

ENERGROUP HOLDINGS CORP  
Form 10-Q  
November 19, 2008

---

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

---

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2008**

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**  
(State of Incorporation)

**87-0420774**  
(I.R.S. Employer Identification No.)

**No. 9, Xin Yi Street, Ganjingzi District  
Dalian City, Liaoning Province, PRC 116039**  
(Address of principal executive offices)

**N/A**  
(Zip Code)

**+86 411 867 166 96**  
(Registrant's telephone number, including area code)

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  No

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  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

Edgar Filing: ENERGROUP HOLDINGS CORP - Form 10-Q

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

As of September 30, 2008, the Registrant had 21,136,391 shares of Common Stock outstanding.

---

---

**ENERGROUP HOLDINGS CORPORATION**  
**FORM 10-Q**

**INDEX**

|                                     |   | Page Number |
|-------------------------------------|---|-------------|
| <b>PART I. Financial Statements</b> |   |             |
| Item 1.                             | Financial Information   | 3           |
|                                     | Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007  | 3           |
|                                     | Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2008 and 2007.                                | 5           |
|                                     | Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 30, 2008 and the Year Ended December 31, 2007 | 6           |
|                                     | Consolidated Statements of Cash Flows for the Three months and Nine Months Ended September 30, 2008 and September 30, 2007        | 7           |
|                                     | Notes to Consolidated Financial Statements - September 30, 2008   | 8-30        |
| Item 2.                             | Management's Discussion and Analysis of Financial Condition and Results of Operations   | 31          |
| Item 3.                             | Quantitative and Qualitative Disclosures About Market Risk  | 49          |
| Item 4.                             | Controls and Procedures   | 50          |
| <b>PART II. Other Information</b>   |   |             |
| Item 1.                             | Legal Proceedings   | 50          |
| Item 1A.                            | Risk Factors  | 50          |
| Item 2.                             | Unregistered Sales of Equity Securities and Use of Proceeds   | 65          |
| Item 3.                             | Defaults Upon Senior Securities   | 65          |
| Item 4.                             | Submission of Matters to a Vote of Security Holders   | 65          |
| Item 5.                             | Other Information   | 65          |
| Item 6.                             | Exhibits  | 65          |
|                                     | Signatures  | 67          |



**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**Energrou Holdings Corporation**  
**Consolidated Balance Sheets**  
**As of September 30, 2008 and December 31, 2007**  
**(Stated in US Dollars)**

|                                  | Note | At<br>September 30,<br>2008 | At<br>December 31,<br>2007 |
|----------------------------------|------|-----------------------------|----------------------------|
| <b>ASSETS</b>                    |      |                             |                            |
| Cash                             |      | \$ 11,672,377               | \$ 14,031,851              |
| Restricted Cash                  | 3    | 2,234,387                   | 4,250,000                  |
| Accounts Receivable              | 4    | 25,429,400                  | 622,433                    |
| Other Receivable                 |      | 1,888,165                   | 1,068,939                  |
| Related Party Receivable         | 5    | 6,244,256                   | 3,964,357                  |
| Inventory                        | 6    | 6,483,137                   | 2,916,016                  |
| Purchase Deposit                 |      | 1,410,121                   | 267,807                    |
| Prepaid Expenses                 |      | 50,328                      | 46,401                     |
| Prepaid Taxes                    |      | 1,224,020                   | 185,419                    |
| Deferred Tax Asset               |      | 654,946                     | 613,844                    |
| <b>Total current assets</b>      |      | <b>57,291,137</b>           | <b>27,966,967</b>          |
| Property, Plant & Equipment, net | 7    | 25,450,634                  | 24,836,496                 |
| Land Use Rights, net             | 8    | 13,500,699                  | 12,855,980                 |
| Construction in Progress         |      | 1,019,169                   | 927,866                    |
| Other Assets                     |      | 93,154                      | 32,619                     |
| <b>TOTAL ASSETS</b>              |      | <b>\$ 97,354,793</b>        | <b>\$ 66,619,928</b>       |
| <b>LIABILITIES</b>               |      |                             |                            |
| Bank Loans & Notes               | 9    | \$ 6,418,579                | \$ 7,383,095               |
| Accounts Payable                 |      | 14,276,813                  | 3,779,274                  |
| Taxes Payable                    |      | 2,749,160                   | 1,677,194                  |
| Other Payable                    |      | 3,477,954                   | 1,471,381                  |
| Accrued Liabilities              |      | 3,894,780                   | 3,347,013                  |
| Customer Deposits                |      | 2,872,226                   | 24,161                     |
| <b>Total current liabilities</b> |      | <b>33,689,511</b>           | <b>17,682,118</b>          |
| <b>TOTAL LIABILITIES</b>         |      | <b>\$ 33,689,511</b>        | <b>\$ 17,682,118</b>       |

