution of our products increase further, and we are unable to entirely offset these increases by raising prices of our products, our profit margins and financial condition could be adversely affected. According to China Livestock and Products Annual Report 2007 dated September 25, 2007 by the USDA Foreign Agricultural Service, the severe supply shortage of hogs in 2007 was because of a series of outbreaks of Porcine Reproductive and Respiratory Syndrome (PRRS), also known as Blue Ear Disease, in China from May 2006. Blue Ear Disease is an infectious disease that affects swine, characterized by reproductive disorders, premature delivery, miscarriage, and stillbirth—as well as abnormal breathing in piglets. According to the report, shortages and a sharp pork price increase occurred as a result of Blue Ear Disease. The average pork price increased by 48 percent from January to August 2007 over the same period in 2006, while prices in July and August 2007 increased by 86 and 87 percent, respectively, from the same months in 2006. The series of outbreak of Blue Ear Disease persisted in 2008. In 2008, the supply of pigs remained tight and the price of pork remained high. The average pork price increased by 28 percent in 2008 compared to 2007.

We paid the Group an aggregate of $61.7 million and $72.7 million for live pigs during the full years of 2007 and 2008, respectively.

We may be unable to anticipate changes in consumer preferences for processed meat products, which may result in decreased demand for our products.

Our continued success in the processed meat products market is in large part dependent on our ability to anticipate and develop products that appeal to the changing tastes, dietary habits and preferences of customers. If we are not able to anticipate and identify new consumer trends and develop new products accordingly, demand for our products may decline and our operating results may be adversely affected. In addition, we may incur significant costs relating to developing and marketing new products or expanding our existing product offerings in reaction to what we perceive to be a consumer preference or demand. Such development or marketing may not result in the level of market acceptance, volume of sales or profitability anticipated.

If the chilled and frozen pork market in China does not grow as we expect, our results of operations and financial conditions may be adversely affected.

If the chilled and frozen pork market in China does not grow as we expect, our business may be harmed, we may need to adjust our growth strategy and our results of operation may be adversely affected.

We require various licenses and permits to operate our business, and the loss of or failure to renew any or all of these licenses and permits could materially adversely affect our business.

In accordance with PRC laws and regulations, we are required to maintain various licenses and permits in order to operate our business, including, without limitation, a slaughtering permit in respect of each of our chilled and frozen pork production facilities and a permit for production of industrial products in respect of each of our processed meat production facilities. We are required to comply with applicable hygiene and food safety standards in relation to our production processes. Our premises and transportation vehicles are subject to regular inspections by the regulatory authorities for compliance with applicable regulations. Failure to pass these inspections, or the loss of or failure to renew our licenses and permits, could require us to temporarily or permanently suspend some or all of our production or distribution operations, which could disrupt our operations and adversely affect our business.

We are highly dependent on senior management and key research and development personnel.

We are highly dependent on our senior management to manage our business and operations and our key research and development personnel for the development of new processing methods and technologies, food products and the enhancement of our existing products. In particular, we rely substantially on our chairman and chief executive officer, Mr. Shi Huashan, to manage our operations. We also depend on our key research personnel. In addition, we also rely on information technology and logistics personnel for the production, storage and shipment of our products and on marketing and sales personnel, engineers and other personnel with technical and industry knowledge to transport, market and sell our products. We do not maintain key man life insurance on any of our senior management or key personnel. The departure of any one of them, in particular Mr. Shi, would have a material adverse effect on our business and operations. Competition for senior management and research and development personnel is intense and the pool of suitable candidates is limited. We may be unable to locate a suitable replacement for any senior management or key research and development personnel that we lose. In addition, if any member of our senior management or key research and development personnel joins a competitor or forms a competing company, they may compete with us for customers, business partners and other key professionals and staff members of our company.

We compete for qualified personnel with other food processing companies, food retailers, logistics companies and research institutions. Intense competition for these personnel could cause our compensation costs to increase significantly, which could have a material adverse effect on our results of operations. Our future success and ability to grow our business will depend in part on the continued service of these individuals and our ability to identify, hire and retain additional qualified personnel. If we are unable to attract and retain qualified employees, we may be unable to meet our business and financial goals.

Our growth strategy may prove to be disruptive and divert management resources.

Our growth strategy may involve large transactions and present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating personnel and financial and other systems, increased expenses, including compensation expenses resulting from newly-hired employees, assumption of unknown liabilities and potential disputes. We could also experience financial or other setbacks if any of our growth strategies incur problems of which we are not presently aware. We may require additional financing in the future.

We may need to obtain additional debt or equity to fund future capital expenditures. Additional equity may result in dilution to the holders of our outstanding shares of capital stock. Additional debt financing may include conditions that would restrict our freedom to operate our business, such as conditions that:

- limit our ability to pay dividends or require us to seek consent for the payment of dividends;

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes; and

- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

We cannot guarantee that we will be able to obtain any additional financing on terms that are acceptable to us, or at all.

Our operations are cash intensive and our business could be adversely affected if we fail to maintain sufficient levels of working capital.

We expend a significant amount of cash in our operations, principally to fund our raw material procurement. Our suppliers, in particular, third party suppliers of pigs, typically require payment in full within seven days after delivery, although some of our suppliers provide us with credit. In turn, we typically require our customers of chilled and frozen pork to make payment in full on delivery, although we offer some of our long-standing customers credit terms. We generally fund most of our working capital requirements out of cash flow generated from operations. If we fail to generate sufficient revenues from our sales, or if we experience difficulties collecting our accounts receivables, we may not have sufficient cash flow to fund our operating costs and our business could be adversely affected.

We may be unable to maintain our profitability in the face of a consolidating retail environment in China.

We sell substantial amounts of our products to supermarkets and large retailers. The supermarket and food retail industry in China has been, and is expected to continue, undergoing a trend of development and consolidation. As the food retail trade continues to consolidate and our retail customers grow larger and become more sophisticated, they may demand lower pricing and increased promotional programs. Furthermore, larger customers may be better able to operate on reduced inventories and potentially develop or increase their focus on private label products. If we fail to maintain a good relationship with our large retail customers, or fail to maintain a wide offering of quality products, or if we lower our prices or increase promotional support of our products in response to pressure from our customers and are unable to increase the volume of our products sold, our profitability could decline.

Our operating results may fluctuate from period to period and if we fail to meet market expectations for a particular period, our share price may decline.

Our operating results have fluctuated from period to period and are likely to continue to fluctuate as a result of a wide range of factors, including seasonal variations in live pig supply and processed meat products consumption. Our production and sales of chilled and frozen pork are generally lower in the summer, due to lower supply of live pigs. Interim reports may not be indicative of our performance for the year or our future performance, and period-to-period comparisons may not be meaningful due to a number of reasons beyond our control. We cannot assure you that our operating results will meet the expectations of market analysts or our investors. If we fail to meet their expectations, there may be a decline in our share price.

We currently derive substantially all of our revenues from sales in China and any downturn in the Chinese economy could have a material adverse effect on our business and financial condition.

Substantially all of our current revenues are generated from sales in China. We anticipate that revenues from sales of our products in China will continue to represent a substantial proportion of our total revenues in the near future. Any significant decline in the condition of the PRC economy could, among other things, adversely affect consumer buying power and discourage consumption of our products, which in turn would have a material adverse effect on our business and financial condition.

We rely on our exclusive network of showcase stores, network stores and supermarket brand counters for the success of our sales and our brand image, and should they perform poorly, our business and brand image could be materially and adversely affected.

In addition to our sales to wholesale customers, we sell our products through showcase stores, network stores and supermarket brand counters. All of these retail based stores exclusively sell our pork products and display the Chuming logo on our store facades. For the fiscal year ended 2008, these retail outlets accounted for approximately 40% of our total revenue. If the sales performance of our retail based stores deteriorates, this could adversely affect the financial results of the company. In addition, any sanitation, hygiene, or food quality problems that might arise from the retail based stores could adversely affect our brand image and lead to a loss of sales. Chuming does not own any of the retail based stores.

We rely on the performance of our wholesaler, retailer and mass merchant customers for the success of our sales, and should they perform poorly or give priority to our competitors' products, our business could be materially and adversely affected.

In addition to our retail sales channel, we sell our products to supermarkets and large retailers, which in turn sell the products to end consumers. If the sales performance of our wholesale customers deteriorates, this could adversely affect our sales. Furthermore, our wholesale customers also carry products which directly compete with our products for retail space and consumer purchases. There is a risk that our wholesale customers may give higher priority to products of, or form alliances with, our competitors. If our wholesale customers do not continue to purchase our products, or provide our products with similar levels of promotional support, our sales performance and brand imaging could be adversely affected.

The loss of any of our significant customers could have an adverse effect on our business.

Our key customers are principally supermarkets and large retailers in the PRC. We have not entered into long-term supply contracts with any of these major customers. There can be no assurance that we will maintain or improve the relationships with these customers, or that we will be able to continue to supply these customers at current levels or at all. If we cannot maintain long-term relationships with our major customers, the loss of a significant portion of our sales to them could have an adverse effect on our business, financial condition and results of operations. Further, the loss of any one of our top five customers could cause us to suffer a temporary setback in our sales, which could have a short term negative effect on our financial results.

Recent regulatory enforcement crackdowns on food processing companies in the PRC could adversely affect our businesses.

Recently, the PRC government authorities have taken certain measures to maintain the PRC food market in good order and to improve the integrity of the PRC food industry, such as enforcing full compliance with industry standards and closing certain food processing companies in the PRC that did not meet regulatory standards. We cannot assure you that our businesses and operations will not be affected as a result of the deteriorating reputation of the food industry in the PRC due to recent scandals regarding food products.

Environmental regulations and related government action or litigation could have a material adverse effect on our business and results of operations.

Our operations and properties are subject to extensive and increasingly stringent laws and regulations pertaining to, among other things, the discharge of materials into the environment and the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Failure to comply with any laws and regulations and future changes to them may result in significant consequences to us, including civil and criminal penalties, liability for damages and negative publicity.

We have incurred, and will continue to incur, significant capital and operating expenditures to comply with these laws and regulations. We cannot assure you that additional environmental issues will not require currently unanticipated investigations, assessments or expenditures, or that requirements applicable to us will not be altered in ways that will require us to incur significant additional costs.

Deterioration of our perishable products may occur due to delivery delays, malfunctioning of freezer facilities or poor handling during transportation, which could adversely affect our business, results of operations and financial condition.

The condition of our food products (being perishable goods) may deteriorate due to shipment or delivery delays, malfunctioning of freezer facilities or poor handling during delivery by shippers or intermediaries. We are not aware of any instances whereby we were made to compensate for delivery delays, malfunctioning of freezer facilities or poor handling during transportation. However, there is no assurance that such incidents will not occur in the future. In the event of any delivery delays, malfunctioning of freezer facilities or poor handling during transportation, we may have to make compensation payments and our reputation, business goodwill and revenue will be adversely affected.

Unexpected business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, power failure and power shortages, floods, computer viruses and other events beyond our control. In the event a power failure or power shortage occurs, we have our own back up electricity generators prepared for such emergencies. In particular, China, especially eastern and southern China, is experiencing frequent electricity shortages. In addition, we do not carry business interruption insurance to compensate us for losses that may occur as a result of these kinds of events and any such losses or damages incurred by us could disrupt our production and other operations.

If we fail to develop and maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; as a result, current and potential shareholders could lose confidence in our financial reports, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent registered public accounting firm annually attest to our evaluation, as well as issue their own opinion on our internal controls over financial reporting, beginning with our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. We plan to prepare for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. The process of strengthening our internal controls and complying with Section 404 is expensive and time consuming, and requires significant management attention, especially given that we have not yet undertaken any efforts to comply with the requirements of Section 404. We cannot be certain that the measures we will undertake will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, if we are able to rapidly grow our business, the internal controls that we will need will become more complex, and significantly more resources will be required to ensure our internal controls remain effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness in our internal controls, the disclosure of that fact, even if the weakness is quickly remedied, could diminish investors' confidence in our financial statements and harm our stock price. In addition, non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension of trading, ineligibility for listing on one of the Nasdaq Stock Markets or national securities exchanges, and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

We will incur increased costs as a public company which may affect our profitability and an active trading market.

As a public company, Chuming will incur significant legal, accounting and other expenses that it did not incur as a private company. We are now subject to the SEC's rules and regulations relating to public disclosure. SEC disclosures generally involve a substantial expenditure of financial resources. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC, has required changes in corporate governance practices of public companies. We expect that full compliance with these new rules and regulations will significantly increase our legal and financial compliance costs and make some activities more time-consuming and costly. For example, we will be required to create additional board committees and adopt policies regarding internal controls and disclosure controls and procedures. Such additional reporting and compliance costs may negatively impact our financial results. To the extent our earnings suffer as a result of the financial impact of our SEC reporting or compliance costs, our ability to develop an active trading market for our securities could be harmed.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. We do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster may result in our incurring substantial costs and the diversion of our resources. In addition, since our business operations are based outside of the U.S. (although we are a Nevada corporation quoted on the OTC Bulletin Board in the U.S.), directors and officers insurance may not be readily available to us at the prices and on terms acceptable to us. If we are not able to secure satisfactory D & O insurance coverage, we may not be able to attract the most qualified directors and officers, and our business could be indirectly adversely affected.

Risks Relating To Our Industry

The pig slaughtering and processed meat industries in China are subject to extensive government regulation, which is in the process of change and development.

The pig slaughtering and processed meat industries in China are heavily regulated by a number of governmental agencies, including primarily the Ministry of Agriculture, the Ministry of Commerce, the Ministry of Health, the General Administration of Quality Supervision, Inspection and Quarantine and the State Environmental Protection Administration. These regulatory bodies have broad discretion and authority to regulate many aspects of the pig slaughtering and processed meat industries in China, including, without limitation, setting hygiene standards for production and quality standards for processed meat products. In addition, the pig slaughtering and processed meat products regulatory framework in China is still in the process of being developed. If the relevant regulatory authorities set standards with which we are unable to comply or which increase our production costs and hence our prices so as to render our products non-competitive, our ability to sell products in China may be limited.

The pig slaughtering and processed meat industries in China may face increasing competition from both domestic and foreign companies, as well as increasing industry consolidation, which may affect our market share and profit margin.

The pig slaughtering and processed meat industries in China are highly competitive. Our processed meat products are targeted at mid- to high-end consumers, a market in which we face increasing competition, particularly from foreign suppliers. In addition, the evolving government regulations in relation to the pig slaughtering industry have driven a trend of consolidation through the industry, with smaller operators unable to meet the increasing costs of regulatory compliance and therefore are at a competitive disadvantage. We believe that our ability to maintain our market share and grow our operations within this landscape of changing and increasing competition is largely dependent upon our ability to distinguish our products and services.

In addition, prior to China’s entry into the World Trade Organization (“WTO”), high barriers to entry existed for many potential competitors in our business through the use of tariffs and restrictive import licensing and distribution practices. China’s admission to WTO has lowered some of the tariffs and other barriers to entry so we can expect that competition will increase.

We cannot assure you that our current or potential competitors will not develop products of a comparable or superior quality to ours, or adapt more quickly than we do to evolving consumer preferences or market trends. In addition, our competitors in the raw meat market may merge or form alliances to achieve a scale of operations or sales network which would make it difficult for us to compete. Increased competition may also lead to price wars, counterfeit products or negative brand advertising, all of which may adversely affect our market share and profit margin. We cannot assure you that we will be able to compete effectively with our current or potential competitors.

The outbreak of animal diseases or other epidemics could adversely affect our operations.

An occurrence of serious animal diseases, such as foot-and-mouth disease, or any outbreak of other epidemics in China affecting animals or humans might result in material disruptions to our operations, material disruptions to the operations of our customers or suppliers, a decline in the supermarket or food retail industry or slowdown in economic growth in China and surrounding regions, any of which could have a material adverse effect on our operations and turnover. There can be no assurance that our facilities or products will not be affected by an outbreak of any disease or outbreak in the future, or that the market for pork products in the PRC will not decline as a result of fear of disease. In either case, our business, results of operations and financial condition would be adversely and materially affected.

Consumer concerns regarding the safety and quality of food products or health concerns could adversely affect sales of our products.

Our sales performance could be adversely affected if consumers lose confidence in the safety and quality of our products. Consumers in the PRC are increasingly conscious of food safety and nutrition. Consumer concerns about, for example, the safety of pork products, or about the safety of food additives used in processed meat products, could discourage them from buying certain of our products and cause our results of operations to suffer.

We may be subject to substantial liability should the consumption of any of our products cause personal injury or illness.

The sale of food products for human consumption involves an inherent risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties or product contamination or degeneration, including the presence of foreign contaminants, chemical substances or other agents or residues during the various stages of the procurement and production process. While we are subject to governmental inspections and regulations, we cannot assure you that consumption of our products will not cause a health-related illness in the future, or that we will not be subject to claims or lawsuits relating to such matters.

Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertions that our products caused personal injury or illness could adversely affect our reputation with customers and our corporate and brand image. Consistent with industry practice in China, we do not maintain product liability insurance. Furthermore, our products could potentially suffer from product tampering, contamination or degeneration or be mislabeled or otherwise damaged. Under certain circumstances, we may be required to recall products. Even if a situation does not necessitate a product recall, we cannot assure you that government sanctions or product liability claims will not be asserted against us as a result. A product liability judgment against us or a product recall could have a material adverse effect on our business, financial condition or results of operations.

Our product and company name may be subject to counterfeiting and/or imitation, which could impact upon our reputation and brand image as well as lead to higher administrative costs.

We regard brand positioning as the core of our competitive strategy, and intend to position our brand, “Chuming™” to create the perception and image of health, nutrition, freshness and quality in the minds of our customers. There have been frequent occurrences of counterfeiting and imitation of products in the PRC in the past. We cannot guarantee that counterfeiting or imitation of our products will not occur in the future or that we will be able to detect it and deal with it effectively. Any occurrence of counterfeiting or imitation could impact negatively upon our corporate and brand image, particularly if the counterfeit or imitation products cause sickness, injury or death to consumers. In addition, counterfeit or imitation products could result in a reduction in our market share, a loss of revenues or an increase in our administrative expenses in respect of detection or prosecution.

Risks Relating To Conducting Business in the PRC

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

Economic, political and social conditions and government policies in China could have a material adverse effect on our business, financial condition and results of operations.

Economic, political and social conditions and government policies in China differ in many respects from other more fully industrialized nations, and below are examples of such differences.

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- Structure. Agriculture still plays an important role in Chinese economy and employment. Agriculture still represents around 50% of the employment, which is substantially higher than most developed countries.

- Capital re-investment. Compared with more highly developed nations, there may be less availability to Chinese firms of all types of investment capital within China.

- Government involvement. China is still transitioning from a centrally planned economic model to that of a free market. As a result, the Chinese government has traditionally had a greater degree of regulatory involvement in the economic affairs and conduct of firms in China, as compared with firms in more advanced market-based economies.

- Allocation of resources. Related to the above point, the Chinese government may have greater ability to influence the allocation of capital, labor, materials, and other resources than governments of other advanced market-based economies.

- Level of development. Although China's economy has been rapidly growing in recent years, certain aspects such as public infrastructure, poverty rate, and other measurements of development still lag behind highly developed nations, and this affects how companies must conduct business in China.

- Control of foreign exchange. China still maintains strict foreign exchange controls which has been in place since 1979, although steps have been taken to increase the exchangeability of the Chinese renminbi with other currencies.

- Growth rate. For several years, China's economy has achieved consistent double digit growth rates, and this may put strain on infrastructure, availability on raw materials, and ability of firms to manage growth.

- Rate of inflation. According to the Consumer Price Index (CPI) compiled by the National Statistics Bureau of China, the overall rate of inflation (CPI) in December 2008 is 5.9% and the rate of inflation for food in December 2008 was 14.3%, which are substantially higher than most of the developed countries, and these factors affect the local market environment in which Chinese firms must operate.

The economy of China has been transitioning from a centrally planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. It also exercises significant control over China's economic growth through allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Policies and other measures taken by the PRC government to regulate the economy could have a significant negative impact on economic conditions in China, with a resulting negative impact on our business. For example, our financial condition and results of operations may be materially and adversely affected by:

- new laws and regulations and the interpretation of those laws and regulations;
- the introduction of measures to control inflation or stimulate growth;
- changes in the rate or method of taxation;

- the imposition of additional restrictions on currency conversion and remittances abroad; or
- any actions which limit our ability to develop, produce, import or sell our products in China, or to finance and operate our business in China.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our Chuming Operating Subsidiaries which are located in China, which are governed by PRC laws and regulations. In addition, because the parent companies that hold these entities, namely PSI and Energroup Holdings Corporation, are outside of China, we are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us, our management or the experts named in this report.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, while we are incorporated in the State of Nevada, all of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current structure, our income is primarily derived from payments from Dalian Precious Sheen Investments Consulting Co., Ltd. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entity to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Fluctuation in the value of RMB may have a material adverse effect on your investment.

The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Our revenues and costs are mostly denominated in RMB, while we report our financial results and position in U.S. dollars. Any significant fluctuation in value of RMB may materially and adversely affect our reported cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our stock in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into RMB, as RMB is our reporting currency.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of SARS or another epidemic or outbreak. China reported a number of cases of SARS in April 2004. Any prolonged recurrence of SARS or other adverse public health developments in China may have a material adverse effect on our business operations. For instance, health or other government regulations adopted in response may require temporary closure of our production facilities or of our offices. Such closures would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of SARS or any other epidemic.

## Risks Related to Our Corporate Structure

In order to comply with PRC laws limiting foreign ownership of Chinese companies, we conduct our business in the PRC through Chuming WFOE by means of certain ownership arrangements. If the PRC government determines that these ownership arrangements do not comply with applicable regulations, our business could be adversely affected and we could be subject to sanctions.

As a result of the share exchange transaction disclosed elsewhere in this report, we own 100% of the equity interest in Precious Sheen Investments Limited, a British Virgin Islands company ("PSI"). PSI owns 100% of the equity in Dalian Precious Sheen Investments Consulting Co., Ltd., a wholly foreign owned enterprise in the People's Republic of China. Chuming WFOE is a holding company for the following three operating subsidiaries: (i) Dalian Chuming Slaughter and Packaging Pork Company Ltd., (ii) Dalian Chuming Processed Foods Company Ltd., and (iii) Dalian Chuming Sales Company Ltd., each of which is a limited liability company headquartered in, and organized under the laws of, China (collectively, the "Chuming Operating Subsidiaries"). Throughout this report, PSI, Chuming WFOE and the Chuming Operating Subsidiaries are sometimes collectively referred to as "Chuming."

The PRC government restricts foreign investment in businesses in China. Accordingly, we operate our business in China through Chuming WFOE. Chuming WFOE holds the licenses and approvals necessary to operate our business in China.

Although we believe we comply with current PRC regulations, we cannot assure you that the PRC government would agree that these operating arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. If in the future the PRC government determines that we do not comply with applicable PRC law, it could impose fines on our PRC shareholders, and in extreme cases, the PRC government could take steps to revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

The PRC State Administration of Foreign Exchange, or SAFE, issued a public notice in January 2005 concerning foreign exchange regulations on mergers and acquisitions in China. The public notice states that if an offshore company controlled by PRC residents intends to acquire a PRC company, such acquisition will be subject to strict examination by the relevant foreign exchange authorities. The public notice also states that the approval of the relevant foreign exchange authorities is required for any sale or transfer by the PRC residents of a PRC company's assets or equity interests to foreign entities, such as us, for equity interests or assets of the foreign entities.

In April 2005, SAFE issued another public notice further explaining the January notice. In accordance with the April notice, if an acquisition of a PRC company by an offshore company controlled by PRC residents has been confirmed by a Foreign Investment Enterprise Certificate prior to the promulgation of the January notice, the PRC residents must each submit a registration form to the local SAFE branch with respect to their respective ownership interests in the offshore company, and must also file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transactions or use of assets in China to guarantee offshore obligations.