See Accompanying Notes to the Financial Statements and Accountant's Report

**Energroupholdings Corporation**  
**Consolidated Balance Sheets**  
**As of September 30, 2008 and December 31, 2007**  
**(Stated in US Dollars)**

|  | Note | At<br>September 30,<br>2008 | At<br>December 31,<br>2007 |
|--|------|-----------------------------|----------------------------|
| <b><u>STOCKHOLDERS' EQUITY</u></b>   |      |                             |                            |
| Preferred Stock - \$0.001 par value 10,000,000 shares authorized; 0 shares issued & outstanding at September 30, 2008 and December 31, 2007, respectively.     |      | -                           | -                          |
| Common Stock \$0.001 par value 21,739,130 shares authorized; 21,136,392 shares issued & outstanding at September 30, 2008 and December 31, 2007, respectively. | 10   | \$ 21,136                   | \$ 21,136                  |
| Additional Paid in Capital   |      | 15,440,043                  | 15,440,043                 |
| Statutory Reserve  | 11   | 1,729,863                   | 751,444                    |
| Retained Earnings  |      | 42,962,290                  | 29,764,236                 |
| Accumulated Other Comprehensive Income   |      | 3,511,950                   | 2,960,951                  |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  |      | <b>62,665,282</b>           | <b>48,937,810</b>          |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |      | <b>\$ 97,354,793</b>        | <b>\$ 66,619,928</b>       |

See Accompanying Notes to the Financial Statements and Accountant's Report

**Energroup Holdings Corporation**  
**Consolidated Statements of Income**  
**for the three and nine months ended September 30, 2008 and 2007**  
**(Stated in US Dollars)**

|  | Note | 3 months<br>ended<br>September 30,<br>2008 | 3 months<br>ended<br>September 30,<br>2007 | 9 months<br>ended<br>September 30,<br>2008 | 9 months<br>ended<br>September 30,<br>2007 |
|--|------|--|--|--|--|
| Sales                                      |      | \$ 53,725,596                              | \$ 35,160,526                              | \$ 140,309,218                             | \$ 89,718,841                              |
| Cost of Sales                              |      | 47,254,631                                 | 29,430,153                                 | 120,329,483                                | 74,966,451                                 |
| Gross Profit                               |      | 6,470,965                                  | 5,730,373                                  | 19,979,735                                 | 14,752,390                                 |
| Selling Expenses                           | 12   | 878,893                                    | 1,597,626                                  | 3,463,947                                  | 3,397,046                                  |
| General & Administrative Expenses          |      | 734,976                                    | 459,975                                    | 1,881,138                                  | 1,147,488                                  |
| Operating Income                           |      | 4,857,096                                  | 3,672,772                                  | 14,634,650                                 | 10,207,856                                 |
| Other Income                               |      | 1,036,941                                  | 806  | 1,420,060                                  | 7,810                                      |
| Interest Income                            |      | (356,596)                                  | -  | 279,097                                    | -  |
| Other Expenses                             |      | (413,264)                                  | (40,524)                                   | (514,000)                                  | (78,354)                                   |
| Interest Expense                           |      | (587,118)                                  | (378,580)                                  | (1,194,197)                                | (1,089,221)                                |
| Earnings before Tax                        |      | 4,537,058                                  | 3,254,474                                  | 14,625,611                                 | 9,048,091                                  |
| Income Tax                                 | 13   | (216,770)                                  | (749,504)                                  | (449,138)                                  | (749,504)                                  |
| Net Income                                 |      | \$ 4,320,288                               | \$ 2,504,970                               | \$ 14,176,473                              | \$ 8,298,587                               |
| Earnings Per Share                         | 16   |  |  |  |  |
| Basic                                      |      | \$ 0.25                                    | \$ 0.19                                    | \$ 0.82                                    | \$ 0.62                                    |
| Diluted                                    |      | \$ 0.20                                    | \$ 0.15                                    | \$ 0.67                                    | \$ 0.48                                    |
| Weighted Average Shares<br>Outstanding     |      |  |  |  |  |
| Basic                                      |      | 17,272,756                                 | 13,409,120                                 | 17,272,756                                 | 13,409,120                                 |
| Diluted                                    |      | 21,182,756                                 | 17,272,756                                 | 21,182,756                                 | 17,272,756                                 |
|  |      | 3 months<br>ended<br>September 30,<br>2008 | 3 months<br>ended<br>September 30,<br>2007 | 9 months<br>ended<br>September 30,<br>2008 | 9 months<br>ended<br>September 30,<br>2007 |
| <u>Comprehensive Income</u>                |      |  |  |  |  |
| Net Income                                 |      | \$ 4,320,288                               | \$ 2,504,970                               | \$ 14,176,473                              | \$ 8,298,587                               |
| Other Comprehensive Income                 |      |  |  |  |  |
| Foreign Currency Translation<br>Adjustment |      | (911,156)                                  | 927,231                                    | 550,999                                    | 1,174,740                                  |
| Total Comprehensive Income                 |      | \$ 3,409,132                               | \$ 3,432,201                               | \$ 14,727,472                              | \$ 9,473,327                               |

**See Accompanying Notes to the Financial Statements and Accountant's Report**





**Energrou Holdings Corporation**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**for the nine months ended September 30, 2008 and the year ended December 31, 2007**  
**(Stated in US Dollars)**

|   | Common Stock |           | Common Stock  | Statutory    | Retained      | Accumulated   |               |
|---|--------------|-----------|---------------|--------------|---------------|---------------|---------------|
|   | Shares       | Amount    | Additional    | Reserve      | Earnings      | Other         | Total         |
|   | Outstanding  |           | Paid in       |              |               | Comprehensive |               |
|   |              |           | Capital       |              |               | Income        |               |
| Balance, January 1, 2007                | 17,272,756   | \$ 17,273 | \$ 2,396,079  | \$ 751,444   | \$ 18,112,089 | \$ 896,679    | \$ 22,173,563 |
| Issuance of Common Stock & Warrants     | 3,863,636    | 3,863     | 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   | \$ 21,136 | \$ 15,440,043 | \$ 751,444   | \$ 29,764,236 | \$ 2,960,951  | \$ 48,937,810 |
| Balance, January 1, 2008                | 21,136,392   | \$ 21,136 | \$ 5,440,043  | \$ 751,444   | \$ 29,764,236 | \$ 2,960,951  | \$ 48,937,810 |
| Issuance of Common Stock & Warrants     |              |           |               |              |               |               |               |
| Net Income                              |              |           |               |              | 14,176,473    |               | 14,176,473    |
| Appropriations of Retained Earnings     |              |           |               | 978,419      | (978,419)     |               | -             |
| Foreign Currency Translation Adjustment |              |           |               |              |               | 550,999       | 550,999       |
| Balance, September 30, 2008             | 21,136,392   | \$ 21,136 | \$ 15,440,043 | \$ 1,729,863 | \$ 42,962,289 | \$ 3,511,950  | \$ 63,665,282 |

**See Accompanying Notes to the Financial Statements and Accountant's Report**

**Energrou Holdings Corporation**  
**Consolidated Statements of Cash Flows**  
**for the three and nine months ended September 30, 2008 and 2007**  
**(Stated in US Dollars)**