On May 31, 2007, SAFE issued another official notice known as "Circular 106," which requires the owners of any Chinese company to obtain SAFE's approval before establishing any offshore holding company structure for foreign financing as well as subsequent acquisition matters in China.

If we decide to acquire a PRC company, we cannot assure you that we or the owners of such company, as the case may be, will be able to complete the necessary approvals, filings and registrations for the acquisition. This may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects. In addition, if such registration cannot be obtained, our company will not be able to receive dividends declared and paid by our subsidiaries in the PRC and may be forbidden from paying dividends for profit distribution or capital reduction purposes.

Chuming is subject to restrictions on making payments to our parent Company.

We are a holding company incorporated in the State of Nevada and do not have any assets or conduct any business operations other than our investment in Chuming and their operating subsidiaries in China. As a result of our holding company structure, we rely entirely on payments or dividends from Chuming WFOE for our cash flow to fund our corporate overhead and regulatory obligations. The PRC government also imposes controls on the conversion of Renminbi into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. Further, if our subsidiaries in China incur debt on their own in the future, the instruments governing the debt may restrict their ability to make payments. If we are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to pay dividends on our shares of common stock.

Risk Relating to an Investment in Our Securities

Generally, we have not paid any cash dividends to our shareholders and no cash dividends will be paid in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future and we may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide or may be unable due to pay any dividends. We intend to retain all earnings for our company's operations.

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The application of the "penny stock" rules could adversely affect the market price of our common stock and increase your transaction costs to sell those shares.

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of US$1,000,000 or annual income exceeding US$200,000 or US$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common stock, and may result in decreased liquidity for our common stock and increased transaction costs for sales and purchases of our common stock as compared to other securities.

Our common stock is thinly traded and, you may be unable to sell at or near "ask" prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

We cannot predict the extent to which an active public market for our common stock will develop or be sustained. However, we do not rule out the possibility of applying for listing on the Nasdaq Global Select Market, Nasdaq Global Market, Nasdaq Capital Market (the "Nasdaq Markets"), or other exchanges. Our common stock has historically been sporadically or "thinly-traded" on the "Over-the-Counter Bulletin Board," meaning that the number of persons interested in purchasing our common stock at or near bid prices at any given time may be relatively small or nonexistent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-adverse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we become more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

The market price of our common stock is particularly volatile given our status as a relatively small company with a small and thinly traded "float" that could lead to wide fluctuations in our share price. The price at which you purchase our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

The market for our common stock is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. As noted above, our common stock is sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. The following factors also may add to the volatility in the price of our common stock: actual or anticipated variations in our quarterly or annual operating results; adverse outcomes;

additions to or departures of our key personnel, as well as other items discussed under this “Risk Factors” section, as well as elsewhere in this Report. Many of these factors are beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time, including as to whether our common stock will sustain its current market prices, or as to what effect the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price. However, we do not rule out the possibility of applying for listing on the Nasdaq Markets or another exchange.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through pre-arranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Volatility in our common stock price may subject us to securities litigation.

The market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect our share price will be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may, in the future, be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management’s attention and resources.

Legislative actions, higher insurance costs and potential new accounting pronouncements may impact our future financial position and results of operations.

There have been regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may potentially be new accounting pronouncements or additional regulatory rulings that will have an impact on our future financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes, as well as proposed legislative initiatives following the Enron bankruptcy, are likely to increase general and administrative costs and expenses. In addition, insurers are likely to increase premiums as a result of high claims rates over the past several years, which we expect will increase our premiums for insurance policies. Further, there could be changes in certain accounting rules. These and other potential changes could materially increase the expenses we report under generally accepted accounting principles, and adversely affect our operating results.

Past activities of our company and its affiliates may lead to future liability for our company.

Prior to our acquisition of Chuming in December 2007, we engaged in businesses unrelated to our current operations. Although certain previously controlling shareholders of our company are providing certain indemnifications against any loss, liability, claim, damage or expense arising out of or based on any breach of or inaccuracy in any of their representations and warranties made regarding such acquisition, any liabilities relating to such prior business against which we are not completely indemnified may have a material adverse effect on our company.

Future sales of shares of our common stock may decrease the price for such shares.

Actual sales, or the prospect of sales by our shareholders, may have a negative effect on the market price of the shares of our common stock. We may also register certain shares of our common stock that are subject to outstanding convertible securities, if any, or reserved for issuance under our stock option plans, if any. Once such shares are registered, they can be freely sold in the public market upon exercise of the options. If any of our shareholders either individually or in the aggregate cause a large number of securities to be sold in the public market, or if the market perceives that these holders intend to sell a large number of securities, such sales or anticipated sales could result in a substantial reduction in the trading price of shares of our common stock and could also impede our ability to raise future capital.

Acquisitions of the type we just completed with Chuming are often heavily scrutinized by the SEC and we may encounter difficulties or delays in obtaining future regulatory approvals.

Historically, the SEC and Nasdaq have not generally favored transactions in which a privately-held company merges into or is acquired by a largely inactive company with publicly traded stock, and there is a significant risk that we may encounter difficulties in obtaining the regulatory approvals necessary to conduct future financing or acquisition transactions, or to eventually achieve a listing of shares on one of the Nasdaq stock markets or on a national securities exchange. On June 29, 2005, the SEC adopted rules dealing with private company mergers into dormant or inactive public companies. As a result, it is likely that we will be scrutinized carefully by the SEC and possibly by the Financial Industry Regulatory Authority, which could result in difficulties or delays in achieving SEC clearance of any future registration statements or other SEC filings that we may pursue, in attracting FINRA-member broker-dealers to serve as market-makers in our common stock, or in achieving admission to one of the Nasdaq stock markets or any other national securities market. As a consequence, our financial condition and the value and liquidity of your shares of our common stock may be negatively impacted.

Our corporate actions are substantially controlled by our principal shareholders and affiliated entities.

Our principal shareholders and their affiliated entities will own approximately 69.5% of our outstanding ordinary shares, representing approximately 69.5% of our voting power. These shareholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. In addition, because of the percentage of ownership and voting concentration in these principal shareholders and their affiliated entities, elections of our Board of Directors will generally be within the control of these shareholders and their affiliated entities. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of shares and voting control presently lies with these principal shareholders and their affiliated entities. As such, it would be difficult for shareholders to propose and have approved proposals not supported by management. There can be no assurances that matters voted upon by our officers and directors in their capacity as shareholders will be viewed favorably by all shareholders of our company.

The elimination of monetary liability against our directors, officers and employees under Nevada law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees.

Our articles of incorporation contain specific provisions that eliminate the liability of our directors for monetary damages to our company and shareholders, and we are prepared to give such indemnification to our directors and officers to the extent provided by Nevada law. We may also have contractual indemnification obligations under our employment agreements with our officers. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and shareholders.

The market price for our stock may be volatile.

The market price for our stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;

- conditions in agricultural markets;
- changes in the economic performance or market valuations of other meat processing companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint

- ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between RMB and the U.S. dollar;
- intellectual property litigation;
- general economic or political conditions in China.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our stock.

We may need additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our shareholders.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the net proceeds from a recent offering will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Item 1B. UNRESOLVED STAFF COMMENTS

On February 11, 2008, we filed a registration statement on Form S-1 in order to register shares of our common stock for resale by selling shareholders. On March 7, 2008, we received a letter from the staff of the Securities and Exchange Commission (“SEC”) with comments on our initial Form S-1 filing. On April 29, 2008, we filed Amendment No. 1 to our Form S-1 to respond to the staff’s comments. On May 13, 2008, we received an additional comment letter from the SEC. On May 27, 2008, we filed Amendment No. 2 to our Form S-1 in response to these comments. On June 9, 2008, we received an additional comment letter from the SEC. As of the date of this report, we have not filed an amendment to the S-1 registration statement in response to the SEC’s June 9, 2008 comments.

Item 2. PROPERTIES

Facilities

Our main facility and principal executive offices are located at No. 9, Xin Yi Street, Ganjingzi District, Dalian City, Liaoning Province, PRC 116039, which also serves as the headquarters for our food subsidiary and sales subsidiary. Our main facility is located on 89 acres in the industrial area of Dalian, where we have developed over 74,000 sq. meters of factory floor. In addition to our corporate offices, we also own and maintain housing for up to 760 employees, and health maintenance facilities. Our slaughtering subsidiary’s principal facility is located at No.2026, Zhuanshi Street, Wafangdian Town, Dalian City, Liaoning Province, PRC. We believe that these facilities will be sufficient to house our operations for at least the next three years, and we have the capacity to accommodate our projected long-term growth plans.

Land Lease on Main Facility

We have acquired the land use certificate for 89 acres of land in Dalian City, which entitles us to use and dispose of the land and the commercial or residential buildings located on the land. Our Food Company occupies this piece of land.

We have also opened offices in eighteen cities outside of Dalian. We have entered into leasing agreements for those office spaces for terms ranging from one and three years. These offices are mainly sales offices and they are generally very small in size. They are located in surrounding cities, mainly in Liaoning Province. In total, we paid approximately $69,000 rent in 2008 for these eighteen offices.

Real Property Rights

We have rights to use and occupy two parcels of state-owned land, which are 106,466 square meters and 48,461 square meters in area, respectively, on which our operations are located. These land use rights are granted to us under two certificates dated March 3, 2003, granted by the Government of the Ganjingzi District of Dalian: (i) Gan Guo Yong [2003] No. 04010 for Site Number 4-17-03-09 (106,466 square meters), and (ii) Gan Guo Yong [2003] No. 04009 for Site Number 4-17-03-10 (48,461 square meters). These land use rights entitle us to use of the land for a period of fifty years (until March 20, 2053) for industrial purposes. Our Food Company occupies these two pieces of land.

We pledged our land use rights in the second parcel above (Gan Guo Yong [2003] No. 04009 for Site Number 4-17-03-10) to the Bank of China, Liaoning Province Branch, and the pledge has a term from December 14, 2006 to December 13, 2011. Our plant, warehouse and office building have all been completed, and we are in the process of filing the proper documentation with the local PRC government to bring these properties into operation.

Item 3. LEGAL PROCEEDINGS

We are not aware of any material existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our current directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to us.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Price of Common Equity

Our common stock is currently quoted on the OTC Bulletin Board under the symbol "ENHD." As of December 31, 2008, there were approximately 182 shareholders of record of our common stock. The number of registered shareholders excludes any estimate by us of the number of beneficial owners of common shares held in street name. The following table sets forth the high and low bid information for the common stock for each quarter within the last three fiscal years, as reported by the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

| | | Low | | High |
|---|---|---|---|---|
| 2008 | | | | |
| Quarter ended December 31, 2008 | $ | 0.25 | $ | 259.50 |
| Quarter ended September 30, 2008 | $ | 0.25 | $ | 5.00 |
| Quarter ended June 30, 2008 | $ | 5.00 | $ | 5.00 |
| Quarter ended March 31, 2008 | $ | 5.00 | $ | 241.50 |
| 2007 | | | | |
| Quarter ended December 31, 2007 | $ | 5.00 | $ | 5.00 |
| Quarter ended September 30, 2007 | $ | 4.65 | $ | 4.65 |
| Quarter ended June 30, 2007 | $ | 4.65 | $ | 4.65 |
| Quarter ended March 31, 2007 | $ | 4.65 | $ | 4.65 |
| 2006 | | | | |
| Quarter ended December 31, 2006 | $ | 0.30 | $ | 0.30 |
| Quarter ended September 30, 2006 | $ | 0.30 | $ | 0.30 |
| Quarter ended June 30, 2006 | $ | 0.30 | $ | 1.01 |
| Quarter ended March 31, 2006 | | 0.30 | | 1.01 |

On March 11, 2009, the closing sale price of our common stock on the OTC Bulletin Board was $4.00 per share.

Dividend Policy

We do not anticipate declaring or paying any cash dividends on our capital stock. We currently intend to retain all of our net income for use in our business, and do not anticipate paying any cash dividends in the foreseeable future. Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors the Board of Directors may deem relevant.

Item 6. SELECTED FINANCIAL DATA

You should read the summary consolidated financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our predecessor's financial statements and the related notes included elsewhere in this report. The financial data for the twelve month period ending December 31, 2008, 2007 and 2006 were derived from audited financial statements included in this report. Historical results are not necessarily indicative of the results to be expected for any future period.

| | (US dollars in thousands) Twelve Months Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 (audited) | 2007 (audited) | 2006 (audited) | 2005 (audited) | 2004 (unaudited) |
| Consolidated Statements of Operations Data: | | | | | |
| Sales | 176,360 | 124,696 | 70,396 | 54,119 | 654 |
| Cost of Sales | 149,794 | 104,379 | 57,794 | 45,284 | 711 |
| Gross Profit | 26,566 | 20,317 | 12,601 | 8,835 | (56) |
| Operating Expenses | 7,823 | 6,246 | 2,891 | 1,647 | 402 |
| Income from Operations | 18,743 | 14,071 | 9,709 | 7,188 | (459) |
| Other Income (Expense), net | (11,385) | (1,476) | (1,583) | (1,008) | 5,164 |
| Income Before Taxes | 7,357 | 12,620 | 8,126 | 6,180 | 4,705 |
| Income Taxes | (520) | 968 | 1.6 | 191 | 66 |
| Net Income | 6,837 | 11,652 | 8,128 | 5,988 | 4,772 |
| Foreign Currency Translation | 528 | 2,064 | 611 | 286 | - |
| Comprehensive Income | 7,366 | 13,716 | 8,739 | 6,274 | 0.7 |
| Basic Net Income Per Share (in US$) | 0.40 | 0.67 | 0.47 | 0.35 | 0.28 |
| Diluted Net Income Per Share (in US$) | 0.32 | 0.67 | 0.47 | 0.35 | 0.28 |
| Basic Weighted Average Number of Shares Outstanding | 13,409,120 | 17,272,756 | 17,272,756 | 17,272,756 | 17,272,756 |
| Diluted Weighted Average Number of Shares Outstanding | 17,272,756 | 17,272,756 | 17,272,756 | 17,272,756 | 17,272,756 |

| | (US dollars in thousands) Twelve Months Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 (audited) | 2007 (audited) | 2006 (audited) | 2005 (audited) | 2004 (unaudited) |
| Balance Sheet Data: | | | | | |
| Total Assets | $ 90,683 | $ 66,620 | $ 56,846 | $ 50,993 | $ 29,957 |
| Current Liabilities | 23,758 | 17,682 | 16,764 | 18,979 | 2,358 |
| Long Term Liabilities | - | - | 17,909 | 18,580 | 19,309 |
| Stockholders Equity | 66,926 | 48,938 | 22,174 | 13,434 | 8,290 |

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition of the Company for the fiscal years ended December 31, 2008, 2007, and 2006 should be read in conjunction with the Selected Consolidated Financial Data, the consolidated financial statements, and the notes to those financial statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, Cautionary Notice Regarding Forward-Looking Statements and Business sections in this report. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements.

## OVERVIEW

We are a meat processing company that specializes in pork and pork products. We have a unique wholesale and retail distribution model and sell directly to over 9,200 retail outlets, including supermarkets and hypermarkets across Northeast China.

Dalian Precious Sheen Investments Consulting Co., Ltd., or Chuming WFOE, is our holding company established in the People's Republic of China (the "PRC" or "China") as a holding company for our three PRC operating subsidiaries, referred to elsewhere in this report as the "Chuming Operating Subsidiaries":

1. Dalian Chuming Slaughter and Packaging Pork Company Ltd. (also referred to in this report as "Meat Company"), whose primary business activity is acquiring, slaughtering and packaging of pork;

2. Dalian Chuming Processed Foods Company Ltd. (also referred to in this report as "Food Company"), whose primary business activity is the processing of raw and cooked meat products; and

3. Dalian Chuming Sales Company Ltd. (also referred to in this report as "Sales Company"), which is responsible for Chuming's sales, marketing and distribution operations.

The Chuming Operating Subsidiaries are spun off constituents of Chuming's former parent company, Dalian Chuming Group Co., Ltd., or the "Group." Our primary business activities are the production and packing of fresh pork and also production of processed meat products for distribution and sale to clients throughout the PRC. We are headquartered in the City of Dalian, Liaoning Province of China. Chuming WFOE was incorporated in China as wholly foreign owned enterprise on in December 2007.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our management's discussion and analysis of our financial condition and results of operations are based on our combined financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported net sales and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our combined financial statements included in this report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating this management discussion and analysis.

### Method of Accounting

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes.  The financial statements and notes are representations of management.  Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

Principles of Consolidation

The consolidated financial statements, which include the Company and its subsidiaries, are compiled in accordance with generally accepted accounting principles in the United States of America. The consolidated financial statements include 100% of assets, liabilities, and net income or loss of those wholly-owned subsidiaries.

The Company owned the three operating subsidiaries since its inception. The Company also owns two intermediary holdings companies. As of December 30, 2008, the detailed identities of the consolidating subsidiaries are as follows:

| Name of Company | Place of Incorporation | Attributable Equity Interest | | Registered Capital |
|---|---|---|---|---|
| Precious Sheen Investments Limited | BVI | 100% | USD | 10,000 |
| Dalian Chuming Precious Sheen Investment Consulting Co., Ltd. | PRC | 100% | RMB | 29,400,682 |
| Dalian Chuming Slaughtering & Pork Packaging Co. Ltd. | PRC | 100% | RMB | 10,000,000 |
| Dalian Chuming Processed Foods Co. Ltd. | PRC | 100% | RMB | 5,000,000 |
| Dalian Chuming Sales Co. Ltd. | PRC | 100% | RMB | 5,000,000 |

The consolidation of these operating subsidiaries into a newly formed holding company i.e. “the Company” is permitted by United States GAAP: ARB51 paragraph 22 and 23.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made; however, actual results could differ materially from these estimates.

Accounts Receivable

The Company extends unsecured, non-interest bearing credit to its customers; accordingly, the Company carries an allowance for doubtful accounts, which is an estimate, made by management. Management makes its estimate based on prior experience rates and assessment of specific outstanding customer balances. Management may extend credit to new customers who have met the criteria of the Company’s credit policy. It is typically the case that new customers must make payments in advance before we sell our products to them. For our premier customers such as supermarkets, we do typically provide a grace period for payment at approximately 30-45 days.

In order for us to minimize bad debt, we exercise control over both the length of the receivables, and the quantity of products shipped to our customers to whom we have extended credit, such as those who pay on a monthly basis. In exercising control over order quantities, on a product by product basis, we set maximum limits that will be shipped to those customers. If in the event, the customer is near their maximum and has an outstanding balance, we will request payment even if it is outside of the normal payment cycles of our customers.

Inventory Carrying Value

Inventory, consisting of raw materials in the form of livestock, work in progress, and finished products, is stated at the lower of cost or market value. Finished products are comprised of direct materials, direct labor and an appropriate proportion of overhead. Periodic evaluation is made by management to identify if inventory needs to be written down because of damage, or spoilage. Cost is computed using the weighted average method.

We observe and evaluate the value of inventory on a product by product basis. For our fresh meat products which are typically sold as carcasses (hogs sliced in half), we typically carry zero inventory as these products are sold immediately. We use a just in time model for fresh meat products. Our customers require fresh meat so we do not carry any excess inventory beyond the hogs that we slaughter each day. Current market conditions have also influenced our inventory across the board. For our products that we require additional processing such as hams and sausages we typically, carry two days' worth of inventory. For meat that has been separated into smaller packaged portion, we typically carry one weeks' worth of inventory. The PRC is currently facing a pork shortage, so as a result, presently we are able to sell all the fresh pork that we slaughter. Accordingly, we have not been required to write down inventory for spoilage. Also, if the hogs do not meet our requirements for quality they are disposed of, and charged off immediately to our cost of sales, and they will not enter our inventory.

Purchase Deposit

Purchase deposit represents the cash paid in advance for purchasing raw materials. The purchase deposit is interest free and unsecured.

Property, Plant, and Equipment

Property, Plant, and Equipment are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements enhancing the function and/or useful life are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized.

Property and equipment are depreciated using the straight-line method over their estimated useful life with a 5% salvage value. Their useful lives are as follows:

| Fixed Asset Classification | Useful Life |
|---|---|
| Land Improvements | 10 years |
| Buildings | 20 years |
| Building Improvements | 10 years |
| Manufacturing Machinery & Equipment | 10 years |
| Office Equipment | 5 years |
| Furniture & Fixtures | 5 years |
| Vehicles | 5 years |

Customer Deposits

Customer Deposits represents money the Company has received in advance for purchases of pork and pork products. The Company considers customer deposits as a liability until products have been shipped and revenue is earned.

Statutory Reserve

Statutory reserve refer to the amount appropriated from the net income in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and, are to be used to expand production or operations. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, from its earnings, an amount to the statutory reserve to be used for future company development. Such an appropriation is made until the reserve reaches a maximum equalling 50% of the enterprise’s capital.

Earnings Per Share

The Company computes earnings per share (“EPS”) in accordance with Statement of Financial Accounting Standards No. 128, “Earnings per share” (“SFAS No. 128”), and SEC Staff Accounting Bulletin No. 98 (“SAB 98”). SFAS No. 128 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as the income or loss available to common shareholders divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., contingent shares, convertible securities, options, and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

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In connection with our reverse acquisition completed on December 31, 2007, a total of 3,863,636 shares of our common stock held by a trust, the beneficiaries of which include our CEO Mr. Shi Huashan and his family, were deposited into a make good escrow account. See "Strategic Financing" beginning on page 4. We accounted for this deposit of escrow shares as "contingent shares," and accordingly reduced the number of shares deemed outstanding for accounting purposes from 17,272,756 to 13,409,120. Accordingly, our "basic" weighted average shares outstanding is 17,272,756, and our "diluted" weighted average shares outstanding is 17,272,756. If and when the make good escrow shares are released to their original owners or to investors, our "basic" weighted average shares outstanding will be increased accordingly. The effect of this accounting treatment of the make good escrow shares, is that our reported basic net income per share will be higher than our diluted net income per share, during the period in which the make-good shares are held in escrow.

Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 applies to all derivative instruments and related hedged items accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). Statement 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles."

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis.

The Company is currently evaluating the potential impact, if any, of the adoption of the above recent accounting pronouncements on its consolidated results of operations and financial condition.

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2008 and December 31, 2007.

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales:

| | Year Ended December 31, 2008 | % of Sales | Year Ended December 31, 2007 | % of Sales |
|---|---|---|---|---|
| Sales | $ 176,360,013 | 100.00% | $ 124,696,036 | 100.00% |
| Cost of Sales | 149,794,249 | 84.94% | 104,378,909 | 83.67% |

| | | | | |
|---|---|---|---|---|
| Gross Profit | 26,565,764 | 15.04% | 20,317,127 | 16.33% |
| Selling Expenses | 5,147,366 | 2.92% | 4,672,862 | 3.75% |
| General & Administrative Expenses | 2,675,661 | 1.52% | 1,572,836 | 1.26% |
| Total operating Expense | 7,823,027 | 4.44% | 6,245,698 | 5.01% |
| Operating Income / (Loss) | 18,742,737 | 11.32% | 14,071,429 | 11.32% |
| Other Income (Expense) | (11,385,383) | (6.46) % | (1,475,730) | (1.16) % |
| Earnings Before Tax | 7,357,354 | 4.17% | 12,619,687 | 10.16% |
| (Income Tax Expense) / Deferred Tax Benefit | (520,089) | (0.29) % | (967,540) | (0.78) % |
| Net Income | $ 6,837,265 | 3.88% | $ 11,652,147 | 9.38% |
| Basic and Diluted Earnings Per Share | 0.32 | | 0.67 | |
| Weighted Average Shares Outstanding | 17,272,756 | | 17,272,756 | |

Sales. Our sales include revenues from sales of our Fresh Pork, Frozen Pork, and Processed Food Products. During the year ended December 31, 2008, we had sales of $176,360,013 as compared to sales of $124,696,036 for the year ended December 31, 2007, an increase of approximately 41.4%. This increase consisted of an increase in the sale of Fresh Pork of $46.5 million or 48.8%, from $95.3 million in 2007 to $141.8 million in 2008, an increase in the sale of Frozen Pork of $2.9 million or 26.4%, from $11.2 million to $14.1 million, and an increase in the sale of Processed Food Products of $2.2 million or 12.1%, from $18.2 to $20.4 million for the years then ended. In 2008, we raised our average per-kilogram sale prices to our customers, which coincided with an increase in the cost of live pigs and other production costs. The average per-kilogram sales price for our Fresh Pork, Frozen Pork and Processed Foods to customers increased by 12%, 28.8% and 30.9%, respectively, compared to the prior year.

Despite the high price of live hogs, our sales volume of products (by weight) still increased slightly for Fresh Pork and Processed Foods by 4.13% and 0.1%, respectively, compared to 2007. We usually sell our Fresh Pork through our independent sales agents and supermarkets. Our profit margin for sales through supermarkets is generally higher than other channels, which is the reason why we are continuing to actively pursue this particular sales channel. In 2008, many of our sales agents were able to achieve higher sales since we implemented the extension of payment terms to creditworthy customers. Since many of our sales agents are long standing customers with good credit, they were able to take advantage of the extension of payment terms to generate greater cash flow and to create higher sales in 2008. Another factor attributable to the increase of sales and sales volume was that we increased the number of our sales agents and showcase stores from 7,600 in 2007 to 9,200 in 2008. Management believes that this increase in sales and sales volume, despite elevated live hog prices, resulted from increased consumer demand, and increased consumer awareness of our brand and availability of our products. However, the sales volume of our Frozen Pork decreased considerably in 2008, with 38.3% less sales volume compared to the prior year. Even though the sales volume of Frozen Pork decreased significantly in 2008, our sales revenue for Frozen Pork increased by 26.4% from 2007 because we were able to increase the prices of Frozen Pork, and pass most of it to our consumers. Our Frozen Pork is usually sold to cities outside of Liaoning province and the sales volume was especially impacted during the fourth quarter of 2008,which management believes is due to the effect of economic slowdown, which led to less spending on certain foods such as meat products.

Cost of Sales. Cost of sales for 2008 increased by $45,415,340 or 43.5 %, from $104,378,909 for the year ended December 31, 2007 to $149,794,249 for the year ended December 31, 2008. The significant increase in cost of sales was mainly attributable to the cost of live pigs. Our cost of sales for our various product categories in 2008 is summarized as follows:

| | (In thousands of U.S. Dollars) | | | | | |
|---|---|---|---|---|---|---|
| | | 2008 | % of Sales | | 2007 | % of Sales |
| Fresh Pork | $ | 121,742 | 81.2% | $ | 84,622 | 81.11% |
| Frozen Pork | | 11,026 | 7.4% | | 7,058 | 6.76% |
| Processed Food Products | | 17,019 | 11.4% | | 12,653 | 12.13% |
| Total Cost of Sales: | $ | 149,794 | 100% | $ | 104,378 | 100% |

Management estimates that the average cost of live pigs increased by approximately 28% for 2008, as compared with the prior year, which was the most significant factor causing an increase in our cost of sales. In 2007, the average cost for live pigs progressively increased from RMB8.0 per kilogram in first quarter, to RMB10.3 per kilogram in second quarter, to RMB13.78 per kilogram in third quarter, and to RMB14.2 per kilogram in the fourth quarter. The average price for live hogs was RMB11.46 per kilogram for the full year of 2007. In 2008, the price of live pigs reached RMB16 per kilogram in the first quarter, then the average price decreased slightly to RMB15.76 in the second quarter, and then further declined to an average price of RMB14.43, where it remained for the last two quarters of 2008. The average price for live hogs was RMB14.63 per kilogram for the full year of 2008.

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In 2008, we experienced price increases in electricity, water and coal, all of which we use in our production process. However, this increase in utilities was in proportion to the increase of our sales volume, and not due to an increase in the unit price of the utilities, with the exception of coal for which the unit price did increase slightly. Total wages increased in 2008 due to the addition of new employees to handle the increase of our sales, but the salaries of our employees remained stable. Lastly, we experienced slight increases in transportation and delivery costs in 2008, corresponding with the increased sales. Even with the significant increase of the cost of live pigs in 2008, management estimates that we were able to recoup approximately 98% of the cost increases through increased consumer prices for our products. Management also believes that productivity remained steady, with no significant changes from 2007 to 2008.

Gross Profit. Gross profit was $26,565,764 for the year ended December 31, 2008 as compared to $20,317,127 for the year ended December 31, 2007, representing an increase of $6,248,637, or approximately 30.8%. The gross profits for Fresh Pork, Frozen Pork and Processed Foods in 2008 were $20,059,628, $3,109,969 and 3,396,166, respectively. Management attributes the increase in gross profit to strong increases in sales, driven by strong demand for our products. In 2008, we increased the prices of our products in order to mitigate the impact of higher prices of live hogs in 2008. Our gross profit as a percentage of sales was 15.04% in 2008 as compared to 16.33% in 2007. The slight decrease in gross profit as a percentage of sales was attributable to the increased cost of live pigs, which we were not able to pass all of such increase to our customers.

Selling Expenses. Selling expenses totaled $5,147,366 for the year ended December 31, 2008, as compared to $4,672,862 for the year ended December 31, 2007, an increase of $474,504 or 10.2%. The increase of our selling expenses in 2008 is attributable to the addition of new salespersons to our sales team, increased incentives for salespersons, buy-in fees paid to supermarkets for placement of our products, and expenses for market and product development, sales planning and training, etc. In 2008, our advertising and marketing expenditures decreased from $2,241,062 in 2007 to $1,764,788 in 2008. Our advertising and marketing expenditures decreased considerably because part of the marketing and promotion of our products were handled individually by sales agents, and in return the Company gave them bigger discounts and incentives on our products. The Company believed that advertisements can be handled more effectively at a regional and local level by the sales agents, and at the same time it is also more cost effective for the Company. In 2008, the Company allocated more of our resources and increased advertising and promotional activities aimed at higher performing regions, retailers and supermarkets. Our advertising and promotional activities included television commercials, radio, magazine and newspaper advertisements, and exhibitions. The Company also developed new markets in 2008, adding nine new sales offices in cities such as Harbin, Dalian and Changchun, etc.

General and Administrative Expenses. General and Administrative Expenses totaled $2,675,661 for the year ended December 31, 2008 as compared to $1,572,836 for the year ended December 31, 2007, an increase of $1,102,825 or 70.1%. This significant increase is primarily attributable to higher costs of doing business as a public company. In 2008, our expenses for attorneys, accountants and public relations consultants increased, as compared to the prior year. Because the amount of our total sales was higher in 2008, we also had to contribute more into a riverbank maintenance fee, price adjustment fund, and stamp tax mandated by local governmental agencies in proportion to our total sales. In 2008, our land use tax has increased from RMB 4.5 to RMB 6 per square meter which also slightly increased our general expenses.

Other Income (Expense). Our other income (expense) consisted of Interest Income, Other Expenses, and Interest Expense. We had total Other Expenses of $11,385,383 for the year ended December 31, 2008 as compared to $1,451,742 for the year ended December 31, 2007, an increase of $9,933,641 or 684.3%. The substantial increase in Other Expenses in 2008 was primarily attributable to the accrual of the expected release of escrowed shares pursuant to a make good agreement related to the Exchange Transaction and Financing on December 31, 2007.

Pursuant to such make good agreement, a total of 3,863,636 shares of our common stock held by a trust, the beneficiaries of which include our CEO Mr. Shi Huashan and his family, were deposited into a make good escrow account. These shares are to be released back to Mr. Shi and his family if the Company meets the following earnings targets of $15.9 million, and $20.9 million in after-tax net income for the years ended December 31, 2008, and 2009 respectively. In the event that the Company does not meet the aforementioned financial targets, the escrowed shares will be released, on a pro-rata basis, to the investors in the Financing. In accordance with Topic 5.T of the Staff Accounting Bulletins (SAB 79), the Company expects to record a compensatory expense for the shares upon their release from escrow. Whether the shares are released to the accredited investors or released to Mr. Shi, the Company will record an expense with a corresponding credit to the Company's contributed paid in capital. The Company anticipates that compensatory expense to be recognized in future operating periods could be in a range between $17 million to $29.2 million. The Company approximates this range based on the per share offering price of $4.4 at December 31, 2007 and a potential future stock price of $7.57 based on a $20 million net income (short of the target of $20.9 million net income) with a price-to-earnings ratio of 8.0, which is comparable to the valuation used in the offering at December 31, 2007. For the year ended December 31, 2008, the Company has met their 2008 financial target, and therefore the Company expects that 1,931,818 shares will be released. The Company recorded an expense for the expected release of shares deposited the escrow account in the amount of $10,622,294, which significantly increased our Other Expenses.

Net Income. Our net income for the year ended December 31, 2008 was $6,837,265 as compared to $11,652,147 for the year ended December 31, 2007, a decrease of $4,814,882 or 41.3%. This decrease in net income is basically attributable to the recorded expense in the amount of 10,622,294 in 2008 as above-mentioned.

Comparison of Years Ended December 31, 2007 and December 31, 2006.

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales:

| | Year Ended December 31, 2007 | % of Sales | Year Ended December 31, 2006 | % of Sales |
|---|---|---|---|---|
| Sales | $ 124,696,036 | 100.00% | $ 70,396,439 | 100.00% |
| Cost of Sales | 104,378,909 | 83.67% | 57,794,853 | 82.10 % |
| Gross Profit | 20,317,127 | 16.33% | 12,601,586 | 17.90 % |
| Selling Expenses | 4,672,862 | 3.75% | 1,556,805 | 2.21 % |
| General & Administrative Expenses | 1,572,836 | 1.26% | 1,334,866 | 1.90 % |
| Total operating Expense | 6,245,698 | 5.01% | 2,891,671 | 4.11 % |
| Operating Income / (Loss) | 14,071,429 | 11.32% | 9,709,915 | 13.79 % |
| Other Income (Expense) | (1,475,730) | (1.16)% | (1,583,155) | (2.25)% |
| Earnings Before Tax | 12,619,687 | 10.16% | 8,126,760 | 11.54 % |
| (Income Tax Expense) / Deferred Tax Benefit | (967,540) | (0.78)% | (1,609) | 0.00 % |
| Net Income | $ 11,652,147 | 9.38% | $ 8,128,369 | 11.55 % |
| Basic and Diluted Earnings Per Share | 0.67 | | 0.47 | |
| Weighted Average Shares Outstanding | 17,272,756 | | 17,272,756 | |

Sales. Our sales include revenues from sales of our Fresh Pork, Frozen Pork, and Processed Food Products. During the year ended December 31, 2007, we had sales of $124,696,036 as compared to sales of $70,396,439 for the year ended December 31, 2006, an increase of approximately 77%. This increase consisted of an increase in the sale of Fresh Pork of $51.6 million or 112%, from $46.0 million in 2006 to $97.7 million in 2007, an increase in the sale of Frozen Pork of $1.6 million or 22%, from $7.2 million to $8.8 million, and an increase in the sale of Processed Food Products of $1.1 million or 6.3%, from $17.1 to $18.2 million for the years then ended.  In 2007, we raised our average per-kilogram sale prices to our customers, which coincided with an increase in the cost of live pigs and other production costs. In addition, despite these consumer price increases, in 2007 our sales volume of products (by weight) increased, with the largest increase in volume occurring in our Processed Foods division. In 2007, we began selling our products through over 170 new franchise operators. Management believes that this increase in sales volume, despite raised consumer prices, resulted from increased consumer demand, and increased consumer awareness of our brand and availability of our products.

Cost of Sales. Cost of sales for 2007 increased by $47,361,536 or 81.9%, from $57,794,853 for the year ended December 31, 2006 to $104,333,172 for the year ended December 31, 2007. The increase was attributable to the 77% increase in sales for 2007 as compared to the prior year. Our cost of sales for our various product categories in 2007 is summarized as follows:

| | (In thousands of U.S. Dollars) | | | |
|---|---|---|---|---|
| | 2007 | % of Sales | 2006 | % of Sales |
| Fresh Pork | $ 84,622 | 81.11% | $ 36,016 | 62.32% |
| Frozen Pork | 7,058 | 6.76% | 4,856 | 8.40% |
| Processed Food Products | 12,653 | 12.13% | 16,924 | 29.28% |
| Total Cost of Sales: | $ 104,378 | 100% | $ 57,795 | 100% |

In the second quarter of 2007, and throughout the year, we experienced a sharp increase in the cost of live pigs. Management estimates that the average cost of live pigs increased by approximately 60% for 2007, as compared with the prior year, which was the most significant factor causing an increase in our cost of sales. Secondly, we experienced price increases in electricity, water and coal, all of which we use in our production process. Thirdly, wages increased in 2007 by an estimated 7.5%. Lastly, we experienced slight increases in transportation and delivery costs in 2007. Management estimates that we were able to recoup approximately 90% of these cost increases through increased consumer prices for our products. Management also believes that productivity remained steady, with no significant changes from 2006 to 2007.

Gross Profit. Gross profit was $20,317,127 for the year ended December 31, 2007 as compared to $12,601,586 for the year ended December 31, 2006, representing an increase of $7,761,277, or approximately 61.1%. Management attributes the increase in gross profit to strong increases in sales, driven by strong demand for our products. In addition, we were able to achieve price increases in order to mitigate the impact of higher commodity and input prices in 2007. Our gross profit as a percentage of sales was 16.33% in 2007 as compared to 17.90% in 2006. The slight decrease in gross profit as a percentage of sales was attributable to these commodity and input price increases, not all of which we were able to pass on to our customers in the form of higher product prices.

Selling Expenses. Selling expenses totaled $4,672,862 for the year ended December 31, 2007, as compared to $1,556,805 for the year ended December 31, 2006, an increase of $3,116,057 or 200%. In 2007 we expanded our advertising and marketing expenditures from $150,000 in 2006, to $3.8 million in 2007, in our efforts to increase brand awareness and encourage sales. These activities included television commercials, radio, magazine and newspaper advertisements, and exhibitions.

General and Administrative Expenses. General and Administrative Expenses totaled $1,572,836 for the year ended December 31, 2007 as compared to $1,334,866 for the year ended December 31, 2006, an increase of $237,970 or 17.8%. This modest increase is primarily attributable to increased hiring of staff, and slight increases in business expenses related to new customer acquisition.

Other Income (Expense). Our other income (expense) consisted of Interest Income, Other Expenses, and Interest Expense. We had total Other Expenses of $1,451,742 for the year ended December 31, 2007 as compared to $1,583,155 for the year ended December 31, 2006, a decrease of $131,413 or 8.3%. The decrease in Other Expenses in 2007 is primarily attributable to a decrease in Interest Expenses, as we reduced the principal amount outstanding under our bank loan obligations by approximately $17 million.

Net Income. Our net income for the year ended December 31, 2007 was $11,652,147 as compared to $8,128,369 for the year ended December 31, 2006, an increase of $3,523,778 or 43.9%. This increase in net income is basically attributable to the factors described above, but primarily from the increase in sales and gross profit. Net income as a percentage of sales decreased from 11.55% in 2006 to 9.38% in 2007, and management attributes this primarily decrease to our expanded advertising and marketing initiatives in 2007. A secondary contributing factor to the decrease in net income as a percentage of sales was a $965,930 increase in tax expenses in 2007 as compared to 2006. In 2006, we benefitted from a one-time tax credit from the Dalian City local government of approximately $440,000. In 2007 we received no such tax credit, and also recognized higher taxable income.

Comparison of Years Ended December 31, 2006 and December 31, 2005.

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales:

| | Year Ended December 31, 2006 | % of Sales | Year Ended December 31, 2005 | % of Sales |
|---|---|---|---|---|
| Sales | $ 70,396,439 | 100.00% | $ 54,119,895 | 100.00% |
| Gross Profit | 12,601,586 | 17.90% | 8,835,709 | 83.67% |
| Selling Expenses | 1,556,805 | 2.21% | 711,226 | 16.33% |
| General & Administrative Expenses | 1,334,866 | 1.90% | 936,179 | 1.31% |
| Total operating Expense | 2,891,671 | 4.11% | 1,647,405 | 1.73% |
| Operating Income / (Loss) | 9,709,915 | 13.79% | 7,188,304 | 3.04% |
| Other Income (Expense) | (1,583,155) | -2.25% | (1,008,248) | 13.28% |
| Earnings Before Tax | 8,126,760 | 11.54% | 6,180,056 | -1.86% |
| (Income Tax Expense) / Deferred Tax Benefit | (1,609) | 0.00% | (191,284) | 11.42% |
| Net Income | $ 8,128,369 | 11.55% | $ 5,988,772 | -0.35% |
| Basic and Diluted Earnings Per Share | 0.47 | | 0.35 | |
| Weighted Average Shares Outstanding | 17,272,756 | | 17,272,756 | |

Sales. Our sales include revenues from sales of our Fresh Pork, Frozen Pork, and Processed Food Products. During the year ended December 31, 2006, we had sales of $70,396,439 as compared to sales of $54,119,895 for the year ended December 31, 2005, an increase of approximately 30.1%. This increase is attributable to an increase in the sale of Fresh Pork of $9,354,422 or 25.5%, from $36,684,253 in 2005 to $46,038,675 in 2006, an increase in the sale of Frozen Pork of $1,918,527 or 36.1%, from $5,309,877 to $7,228,405, and an increase in the sale of Processed Food Products of $5,003,594 or 42%, from $12,125,765 to $17,129,359 for the years then ended. The most notable factor in the increase in our sales in 2006 from the prior year was the expansion of sales through sales agents, whose customers are resellers who operated specialty counters. In 2007, we significantly expanded our sales through agents. Also in 2006, we added over 300 retailers to our network (from approximately 100 operators in 2005 to 425 operators in 2006), which increased sales by an additional $5 million compared to the prior year. We also began selling our products in 31 new supermarket locations, which added $4 million to our sales as compared to the prior year. We also added seafood to our product line at the end of 2005, which began generating sales and contributed an estimated $2.9 million in sales. Overall, in 2006 management believes the key drivers for our sales results was our ramp-up of production capacity from increased availability of live hogs, increased brand awareness among consumers, increased availability of our product though retain channels, and the expansion of our product line with the addition of seafood.

Cost of Sales. Cost of sales for 2006 increased $12,510,667 or 28%, from $45,284,186 for the year ended December 31, 2005 to $57,794,853 for the year ended December 31, 2006. The increase in our cost of sales for our various product categories is summarized as follows:

| | | 2006 | % of Sales | | 2005 | % of Sales |
|---|---|---|---|---|---|---|
| Fresh Pork | $ | 36,015,632 | 51.16% | $ | 29,609,886 | 54.71% |
| Frozen Pork | | 4,855,542 | 6.90% | | 3,779,626 | 6.98% |
| Processed Food Products | | 16,923,679 | 24.04% | | 11,894,674 | 21.98% |
| Total Cost of Sales: | $ | 57,794,853 | 82.10% | $ | 45,284,186 | 83.67% |

Since our fresh pork production line began in late 2004, we began to realize operating efficiencies, and in 2006, this contributed to a reduction in the cost of sales for fresh pork as a percentage of total sales. Our efficiency gains in fresh pork production was partially offset by the startup costs associated with launching our new seafood products. In 2005 our production of seafood was limited, but in 2006 we began producing seafood products in significant volume. Our operating costs, such as the price of live pigs, utilities (electricity, water and coal), labor and transportation remained relatively unchanged from 2005 to 2006.

Gross Profit. Gross profit was $12,601,586 for the year ended December 31, 2006 as compared to $8,835,709 for the year ended December 31, 2005, representing gross margins of approximately 17.90% and 16.33% of sales, respectively. As previously discussed, we achieved operating efficiencies in 2006 in the production of fresh pork, which also contributed to an increase in our gross profit margin in 2006 as compared with 2005. These efficiency gains were partially offset by the cost of launching our new line of seafood products and ramping up seafood production in 2005. At the same time, the cost of our operating inputs remained relatively unchanged from 2005 to 2006, which helped us increase our gross profit margin.

Selling Expenses. Selling expenses totaled $1,556,805 for the year ended December 31, 2006, as compared to $711,226 for the year ended December 31, 2005, an increase of $845,579 or 119%. This increase is primarily attributable to new business development. Management attributes the increase in selling expenses for 2006 to the roll-out of our seafood line and hiring new sales personnel to expansion of our sales and marketing efforts. Selling expenses in 2006 included market research, give-away of product samples, and some advertising.

General and Administrative Expenses. General and Administrative Expenses totaled $1,334,866 for the year ended December 31, 2006 as compared to $936,179 for the year ended December 31, 2005, an increase of $398,687 or 43%. This increase is primarily attributable to increases in management compensation and hiring of new staff, and increased business expenses such as business travel.

Other Income (Expense). Our other income (expense) consisted of Interest Income, Other Expenses, and Interest Expense. We had total Other Expense of $1,583,155 for the year ended December 31, 2006 as compared to $1,008,248 for the year ended December 31, 2005, an increase of $574,907 or 57%. The increase in other expenses is mainly due to an increase of Interest Expense of $486,821 or 50.17%, from $970,383 at the year ended December 31, 2005 to $1,457,204 at the year ended December 31, 2006. In December of 2005, we obtained a $4.4 million working capital loan from a local bank in China, which we used in the operations of the Food Company. As a result, we incurred increased interest expenses in 2006 as compared to 2005.

Net Income. Our net income for the year ended December 31, 2006 was $8,128,369 as compared to $5,988,772 for the year ended December 31, 2005, which is an increase of $2,139,597, or 35.7%. Management attributes this increase in net income to an increase in sales and operating efficiencies in the production of fresh pork, offset by higher interest expenses, higher personnel costs, and increased selling expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Twelve Months Ended December 31, 2008

Net cash inflow used from operating activities was $3.23 million in fiscal 2008 and while net cash flow sourced in operating activities was $1.97 million in fiscal 2007. Prior to 2007, we offered flexible payment terms to agents who purchase pork products from us for resale to retailers, but in March of 2007, we eliminated this practice and required agents to pay promptly for products ordered. In 2008, we established a more comprehensive set of payment terms determined by the creditworthiness and the length of time we have worked with such agents and retailers. For example, we require our new customers to pre-pay or pay upon delivery for our products since we are unfamiliar with their history and creditworthiness. For customers we have worked with over a period of time and with good credit, we give them until the end of the month to pay for our products. For customers we have worked with for over 3 years and have established their creditworthiness, we offer them payment terms of 30 to 60 days. We are more lenient toward large retailers and supermarkets since they have a more complete accounting and purchasing system and there is a lesser possibility of breach of payment terms or non-payment. The payment terms for such large retailers usually range between 45 to 75 days, to be negotiated with each individual retailer prior to the execution of contract. To improve our process of collecting accounts receivable as compared to the prior year, we have also placed a cap on accounts receivable in proportion to the quantity ordered. The agent or retailer must pay down the balance of the accounts payable once the maximum cap is reached on their accounts, even if it is prior to the expiration of their payment terms.

In 2008, there was an increase in interest paid to $1.76 million compared to the prior year. We owed interest payment of $809,994 in 2007 which the Group has paid on our behalf in 2007. We repaid the Group the 2007 interest payment of $809,994 in 2008. In 2008, we also made an interest payment for the interest we owed in 2008 in the amount of $953,460. We had an increase in interest earned of $264,774 in 2008 due to the deposit of more money in our bank accounts and we also earned higher interest by moving some of our money to certificate of deposit accounts.