|  | <b>3 months<br/>ended<br/>September 30,<br/>2008</b> | <b>3 months<br/>ended<br/>September 30,<br/>2007</b> | <b>9 months<br/>ended<br/>September 30,<br/>2008</b> | <b>9 months<br/>ended<br/>September 30,<br/>2007</b> |
|--|--|--|--|--|
| <b>Cash Flow from Operating Activities</b>                                     |  |  |  |  |
| Net Income   | \$ 4,320,288   | \$ 2,504,970   | \$ 14,176,473  | \$ 8,298,587   |
| Amortization   | 74,052   | 32,949   | 259,312  | 97,479   |
| Depreciation   | 576,203  | 450,002  | 1,983,977  | 1,370,225  |
| (Increase)/Decrease in Accounts &<br>Other Receivables                         | (10,487,495)   | 1,636,735  | (27,906,092)   | (11,484,507)   |
| (Increase)/Decrease in Inventory &<br>Purchase Deposits                        | (1,987,668)  | 195,202  | (4,709,434)  | 1,136,515  |
| (Increase) in Prepaid Taxes &<br>Expenses                                      | (934,281)  | 28,544   | (1,083,731)  | (50,535)   |
| Increase/(Decrease) in Accounts, Taxes<br>& Other Payables                     | 8,298,021  | (8,424,131)  | 13,576,079   | 1,424,545  |
| Increase/(Decrease) in Accrued<br>Liabilities                                  | 394,292  | 232,734  | 547,767  | 546,095  |
| Increase in Customer Deposits  | 1,177,925  | 2,216,740  | 2,848,064  | 2,196,553  |
| Cash Sourced/(Used) in Operating<br>Activities                                 | 1,431,337  | (1,126,255)  | (307,586)  | 3,534,957  |
| <b>Cash Flows from Investing Activities</b>                                    |  |  |  |  |
| Funds released from/(interest earned in)<br>Escrow Account                     | (3,720)  | -  | 2,015,613  | -  |
| Purchases of Plant & Equipment   | (2,042,604)  | (148,353)  | (2,689,418)  | (847,063)  |
| Purchase of Land Use Rights  | (904,031)  | 2,705  | (904,031)  | (3,330,801)  |
| Payments for Deposits  | (227)  | -  | (60,535)   | -  |
| Cash Sourced/(Used) in Investing<br>Activities                                 | (2,950,582)  | (145,648)  | (1,638,371)  | (4,177,864)  |
| <b>Cash Flows from Financing<br/>Activities</b>                                |  |  |  |  |
| Proceeds from Bank Borrowings  | 15,004,489   | 1,219,923  | 6,418,579  | 1,219,923  |
| Repayment of Bank Loans  | (14,988,890)   | (9,140)  | (7,383,095)  | (1,302,803)  |
| Cash Sourced/(Used) in Financing<br>Activities                                 | 15,599   | 1,210,783  | (964,516)  | (82,880)   |
| <b>Net Increase/(Decrease) in Cash &amp;<br/>Cash Equivalents for the Year</b> |  |  |  |  |
|  | (1,503,647)  | (61,120)   | (2,910,473)  | (725,787)  |
| Effect of Currency Translation   | 1,905,294  | 38,869   | 550,999  | 107,434  |
| Cash & Cash Equivalents at Beginning<br>of Year                                | 11,270,730   | 2,479,685  | 14,031,851   | 3,075,787  |

|   |           |                   |           |                  |           |                   |           |                  |
|---|-----------|-------------------|-----------|------------------|-----------|-------------------|-----------|------------------|
| <b>Cash &amp; Cash Equivalents at End of Year</b> | <b>\$</b> | <b>11,672,377</b> | <b>\$</b> | <b>2,457,434</b> | <b>\$</b> | <b>11,672,377</b> | <b>\$</b> | <b>2,457,434</b> |
|---|-----------|-------------------|-----------|------------------|-----------|-------------------|-----------|------------------|

**Supplementary information:**

|                   |         |         |           |           |
|-------------------|---------|---------|-----------|-----------|
| Interest Received | -       | -       | 279,097   | -         |
| Interest Paid     | 230,522 | 378,580 | 1,194,197 | 1,089,221 |
| Income Tax Paid   | 216,770 | 749,504 | 449,138   | 749,504   |

**See Accompanying Notes to the Financial Statements and Accountant's Report**

7

---

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

1. The Company and Principal Business Activities

Energroupholdings 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.

8

---

**Energrouph Holdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

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 September 30, 2008, the detailed identities of the consolidating subsidiaries are as follows:

| <b>Name of Company</b>  | <b>Place of Incorporation</b> | <b>Attributable Equity Interest</b> | <b>Registered Capital</b> |
|---|-------------------------------|-------------------------------------|---------------------------|
| 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.

(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.

**Energrouph Holdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

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



Vehicles

5 years

(1)

*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.

10

---

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

(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.

(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.



**Energrouph Holdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

*(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 accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

*(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.



**Energrouph Holdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

(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.

| <i>Exchange Rates</i>                   | <i>9/30/2008</i> | <i>12/31/2007</i> | <i>9/30/2007</i> |
|---|------------------|-------------------|------------------|
| Period end RMB : US\$ exchange rate     | 6.855100         | 7.314100          | 7.517600         |
| Average period RMB : US\$ exchange rate | 6.998860         | 7.617200          | 7.675760         |

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.

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

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 – Financing Transaction* that is held in an escrow with US Bank in the United States. These funds are restricted until the Company has fulfilled the following criteria: (1) the hiring of a Chief Financial Officer ("CFO") that meets the approval of the investors, at such point the Company will release \$1.5 million from restriction (less applicable penalties), the Company agreed to satisfy this requirement within 90 days of the closing of the financing transaction, (2) the Company appoints 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. A total of \$250,000 was placed in the escrow account earmarked for investor relations purposes.

At September 30, 2008, the Company has yet to fulfill requirement (3). 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*.

4. Accounts Receivable

Accounts Receivable at September 30, 2008 and December 31, 2007 consisted of the following:

|                                       | September 30, 2008 | December 31, 2007 |
|---------------------------------------|--------------------|-------------------|
| Accounts Receivable – Trade           | \$ 25,686,263      | \$ 707,156        |
| Less: Allowance for Doubtful Accounts | (256,863)          | (84,723)          |
| Net Accounts Receivable               | \$ 25,429,400      | \$ 622,433        |

| <i>Allowance for Bad Debts</i> | September 30, 2008 | December 31, 2007 |
|--------------------------------|--------------------|-------------------|
| Beginning Balance              | \$ 90,176          | \$ 79,267         |
| Allowance Provided             | 166,687            | 5,456             |
| Charged Against Allowance      | -                  | -                 |



|                |    |         |    |        |
|----------------|----|---------|----|--------|
| Ending Balance | \$ | 256,863 | \$ | 84,723 |
|----------------|----|---------|----|--------|

14

---

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

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.

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 Energroupholdings or Energroupholdings'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 a receivable due from, or a payable due to the Group. The Company's net receivable balance of \$6,244,246 at September 30, 2008 is shown in the following table. The table is followed by a description of how the receivable balance changed during the three month period ended September 30, 2008.

| 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 Company, Ltd     | \$ 88,178        | Food Company sold cooked food to Huayu dating back to 1/2007.               |
| <b>Subtotal of Related Party Sales</b> |                    |   |  | <b>\$ 88,178</b> |   |
| B                                      | Sales Company      | Loan Receivable from                                | Dalian Mingxing Livestock Product Co. Ltd. | \$ 75,856        | Sales Company bought equipment on behalf of Mingxing dating back to 7/2008. |
| C                                      | Meat Company       | Loan Receivable from                                | Dalian Chuming Group Co., Ltd.             | 6,759,432        | Meat Company paid bank loan principal for Group and made                    |