We had $4.25 million in escrowed funds in December 2007. Pursuant to a holdback escrow agreement executed on December 31, 2007, $2 million was held in escrowed funds subject to hiring a certain number of independent directors, $1.5 million was held subject to hiring a qualified Chief Financial Officer, $250,000 was held to hire one of the agreed upon investor relations firms, and $500,000 was held to hire one of the independent public accounting firms of record. As of fiscal year 2008, only $2 million in the escrow account has been released for satisfying the criteria of hiring the independent directors. Net cash flow used in investing activities was $3.76 million in fiscal 2008, compared to cash used in investing activities of $11.3 million in fiscal 2007. There was an increase from $2.8 million to $5.8 million in expenditures for plant and equipment in 2008. The $3 million increase in spending was used in the renovation and expansion of the production facilities for prepared foods. As a result of the expansion, starting 2009 we can increase our production of prepared foods from 15,000 metric tons to 30,000 metric tons per year. We did not incur any expenses for land use rights in 2008 compared to the $4.1 million we paid for land use rights in 2007. The expense for land use rights in 2007 was a one-time payment that we paid off in 2007.

Net cash flow used in financing activities was $1.44 million in fiscal 2008 as compared to net cash sourced from financing activities of $18.26 million in fiscal 2007. The Company maintains two revolving bank loans with the Bank of China (Liaoning Branch) in the term of eleven months. The amount of credit and interest rate of the bank loans are re-negotiated at the end of each term, and the parties re-execute a new revolving loan agreement every year after negotiation. Upon the expiration of both of our revolving loan agreements executed with the Bank of China (Liaoning Branch) in 2007 that expired during October 2008, we renegotiated and executed two new revolving loan agreements in the total amount of $9.26 million in November 2008. However, this cash inflow was offset by repayment of the above mentioned 2007 bank loans that expired in October 2008 in the amount of $10.07

million.  Compared to 2007, the total amount of our revolving bank loans decreased by $1.44 million in 2008.  For additional details concerning the repayment, see Note 9(B) in the footnotes to our financial statements included with this report.

The cash flow statement shows that there was an $18 million increase in Accounts Receivable in 2008 compared to 2007. The significant increase was attributable to the more comprehensive billing system implemented by the Company in 2008, which offered our creditworthy customers longer and more flexible payment terms. The implementation of the new billing system boosted our Accounts Receivable and also increased our sales and gross profits. Other Receivable also increased by over $1 million in 2008 because we implemented new credit/debit card machines and had to make adjustments in our accounting to correspond with such change. Many of our showcase stores and customers made cash payments in the past. Due to safety reasons and the problem of counterfeit money, we no longer accepted cash payments in 2008 and switched to using credit/debit card machines provided by the Bank of China. The time of process for the actual payment to be deposited into our bank account takes approximately 4 business days. During this time, the payments are recorded in Other Receivable since they are not actually received and cannot be counted as Accounts Receivable yet. After the money has been transferred into our bank account, we settle and deduct the relevant Accounts Receivable from Other Receivable accordingly.

Our Related Party Receivable decreased by $9.2 million in 2007, yet has an increase of $6.9 million in 2008. The significant increase is due to the accounting of the Company's transactions with certain related parties. In the normal course of business which includes the purchases of hogs and other raw materials, sale of pork and pork products, the Company conducts transactions with the following related parties: Dalian Chuming Group Co., Ltd ("Group") and the Group subsidiaries, that are not consolidated into Energroup Holdings or Energroup's subsidiary, Dalian Chuming Precious Sheen Investments Consulting Co. Ltd. (Chuming): (1) Dalian Chuming Industrial Development Co., Ltd., ("Industrial Development Co.") (2) Dalian Chuming Trading Co., Ltd, ("Trading Co.") (3) Dalian Mingxing Livestock Product Co. Ltd., ("Mingxing") (4) Dalian Chuming Stockbreeding Combo Development Co., Ltd., ("Combo Development Co.") (5) Dalian Chuming Fodder Co., Ltd. ("Fodder Co."), and (6) Dalian Chuming Biological Technology Co., Ltd., ("Biological Co.") and (7) Dalian Huayu Seafood Food Co., Ltd. ("Huayu"). The Company and the aforementioned related parties share common beneficial ownership. All transactions with related parties are generally performed at arm's length.

In the event that the Company has both receivables from, and payables to the Group, it will setoff the balances in order to arrive at a single balance that is either due from, or due to the Group. The Company's net receivable balance at December 31, 2008 was $10,919,777. Of the $10,919,777 net receivable owed by the Group to the Company, the entire amount has been securitized by bank drafts issued by the bank on behalf of subsidiaries of the Group to the Company. These notes are collateralized by deposits at the bank by those particular subsidiaries of the Group. The drafts can be endorsed and discounted to the bank for cash; however the Company currently intends to hold these drafts until maturity.

Our Accounts Payable increased significantly in 2008 to $3.9 million. The reason was attributable to the extension of our billing period from the original 30 to 60 days granted by our supplier who sells us supplementary materials and packaging materials. The extension of payment term was to reward us for being a good customer. Another contributing factor was we had to pay for the renovation and equipment costs due to the expansion of our production facilities in 2008. Our taxes payable also increased in 2008 due to an increase of our payable value-added tax. Our Customer Advances increased by $3.2 million in 2008. The increase of such advances was for the renovation and expansion of production facilities and purchasing of new equipments. Since the Company has yet to receive an invoice for such renovation and equipment expenses, such costs cannot be accounted into the Company's assets yet.

Twelve Months Ended December 31, 2007

Net cash inflow sourced from operating activities was $1.97 million in fiscal 2007 and while net cash flow used in operating activities was $7.1 million in fiscal 2006. Prior to 2007, we offered flexible payment terms to agents who purchase pork products from us for resale to retailers, but in March of 2007, we eliminated this practice and required agents to pay promptly for products ordered. In addition, we have worked with our larger customers to make improvements in the collection process. As a result we believe we have improved our process of collecting accounts receivable as compared to the prior year. In 2007, we also used $108.5 million in cash to purchase materials and pay employees in our efforts to satisfy increased customer demand for our products.

Net cash flow used in investing activities was $11.3 million in fiscal 2007, compared to cash used in investing activities of $1.9 million in fiscal 2006. The increase in cash flow used in investing activities from 2006 to 2007 was a result of an equity financing, and a one-time payment by us for land use rights. In 2007, we completed a $17 million private placement, and agreed to have $4.25 million of the net proceeds deposited into an escrow account for release contingent upon our satisfaction of certain criteria relating to the structure of the board, management and appointment of and auditing firm. Also in 2007, we paid approximately $4.2 million to our local government for land use rights which we acquired in 2004.

Net cash flow used in financing activities was $2.7 million in fiscal 2007 as compared to net cash sourced from financing activities of $1.8 million in fiscal 2006. This change was a result of our $17 million private placement financing, $4.25 million of which was held back in an escrow account, and the repayment of a construction loan with an original principal amount of $19.3 million, in addition to other short term loans. Our private placement financing brought in approximately $14.7 million in cash proceeds, excluding amounts held back in escrow. However, this cash inflow was offset by the payment of $23.2 million that was used toward to repayment in full of our construction loan from 2004, and certain short term business loans.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows.

The following tables summarize our contractual obligations as of December 31, 2008, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 Years | 3-5 Years | 5 Years + |
| Contractual Obligations : | | | | | |
| Bank Indebtedness | $ 6,419,422 | $ 6,419,422 | $ - | $ - | $ - |
| Other Indebtedness | $ - | $ - | $ - | $ - | $ - |
| Capital Lease Obligations | $ - | $ - | $ - | $ - | $ - |
| Operating Leases | $ - | $ - | $ - | $ - | $ - |
| Purchase Obligations | $ - | $ - | $ - | $ - | $ - |
| Total Contractual Obligations: | $ 6,419,422 | $ 6,419,422 | $ - | $ - | - |

Off-balance Sheet Arrangements

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Related Party Transactions

For a description of our related party transactions, see the section of this Report entitled “Certain Relationships and Related Party Transactions.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

We do not use derivative financial instruments in our investment portfolio and have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents, trade accounts receivable, accounts payable and long-term obligations. We consider investments in highly liquid instruments purchased with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents. However, in order to manage the foreign exchange risks, we may engage in hedging activities to manage our financial exposure related to currency exchange fluctuation. In these hedging activities, we might use fixed-price, forward, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges, as well as long-term structured transactions when feasible.

Interest Rates. Our exposure to market risk for changes in interest rates relates primarily to our short-term obligations; thus, fluctuations in interest rates would not have a material impact on the fair value of these securities. At December 30, 2008, we had approximately $5,695,798 in cash and cash equivalents. A hypothetical 10% increase or decrease in interest rates would not have a material impact on our earnings or loss, or the fair market value or cash flows of these instruments.

Foreign Exchange Rate. All of our sales and inputs are transacted in Renminbi (“RMB”). As a result, changes in the relative values of U.S. Dollars and RMB affect our reported levels of revenues and profitability as the results are translated into U.S. Dollars for reporting purposes. However, since we conduct our sales and purchase inputs in RMB, fluctuations in exchange rates are not expected to significantly affect our financial stability, or gross and net profit margins. We do not currently expect to incur significant foreign exchange gains or losses, or gains or losses associated with any foreign operations.

Our exposure to foreign exchange risk primarily relates to currency gains or losses resulting from timing differences between signing of sales contracts and settling of these contracts. Furthermore, we translate monetary assets and liabilities denominated in other currencies into RMB, the functional currency of our operating business. Our results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by the People’s Bank of China at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in our statement of shareholders’ equity. We recorded net foreign currency gains of 2,064,272 and $528,277 in 2007 and 2008, respectively. We have not used any forward contracts, currency options or borrowings to hedge our exposure to foreign currency exchange risk. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future. As our sales denominated in foreign currencies, such as RMB, continue to grow, we may consider using arrangements to hedge our exposure to foreign currency exchange risk. Our financial statements are expressed in U.S. dollars but the functional currency of our operating subsidiary is RMB. The value of your investment in our stock will be affected by the foreign exchange rate between U.S. dollars and RMB. A decline in the value of RMB against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in our company and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the price of our stock.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Energroup Holdings Corporation

Audited Consolidated Financial Statements

December 31, 2008, 2007 and 2006

(Stated in U.S. Dollars)

Energroup Holdings Corporation

Contents

Board of Directors and Stockholders
Energroup Holdings Corporation

Report of Registered Independent Public Accounting Firm

We have audited the accompanying consolidated balance sheets of Energroup Holdings Corporation as of December 31, 2008, 2007, and 2006 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Energroup Holdings Corporation as of December 31, 2008, 2007, and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

South San Francisco, California
January 23, 2009

Samuel H. Wong & Co., LLP
Certified Public Accountants

Energroup Holdings Corporation
Consolidated Balance Sheets
At December 31, 2008, 2007, and 2006
(Stated in US Dollars)

| ASSETS | Notes | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 |
|---|---|---|---|---|
| Current Assets | | | | |
| Cash | 2(D) | $ 5,695,798 | $ 14,031,851 | $ 3,075,787 |
| Restricted Cash | 3 | 2,177,091 | 4,250,000 | - |
| Accounts Receivable | 2(E),4 | 18,661,065 | 622,433 | 1,798,397 |
| Other Receivable | | 2,162,412 | 1,068,939 | 679,019 |
| Related Party Receivable | 5 | 10,919,777 | 3,964,357 | 13,148,788 |
| Inventory | 2(F),6 | 6,051,109 | 2,916,016 | 2,385,447 |
| Advance to Suppliers | 2(G) | 1,453,861 | 267,807 | 1,110,449 |
| Prepaid Expenses | | 62,734 | 46,401 | 90,913 |
| Prepaid Taxes | | 334,413 | 185,319 | - |
| Deferred Tax Asset | 2(Q) | 643,609 | 613,844 | 574,316 |
| Total Current Assets | | 48,161,869 | 27,966,967 | 22,863,116 |
| | | | | |
| Non-Current Assets | | | | |
| Property, Plant & Equipment, net | 2(H),7 | 25,794,151 | 24,836,496 | 20,875,462 |
| Land Use Rights, net | 2(I),8 | 13,430,435 | 12,855,980 | 8,911,119 |
| Construction in Progress | 2(J) | 3,262,146 | 927,866 | 4,165,407 |
| Other Assets | | 34,807 | 32,619 | 30,519 |
| Total Assets | | $ 90,683,408 | $ 66,619,928 | $ 56,845,623 |
| | | | | |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | |
| | | | | |
| Current Liabilities | | | | |
| Bank Loans | 9(A) | $ 6,419,422 | $ 7,383,095 | $ 6,971,538 |
| Accounts Payable | | 7,695,208 | 3,779,274 | 4,207,992 |
| Taxes Payable | | 2,341,971 | 1,677,194 | 2,259,465 |
| Other Payable | | 2,318,142 | 1,471,381 | 1,362,607 |
| Accrued Liabilities | | 1,724,266 | 3,347,013 | 912,707 |
| Customer Deposits | 2(L) | 3,258,752 | 24,161 | 1,049,212 |
| Related Party Payable | | - | - | - |
| Total Current Liabilities | | 23,757,761 | 17,682,118 | 16,763,521 |
| | | | | |
| Long Term Liabilities | | | | |
| Bank Loans | 9(B) | - | - | 17,908,539 |
| | | | | |
| Total Liabilities | | $ 23,757,761 | $ 17,682,118 | $ 34,672,060 |

See Notes to Financial Statements and Accountant's Report

Energroup Holdings Corporation
Consolidated Balance Sheets
At December 31, 2008, 2007, and 2006
(Stated in US Dollars)

| Stockholders' Equity | Notes | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 |
|---|---|---|---|---|
| Preferred Stock - $0.001 Par Value 10,000,000 Shares Authorized; 0 Shares Issued & Outstanding at December 31, 2008, 2007, and 2006, respectively. | | $ - | $ - | $ - |
| Common Stock - $0.001 Par Value 21,739,130 Shares Authorized; 21,136,392 Shares Issued & Outstanding at December 31, 2008 and 2007, and 17,272,756 Shares Issued & Outstanding at December 31, 2006. | 10 | 21,137 | 21,137 | 17,273 |
| Additional Paid in Capital | | 26,062,337 | 15,440,043 | 2,396,079 |
| Statutory Reserve | 2(M),11 | 2,077,488 | 751,444 | 751,444 |
| Retained Earnings | | 35,275,457 | 29,764,236 | 18,112,089 |
| Accumulated Other Comprehensive Income | 2(N) | 3,489,228 | 2,960,951 | 896,679 |
| | | | | |
| Total Stockholders' Equity | | 66,925,647 | 48,937,811 | 22,173,564 |
| | | | | |
| Total Liabilities & Stockholders' Equity | | $ 90,683,408 | $ 66,619,928 | $ 56,845,623 |

See Notes to Financial Statements and Accountant’s Report

Energroup Holdings Corporation
Consolidated Statements of Operations
For the years ended December 31, 2008, 2007, and 2006
(Stated in US Dollars)

| | Note | For the year ended December 31, 2008 | For the year ended December 31, 2007 | For the year ended December 31, 2006 |
|---|---|---|---|---|
| Sales | 2(O) | $ 176,360,013 | $ 124,696,036 | $ 70,396,439 |
| Cost of Sales | 2(P) | 149,794,249 | 104,378,909 | 57,794,853 |
| Gross Profit | | 26,565,764 | 20,317,127 | 12,601,586 |
| | | | | |
| Operating Expenses | | | | |
| Selling Expenses | 2(Q) | 5,147,366 | 4,672,862 | 1,556,805 |
| General & Administrative Expenses | 2(R) | 2,675,661 | 1,572,836 | 1,334,866 |
| Total Operating Expense | | 7,823,027 | 6,245,698 | 2,891,671 |
| | | | | |
| Operating Income/(Loss) | | 18,742,737 | 14,071,429 | 9,709,915 |
| | | | | |
| Other Income (Expenses) | | | | |
| Other Income | | 5,780 | 114,496 | - |
| Interest Income | | 284,774 | - | 147 |
| Other Expenses | | (100,183) | (90,508) | (126,098) |
| Interest Expense | | (953,460) | (1,475,730) | (1,457,204) |
| Release of Escrowed Make Good Shares | | (10,622,294) | - | - |
| Total Other Income (Loss) and Expense | | (11,385,383) | (1,451,742) | (1,583,155) |
| | | | | |
| Earnings before Tax | | 7,357,354 | 12,619,687 | 8,126,760 |
| | | | | |
| (Income Tax Expense)/Deferred Tax Benefit | 2(V),13 | (520,089) | (967,540) | 1,611 |
| | | | | |
| Net Income | | $ 6,837,265 | $ 11,652,147 | $ 8,128,371 |
| | | | | |
| Earnings Per Share | 2(Z),16 | | | |
| - Basic | | $ 0.40 | $ 0.87 | $ 0.61 |
| - Diluted | | $ 0.32 | $ 0.67 | $ 0.47 |
| | | | | |
| Weighted Average Shares Outstanding | | | | |
| - Basic | | 17,272,756 | 13,409,120 | 13,409,120 |
| - Diluted | | 21,182,756 | 17,272,756 | 17,272,756 |

| Comprehensive Income | For the year ended December 31, 2008 | For the year ended December 31, 2007 | For the year ended December 31, 2006 | Accumulated Totals |
|---|---|---|---|---|
| Net Income | $ 6,837,265 | $ 11,652,147 | $ 8,128,371 | 26,617,783 |
| Other Comprehensive Income: | | | | |
| Foreign Currency Translation Adjustment | 528,277 | 2,064,272 | 610,696 | 3,203,245 |

| | | | |
|---|---|---|---|
| $ 7,365,542 | $ 13,716,419 | $ 8,739,067 | $ 29,821,028 |

See Notes to Financial Statements and Accountant’s Report

Energroup Holdings Corporation
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2008, 2007, and 2006
(Stated in US Dollars)

| | Common Shares Outstanding | Common Amount | Additional Paid in Capital | Statutory Reserve | Retained Earnings | Accumulated Comprehensive Other Income | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2006 | 17,272,756 | $ 17,273 | $ 2,396,079 | $ 72,508 | $ 10,662,654 | $ 285,983 | $ 13,434,497 |
| Net Income | | | | | 8,128,371 | | 8,128,371 |
| Appropriations of Retained Earnings | | | | 678,936 | (678,936) | | - |
| Foreign Currency Translation Adjustment | | | | | | 610,696 | 610,696 |
| Balance, December 31, 2006 | 17,272,756 | $ 17,273 | $ 2,396,079 | $ 751,444 | $ 18,112,089 | $ 896,679 | $ 22,173,564 |
| | | | | | | | |
| Balance, January 1, 2007 | 17,272,756 | $ 17,273 | $ 2,396,079 | $ 751,444 | $ 18,112,089 | $ 896,679 | $ 22,173,564 |
| Issuance of Common Stock & Warrants | 3,863,636 | 3,864 | 13,043,964 | | | | 13,047,828 |
| Net Income | | | | | 11,652,147 | | 11,652,147 |
| Appropriations of Retained Earnings | | | | - | - | | - |
| Foreign Currency Translation Adjustment | | | | | | 2,064,272 | 2,064,272 |
| Balance, December 31, 2007 | 21,136,392 | $ 21,137 | $ 15,440,043 | $ 751,444 | $ 29,764,236 | $ 2,960,951 | $ 48,937,811 |
| | | | | | | | |
| Balance, January 1, 2008 | 21,136,392 | $ 21,137 | $ 15,440,043 | $ 751,444 | $ 29,764,236 | $ 2,960,951 | $ 48,937,811 |
| Release of Shares Placed in Escrow | | | 10,622,294 | | | | 10,622,294 |
| Net Income | | | | | 6,837,265 | | 6,837,265 |
| Appropriations of Retained Earnings | | | | 1,326,044 | (1,326,044) | | - |
| Foreign Currency Translation Adjustment | | | | | | 528,277 | 528,277 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2008 | 21,136,392 | $ 21,137 | $ 26,062,337 | $ 2,077,488 | $ 35,275,457 | $ 3,489,228 | $ 66,925,647 |

See Notes to Financial Statements and Accountant's Report

Energroup Holdings Corporation
Consolidated Statements of Cash Flows
For the years ended December 31, 2008, 2007, and 2006
(Stated in US Dollars)

| | For the year ended December 31, 2008 | For the year ended December 31, 2007 | For the year ended December 31, 2006 |
|---|---|---|---|
| Cash Flow from Operating Activities | | | |
| Cash Received from Customers | $ 153,507,080 | $ 112,741,680 | $ 59,979,793 |
| Cash Paid to Suppliers & Employees | (155,266,953) | (108,527,656) | (65,116,627) |
| Interest Received | 284,774 | - | 147 |
| Interest Paid (net of amount capitalized) | (1,763,404) | (1,247,575) | (1,580,310) |
| Income Tax Paid | - | (1,007,067) | (400,065) |
| Miscellaneous Receipts | 5,780 | 9,182 | - |
| Cash Sourced/(Used) in Operating Activities | (3,232,723) | 1,968,564 | (7,117,062) |
| Cash Flows from Investing Activities | | | |
| Escrowed Funds from Private Placement Placed in Restricted Cash | 2,072,909 | (4,250,000) | - |
| Payments for Purchases of Equipment & Construction of Plant | (5,832,731) | (2,882,433) | (1,655,077) |
| Payments for Purchases of Land Use Rights | - | (4,198,178) | (265,509) |
| Payments for Deposits | - | (2,100) | - |
| Cash Sourced/(Used) in Investing Activities | (3,759,822) | (11,333,712) | (1,920,586) |
| Cash Flows from Financing Activities | | | |
| Financing Transaction - Proceeds Allocated to Accrued Liabilities for Liquidated Damages | - | 1,700,000 | - |
| Financing Transaction - Proceeds of Issuance of Common Stock & Warrants | - | 13,047,828 | - |
| Proceeds from Bank Borrowings | 9,264,246 | 5,725,377 | 1,753,971 |
| Repayment of Bank Loans | (10,700,664) | (2,217,265) | - |
| Cash Sourced/(Used) in Financing Activities | (1,436,417) | 18,255,939 | 1,753,971 |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Year | (8,428,962) | 8,891,791 | (7,283,677) |
| Effect of Currency Translation | 92,910 | 2,064,273 | 180,050 |
| Cash & Cash Equivalents at Beginning of Year | 14,031,851 | 3,075,787 | 10,179,414 |
| Cash & Cash Equivalents at End of Year | $ 5,695,798 | $ 14,031,851 | $ 3,075,787 |
| Non-Cash Financing Activity: | | | |
| Extinguishment of Debt by Setoff Against Related Party Receivables | $ - | $ 21,005,094 | $ - |
| Release of shares held in escrow | $ 10,622,294 | $ - | $ - |

See Notes to Financial Statements and Accountant’s Report

Energroup Holdings Corporation
Reconciliation of Net Income to Cash Provided/(Used) in Operating Activities
For the years ended December 31, 2008, 2007, and 2006
(Stated in US Dollars)

| | For the year ended December 31, 2008 | For the year ended December 31, 2007 | For the year ended December 31, 2006 |
|---|---|---|---|
| Net Income | $ 6,837,265 | $ 11,652,147 | $ 8,128,371 |
| | | | |
| Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities: | | | |
| | | | |
| Non Cash Expense Recorded for the Release of Escrowed Shares | 10,622,294 | - | - |
| Extinguishment of Debt by Setting Off Against Related Party Receivable | - | (21,005,094) | - |
| Liquidated Damages Included in Accrued Liabilities | - | (1,700,000) | - |
| Amortization | 331,468 | 253,317 | 160,782 |
| Depreciation | 2,540,797 | 2,158,940 | 1,651,055 |
| Provision for Bad Debt | 103,773 | 5,456 | - |
| Decrease/(Increase) in Accounts Receivable | (18,142,404) | 1,170,508 | 1,523,176 |
| Decrease/(Increase) in Other Receivable | (1,093,473) | (389,920) | 353,046 |
| Decrease/(Increase) in Related Party Receivable | (6,955,420) | 9,184,432 | (12,877,984) |
| Decrease/(Increase) in Inventory | (3,135,093) | (530,569) | 546,573 |
| Decrease/(Increase) in Advance to Suppliers | (1,186,054) | 842,641 | (374,793) |
| Decrease/(Increase) in Prepaid Taxes | (149,096) | (185,317) | - |
| Decrease/(Increase) in Prepaid Expenses | (16,333) | 44,512 | (40,297) |
| Decrease/(Increase) in Deferred Tax Benefit | (29,764) | (39,528) | (401,674) |
| Increase/(Decrease) in Accounts Payable | 3,915,934 | (428,718) | (3,611,921) |
| Increase/(Decrease) in Taxes Payable | 664,777 | (582,271) | 1,371,696 |
| Increase/(Decrease) in Other Payable | 846,762 | 108,773 | 482,075 |
| Increase/(Decrease) in Related Party Payable | - | - | (4,506,002) |
| Increase/(Decrease) in Accrued Liabilities | (1,622,747) | 2,434,306 | (106,278) |
| Increase/(Decrease) in Customer Advances | 3,234,591 | (1,025,051) | 585,113 |
| | | | |
| Total of all adjustments | (10,069,987) | (9,683,583) | (15,245,431) |
| | | | |
| Net Cash Provided by/(Used in) Operating Activities | $ (3,232,723) | $ 1,968,564 | $ (7,117,062) |

See Notes to Financial Statements and Accountant's Report

Energroup Holdings Corporation
Notes to Consolidated Financial Statements
As of and for the years ended December 31, 2008, 2007, and 2006

1. The Company and Principal Business Activities

Energroup Holdings Corporation (the "Company") (OTCBB: ENHD) is a holding company incorporated in the state of Nevada in the United States of America whose primary business operations are conducted through its three operating subsidiaries: (1) Dalian Chuming Processed Foods Company Ltd., ("Food Company") (2) Dalian Chuming Slaughter and Packaging Pork Company Ltd. ("Meat Company"), and (3) Dalian Chuming Sales Company Ltd. ("Sales Company"), which are incorporated in the People's Republic of China ("PRC"). The Company is headquartered in the City of Dalian, Liaoning Province of China.

The three operating subsidiaries were spun-off constituents of the former parent company, Dalian Chuming Group Co. Ltd ("Group"). The Company indirectly holds the three operating subsidiary companies through its wholly owned intermediary subsidiaries: (A) Precious Sheen Investments Limited ("PSI"), a British Virgin Islands corporation, and (B) Dalian Chuming Precious Sheen Investments Consulting Co., Ltd., ("Chuming"), a wholly foreign owned enterprise incorporated in the PRC.

The Company's primary business activities are the production and packing of fresh pork and also production of processed meat products for distribution and sale to clients throughout the PRC and Russia.

Corporate Reorganization

PRC law currently has limits on foreign ownership of certain companies. To enable Chuming to raise equity capital from investors outside of China, it established an offshore holding company by incorporating Precious Sheen Investments Limited in the British Virgin Islands in May 2007. On September 26, 2007, Chuming entered into share transfer agreements with Dalian Chuming Group Co., Ltd., under which Dalian Chuming Group Co., Ltd. agreed to transfer ownership of three operating subsidiaries (collectively known as "Chuming Operating Subsidiaries") to Chuming. On October 23, 2007, Chuming completed all required registrations to complete the share transfer, and became the 100% owner of the Chuming Operating Subsidiaries. On November 14, 2007 the Dalian Commerce Bureau approved the transfer of Dalian Chuming Group Co., Ltd's 68% interest in Chuming to PSI, and upon this transfer, Chuming became a wholly foreign owned enterprise, with PSI as the 100% owner of Chuming (including its subsidiaries). On December 13, 2007, the PRC government authorities issued Chuming a business license formally recognizing it as a wholly foreign owned enterprise, of which PSI is the sole shareholder.

The following is a description of the Chuming Operating Subsidiaries: -

A. Dalian Chuming Slaughter and Packaging Pork Company Ltd., whose primary business activity is acquiring, slaughtering, and packaging of pork and cattle;

B. Dalian Chuming Processed Foods Company Ltd., whose primary business activity is the processing of raw and cooked meat products; and

C. Dalian Chuming Sales Company Ltd., which is responsible for Chuming's sales, marketing, and distribution operations.

Share Exchange Transaction

On December 31, 2007, the Company acquired all of the outstanding shares of PSI in exchange for the issuance of 16,850,000 restricted shares of our common stock to the shareholders of PSI, which represented approximately 97.55% of the then-issued and outstanding common stock of the Company (excluding the shares issued in the Financing). As a result of that transaction, PSI became our wholly owned subsidiary and we acquired the business and operations of the three operation subsidiaries.

Energroup Holdings Corporation
Notes to Consolidated Financial Statements
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The share exchange transaction has been accounted for as a recapitalization of PSI where the Company (the legal acquirer) is considered the accounting acquiree and PSI (the legal acquiree) is considered the accounting acquirer. As a result of this transaction, the Company is deemed to be a continuation of the business of PSI.

Accordingly, the financial data included in the accompanying consolidated financial statements for all periods prior to December 31, 2007 is that of the accounting acquirer (PSI). The historical stockholders' equity of the accounting acquirer prior to the share exchange has been retroactively restated as if the share exchange transaction occurred as of the beginning of the first period presented.

## 2. Summary of Significant Accounting Policies

### (A) Method of Accounting

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

### (B) Principles of Consolidation

The consolidated financial statements, which include the Company and its subsidiaries, are compiled in accordance with generally accepted accounting principles in the United States of America. All significant inter-company accounts and transactions have been eliminated. The consolidated financial statements include 100% of assets, liabilities, and net income or loss of those wholly-owned subsidiaries.

The Company owned the three operating subsidiaries since its inception. The Company also owns two intermediary holdings companies. As of December 31, 2008, the detailed identities of the consolidating subsidiaries are as follows: -

| Name of Company | Place of Incorporation | Attributable Equity Interest | Registered Capital |
|---|---|---|---|
| Precious Sheen Investments Limited | BVI | 100% | USD 10,000 |
| Dalian Chuming Precious Sheen Investment Consulting Co., Ltd. | PRC | 100% | RMB 29,400,682 |
| Dalian Chuming Slaughtering & Pork Packaging Co. Ltd. | PRC | 100% | RMB 10,000,000 |
| Dalian Chuming Processed Foods Co. Ltd. | PRC | 100% | RMB 5,000,000 |
| | PRC | 100% | |

| | |
|---|---|
| Dalian Chuming Sales Co. Ltd. | RMB 5,000,000 |

The consolidation of these operating subsidiaries into a newly formed holding company i.e. “the Company” is permitted by United States GAAP: ARB51 paragraph 22 and 23.

Energroup Holdings Corporation
Notes to Consolidated Financial Statements
As of and for the years ended December 31, 2008, 2007, and 2006

(C) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made; however, actual results could differ materially from these estimates.

(D) Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid equity or debt instruments purchased with a maturity of three months or less to be cash equivalents.

(E) Accounts Receivable

The Company extends unsecured, non-interest bearing credit to its customers; accordingly, the Company carries an allowance for doubtful accounts, which is an estimate, made by management. Management makes its estimate based on prior experience rates and assessment of specific outstanding customer balances. Management may extend credit to new customers who have met the criteria of the Company’s credit policy.

(F) Inventory Carrying Value

Inventory, consisting of raw materials in the form of livestock, work in progress, and finished products, is stated at the lower of cost or market value. Finished products are comprised of direct materials, direct labor and an appropriate proportion of overhead. Periodic evaluation is made by management to identify if inventory needs to be written down because of damage, or spoilage. Cost is computed using the weighted average method.

(G) Purchase Deposit

Purchase deposit represents the cash paid in advance for purchasing raw materials. The purchase deposit is interest free and unsecured.

(H) Property, Plant, and Equipment

Property, Plant, and Equipment are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements enhancing the function and/or useful life are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized.

Property and equipment are depreciated using the straight-line method over their estimated useful life with a 5% salvage value. Their useful lives are as follows: -

| Fixed Asset Classification | Useful Life |
|---|---|
| Land Improvements | 10 years |

| | |
|---|---|
| Buildings | 20 years |
| Building Improvements | 10 years |
| Manufacturing Machinery & Equipment | 10 years |
| Office Equipment | 5 years |
| Furniture & Fixtures | 5 years |
| Vehicles | 5 years |

Energroup Holdings Corporation
Notes to Consolidated Financial Statements
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(I) Land Use Rights

Land Use Rights are stated at cost less accumulated amortization. Amortization is provided over its useful life, using the straight-line method. The useful life of the land use right is 50 years.

(J) Construction in Progress

Construction in progress represents the direct costs of design, acquisition, and construction of buildings, building improvements, and land improvements. These costs are capitalized in the Construction-in-Progress account until substantially all activities necessary to prepare the assets for their intended use are completed. At such point, the Construction-in-Progress account is closed and the capitalized costs are transferred to their appropriate asset classification. No depreciation is provided until the assets are completed and ready for their intended use.

(K) Accounting for Impairment of Assets

The Company reviews the recoverability of its long-lived assets, such as property and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset group may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected future cash flows, undiscounted and without interest charges, of the related operations. If these cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets.

(L) Customer Deposits

Customer Deposits represents money the Company has received in advance for purchases of pork and pork products. The Company considers customer deposits as a liability until products have been shipped and revenue is earned.

(M) Statutory Reserve

Statutory reserve refer to the amount appropriated from the net income in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and, are to be used to expand production or operations. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, from its earnings, an amount to the statutory reserve to be used for future company development. Such an appropriation is made until the reserve reaches a maximum equalling 50% of the enterprise's capital.

(N) Other Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company's current component of other comprehensive income is the foreign currency translation adjustment.

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Energroup Holdings Corporation
Notes to Consolidated Financial Statements
As of and for the years ended December 31, 2008, 2007, and 2006

(O) Recognition of Revenue

Revenue from the sale of pork products, etc., is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

(P) Cost of Sales

The Company's cost of sales is comprised of raw materials, factory worker salaries and related benefits, machinery supplies, maintenance supplies, depreciation, utilities, inbound freight, purchasing and receiving costs, inspection and warehousing costs

(Q) Selling Expense

Selling expenses are comprised of outbound freight, salary for the sales force, client entertainment, commissions, depreciation, advertising, and travel and lodging expenses.

(R) General & Administrative

General and administrative costs include executive compensation, quality control, and general overhead such as the finance department, administrative staff, and depreciation and amortization expense.

(S) Shipping and handling

All shipping and handling are expensed as incurred and are included as a component of cost of sales.

(T) Advertising Expense

Costs related to advertising and promotion expenditures are expensed as incurred during the year. Advertising costs are charged to selling expense

(U) Retirement Benefits

Retirement benefits in the form of contributions under defined contribution retirement plans to the relevant authorities are charged to the statement of operations as incurred.

(V) Income Taxes

The Company uses the accrual method of accounting to determine and report its taxable reduction of income taxes for the year in which they are available. The Company has implemented Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Income tax liabilities computed according to the United States and People's Republic of China (PRC) tax laws are provided for the tax effects of transactions reported in the financial statements and consists of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets and intangible assets for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes. A valuation allowance is created to evaluate deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize that tax benefit, or that future realization is uncertain.

Energroup Holdings Corporation
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In respect of the Company's subsidiaries domiciled and operated in China:

- Chuming and Chuming Operating Subsidiaries are located in the PRC and PSI is located in the British Virgin Islands; all of these entities are subject to the relevant tax laws and regulations of the PRC and British Virgin Islands in which the related entity domiciled. The maximum tax rates of the subsidiaries pursuant to the countries in which they domicile are: -

| Subsidiary | Country of Domicile | Income Tax Rate |
|---|---|---|
| Chuming and Chuming Operating Subsidiaries | PRC | 25.00% |
| PSI | British Virgin Islands | 0.00% |

- Effective January 1, 2008, PRC government implements a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 15% tax rate, tax holidays terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized.

- The Company is subject to United States Tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on progressive rates in the range of: -

| | Taxable Income | | |
|---|---|---|---|
| Rate | Over | But Not Over | Of Amount Over |
| 15% | 0 | 50,000 | 0 |
| 25% | 50,000 | 75,000 | 50,000 |
| 34% | 75,000 | 100,000 | 75,000 |
| 39% | 100,000 | 335,000 | 100,000 |
| 34% | 335,000 | 10,000,000 | 335,000 |
| 35% | 10,000,000 | 15,000,000 | 10,000,000 |
| 38% | 15,000,000 | 18,333,333 | 15,000,000 |
| 35% | 18,333,333 | - | - |

Based on the consolidated net income for the year ended December 31, 2008, the Company shall not be subject to income tax.

(W) Economic and Political Risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy.

Energroup Holdings Corporation
Notes to Consolidated Financial Statements
As of and for the years ended December 31, 2008, 2007, and 2006

(X) Foreign Currency Translation

The Company maintains its financial statements in the functional currency. The functional currency of the Company is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchanges rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company which are prepared using the functional currency have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Any translation adjustments resulting are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

| Exchange Rates | 12/31/2008 | 12/31/2007 | 12/31/2006 |
|---|---|---|---|
| Period end RMB : US$ exchange rate | 6.85420 | 7.3141 | 7.8175 |
| Average period RMB : US$ exchange rate | 6.96225 | 7.6172 | 7.9819 |

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US$ at the rates used in translation.

(Y) Earnings Per Share

The Company computes earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per share" ("SFAS No. 128"), and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). SFAS No. 128 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as the income or loss available to common shareholders divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., contingent shares, convertible securities, options, and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

(Z) Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 applies to all derivative instruments and related hedged items accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

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Energroup Holdings Corporation
Notes to Consolidated Financial Statements
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In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). Statement 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles."

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis.

The Company is currently evaluating the potential impact, if any, of the adoption of the above recent accounting pronouncements on its consolidated results of operations and financial condition.

## 3. Restricted Cash

The restricted cash reflects funds received from the financing transaction described in Note 18 that are held in an escrow with US Bank in the United States. These funds are restricted until fulfilment of the following criteria: (1) the hiring of a Chief Financial Officer that meets the approval of the investors within 90 days of the closing (subsequently extended to 120 days), at such point the Company will release $1.5 million from restriction, (2) appointment of a Board of Directors that has majority of independent members, at such point $2.0 million will be released from restriction, and (3) appoint a successor auditor, at which point $500,000 will be released from restriction. There is $250,000 in the escrow account that has already been earmarked for investor relations purposes.

At December 31, 2008, the Company has not fulfilled requirement (3), and did not fulfill requirement (1). The Company has requested bids for consideration from auditing firms that were on an approved list submitted by, Pinnacle Fund, whom was the lead investor in the Company's financing transaction in December 2007, detailed in Note 18 – Financing Transaction.

Energroup Holdings Corporation
Notes to Consolidated Financial Statements
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## 4. Accounts Receivable

Accounts Receivable at December 31, consisted of the following: -

| | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 |
|---|---|---|---|
| Accounts Receivable – Trade | 18,849,560 | $ 707,156 | $ 1,877,664 |
| Less: Allowance for Doubtful Accounts | (188,495) | (84,723) | (79,267) |
| Net Accounts Receivable | 18,661,065 | $ 622,433 | $ 1,798,397 |

| Allowance for Bad Debts | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 |
|---|---|---|---|
| Beginning Balance | $ (84,723) | $ (79,267) | $ (76,754) |
| Allowance Provided | $ (103,772) | (5,456) | (2,513) |
| Charged Against Allowance | - | - | - |
| Ending Balance | $ (188,495) | $ (84,723) | $ (79,267) |

During the second quarter of the 2008 fiscal year, management revised the Company's credit policy. Based on management's review, the Company began extending more favorable credit terms to its top tier customers. Those customers that qualified as top tier were extended approximately 45 to 60 days of credit. The Company previously extended one to two days of credit. As of December 31, 2008, the Company has not had any receivables that were unrecoverable.

Accounts Receivable Aging Analysis
At December 31, 2008

| 0-30 Days | 31-60 Days | 61-90 Days | 91-120 Days | Total Outstanding |
|---|---|---|---|---|
| $ 10,478,579 | $ 1,627,515 | $ 168,045 | $ 6,575,420 | $ 18,849,560 |

## 5. Related Party Receivable

In the normal course of business which includes the purchases of hogs and other raw materials, sale of pork and pork products, the Company conducts transactions with the following related parties: Dalian Chuming Group Co., Ltd ("Group") and the Group subsidiaries, that are not consolidated into Energroup Holdings or Energroup's subsidiary, Dalian Chuming Precious Sheen Investments Consulting Co. Ltd. (Chuming): (1) Dalian Chuming Industrial Development Co., Ltd., ("Industrial Development Co.") (2) Dalian Chuming Trading Co., Ltd, ("Trading Co.") (3) Dalian Mingxing Livestock Product Co. Ltd., ("Mingxing") (4) Dalian Chuming Stockbreeding Combo Development Co., Ltd., ("Combo Development Co.") (5) Dalian Chuming Fodder Co., Ltd. ("Fodder Co."), and (6) Dalian Chuming Biological Technology Co., Ltd., ("Biological Co.") and (7) Dalian Huayu Seafood Food Co., Ltd. ("Huayu"). The Company and the aforementioned related parties share common beneficial ownership. All transactions with related parties are generally performed at arm's length.

In the event that the Company has both receivables from, and payables to the Group it will, in accordance with FIN 39, setoff the balances in order to arrive at a single balance that is either due from, or due to the Group. The

Company's net receivable balance of $10,919,777 at December 31, 2008 is shown in the following table.

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| Ref. | Subsidiary Due to: | Nature of Balance | Related Party | | Balance | Description of Transaction |
|---|---|---|---|---|---|---|
| A | Food Company | Sale of Products resulting in Trade Receivable from | Dalian Huayu Seafood Food Co., Ltd. | | 234,699 | Food Company sold cooked food to Huayu dating back to 1/2007. |
| | | Subtotal of Related Party Sales | | $ | 234,699 | |
| | | | | | | |
| B | Food Company | Loan Receivable from | Dalian Huayu Seafood Co., Ltd. | | 2,917,918 | Huayu borrowed loan from Food Company back to 11/2008 |
| C | Food Company | Loan Receivable from | Dalian Mingxing Livestock Product Co. Ltd., | | 4,376,878 | Mingxing borrowed loan from Food Company back to 12/2008 |
| D | Meat Company | Loan Receivable from | Dalian Chuming Fodder Co., Ltd. | | 34,714 | Meat Companypaid utility fees for Fodder Co. dating back to 7/2008. |
| E | Meat Company | Loan Receivable from | Dalian Chuming Stockbreeding Combo Development Co., Ltd. | | 3,445,292 | Prepayment to Group for Purchase of hogs dating back to 7/2008. |
| F | Meat Company | Loan Receivable from | Dalian Chuming Group Co., Ltd. | | 68,211 | Meat Company purchased office supplies on behalf of the Group dating back to 11/2005 |
| G | Food Company | Loan Receivable from | Dalian Chuming Group Co., Ltd. | | 1,458,959 | Food Company paid bank loan principal and interest on behalf of Industrial Co. dating back to 1/2008 |
| H | Sales Company | Loan Receivable from | Dalian Huayu Seafood Co., Ltd. | | 1,562,263 | Sales Company paid Huayu to help it buy materials dating back to 9/2008. |
| I | Sales Company | Loan Receivable from | Dalian Chuming Group Co., Ltd. | | 5,212,167 | Sales Company paid the Group to help it buy materials dating back to 7/2008. |
| J | Sales Company | Loan Receivable from | Dalian Chuming Stockbreeding Combo Development Co., | | 19,568,483 | Sales Company paid for Stockbreeding to buy hogs from farmer dating back 7/2008 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | Ltd. | | | |
| K | Sales Company | Loan Receivable from | Dalian Chuming Fodder Co., Ltd. | | 2,509,410 | Sales Company paid for feeding materials on behalf of Fodder dating back to 9/2008. |
| | | Subtotal of Loans to Related Parties | | $ | 41,154,295 | |
| | | | | | | |
| | | Gross Related Party Receivable | | $ | 41,388,994 | |

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Energroup Holdings Corporation
Notes to Consolidated Financial Statements
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| | Subsidiary Due from: | Nature of Balance | Related Party | Balance | Description of Transaction |
|---|---|---|---|---|---|
| L | Meat Company | Purchase of Raw Materials resulting in Trade Payable to | Dalian Chuming Group Co., Ltd. | 5,396,217 | Purchase of hogs from Group dating back to 12/1/2004. |
| M | Meat Company | Purchase of Raw Materials resulting in Trade Payable to | Dalian Chuming Group Co., Ltd. | 7,365,945 | Purchase of hogs from Group dating back to 7/2008. |
| N | Food Company | Purchase of Raw Materials resulting in Trade Payable to | Dalian Huayu Seafood Food Co., Ltd | 2,621,251 | Advance from Huayu for the purchase of product dating back to 12/2007. |
| | | Subtotal of Purchases from Related Parties | | $ 15,383,413 | |
| | | | | | |
| O | Food Company | Loan Payable to | Dalian Chuming Group Co., Ltd. | 950,134 | Group paid for salaries and other G&A expenses on behalf of Food dating back to 1/2004. |
| P | Meat Company | Loan Payable to | Dalian Chuming Stockbreeding Combo Development Co., Ltd. | 123,210 | Meat Company collected bank loans for Stockbreeding Co. dating back to 7/2008 |
| Q | Meat Company | Loan Payable to | Dalian Chuming Industrial Development Co., Ltd. | 6,477 | Industrial Development paid salaries on behalf of Meat Company dating back to 1/2005. |
| R | Meat Company | Loan Payable to | Dalian Mingxing Livestock Product Co. Ltd., | 393,919 | Meat Company collected bank loans on behalf of Mingxing dating back to 8/2008 |
| S | Meat Company | Loan Payable to | Dalian Huayu Seafood Food Co., Ltd | 541,738 | Huayu lent funds to Meat Company for necessary operation activities dating 12/2008 |
| T | Sales Company | Loan Payable to | Dalian Mingxing Livestock Product Co. Ltd., | 986,256 | Sales Company borrowed funds from Mingxing for operations purpose dating back to 12/2008 |
| U | WFOE | Loan Payable to | Dalian Chuming Group Co. | 12,084,070 | Group loaned funds to WFOE (incl. funds transferred from Meat for US RTO. |
| | | Subtotal of Loans from Related Parties | | $ 15,085,804 | |

| | |
|---|---|
| Gross Related Party Payable | $ 30,469,217 |
| | |
| Setoff Related Party Receivable (Receivables have been setoff against payables) | $ 10,919,777 |

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A. The Food Company sold USD 235 thousand (RMB 1.6 million) worth of cooked food to Huayu on credit. This transaction impacted the statement of income. After applying a 17% valued added tax, the Food Company generated USD 200 thousand (RMB 1.4 million) in sales revenue from this transaction.

B. Food Company loaned USD 2.9 million (RMB 20 million) to Huayu in November 2008.

C. Food Company loaned USD 4.4 million (RMB 30 million) to Mingxing in December 2008.

D. Meat Company paid USD 35 thousand (RMB 237 thousand) for utility fees on behalf of Fodder Co. in the 3rd quarter of 2008, which resulted in this receivable.

E. The prepayment of USD 3.5 million (RMB 23.6 million) from Meat Company to the Group for hogs was increased by USD 96 thousand (RMB 0.6 million), USD 0.15 million (RMB 1 million), and USD 4.1 million (RMB 28.3 million) in July, August, and September respectively. Simultaneously, the Group paid down its balance in the amounts of USD 1.3 million (RMB 8.9 million) and USD 230 thousand (RMB 1.54 million) to Meat Company.

F. The balance of USD 68 thousand (RMB 467 thousand) for the purchase of office supplies by Meat Company for the Group, was still outstanding as of December 31, 2008.

G. Food Company paid certain bank loan interest and principal on behalf of Industrial Co. prior to 2008. This resulted in a receivable of USD 1.5 million (RMB 10 million) owed by Industrial Co. to the Food Company. A balance of USD 1.5 million (RMB 10 million) remained outstanding as of December 31, 2008.