|   |               |                      |  |                      |  |
|---|---------------|----------------------|--|----------------------|--|
|   |               |                      |  |                      | advancement for purchase of hogs dating back to 12/2004.   |
| D   | Meat Company  | Loan Receivable from | Dalian Chuming Fodder Co., Ltd.                          | 15,243               | Meat Company paid utility fees for Fodder Co. dating back to 7/2008.                                 |
| E   | Meat Company  | Loan Receivable from | Dalian Chuming Stockbreeding Combo Development Co., Ltd. | 3,101,522            | Prepayment to Group for Purchase of hogs dating back to 7/2008.                                      |
| F   | Meat Company  | Loan Receivable from | Dalian Chuming Group Co., Ltd.                           | 68,432               | 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.                           | 12,559,385           | 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 Chuming Group Co., Ltd.                           | 1,362,236            | Sales Company paid the Group to help it buy materials dating back to 7/2008.                         |
| I   | Sales Company | Loan Receivable from | Dalian Chuming Stockbreeding Combo Development Co., Ltd. | 7,279,252            | Sales Company paid for Stockbreeding to buy hogs from farmer dating back 7/2008                      |
| J   | Sales Company | Loan Receivable from | Dalian Chuming Fodder Co., Ltd.                          | 2,198,363            | Sales Company paid for feeding materials on behalf of Fodder dating back to 9/2008.                  |
| <b>Subtotal of Loans to Related Parties</b> |               |                      |  | <b>\$ 33,419,721</b> |  |
| <b>Gross Related Party Receivable</b>       |               |                      |  | <b>\$ 33,507,899</b> |  |

**Energrouph Holdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

| Ref   | Subsidiary Due from: | Nature of Balance                                       | Related Party  | Balance              | Description of Transaction  |
|---|----------------------|---|--|----------------------|---|
| K   | Meat Company         | Purchase of Raw Materials resulting in Trade Payable to | Dalian Chuming Group Co., Ltd.                           | \$ 4,913,179         | Purchase of hogs from Group dating back to 12/1/2004.   |
| L   | Meat Company         | Purchase of Raw Materials resulting in Trade Payable to | Dalian Chuming Group Co., Ltd.                           | 2,917,535            | Purchase of hogs from Group dating back to 7/2008.  |
| M   | Food Company         | Purchase of Raw Materials resulting in Trade Payable to | Dalian Huayu Seafood Food Co., Ltd                       | 3,643,817            | Advance from Huayu for the purchase of product dating back to 12/2007.                          |
| <b>Subtotal of Purchases from Related Parties</b> |                      |   |  | <b>\$ 11,474,531</b> |   |
| N   | Food Company         | Loan Payable to   | Dalian Chuming Group Co., Ltd.                           | \$ 1,796,205         | Group paid for salaries and other G&A expenses on behalf of Food Company dating back to 1/2004. |
| O   | Meat Company         | Loan Payable to   | Dalian Chuming Stockbreeding Combo Development Co., Ltd. | 1,579,846            | Meat Company collected bank loans for Stockbreeding Co. dating back to 7/2008                   |
| P   | 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.           |
| Q   | Meat Company         | Loan Payable to   | Dalian Mingxing Livestock Product Co. Ltd.,              | 393,868              | Meat Company collected bank loans on behalf of Mingxing dating back to 8/2008                   |
| R   | Chuming WFOE         | Loan Payable to   | Dalian Chuming Group Co.                                 | 11,979,877           | Group loaned funds to WFOE (incl. funds transferred from  |

|  |               |                 |                                |                      |   |
|--|---------------|-----------------|--------------------------------|----------------------|---|
| S  | Sales Company | Loan Payable to | Dalian Huayu Seafood Co., Ltd. | 32,850               | Meat Company for US RTO. Sales Company collected sales revenue on behalf of Huayu dating back to 7/2008 |
| <b>Subtotal of Loans from Related Parties</b>  |               |                 |                                | <b>\$ 15,789,123</b> |   |
| <b>Gross Related Party Payable</b>   |               |                 |                                | <b>\$ 27,263,654</b> |   |
| <b>Setoff Related Party Receivable</b> (Receivables have been setoff against payables) |               |                 |                                | <b>\$ 6,244,246</b>  |   |