H. The Sales Company advanced USD 1.6 million (RMB10.7 million) to Huayu for the purchase of raw materials, resulting in this receivable.

I. The Sales Company paid for the purchase of certain materials for the Group, resulting in a balance of USD 5.2 million (RMB 35.7 million) receivable from Group to Sales Company. This balance was increased by USD 5.8 million (RMB 39.6 million) and USD 3.9 million (RMB 20.6 million) in the 3rd and 4th quarters of 2008, in connection with the purchase of additional materials by Sales Company. The Group has paid down USD 4.5 million (RMB 20.3 million) of this balance, resulting in an ending balance of USD 5.2 million (RMB 35.7 million).

J. Sales Company paid USD 19.6 million (RMB 134.1 million) to local farmers for the purchase of hogs, on behalf of the Group, which gave rise to this receivable from the Group to Sales Company.

K. Sales Company purchase feed materials, paid construction fees, and utility costs for Fodder Co., resulting in a receivable of USD 2.5 million (RMB17.2 million) due from Fodder Co. to Sales Company. In 2008, the following transactions affected the balance of this receivable: USD 0.8 million (RMB 5.4 million) was paid to buy feeding materials, USD 1.1 million (RMB 7.7 million) was paid for construction fees, and USD 0.6 million (RMB 4 million) for utilities.

L. The Company acquired hogs from the Group, resulting in a balance payable from the Company to the Group of USD 5.4 million (RMB 36.9 million). In 2008, this balance was affected by the following transactions: increases by USD 3.9 million (RMB 27.4 million), USD 5.5 million (RMB 37.7 million), USD 5.2 million (RMB 35.1 million), and USD 480 thousand (RMB 3.3 million) in

July, August, September, and December respectively. The Company paid USD 9.8 million (RMB 67.4 million) to settle this balance in September 2008. The increase in the balance as result of the purchase hogs would impact the statements of income; however, the effect of the repayment is isolated to the Company's balance sheet.

M. The Group sold hogs to Meat Company on August 12, 2008 which were not immediately paid for, which resulted in a net payable from the Meat Company to Group in the amount of USD 7.4 million (RMB 50.5 million).

N. The USD 2.6 million (RMB 18 million) deposit owed to Huayu was still outstanding at December 31, 2008.

O. The Group paid USD 954 thousand (RMB 6.5 million) in salaries and general administrative expense on behalf of Food Company, resulting in this payable.

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P. The outstanding balance of USD 123 thousand (RMB 84 thousand) due from Meat Company to Combo Development Co. resulted from the fact that Meat Company collected USD 52 thousand (RMB 0.4 million) hogs sales and USD 1.5 million (RMB 10.4 million) in proceeds from a bank loan on behalf of Combo Development Co. in August and September, 2008 respectively. Simultaneously, the Meat Company repaid USD 1.5 million (RMB 10 million) to Combo Development Co.

Q. The a balance of USD 6 thousand (RMB 44 thousand) owed by Industrial Development Co. to Meat Company was still outstanding at December 31, 2008.

R. Meat Company collected bank loans on behalf of Mingxing dating back to August 2008.

S. Meat Company borrowed USD 542 thousand (RMB 3.7 million) operating funds from Huayu in December 2008.

T. Sales Company borrowed USD 986 thousand (RMB 6.7 million) from Mingxing in December 2008.

U. The outstanding payable balance of USD 12.1 million (RMB 83.2 million) due to the Group has been transferred to the books of Chuming, i.e., WFOE owes Chuming the amount stated above. This balance was increased by USD 250 thousand (RMB 1.7 million) in the fourth quarter of 2008.

The related party receivable balance detailed above, and the related transactions that comprise that balance were integral and material to the Company's operations. The Company was reliant on transactions with the above related parties in order to conduct its business normally. The Company acknowledges that it has the responsibility to comply with paragraph c of SFAS 57 which calls for the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period. The Company's accounting system in the past was manual and accordingly is not able to, from a cost benefit perspective, summarize and provide further detail on the related party transactions. Also, the Company's current accounting department does not have sufficient staff in order to perform an exercise to further detail the related party payables and receivables beyond what has been provided above; however the Company is taking steps to update its accounting systems and methods to provide fuller detail regarding these transactions for future periods. The Company does represent that the balances disclosed above are both accurate and reliable within acceptable thresholds of materiality.

The Company's related party receivables and payables in the period presented were in the form of either short-term loans bearing no interest, or trade payables and receivables relating to the purchase of raw materials, supplies or products for which payment was due within a short period of time. Management believes that the net receivables from related parties are fully recoverable.

Of the $10,919,777 net receivable owed by the Group to the Company, the entire amount has been securitized by bank drafts issued by the bank on behalf of subsidiaries of the Group to the Company. These notes are collateralized by deposits at the bank by those particular subsidiaries of the Group. The drafts can be endorsed and discounted to the bank for cash; however the Company currently intends to hold these drafts until maturity. The following table summarizes the amounts of each draft.

| Subsidiary of the Group | Amount |
|---|---|
| Huayu | $ 2,917,919 |

| | |
|---|---|
| Mingxing | 4,376,878 |
| Combo Development | 2,188,439 |
| Group | 1,436,540 |
| | |
| | $ 10,919,777 |

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6. Inventory

| | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 |
|---|---|---|---|
| Raw Materials | $ 867,549 | $ 1,039,440 | $ 875,223 |
| Work in Progress | 241,738 | 547,889 | 365,961 |
| Finished Goods | 4,941,822 | 1,328,688 | 1,144,263 |
| | $ 6,051,109 | $ 2,916,016 | $ 2,385,447 |

7. Property, Plant & Equipment

| At December 31, 2008: | Cost | Accumulated Depreciation | Net |
|---|---|---|---|
| Buildings | $ 21,604,325 | $ (3,607,219) | $ 17,997,105 |
| Manufacturing Equipment | 10,061,608 | (3,132,725) | 6,928,883 |
| Office Equipment | 195,577 | (150,670) | 44,907 |
| Vehicles | 913,816 | (477,265) | 436,551 |
| Furniture & Fixture | 524,020 | (137,317) | 386,704 |
| | $ 33,299,346 | $ (7,505,196) | $ 25,794,151 |

| At December 31, 2007: | Cost | Accumulated Depreciation | Net |
|---|---|---|---|
| Buildings | $ 19,910,391 | $ (2,522,257) | $ 17,388,134 |
| Manufacturing Equipment | 9,066,948 | (2,041,694) | 7,025,254 |
| Office Equipment | 122,124 | (60,298) | 61,826 |
| Vehicles | 652,231 | (321,138) | 331,093 |
| Furniture & Fixture | 49,204 | (19,015) | 30,189 |
| | $ 29,800,898 | $ (4,964,402) | $ 24,836,496 |

| At December 31, 2006: | Cost | Accumulated Depreciation | Net |
|---|---|---|---|
| Buildings | $ 14,663,106 | $ (1,174,049) | $ 13,489,057 |
| Manufacturing Equipment | 8,346,776 | (1,403,176) | 6,943,600 |
| Office Equipment | 68,198 | (14,165) | 54,033 |
| Vehicles | 572,290 | (203,600) | 368,690 |
| Furniture & Fixture | 30,550 | (10,468) | 20,082 |
| | $ 23,680,920 | $ (2,805,458) | $ 20,875,462 |

Energroup Holdings Corporation
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8. Land Use Right

The Company had the following intangible assets outstanding at December 31:

| | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 |
|---|---|---|---|
| Land Use Rights, at Cost | $ 14,407,503 | $ 13,501,580 | $ 9,303,402 |
| Less: Accumulated Amortization | (977,068) | (645,600) | (392,283) |
| | $ 13,430,435 | $ 12,855,980 | $ 8,911,119 |

9. Bank Loans

(A) Short Term Bank Loans

At December 31, 2008 the Company had the following short term loans outstanding:

| Bank | Interest Rate | Due Date | Amount |
|---|---|---|---|
| Bank of China | 6.1586% | 10/26/2009 | $ 4,376,878 |
| Bank of China | 7.3260% | 10/17/2009 | 2,042,543 |
| | | | $ 6,419,422 |

The loan provided by the Bank of China is secured by the Meat Company's land use rights, which have been appraised at a fair market value of $5,605,611 (RMB 41,000,000). Also, the Shanghai Pudong Development Bank loan has been guaranteed by the Dalian Chuming Group Co., Ltd.

(B) Bank Loan through Group

The Company obtained a loan of $20,466,901 (RMB 160,000,000) from the Group; which in turn, obtained these funds in a joint loan commitment from both China Development Bank and Shenzhen Development Bank ("Banks") via a collateralized loan. The Group collateralized the loan by purchasing a bond from China Export and Credit Insurance Corporation ("Bond Issuer"). The bond guarantees to the Banks the entire principal and accrued interest of the loan. The cost of the bond is RMB 1,000,000 annually, or in USD: $120,668, 121,902, and 125,284 for the years 2004, 2005, and 2006, respectively, which was paid by the Company. The loan carries a fixed interest of 5.76% per annum. The Company pledged both land use rights and buildings to the Bond Issuer. The Company pursued a loan from the Group as the financing solution of choice because the Company's tangible assets, at the time of origination, were insufficient to collateralize the loan. Additionally, the Company lacked the favorable credit history to directly establish credit facility with the bank.

At December 31, 2007, the Company repaid its debt, in its entirety to the Group by setting off receivables owed by the Group to the Company. The Company repaid the loan in order to meet the requirements of the equity financing transaction detailed in Note 18. The balances are now owed by the Group to the Banks, and liability for paying the bonding insurance annually lies with the Group. The pledged collateral of land use rights and buildings made to the Bond Issuer still underlie the loan currently owed by the Group, and as such, the Company's assets, namely the buildings and land use rights are at risk if the Group were to default on this loan.

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10. Capitalization

As a result of a reverse-acquisition on December 31, 2007 that was consummated via a share exchange, and a concurrent equity financing, in the form of a private placement by issuing common stock to ten accredited investors, the Company's capitalization is now reflected by the table shown below:

| Name of Shareholder | Number of Shares | Common Stock Capital | Additional Paid in Capital | Equity % |
|---|---|---|---|---|
| Operating Companies Founders | 14,688,948 | $ 14,689 | $ 2,396,079 | 69.50% |
| Pre-RTO Shareholders | 422,756 | 423 | - | 2.00% |
| Advisors & Consultants | 2,161,052 | 2,161 | - | 10.22% |
| Private Investors | 3,863,636 | 3,864 | 13,043,964 | 18.28% |
| | 21,136,392 | $ 21,137 | $ 15,440,043 | 100.00% |

11. Commitments of Statutory Reserve

In compliance with PRC laws, the Company is required to appropriate a portion of its net income to its statutory reserve up to a maximum of 50% of an enterprise's registered capital in the PRC. The Company had future unfunded commitments, as provided below.

| | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 |
|---|---|---|---|
| PRC Registered Capital | 15,566,849 | 3,642,866 | 2,413,352 |
| - Statutory Reserve Ceiling based on 50% of Registered Capital | 7,783,424 | 1,821,433 | 1,206,676 |
| Less: - Retained Earnings appropriated to Statutory Reserve | (2,077,488) | (751,444) | (751,444) |
| Reserve Commitment Outstanding | $ 5,705,936 | $ 1,069,989 | $ 455,232 |

12. Advertising Costs

Advertising expenses were $2,629,853, $3,611,666, and $869 for the years ended December 31, 2008, 2007, and 2006, respectively.

13. Income Taxes

The Company's different operating subsidiaries are subject to different income tax regulations under PRC law.

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The operating subsidiary, Meat Company, has been given special tax-free status by the PRC government because of the Company standing as leader in its industry in Dalian; therefore, no provision for income tax in the PRC was made for years 2008, 2007, and 2006.

The Company's operating subsidiary, Food Company, has provided provisions for income taxes in years 2008, 2007, and 2006, of $508,844, $967,539, and $400,605, respectively.

The Company's operating subsidiary, Sales Company, has not provided provisions for income taxes in years 2008, 2007, and 2006 as it has incurred operating losses for those respective years. The Company has determined that deferred tax assets arising from net operating losses in prior years may not realized, accordingly, the company has recognized a tax expense to the income statement in the amount of $11,246.

After adjusting for special tax-free status and net operating loss, the consolidated taxable earnings were determined, and the results were as follows: -

| | | | |
|---|---|---|---|
| i. | 2007 | Tax expense | (520,089) |
| ii. | 2006 | Tax expense | (967,539) |
| iii. | 2005 | Tax benefit | 1,609 |

Beginning December 31, 2007, the Company's foreign subsidiaries became subject to U.S. income tax liability; however, the tax is deferred until foreign source income is repatriated to the Company and the Company has not currently determined when foreign source income will be repatriated. Accordingly, the company has not made any provisions for U.S. income tax liability.

On March 16, 2007, the PRC government passed new tax legislation that repealed preferential tax treatment for foreign investment enterprises in the PRC and enacted new tax regulations. Under such regulations, with certain exceptions, both domestic and foreign enterprises will be taxed at a standard enterprise income tax rate of 25%. The Company's two operating subsidiaries, Food Company, and Sales Company are subject to the 25% income tax rate beginning January 1, 2008. Based on current PRC legislation, Meat Company should be expected to continue benefiting from a tax holiday.

## 14. Commitments

It is company policy to develop plant facilities based on availability of cash resources without incurring capital commitments. Therefore, the Company did not have any capital commitments existing at December 31, 2008.

On December 19, 2007, the Company entered into a hog purchase agreement whereby the Group will provide at fair market price a minimum number of hogs to the Company. At December 31, 2008, the Company expects minimum quantities of hogs detailed in the following table:

| Year | Hogs | Price Per Hog | Amount |
|---|---|---|---|
| 2009 | 800,000 | $ 187.13 | $ 149,704,306 |
| 2010 | 800,000 | $ 205.84 | 164,674,737 |
| | | | $ 314,379,043 |

The Company believes that the fair market price of the hogs will increase by 10% each year. The assumption of 10% reflects that Company expectations in regards to inflation, and the rising costs of inputs in breeding livestock.

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## 15. Operating Segments

The Company individually tracks the performance of its three operating subsidiaries Meat Company, Food Company, and Sales Company. Meat Company is primarily engaged in the slaughter and processing of pork livestock for wholesale and retail distribution. Food Company is primarily engaged in the production of pork-based food products, such as sausages and cured meats, for retail distribution. Sales Company is primarily engaged in the sale and distribution of products produced by Food Company and Meat Company.

Below is a presentation of the Company's results of operations and financial position for its operating subsidiaries at December 31, 2008, 2007, and 2006 and for the years then ended. The Company has also provided reconciling adjustments with the Company and its intermediate holding companies Dalian Chuming Precious Sheen Investments Consulting Ltd. ("Chuming WFOE") and Precious Sheen Investments Ltd (PSI).

| Results of Operations For the year ended December 31, 2008 | Meat Company | Food Company | Sales Company | Chuming WFOE, PSI, & Eliminations | Total |
|---|---|---|---|---|---|
| Sales | $ 165,540,800 | $ 20,275,953 | $ 82,629,122 | $ (92,085,862) | $ 176,360,013 |
| Cost of Sales | 143,467,926 | 17,018,115 | 81,394,069 | (92,085,862) | 149,794,249 |
| Gross Profit | 22,072,873 | 3,257,837 | 1,235,054 | - | 26,565,764 |
| Operating (Loss)/Profit | 19,835,123 | 2,038,279 | (2,475,995) | (654,670) | 18,742,737 |
| Other Income (Expense) | (684,408) | (95,144) | (6,952) | (10,598,879) | (11,385,383) |
| Earnings/(Loss) before Tax | 19,150,715 | 1,943,135 | (2,482,947) | (11,253,549) | 7,357,354 |
| (Income Tax Expense) | - | (508,844) | (11,246) | - | (520,089) |
| Net Income/(Loss) | 19,150,715 | 1,434,292 | (2,494,193) | (11,253,549) | 6,837,265 |

Eliminated Intercompany Sales of Products Sold during
Year ended December 31, 2008

| Sold From: | Sold To: | Amount |
|---|---|---|
| Food Company | Sales Company | $ 15,614,380 |
| Meat Company | Sales Company | 66,171,117 |
| Meat Company | Food Company | 10,300,365 |
| | | $ 92,085,862 |

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| Results of Operations For the year ended December 31, 2007 | Meat Company | Food Company | Sales Company | Chuming WFOE, PSI, & Eliminations | Total |
|---|---|---|---|---|---|
| Sales | $ 113,777,514 | $ 18,224,294 | $ 26,110,284 | $ (33,416,057) | $ 124,696,035 |
| Cost of Sales | 99,779,158 | 12,672,576 | 25,343,231 | (33,416,057) | 104,378,908 |
| Gross Profit | 13,998,356 | 5,551,718 | 767,053 | - | 20,317,127 |
| Operating (Loss)/Profit | 10,842,549 | 3,624,143 | (368,002) | (27,261) | 14,071,429 |
| Other Income (Expense) | (691,006) | (712,807) | (47,929) | - | (1,451,742) |
| Earnings/(Loss) before Tax | 10,151,543 | 2,911,336 | (415,931) | (27,261) | 12,619,687 |
| (Income Tax Expense)/Credit | - | 967,539 | - | - | 967,539 |
| Net Income/(Loss) | $ 10,151,543 | $ 1,943,797 | $ (415,931) | $ (27,261) | $ 11,652,147 |

Eliminated Intercompany Sales of Products Sold during
Year ended December 31, 2007

| Sold From: | Sold To: | Amount |
|---|---|---|
| Food Company | Sales Company | $ 4,221,813 |
| Meat Company | Sales Company | 20,435,143 |
| Meat Company | Food Company | 8,759,101 |
| | | $ 33,416,057 |

| Results of Operations For the year ended December 31, 2006 | Meat Company | Food Company | Sales Company | Chuming WFOE, PSI, & Eliminations | Total |
|---|---|---|---|---|---|
| Sales | $ 64,169,418 | $ 7,351,567 | $ 17,277,285 | $ (18,401,830) | $ 70,396,439 |
| Cost of Sales | 54,146,375 | 4,855,542 | 16,923,680 | (18,130,743) | 57,794,853 |
| Gross Profit | 10,023,044 | 2,496,025 | 353,605 | (271,087) | 12,601,586 |
| Operating (Loss)/Profit | 9,253,704 | 1,930,499 | (1,203,200) | (271,087) | 9,709,916 |
| Other Income (Expense) | (849,450) | (718,182) | (15,522) | - | (1,583,154) |
| Earnings/(Loss) before Tax | 8,404,254 | 1,212,317 | (1,218,722) | (271,087) | 8,126,762 |
| (Income Tax Expense)/Credit | - | 400,065 | (401,674) | - | (1,609) |
| Net Income/(Loss) | $ 8,404,254 | $ 812,252 | $ (817,049) | $ (271,087) | $ 8,128,371 |

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Eliminated Intercompany Sales of Products Sold during
Year ended December 31, 2006

| Sold From: | Sold To: | Amount |
|---|---|---|
| Food Company | Sales Company | $ 3,735,082 |
| Meat Company | Sales Company | 12,709,432 |
| Meat Company | Food Company | 1,686,229 |
| | | $ 18,130,743 |

| Financial Position At December 31, 2008 | Meat Company | Food Company | Sales Company | Chuming WFOE, PSI, & Eliminations | Total |
|---|---|---|---|---|---|
| Current Assets | 74,713,237 | 21,126,826 | 41,826,291 | (89,504,485) | 48,161,868 |
| Non Current Assets | 22,624,642 | 19,570,329 | 325,480 | 1,088 | 42,521,540 |
| Total Assets | $ 97,337,879 | $ 40,697,155 | $ 42,151,770 | $ (89,503,397) | $ 90,683,408 |
| Current Liabilities | 42,293,137 | 34,796,536 | 45,747,946 | (99,079,857) | 23,757,761 |
| Total Liabilities | 42,293,137 | 34,796,536 | 45,747,946 | (99,079,857) | 23,757,761 |
| Net Assets | 55,044,742 | 5,900,619 | (3,596,176) | 9,576,460 | 66,925,647 |
| Total Liabilities & Net Assets | $ 97,337,879 | $ 40,697,155 | $ 42,151,770 | $ (89,503,397) | $ 90,683,408 |

| Financial Position At December 31, 2007 | Meat Company | Food Company | Sales Company | Chuming WFOE, PSI, & Eliminations | Total |
|---|---|---|---|---|---|
| Current Assets | $ 36,387,010 | $ 19,361,784 | $ 24,500,857 | $ (52,282,684) | $ 27,966,967 |
| Non Current Assets | 22,256,798 | 16,228,202 | 167,961 | - | 38,652,961 |
| Total Assets | $ 58,643,808 | $ 35,589,986 | $ 24,668,818 | $ (52,282,684) | $ 66,619,928 |
| Current Liabilities | $ 25,289,655 | $ 31,425,683 | $ 25,664,664 | $ (64,697,884) | $ 17,682,118 |
| Total Liabilities | 25,289,655 | 31,425,683 | 25,664,664 | (64,697,884) | 17,682,118 |
| Net Assets | 33,354,152 | 4,164,303 | (995,846) | 12,415,200 | 48,937,810 |
| Total Liabilities & Net Assets | $ 58,643,808 | $ 35,589,986 | $ 24,668,818 | $ (52,282,684) | $ 66,619,928 |

| Financial Position At | Meat | Food | Sales | Chuming WFOE, PSI, & |
|---|---|---|---|---|

| December 31, 2006 | Company | Company | Company | Eliminations | Total |
|---|---|---|---|---|---|
| Current Assets | $ 27,676,447 | $ 18,497,318 | $ 27,870,908 | $ (51,181,557) | $ 22,863,116 |
| Non Current Assets | 21,257,469 | 12,561,441 | 163,596 | - | 33,982,507 |
| Total Assets | $ 48,933,916 | $ 31,058,759 | $ 28,034,504 | $ (51,181,557) | $ 56,845,623 |
| | | | | | |
| Current Liabilities | 16,426,173 | 22,340,903 | 28,560,949 | (50,564,504) | 16,763,521 |
| | | | | | |
| Total Liabilities | 27,619,010 | 29,056,605 | 28,560,949 | (50,564,504) | 34,672,060 |
| | | | | | |
| Net Assets | 21,314,906 | 2,002,154 | (526,445) | (617,053) | 22,173,564 |
| | | | | | |
| Total Liabilities & Net Assets | $ 48,933,916 | $ 31,058,759 | $ 28,034,504 | $ (51,181,557) | $ 56,845,623 |

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16. Earnings Per Share

Components of basic and diluted earnings per share were as follows: -

| | For the year ended December 31, 2008 | For the year ended December 31, 2007 | For the year ended December 31, 2006 |
|---|---|---|---|
| Net Income (A) | $ 6,837,265 | $ 11,652,147 | $ 8,128,371 |
| | | | |
| Basic Weighted Average Shares Outstanding (B) | 17,272,756 | 13,409,120 | 13,409,120 |
| Dilutive Shares: | | | |
| -Addition to Common Stock from Exercise of Placement Warrants | 46,364 | - | - |
| -Addition to Common Stock from Contingent Shares Held in Escrow (Please refer to Note 18) | 3,863,636 | 3,863,636 | 3,863,636 |
| Diluted Weighted Average Shares Outstanding: (C) | 21,182,756 | 17,272,756 | 17,272,756 |
| | | | |
| Earnings Per Share: | | | |
| -Basic (A)/(B) | $ 0.40 | $ .87 | $ 0.61 |
| -Diluted (A)/(C) | $ 0.32 | $ .67 | $ 0.47 |
| | | | |
| Weighted Average Shares Outstanding: | | | |
| -Basic | 17,272,756 | 13,409,120 | 13,409,120 |
| -Diluted | 21,182,756 | 17,272,756 | 17,272,756 |

17. Concentration of Risk

(A) Demand risk

The Company had concentrations of risk in demand for its products because its sales were made to a small number of customers.

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(B) Supply Risk

The Company is subject to concentration of supply shortage risk because it purchases its materials for resale from a few select vendors. The Company's availability of supply is correlated with the few select vendors' ability to meet the market demand. In 2007, the entire industry in the PRC faced a shortage in the supply of hogs.

18. Financing Transaction

On December 31, 2007, the Company, a Nevada corporation ("Energroup" or the "Company"), acquired Precious Sheen Investments Ltd. ("PSI") in a reverse take-over transaction, by executing a Share Exchange Agreement ("Exchange Agreement") by and among Energroup, PSI, and all of the shareholders of PSI's issued and outstanding share capital (the "PSI Shareholders"). PSI owned 100% of the equity in Chuming WFOE. Chuming WFOE is a holding company for the following three operating subsidiaries: (i) Meat Company, (ii) Food Company, and (iii) Sales Company, each of which is a limited liability company headquartered in, and organized under the laws of, China (also referred to elsewhere as the "Chuming Operating Subsidiaries").

As a result of the reverse take-over transaction, PSI's Shareholders became Energroup's controlling shareholders and PSI became Energroup's wholly-owned subsidiary. As a result of PSI becoming Energroup's wholly-owned subsidiary, Energroup acquired the business and operations of Chuming and the Chuming Operating Subsidiaries.

Under the Exchange Agreement, Energroup completed the acquisition of all of the issued and outstanding shares of PSI through the issuance of 16,850,000 restricted shares of common stock of Energroup to PSI's Shareholders. Immediately prior to the Exchange Agreement transaction, the Company had 422,756 shares of common stock issued and outstanding. Immediately after the issuance of the shares to PSI's Shareholders, the Company had 17,272,756 shares of common stock issued and outstanding. The 422,756 shares of PSI were cancelled and 17,272,756 shares of Energroup were issued to reflect this reverse take-over transaction.

Concurrently with the Exchange Agreement, Energroup also entered into a Securities Purchase Agreement (the "Purchase Agreement") pursuant to which Energroup agreed to issue and sell 3,863,635 shares of its common stock to ten accredited investors for an aggregate purchase price of $17,000,000 or $4.40 per share (the "Financing"). The closing of the Financing coincided with the Closing of the reverse take-over transaction.

In connection with the sales of securities to accredited investors under the securities purchase agreement, Hunter Wise Financial Group, LLC (the "Placement Agent"), was compensated with a commission of $1,190,000 which is equal to 7.00% of the aggregate purchase price and a warrant to purchase the 386,364 shares of the Company's common stock at an exercise price of $4.40 per share. At December 31, 2007, the Company had adequate authorized capital to issue common shares upon the exercise of the warrant.

At December 31, 2008, the total number of shares outstanding, on a fully diluted basis, is shown in the following table:

| | | |
|---|---|---|
| i. | Common shares outstanding prior to offering of securities | 17,272,756 |
| ii. | Common shares issued under securities purchase agreement | 3,863,636 |

| | | |
|---|---|---|
| iii. | Common shares issuable upon exercise of placement agent warrants | 386,364 |
| | | 21,522,756 |

Energroup Holdings Corporation
Notes to Consolidated Financial Statements
As of and for the years ended December 31, 2008, 2007, and 2006

Concurrent with the Company's financing transaction, the Company agreed to register for resale the common shares that were sold under the securities purchase agreement. Pursuant to filing a Form S-1 registration statement with the U.S. Securities and Exchange Commission, the Company entered into a Registration Rights Agreement with the Investors. The agreement calls for liquidated damages to be paid by the Company, if in the event the registration statement is not declared effective within 135 days of the closing of the financing transaction. The liquidated damages will be 1% of the total financing amount in cash per month for each month after the 135 period. The agreement states a maximum penalty of $1.70 million or 10% of the financing amount. At December 31, 2007, the Company accounted for the liability under the registration rights agreement in accordance with FASB Staff Position No. EITF 00-19-2 Accounting for Registration Payment Arrangements. Under such accounting treatment, the liquidated damages are accounted for as a reduction of the proceeds. In asserting the most conservative position, the Company has accrued the maximum liability of $1.7 million and is carrying that balance in the accrued liabilities account. In the event that the registration becomes effective in a timeframe that is earlier than February 15, 2009, the portion that is not legally owed, or in the event that investors waive any liquidating damages, the accrual will be reversed and the funds will be added back to the Company's additional paid in capital.

In connection with a make good agreement related to the financing transaction on December 31, 2007, the Company's Chairman and CEO, Mr. Shi Huashan placed in escrow 3,863,636 shares, which were beneficially owned by him. These shares are to be released back to him if the Company meets the following earnings targets of $15.9 million, and $20.9 million in after-tax net income for the years ended December 31, 2008, and 2009 respectively. In the event that the Company does not meet the aforementioned financial targets, the escrowed shares will be released, on a pro-rata basis, to the investors in the financing transaction. In accordance with SFAS 128, Earnings Per Share, for the sake of calculating the Company's earnings per share, the Company has accounted for the 3,863,636 escrowed shares as contingently issuable shares as such they are not included in the weighted average basic shares outstanding but are included in the weighted average diluted shares outstanding. Please refer to Note 16.

In accordance with Topic 5.T of the Staff Accounting Bulletins (SAB 79), the Company expects to record a compensatory expense for the shares upon their release from escrow. Whether the shares are released to the accredited investors or released to Mr. Shi the Company will record an expense with a corresponding credit to the Company's contributed paid in capital. The Company anticipates that compensatory expense to be recognized in future operating periods could be in a range between $17.0 million to $29.2 million. The Company approximates this range based on the per share offering price of $4.40 at December 31, 2007 and a potential future stock price of $7.57 based on a $20.0 million net income (short of the target of $20.9 million net income) with a price-to-earnings ratio of 8.0, which is comparable to the valuation used in the offering at December 31, 2007.

For the year ended December 31, 2008, the Company recorded an expense for the expected release of shares deposited in the escrow account. The Company expects that 1,931,818 shares will be released from escrow. The amount of expense recorded was $10,622,294. The impact on earnings per share, on a basic and diluted basis, was $0.61 and $0.50, respectively.

## 19. Change of Chief Financial Officer

The Company filed an 8-K on December 29, 2008 in connection with the change of Chief Financial Officer where Mr. Zhang Yizhao resigned his position and Ms. Wang Shu was appointed to this position that she had previously held until September 28, 2008. Mr. Zhang Yizhao's total remuneration during his term of service at the Company was approximately $71,000 (RMB 500,000).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On February 6, 2008, MantylaMCREYNOLDS LLC (“McReynolds”) resigned as the independent auditor of Energroup Holdings Corporation. McReynolds served as our independent auditor for the Registrant’s fiscal years ended December 31, 1999 through December 31, 2006, and the interim periods during 2007. On December 31, 2007, we completed a reverse takeover transaction which resulted in a change of control of the Company, and acquisition by the Company of a food processing company based in the city of Dalian, China. Following this change, MantylaMCREYNOLDS LLC resigned as our independent auditor.

McReynolds’ report on the our financial statements for the two most recent fiscal years did not contain any adverse opinions or disclaimers of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles, except for a going concern opinion expressing substantial doubt about the ability of the Companyto continue as a going concern with respect to the Registrant in 2006, during which time the Registrant had “shell company” status under Rule 12b-2 of the Exchange Act.

During the two most recent fiscal years and the interim periods through February 6, 2008, there were no disagreements with McReynolds on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements if not resolved to the satisfaction of McReynolds would have caused them to make reference to this subject matter of the disagreements in connection with their report, nor were there any “reportable events” as such term is described in Item 304(a)(1)(iv) of Regulation S-B. On February 11, 2008, we filed a Current Report on Form 8-K disclosing the resignation of MantylaMCREYNOLDS LLC. In connection with their resignation, McReynolds furnished a letter stating that McReynolds reviewed our 8-K and was in agreement with the statements made concerning the auditor in the 8-K.

Also on February 6, 2008, we engaged Samuel H. Wong & Co., LLP (“Wong & Co.”) as our outside independent accounting firm. This action has also been approved by the Registrant’s board of directors. During the two most recent fiscal years and any subsequent interim period prior to the engagement of Wong & Co., neither us nor anyone on our behalf consulted with Wong & Co., regarding either (i) the application of accounting principles to a specified transaction, either contemplated or proposed, or the type of audit opinion that might be rendered on our financial statements, or (ii) any matter that was either the subject of a “disagreement” or a “reportable event.”

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2008, the end of the fiscal year covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008.

On December 31, 2007, we acquired the business of Chuming via a share exchange transaction. Prior to the share exchange transaction, Energroup was a public reporting "shell" company with nominal assets whose sole business was to identify, evaluate and investigate various companies with the intent that, if such investigation warrants, a reverse merger transaction be negotiated and completed pursuant to which Energroup would acquire a target company with an operating business with the intent of continuing the acquired company's business as a publicly held entity. As a public reporting shell company, we did not maintain elaborate controls and procedures. Additionally, as a privately-held company prior to the share exchange transaction, Chuming only maintained controls and procedures necessary and as suitable for a privately held company. Consequently, immediately following our share exchange transaction, we lacked the controls and procedures that would be appropriate for a public reporting company of our size and stature.

As a result of the material weaknesses described below, our management concluded that as of December 31, 2007 we did not maintain effective internal control over financial reporting based on the criteria established in Internal Control—Integrated Framework, issued by COSO.

As of December 31, 2008, the Company had yet to become compliant with SOX 404 and maintain effective internal controls; however, the progress of the Company's remedial measures is detailed below.  The Company expects to be compliant by the end of 2009.

A "material weakness" is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements presented will not be prevented or detected. A "significant deficiency" is a control deficiency, or combination of control deficiencies, that adversely affects a company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements presented that is more than inconsequential will not be prevented or detected.

At December 31, 2007, Chuming and its business first became a part of the Company, and as of that date, management has identified the following material weaknesses in our internal control over financial reporting, and has proposed the following plan of implementation with respect to each material weakness:

- Weakness: The Company's board of directors has yet to pass a formal resolution to put in place a strategic plan and framework in order to comply with the regulations placed on issuers concerning internal controls.

Implementation Plan: The board of directors intends to pass a resolution to adopt the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework which provides for a structure to establish a control environment, risk assessment, control activities, information and communication, and monitoring of effective internal controls. The board also intends that the Chief Executive Officer shall be made to take ultimate ownership of establishing an effective internal control system.

As of December 31, 2008, the Company had not yet passed a formal resolution, however, Board has instructed Ms. Ma Feng Qin, a Board Member, to take charge of the implementation of a system of an internal control system that will ultimately meet the goal of compliance with SOX 404 Act. The Company notes that, as a result of turnover in Board Members and Senior Financial Officers, the expertise in US financial reporting standards and related internal controls that was expected to be contributed to the Company by those individuals at the time of their election and hiring, has never been evaluated, or put to use; nevertheless, remaining board member and senior officers of the Company have pressed forward to take on the responsibility onto themselves. The Company anticipates hiring more professionals with experience in SOX 404 to enable the Company to effectively address this issue.

- Weakness: The Company lacks a comprehensive Code of Ethics that is applicable to the entire Company including officers, employees, and directors.

Implementation Plan: The Company intends to adopt a formal Code of Ethics that will communicated to all personnel at all levels of the organization, and that senior management will be held to a standard that they will be responsible to encourage an environment that promotes ethical behavior and discourages both the necessity of, and the opportunities to act unethically.

As of December 31, 2008, the Company has adopted a formal code of ethics. The Company intends to distribute this Code of Ethics to relevant employees, and to hold discussions with such employees as to how it applies.

- Weakness: The Company lacks a guideline that specifically states the objective and core functions of the Company so that there is no ambiguity to all members of the organization as to what type of business transactions the Company should be conducting. This guideline should also be reviewed on regular basis by management and the Board of Directors in order to address the ever changing business environment and the demands of the market.

Implementation Plan: Management intends to prepare a guideline that the board of directors will review and adopt.

As of December 31, 2008 the Board of Directors and management have written and adopted a formal guideline that defines the Company's core business lines and how to grow within these lines of business on a five year basis. The Company, however, has yet to provide evidence that the Company has complied with such guideline.

- Weakness: The Company has material weaknesses in its system of producing information for financial reporting and management of fixed and intangible assets. The cost basis, and the related accumulated amortization and depreciation pertaining to these assets presently are poorly kept. The calculation of the expense for amortization and depreciation for these assets is inconsistent and at times the necessary details to make the calculation are, at times not readily available. For certain subsidiaries there are assets that have not been assigned a unique identifying number or code to result in proper tracking of those particular assets.

Implementation Plan: The Company will revisit its management of and systems for dealing with fixed and intangible assets for financial reporting purposes. The Company will also conduct training for its employees, in order improve the over quality of calculations. Finance managers will be required to review and sign off on schedules and accounting entries related to these assets, with a focus in accuracy and precision of calculation and recording of entries.

As of December 31, 2008, the Company has established a written policy for the management of and related reporting of fixed assets and intangible assets so that the assets are safeguarded, maintained, and carried at the proper value.

- Weakness: The Company's disclosures and present manually-based accounting method for tracking related party transactions is inadequate. Since the corporate reorganization and separation of Chuming from the Group occurred recently, the Company does not have a fully detailed database which can be utilized to generate sophisticated reports and analysis of the transactions between it and certain related parties. The Company needs to formalize all netting agreements for which the related parties, at different times, can be both a vendor and a customer. Further, the Company must adopt a more systematic approach to accounting for its related-party transactions.

Implementation Plan: The Company will write and rewrite formal contracts with these Related Parties that will detail the nature of these transactions. Schedules detailed these transactions will be revised to be easily be understandable and detailed for their inclusion in the Company's financial statements.

As of December 31, 2008, the Company has implemented from an operational standpoint, a plan for the elimination of related party transactions unrelated to the Company's core business transactions. Therefore, all related party transactions, except for the purchase of hogs which is conducted under an arms-length Hog Procurement Agreement, will be phased out and eliminated. The Company continues to develop desktop and closing procedures in order to report historical and remaining related party balances on a more timely and accurate basis. Contracts with related parties, which include netting agreements, have been formalized for past transactions; however, on going forward basis the Company is in the process of creating standardized contracts that will govern related party transactions that occur frequently and regularly, such as purchases of hogs.

- Weakness: The Company accounting department is currently understaffed and lacks personnel with expertise in US GAAP and SEC reporting standards.

Implementation Plan: The Company is currently in the hiring process for a senior financial accounting officer and staff accountants to fulfill the demands and rigors of being a US public reporting company. The Company will also provide training to existing employees on the requirements of US GAAP and SEC Reporting standards.

As of December 31, 2008 the Company had hired a new Chief Financial Officer, however as of the date of this report, the Company continues to be in pursuit of a senior financial reporting officer knowledgeable in US GAAP and SEC Reporting standards. The Company's previous attempts to fill this role have not resulted in long term fit for the Company and its needs. Upon hiring of a senior financial reporting officer, that individual could further hire and train personnel as needed. The Company has retained a recruiting firm to help with filling this role.

- Weakness: The Company does not have an internal audit function and department.

Implementation Plan: The Company will establish an internal audit department.

As of December 31, 2008 the Company has created an internal audit department. The effectiveness of this new department is currently under evaluation, and has yet to be determined.

- Weakness: The Company does not have a standardized and unified Enterprise Resource Planning Software (ERP). The Company's accounting systems are disparate and sometimes manual in nature which makes them neither scalable nor efficient for financial reporting purposes and management decision making needs.

Implementation Plan: The Company will review its current ERP systems and consider the need to either purchase a new package or revise the functionality and deployment of its current systems.

As of December 31, 2008, the Company had issued requests for proposals for ERP systems that will meet the growing needs of the Company. Upon receipt and acceptance of the appropriate bid, the Company expects that a system will be fully implemented by the end of 2009; however, auditor is awaiting evidence of this process.

- Weakness: The Company's present methods and systems for tracking related party transactions are inadequate. Since the corporate reorganization and separation of Chuming from the Group occurred recently (at the end of 2007), and the Company's accounting system in the past was manually based, only manual records of related party transactions are currently available. Further, the Company notes that its current accounting staff is not sufficient in size to undertake an exercise to completely re-summarize all of the events and transactions that led to the current related party transaction balances disclosed in its financial statements. Specifically, paragraph 2(c) of the Statement of

Financial Accounting Standards No. 57 (SFAS 57) requires us to disclose in our financial statements the dollar amounts of each of the periods presented, for our related-party transactions. Due to certain limitations in our historical records, the present capacity of our accounting staff, and the fact that our historical records relating to these related party transactions are manually-based, these related party transactions have been presented according to their general category and current balance, with each such balance representing one or more prior transactions culminating in such balance.

Implementation Plan: The Company will write and rewrite formal contracts with these Related Parties as necessary to detail the nature of these transactions. The Company's accounting staff will formalize the process of recording these related party transactions, so that the nature of these transactions are more easily understandable and may be adequately disclosed in the Company's financial statements. The Company and management acknowledge our responsibility to comply with the requirements of SFAS 57, and fully intend to take all necessary steps to update our accounting systems and procedures in order to achieve such compliance on an ongoing basis. In addition, we expect that the foregoing material weakness is related to our lack of adequate accounting staff (see paragraph below), and that appropriate changes to our staff are expected to eliminate the foregoing material weakness.

In regard to the above implementation plan, the Company refers to the above that detail the Company's plan in dealing with related party transactions.

This report does not specifically detail all possible material weaknesses of the Company that may lead to material misstatements in the Company's financial statements. However, in light of the Chuming's transition from being a privately-owned enterprise to becoming a part of a U.S. public reporting company, we believe the foregoing report serves as a valuable evaluation of the current status of the Company's internal controls.

Any one of the material weaknesses described above could result in a misstatement of the aforementioned accounts or disclosures that would result in a material misstatement to the annual or interim Consolidated Financial Statements that might not be prevented or detected. As a result, management has determined that each of the control deficiencies discussed above constitutes a material weakness.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Samuel H. Wong & Co., our independent registered public accounting firm, as stated in their report, which is included herein.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2008 which is still considered to still have material weaknesses has been audited by Samuel H. Wong & Co., our independent registered public accounting firm.

Changes in Internal Controls

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our international control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On January 28, 2008, our Board of Directors appointed Mr. Matthew Dillion and Mr. Nestor Gounaris as independent directors on the Company’s Board of Directors, effective January 28, 2008.

The Board of Directors appointed Mr. James Boyle as an independent director on the Board of Directors, effective February 21, 2008.

Ms. Wendy Li resigned from the Board of Directors, effective February 7, 2008.

Effective December 9, 2008, Mr. Dillon, Mr. Boyle and Mr. Gounaris each resigned from their positions as independent directors of the Company.

Mr. Zhang Yizhao was first appointed on September 18, 2008 as Chief Financial Officer of the Company and served until December 23, 2008. We entered into an employment agreement with Mr. Zhang dated September 18, 2008. Under that agreement, Mr. Zhang was to be paid an annual salary of $180,000, and was eligible to participate in equity or non-equity bonus programs to be determined by the Board of Directors. Mr. Zhang resigned on December 23, 2008 for personal reasons.

Following Mr. Zhang’s resignation, Ms. Wang has assumed the duties of Chief Financial Officer effective December 23, 2008. The terms of Wang Shu's employment as Chief Financial Officer of the Company is set forth in her original employment agreement dated December 31, 2007.

Management

Our board of director consisted of the following individuals as of December 31, 2008:

| Name | Age | Position | Effective Date of Appointment |
|---|---|---|---|
| Shi Huashan | 50 | President, Chief Executive Officer and Chairman(1) | January 28, 2008 |
| Wang Shu | 34 | Chief Financial Officer and Director(1) | January 28, 2008 |
| Ma Fengqing | 47 | Vice President and Director | January 28, 2008 |
| Wang Shuying | 58 | Director | January 28, 2008 |

(1) The effective date of appointment of the CEO and CFO was December 31, 2007.

Mr. Shi Huashan, age 50, is a graduate of Beijing Renwen University in Corporate Law, and the founder of Chuming. Mr. Shi Huashan has nearly 20 years of experience in the food industry. He established Dalian Chuming Industry Development Company in 1992, which started the Dalian Chuming Group Co., Ltd. From 1992 to present he has served as President and CEO of Chuming and the Dalian Chuming Group Co., Ltd. companies. In 2004, he was selected by the China Meats Association as one of the “Ten Most Influential Entrepreneurs in the China Meat Industry.” Mr. Shi Huashan is the current President of the Dalian Food Association. He is Chuming’s President, Chief Executive Officer, and Chairman of the Board of Directors.

Ms. Wang Shu, age 34, is a graduate of Liaoning University, with a major in accounting, Ms. Wang Shu has more than 11 years of experience in finance. From 1996 to 2001, she worked at Dalian Huaqiao House Development Company as its chief accountant. In 2001, she joined Dalian Chuming Group Co., Ltd., and in her present role serves as Chuming’s as Chief Financial Officer, and as a member of the Board of Directors

Ms. Ma Fengqin, age 47, is a graduate of Dalian Electric Power Economic School, with a major in accounting. From 1990 to 1993, she worked at Dalian Thermo Engineering Company as its Chief Accountant. From 1992 to 2001, Ms. Ma served as Vice President of Dalian Chuming Industry Development Company. Since 2002 she has served as Chuming's Vice President, and a member of the Board of Directors. Ms. Ma is married to Mr. Shi Huashan, Chairman of the Board of Directors.

Ms. Wang Shuying, age 58, member of the Chuming Board of Directors, served from 1996-2004 as Chief of the Dalian Planning Committee's Agriculture Economy Development Section, and now works as a consultant to the Section. From 1991-1996 she was Vice Chief of the Section. A graduate of Dalian Railway College, she was a staff member of the Dalian Machinery Bureau's Agriculture Machinery Department from 1977-1984. From 1984-1989 Ms. Wang was Chief of the Dalian Planning Committee's Industry Section, before undertaking German language studies at the Beijing Foreign Trading University. She completed a training program in Germany at Heidelberg Hiller College from 1989-1991 prior to returning to Dalian's Planning Committee.

The Board of Directors and Committees

Our Board of Directors does not maintain a separate audit, nominating or compensation committee. Functions customarily performed by such committees are performed by its Board of Directors as a whole. We are not required to maintain such committees under the applicable rules of the Over-the-Counter Bulletin Board. We do not currently have an "audit committee financial expert" since we currently do not have an audit committee in place. We intend to create board committees, including an independent audit committee, in the near future.

We do not currently have a process for security holders to send communications to the Board.

Director Independence

Our common stock is quoted on the Over-the-Counter Bulletin Board and, therefore, we are not required to maintain a board consisting of majority independent directors and we are not currently otherwise subject to any law, rule or regulation requiring that all or any portion of our Board of Directors include "independent" directors. Our board of directors reviewed the independence of the directors using the criteria established by the American Stock Exchange. As of December 31, 2008, the board of directors determined that only one of the directors was independent based on such criteria.

Family Relationships

President and Chairman of the board of directors Mr. Shi Huashan, and Ms. Ma Fengqin, who is a vice president and director, are husband and wife.

Involvement in Certain Legal Proceedings

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

4. being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and certain of our officers, as well as persons who own more than 10% of a registered class of our equity securities ("Reporting Persons"), to file reports with the Securities and Exchange Commission. To our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2008 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent shareholders were complied with, except that Form 3s were inadvertently filed late by Fuyuan Chen, Shu Wang, Huashan Shi and Shine Gold Holdings Limited on January 16, 2008.

Code of Ethics

As of December 31, 2008, the Company has adopted a formal code of ethics. The Company has developed a formal code of ethics that will apply to all of its employees (including its executive officers). The Company intends to distribute this Code of Ethics to its employees, and to hold discussions with the employees as to how it applies.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This compensation discussion and analysis describes the material elements of the compensation awarded to our current executive officers. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for the last completed fiscal year. Our Board of Directors currently oversees and administers our executive compensation program.