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

- A. The Food Company, sold approximately USD 88 thousand (RMB 6 thousand) cooked food to Huayu in credit in the third quarter of 2008. This transaction had impact on statement of income by applying 17% valued added tax, the Food Company, generated USD 54 thousand (RMB 0.4 million) in sales income.
- B. Sales Company bought approximately USD 75 thousand (RMB 0.5 million) equipment on behalf of Mingxing Co. in 3<sup>rd</sup> quarter.
- C. The balance of receivable owed by the Group of approximately USD 6.8 million (RMB 46.3 million) to Meat Company, was increase by USD 5.5 million (RMB 38.1 million) in the third quarter of 2008. The Meat Company, paid USD 2.7 million (RMB 18.1 million) bank loan principal for the Group in August and USD 2.8 million (RMB 20 million) in September to the Group for the purchase of hogs in advance. Simultaneously, the Group has delivered USD 2.9 million (RMB 19.5 million) in hogs in August and USD 1.4 (RMB 9.7 million) in hogs in September to Meat Company, to net against the receivables. The prepayment has not impact on the statement of income.
- D. The Meat Company paid approximately USD 15 thousand (RMB 0.1 million) utility fees for Fodder Co., in the third quarter of 2008.
- E. The prepayment of approximately USD 3.1 million (RMB 21.3 million) from Meat Company, to the Group 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 repaid USD 1.3 million (RMB 8.9 million) in hogs to Meat Company, to net against the prepayment in the third quarter of 2008.
- F. The balance of approximately USD 68 thousand (RMB 0.4 million) office supplies payment made by Meat Company, for the Group was still outstanding as of September 30, 2008.
- G. The balance of approximately USD 12.6 million (RMB 86.1 million) which Food Company, paid bank loan principal and interest on behalf of Industrial Co., was still outstanding as of September 30, 2008.

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

- H. The balance of approximately USD 1.3 million (RMB 9.3 million) receivable from Group to Sales Company, was increased by USD 5.8 million (RMB 39.6 million) in the third quarter of 2008 as Sales Company paid the Group to buy materials, and the Group has since repaid USD 4.5 million (RMB 20.3 million) of this obligation.
- I. Sales Company helped the Group to pay approximately USD 7.3 million (RMB 49.9 million) to local farmers for the purchase of hogs in the third quarter of 2008 .

**Energrouph Holdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

- J. The receivable of approximately USD 2.2 million (RMB15 million) due from Fodder Co. to Sales Company consisted of following transactions: USD 0.5 million (RMB 3.3 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).
- K. The balance of approximately USD 4.9 million (RMB 33.7 million) owed by the Company to the Group was increased by USD 3.9 million (RMB 27.4 million), USD 5.5 million (RMB 37.7 million), and USD 5.2 million (RMB 35.1 million) in July, August, and September respectively. The Company paid USD 9.8 million (RMB 67.4 million) to settle this balance during September. The increase in the balance as a result of the purchase of hogs would impact the statements of income; however, the effect of the repayment is isolated to the Company's balance sheet.
- L. The Group sold hogs to Meat Company, and the Meat Company paid approximately USD 2.9 million (RMB 20,000,000 million) to the Group on August 12, 2008.
- M. The USD 3.6 million (RMB 24.9 million) deposit owed to Huayu was still outstanding at September 30, 2008.
- N. The Group has paid USD 1.8 million (RMB 12.3 million) in salaries and general administrative expenses on behalf of Food Company.
- O. The outstanding balance of USD 1.6 million (RMB 10.8 million) due from Meat Company to Stockbreeding Combo was due to the fact that Meat Company collected USD 52 thousand (RMB 0.4 million) in hog sales and a USD 1.5 million (RMB 10.4 million) banks loan on behalf of Stockbreeding Co., in August and September, 2008 respectively.
- P. The balance owed of USD 6 thousand (RMB 44 thousand) by Industrial Development Co. to Meat Company, was still outstanding at September 30, 2008.
- Q. The balance of USD 0.4 million (RMB 2.7 million) was due to the fact that Meat Company collected a bank loan of USD 0.43 million (RMB 2.9 million) for Mingxing Co., in August, and Meat Company repaid USD 30 thousand (RMB 0.2 million) in September.
- R. The outstanding payable balance of USD 12 million (RMB 82.1 million) due to the Group has been transferred to the books of the Company, which balance increased by approximately USD 95 thousand (RMB 0.7 million) in the 3<sup>rd</sup> quarter of 2008.