Our current executive compensation program presently includes a base salary. Our compensation program does not include (i) discretionary annual cash performance-based incentives, (ii) termination/severance and change of control payments, or (iii) perquisites and benefits.

Our Compensation Philosophy and Objectives

Our philosophy regarding compensation of our executive officers includes the following principles:

- our compensation program should align the interests of our management team with those of our shareholders;
- our compensation program should reward the achievement of our strategic initiatives and short- and long-term operating and financial goals;
- compensation should appropriately reflect differences in position and responsibility;
- compensation should be reasonable and bear some relationship with the compensation standards in the market in which our management team operates; and
- the compensation program should be understandable and transparent.

In order to implement such compensation principles, we have developed the following objectives for our executive compensation program:

- overall compensation levels must be sufficiently competitive to attract and retain talented leaders and motivate those leaders to achieve superior results;
- a portion of total compensation should be contingent on, and variable with, achievement of objective corporate performance goals, and that portion should increase as an executive’s position and responsibility increases;
- total compensation should be higher for individuals with greater responsibility and greater ability to influence our achievement of operating goals and strategic initiatives;

- the number of elements of our compensation program should be kept to a minimum, and those elements should be readily understandable by and easily communicated to executives, shareholders, and others; and

- executive compensation should be set at responsible levels to promote a sense of fairness and equity among all employees and appropriate stewardship of corporate resources among shareholders.

Determination of Compensation Awards

Our Board of Directors is provided with the primary authority to determine the compensation awards available to our executive officers. To aid the board of directors in making its determination for the last fiscal year, our current senior management provided recommendations to the board of directors regarding the compensation of all executive officers.

Director Compensation

In connection with the Exchange Transaction in December 2007, we appointed seven new directors consisting of four independent directors in 2008, Wang Shuying, Matthew Dillon, Nestor Gounaris and James Boyle, and three non-independent directors, Shi Huashan, Wang Shu and Ma Fengqin. For the fiscal year of 2008, we paid our independent directors a flat fee of $1,000 per month as compensation for their services on the Board.  On December 9, 2008, Messrs. Dillon, Gounaris and Boyle resigned form the Board of Directors.  As a result, following their resignations we only paid compensation to Ms. Wang Shuying as our independent director.

Executive Compensation

The following executive compensation disclosure reflects all compensation for fiscal year 2008 received by our principal executive officer, principal financial officer, and three most highly compensated executive officers whose salary exceeded US$100,000. We refer to these individuals in this report as “named executive officers.”

Summary Compensation

The following table reflects all compensation awarded to, earned by or paid to our directors and named executive officers for our fiscal years ended December 31, 2007 and 2008:

Summary Compensation

| | | Annual Compensation (2) | | |
|---|---|---|---|---|
| Name and Principal Position | Fiscal Year | Salary (1) ($) | All Other Compensation (3) ($) | Total ($) |
| Shi Huashan | 2008 | $ 100,000 | - | 100,000 |
| Chief Executive Officer, President | 2007 | 60,000 | - | 60,000 |
| Wang Shu | 2008 | $ 40,000 | - | 40,000 |
| Chief Financial Officer | 2007 | 20,000 | 10,000 | 30,000 |
| Wang Shuying | 2008 | 12,000 | - | 12,000 |
| Director | 2007 | - | - | - |
| Chen Fuyan | 2008 | 12,000 | - | 12,000 |
| Chief Operating Officer | 2007 | - | - | - |
| Ma Fengqin | 2008 | 12,000 | - | 12,000 |
| Director | 2007 | - | - | - |

(1) Expressed in U.S. Dollars based on the interbank exchange rate of 6.85420 RMB for each 1.00 U.S. Dollar for the year ended December 31, 2008.

(2) In 2008, compensation paid to our officers and directors included no bonuses, stock or option awards, non-equity incentive plan awards, or non-qualified deferred compensation, and accordingly, these columns have been omitted from this table.

(3) In 2008, all other compensation includes transportation subsidy, telecommunication subsidy, and other fringe benefits.

None of our executive officers received, nor do we have any arrangements to pay out, any bonus, stock awards, option awards, non-equity incentive plan compensation, or non-qualified deferred compensation.

Grants of Plan-Based Awards

We did not make any grants of plan-based awards to our directors or named executive officers during our fiscal year-ended December 31, 2008.

Outstanding Equity Awards

There are no unexercised options, stock that has not vested, or equity incentive plan awards for any of our directors or named executive officers outstanding as of December 31, 2008.

Option Exercises and Stock Vested

There were no exercises of stock options, stock appreciation rights, or similar instruments, and no vesting of stock, including restricted stock, restricted stock units and similar instruments, during the last completed fiscal year for any of our directors or named executive officers.

Pension Benefits

We currently have no plans that provide for payments or other benefits at, following, or in connection with retirement of our directors or named executive officers.

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

We currently have no defined contribution or other plans that provide for the deferral of compensation to our directors or named executive officers on a basis that is not tax-qualified.

Potential Payments Upon Termination or Change-in-Control

Other than any employment agreements described in this report, we currently have no contract, agreement, plan or arrangement, whether written or unwritten, that provides for payments to a named executive officer at, following, or in connection with any termination, including without limitation resignation, severance, retirement or a constructive termination of a named executive officer, or a change in control of the registrant or a change in the named executive officer’s responsibilities, with respect to each named executive officer.

Employment Agreements

Effective at closing of the Exchange Transaction described elsewhere in this report, we entered into executive employment agreements with each of Mr. Shi Huashan (President and Chief Executive Officer), Ms. Wang Shu (acting Chief Financial Officer) and Mr. Chen Fuyuan (Chief Operating Officer). Each agreement provides for a yearly salary of USD $100,000 payable in monthly installments in accordance with our standard payroll practices for salaried employees. Each executive officer's salary will be subject to adjustment pursuant to our employee compensation policies in effect from time to time. Under the terms of each of the agreements, each executive officer will be entitled to the benefits that we customarily make available to employees in comparable positions. Each officer has the right to terminate his or her employment by giving us prior notice with or without cause, and we hold an equal right. The Board of Directors or appropriate committee thereof, may from time to time, in its sole discretion, adjust the salaries and benefits paid to our executive officers. A copy of the employment agreements are included as exhibits to our Form 8-K filed on January 7, 2008.

Mr. Zhang Yizhao was first appointed on September 18, 2008 as Chief Financial Officer of the Company and served until December 23, 2008. We entered into an employment agreement with Mr. Yizhao Zhang dated September 18, 2008. Under that agreement, Mr. Zhang was to be paid an annual salary of $180,000, and was eligible to participate in equity or non-equity bonus programs to be determined by the Board of Directors. Mr. Zhang resigned on December 23, 2008 for personal reasons.

Following Mr. Zhang's resignation, Ms. Wang has assumed the duties of Chief Financial Officer effective December 23, 2008. The terms of Wang Shu's employment as Chief Financial Officer of the Company is set forth in her original employment agreement dated December 31, 2007.

The following is a summary of the compensation to be paid under these employment agreements in the upcoming fiscal year ended December 31, 2009 to our named executive officers:

Summary of Compensation To Be Paid Under Employment Agreements for
Fiscal Year Ended December 31, 2009

| | Annual Compensation | | |
|---|---|---|---|
| Name and Principal Position | Salary | Bonus (1) | Other annual Compensation |
| Shi Huashan<br>President, Chief Executive Officer | $ 100,000 | — | — |
| Wang Shu<br>Chief Financial Officer | $ 100,000 | — | — |
| Chen Fuyuan<br>Chief Operating Officer | $ 100,000 | — | — |

We have no arrangements with our executive officers to pay bonuses or other annual compensation.

Indemnification of Officers and Directors

The Nevada Revised Statutes and our bylaws permit us to indemnify our officers and directors for liabilities they may incur, including liabilities under the Securities Act and Exchange Act. Our bylaws provide that our officers and directors may be indemnified by us in the event of third party actions, if the officer or director acted in good faith and in a manner that he or she reasonably believed was in or not against the company's best interests, and with respect to any criminal action or proceeding, had no reason to believe that his or her actions were unlawful. Our bylaws also provide that we may provide indemnification for our officer and directors for any action by the company against such directors and officers, if the officer or director acted in good faith and in a manner that he or she reasonably believed was in or not against the company's best interests, except no indemnification may be made for negligence or misconduct of such director's or officer's duties to the company, unless a court in which the matter is brought determines that in view of all the circumstance of the case, the person is fairly and reasonably entitled to indemnification. This and our bylaws indemnification may, however, be unenforceable as against public policy.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2008, for each of the following persons:

- each of our directors and each of the named executive officers in the “Management” section of this report;
- all directors and named executive officers as a group; and

- each person who is known by us to own beneficially five percent or more of our common stock.

Beneficial ownership is determined in accordance with the rules of the SEC. Unless otherwise indicated in the table, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the shareholder's name. Unless otherwise indicated, the address of each beneficial owner listed below is c/o Dalian Precious Sheen Investments Consulting Co., Ltd., No. 9, Xin Yi Street, Ganjingzi District, Dalian City, Liaoning Province, PRC 116039. The percentage of class beneficially owned set forth below is based on 21,136,391 shares of our common stock outstanding on December 31, 2008.

| | Common Stock Beneficially Owned | |
|---|---|---|
| Named executive officers and directors: | Number of shares beneficially owned | Percentage of class beneficially owned |
| Shi Huashan | 14,688,948(1) | 69.5% |
| Wang Shu | 0 | 0% |
| Chen Fuyuan | 0 | 0% |
| Ma Fengqin | 0 | 0% |
| Wang Shuying | 0 | 0% |
| All directors and executive officers as a group (5 persons) | 14,688,948 | 69.5% |
| | | |
| 5% Shareholders: | | |
| Shine Gold Holdings Limited | 10,690,668(1) | 50.6% |
| Shiny Snow Holdings Limited | 1,948,890(1) | 9.2% |
| Smart Beat Limited | 2,049,390(1) | 9.7% |
| Barry Kitt | 2,045,455(2) | 9.7% |

(1) Shine Gold Holdings Limited, Shiny Snow Holding Limited, and Smart Beat Limited, are each companies organized under the laws of the British Virgin Islands (collectively, the "Shi Family Companies"). The registered address for the Shi Family Companies is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. Mr. Shi Huashan and certain of his relatives (the "Shi Family") have entered into trust agreements with three non-PRC individuals, under which the non-PRC individuals shall hold the shares of the Shi Family Companies as trustees for the benefit of the Shi Family. The natural persons with voting power and investment power on behalf of the Shi Family Companies are (i) Chong Shun, (ii) Kuo Ching Wan Amy, and (iii) Wey Meirong, respectively (collectively, the "Trustees"). As beneficiaries of the trust arrangements, members of the Shi Family have only economic rights with respect to the shares held by the Shi Family Companies. Mr. Shi Huashan and the Shi Family hereby disclaim beneficial ownership except to the extent of their pecuniary interest in the Company shares held by the Shi Family Companies.

(2) Barry Kitt exercises investment discretion and control over the shares of common stock of the Company held by The Pinnacle Fund, L.P., a Texas limited partnership ("Pinnacle") and Pinnacle China Fund, L.P., a Texas limited partnership ("Pinnacle China"). Pinnacle Advisers, L.P. ("Advisers") is the general partner of Pinnacle. Pinnacle Fund Management, LLC ("Management") is the general partner of Advisers. Mr. Kitt is the sole member of Management. Pinnacle China Advisers, L.P. ("China Advisers") is the general partner of Pinnacle China. Pinnacle China Management, LLC ("China Management") is the general partner of China Advisers. Kitt China Management, LLC ("China Manager") is the manager of China Management. Mr. Kitt is the manager of China Manager. As of December 31, 2007, Pinnacle and Pinnacle China were the beneficial owners of 2,045,454 shares of Common Stock. Mr. Kitt may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned by

Pinnacle and Pinnacle China. Mr. Kitt expressly disclaims beneficial ownership of all shares of Common Stock beneficially owned by Pinnacle and Pinnacle China.

Equity Compensation Plan Information

We have not adopted any equity compensation plan as of December 31, 2008.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transactions of Chuming

Our current Chief Executive Officer, Mr. Shi Huashan, is also the Chief Executive Officer and a controlling beneficial shareholder of our former parent company, Dalian Chuming Group Co., Ltd. Mr. Shi devotes the majority of his time and effort to his role as our Chief Executive Officer under our employment agreement with him. A description of the executive employment agreements we have with our executives, including the employment agreement between Mr. Shi and the Company, under the heading "Employment Agreements" earlier in this report. However, some portion of his time is spent on the business and affairs of Dalian Chuming Group Co., Ltd., and in his capacity as the principal executive officer, he presides over management and the day-to-day operations of Dalian Chuming Group Co., Ltd.

In the normal course of business, we conduct transactions with the following related parties, that are not consolidated into the Company or its subsidiaries: (1) Dalian Chuming Group Co., Ltd., also referred to this report as the "Group", and the Group's subsidiaries: (2) Dalian Chuming Industrial Development Co., Ltd., (3) Dalian Chuming Trading Co., Ltd, (4) Dalian Mingxing Livestock Product Co. Ltd., (5) Dalian Chuming Stockbreeding Combo Development Co., Ltd., (6) Dalian Chuming Fodder Co., Ltd., (7) Dalian Chuming Biological Technology Co., Ltd., and (8) Dalian Huayu Seafood Food Co., Ltd. The Company and the aforementioned related parties share common beneficial ownership. All related party transactions are conducted between Chuming WFOE and the Group. All transactions with related parties are generally performed at arm's length, and in 2008, all such transactions were conducted at arm's length.

Management believes that these transactions are material to our operations and results. For further details concerning the nature of these transactions, refer to footnote 5 in the Notes to Consolidated Financial Statements as at and for the years ended December 31, 2008, 2007 and 2006. Paragraph 2(c) of the Statement of Financial Accounting Standards No. 57 (SFAS 57) requires us to disclose in our financial statements the dollar amounts of each of the periods presented, as well as the effect of any change in the method of establishing the terms from that used in the preceding period, for our related-party transactions. Due to certain limitations in our historical records heading up to the end of fiscal 2007, the present capacity of our accounting staff, and the fact that our historical records relating to these related party transactions are manually-based, we have presented these related party transactions according to their general category and current balance, and each such balance may represent a series of prior transactions culminating in such balance. The Company and management acknowledge our responsibility to comply with the requirements of SFAS 57, and fully intend to take all necessary steps to update our accounting systems and procedures in order to achieve such compliance on an ongoing basis. Specifically, we intend to update our systems and methods of tracking related party transactions, by adding appropriate accounting staff to enhance our capabilities, and put in place procedures to track and record all relevant aspects of our related party transactions as necessary to comply with the requirements of SFAS 57 and the SEC disclosure rules.

The Company believes that its related-party transactions with the Group, as a whole, have a significant bearing on our financial results. As of December 31, 2008, approximately 58% of our supply of live hogs was acquired from the Group. Accordingly, our cost of sales is significantly correlated with our hog purchasing arrangement with the Group. The hogs that were purchased from the Group comprised 49% and 52% of our total cost of sales for the years 2008 and 2007, respectively. The remainder of our supply of hogs was purchased by us directly from breeders, whom we provide training and technical advice to help ensure quality.

Due to the non-exclusive roles of Mr. Shi as our CEO and the principal executive officer of the Group, with whom we conduct business from time to time, potential conflicts of interest may arise. In particular, situations might arise in which we transact business with the Group, and certain terms of agreements might be favorable to us, but conversely unfavorable to the Group, and vice versa. In order to effectively handle such conflict of interest scenarios, our management intends to submit all related party transactions to our independent board of directors, or appropriate committee of the board, for review and approval.

The “Chuming” trademark and rights to the “Huayu” trademark application in the PRC are owned by Dalian Chuming Industry Development Co., Ltd., a subsidiary of the Group. We have been granted a perpetual fully paid up license to use both of these trademarks in connection with our business, under two trademark agreements with Dalian Chuming Industry Development Co., Ltd.

On December 17, 2007, we entered into a Long-Term Hog Procurement Agreement with the Group, our former parent. This agreement specifies that the Group should supply no less than 800,000 live hogs in 2009 and 800,000 in 2010, and the price for the hogs is at the fair market price at the time of acquisition.

In 2004, we obtained a loan of $20,466,901 (RMB 160,000,000) from the Group, which in turn, obtained these funds in a joint loan commitment from both China Development Bank and Shenzhen Development Bank (“Banks”) via a collateralized loan. The Group collateralized the loan by purchasing a bond from China Export and Credit Insurance Corporation (“Bond Issuer”). The bond guarantees to the Banks the entire principal and accrued interest of the loan. The cost of the bond is RMB 1,000,000 annually, or in USD: $120,668, 121,902, and 125,284 for the years 2004, 2005, and 2006, respectively, which was paid by us. The loan carries a fixed interest of 5.76% per annum. We pledged both land use rights and buildings to the Bond Issuer. We pursued a loan from the Group as the financing solution of choice because our tangible assets, at the time of origination, were insufficient to collateralize the loan. Additionally, we at that time lacked the favorable credit history to directly establish credit facility with the bank.

At December 31, 2007, we repaid the debt in its entirety to the Group by setting off receivables owed by the Group to us. We repaid the loan in order to meet the requirements of the equity financing transaction detailed in Note 18 of our financial statements included in this report. The balances are now owed by the Group to the Banks, and liability for paying the bonding insurance annually lies with the Group. The pledged collateral of land use rights and buildings made to the Bond Issuer still underlie the loan currently owed by the Group, and as such, our assets, namely the buildings and land use rights are at risk if the Group were to default on this loan.

At December 31, 2008, the Company had the following short term loans outstanding:

| Bank | Interest Rate | Due Date | | Amount |
|---|---|---|---|---|
| Bank of China | 6.1586% | 10/26/2009 | $ | 4,376,878 |
| Bank of China | 7.3260% | 10/17/2009 | | 2,042,543 |
| | | | $ | 6,419,422 |

The loan provided by the Bank of China is secured by the Meat Company’s land use rights, which have been appraised at a fair market value of $5,605,611 (RMB 41,000,000). The Shanghai Pudong Development Bank loan has been guaranteed by the Group.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

As approved by our Board of Directors, we dismissed MantylaMCREYNOLDS LLC (“McReynolds”) as our independent auditors effective February 06, 2008. McReynolds served as our independent auditors for the fiscal years ended December 31, 2006 and December 31, 2005 and for the quarterly review for 2006. On February 06, 2008, we engaged Samuel H. Wong & Co., LLP (“Wong & Co.”) as our outside independent accounting firm for the fiscal years ended December 31, 2007 and December 31, 2008.

The following table sets forth fees billed to us by our current auditors, Samuel H. Wong & Co., LLP, during the fiscal years ended December 31, 2007 and December 31, 2008 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered.

| | | December 31, 2008 | December 31, 2007 |
|---|---|---|---|
| (i) | Audit Fees | $ 152,816 | $ 204,817 |
| (ii) | Audit Related Fees | - | - |
| (iii) | Tax Fees | - | - |
| (iv) | All Other Fees | - | - |
| Total fees | | $ 152,816 | $ 204,817 |

Fees for audit services include fees associated with the annual audit and the review of documents filed with the SEC including quarterly reports on Form 10-Q and the annual report on Form 10-K. Audit-related fees principally included accounting consultation and information system control reviews. Tax fees included tax compliance, tax advice and tax planning work.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements

The following consolidated financial statements of Energroup Holdings Corporation are included in Part II, Item 8 of this Report:

Consolidated Balance Sheets as of December 31, 2008, 2007 and 2006

Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006

Consolidated Statements of Changes in Stockholders' Equity for the years Ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedules are omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is given in the consolidated financial statements or the notes thereto.

(3) Exhibits

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 2.1 | Share Exchange Agreement by and among the Company, PSI and PSI Shareholders dated December 2007 (1) |
| 2.2 | Articles and Plan of Merger (change in domicile from Utah to Nevada) (2) |
| 3.1 | Articles of Incorporation of Energroup Holdings Corporation (4) |
| 3.2 | Bylaws of Energroup Holdings Corporation (4) |
| 3.3 | Articles of Amendment to Articles of Incorporation of Energroup Holdings Corporation (4) |
| 3.4 | Articles of Amendment to Articles of Incorporation of Energroup Technologies, Inc. (Reverse Split) (2) |
| 3.5 | Articles of Incorporation of Energroup Holdings Corporation (2) |
| 3.6 | Certificate of Amendment to Articles of Incorporation of Energroup Holdings Corporation (Reverse Split) (3) |
| 4.1 | Registration Rights Agreement dated December 2007 among Energroup and the investors signatory thereto (1) |
| 4.2 | Form of Common Stock Purchase Warrant issued to Placement Agent (December 2007) (1) |
| 10.1 | Lockup Agreement dated December 2007 among Energroup and the Shareholders signatory thereto (1) |
| 10.2 | Executive Employment Agreement dated December 2007 between Energroup and Mr. Shi Huashan (1) |
| 10.3 | Executive Employment Agreement dated December 2007 between Energroup and Ms. Wang Shu (1) |
| 10.4 | Executive Employment Agreement dated December 2007 between Energroup and Mr. Chen Fuyuan (1) |
| 10.5 | Executive Employment Agreement dated September 2008 between Energroup and Mr. Yizhao Zhang (5) |
| 10.6 | Long-Term Hog Procurement Agreement dated December 17,2007 between Dalian Chuming Group Co., Ltd. and Dalian Chuming Slaughter and Packaging Pork Company, Ltd. (1) |
| 10.7 | Trademark License Contract (Chuming) dated December 2007 (English translation) (1) |
| 10.8 | Trademark License Contract (Huayu) dated December 2007 (English translation) (1) |
| 10.9 | Securities Purchase Agreement dated December 2007 among Energroup, PSI, Chuming, and the investors signatory thereto (1) |

| | |
|---|---|
| 10.10 | Make Good Escrow Agreement dated December 2007 among Energroup, Make Good Pledgor, Escrow Agent and the investors signatory thereto (1) |
| 10.11 | Holdback Escrow Agreement dated December 2007 among Energroup, Escrow Agent and the investors signatory thereto (1) |
| 10.12 | Loan Agreement between Dalian Chuming Food Co. Ltd. and Bank of China dated November 2008* |
| 10.13 | Loan Agreement between Dalian Chuming Meat Co. Ltd. and Bank of China dated November 2008* |
| 14.1 | Code of Ethics* |
| 24.1 | Power of Attorney (included as part of the signature pages to this registration statement) |
| 31.1 | Certification by Chief Executive Officer pursuant to Sarbanes-Oxley Section 302* |

| | |
|---|---|
| 31.2 | Certification by Chief Financial Officer pursuant to Sarbanes-Oxley Section 302* |
| 32.1 | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350* |
| 32.2 | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350* |

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* Filed herewith.

(1) Previously filed with our Current Report on Form 8-K on January 7, 2008 and incorporated herein by reference.

(2) Previously filed with our Current Report on Form 8-K on August 22, 2007 and incorporated herein by reference.

(3) Previously filed with our Current Report on Form 8-K on December 14, 2007 and incorporated herein by reference.

(4) Previously filed with our General form for registration of securities under the Securities Act of 1933 on Form S-1 on February 11, 2008 and incorporated herein by reference.

(5) Previously filed with our Current Report on Form 8-K on September 24, 2008 and incorporated herein by reference.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 31st day of March, 2009.

ENERGROUP HOLDINGS CORPORATION

By: /s/ Shi Huashan
Shi Huashan
President, Chief Executive Officer
and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ Shi Huashan<br>Shi Huashan | Chief Executive Officer,<br>President, and Director<br>(Principal Executive Officer) | March 31, 2009 |
| /s/ Wang Shu<br>Wang Shu | Chief Financial Officer and Director<br>(Principal Financial and Accounting Officer) | March 31, 2009 |
| /s/ Wang Shuying<br>Wang Shuying | Director | March 31, 2009 |
| /s/ Ma Fengqin<br>Ma Fengqin | Director | March 31, 2009 |