**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

S. Sales Company helped Huayu collect USD 33 thousand (RMB 0.2 million) seafood sales from the customers.

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 quarters was manually based and accordingly was not able to, from a functional and cost benefit perspective, effectively summarize and provide any greater 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 has been 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.

|    |                  |                           |                          |  |
|----|------------------|---------------------------|--------------------------|--|
| 6. | <u>Inventory</u> |                           |                          |  |
|    |                  | <b>September 30, 2008</b> | <b>December 31, 2007</b> |  |
|    | Raw Materials    | \$ 1,023,583              | \$ 1,039,440             |  |
|    | Work in Progress | 555,754                   | 547,888                  |  |
|    | Finished Goods   | 4,903,800                 | 1,328,688                |  |
|    |                  | \$ 6,483,137              | \$ 2,916,016             |  |

7. Property, Plant & Equipment

|                              |               |                     |               |
|------------------------------|---------------|---------------------|---------------|
| <b>At September 30, 2008</b> |               | <b>Accumulated</b>  |               |
|                              | <b>Cost</b>   | <b>Depreciation</b> | <b>Net</b>    |
| Buildings                    | \$ 20,750,029 | \$ 3,360,259        | \$ 17,389,769 |
| Manufacturing Equipment      | 10,018,494    | 2,876,366           | 7,142,128     |
| Office Equipment             | 192,840       | 134,239             | 58,601        |
| Vehicles                     | 913,696       | 452,657             | 461,039       |
| Furniture & Fixture          | 523,951       | 124,855             | 399,097       |
|                              | \$ 32,399,010 | \$ 6,948,376        | \$ 25,450,634 |

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

**At December 31, 2007**

|                         | <b>Cost</b>   | <b>Accumulated<br/>Depreciation</b> | <b>Net</b>    |
|-------------------------|---------------|-------------------------------------|---------------|
| 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 |

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

8. Land Use Right

The Company had the following intangible assets outstanding at September 30, 2008 and December 31, 2007:

|                                | September 30, 2008 | December 31, 2007 |
|--------------------------------|--------------------|-------------------|
| Land Use Rights, at Cost       | \$ 14,405,611      | \$ 13,501,580     |
| Less: Accumulated Amortization | (904,912)          | (645,600)         |
|                                | \$ 13,500,699      | \$ 12,855,980     |

9. Bank Loans(A) *Short Term Bank Loans*

At September 30, 2008, the Company had the following short term loans outstanding: -

| <b>Borrower: Operating<br/>Subsidiary</b> | <b>Bank</b>   | <b>Interest Rate</b> | <b>Due Date</b> | <b>Amount</b> |
|---|---------------|----------------------|-----------------|---------------|
| Meat Company                              | Bank of China | 8.217%               | 12/18/2008      | \$ 4,376,304  |
| Food Company                              | Bank of China | 8.019%               | 11/17/2008      | 2,042,275     |
|   |               |                      |                 | \$ 6,418,579  |

The loans provided by the Bank of China of have been secured by the Company's land use rights, and guaranteed by the Dalian Chuming Group Co., Ltd.

10. Capitalization

As a result of the reverse take-over (RTO) transaction on December 31, 2007, including an exchange of shares and issuance of common stock to private investors pursuant to the equity financing plan, the total capitalization as of September 30, 2008 is depicted in the following table.

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

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

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.

|  | September 30, 2008 | December 31, 2007 |
|--|--------------------|-------------------|
| PRC Registered Capital   | \$ 15,787,633      | \$ 3,642,866      |
| - Statutory Reserve Ceiling<br>based on 50% of<br>Registered Capital     | 7,893,816          | 1,821,433         |
| <u>Less:</u> - Retained Earnings<br>appropriated to<br>Statutory Reserve | 1,729,863          | 751,444           |
| Reserve Commitment<br>Outstanding  | \$ 6,163,953       | \$ 1,069,989      |

12.

Advertising Costs

Advertising expenses were \$1,546,948 and \$50,313 for the nine months ended September 30, 2008 and 2007, respectively.

23

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

13. Income Taxes

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

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 the nine months ended September 30, 2008 and 2007.

Food Company has provided provisions for income taxes for the nine months ended September 30, 2008 and 2007 of \$232,368 and \$967,539 respectively.

Sales Company has not provided provisions for income taxes for the nine months ended September 30, 2008 and 2007

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

- i. September 30, 2008 Tax expense \$ 449,138
- ii. September 30, 2007 Tax expense \$ 749,504

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. The Company has not repatriated foreign source income. 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 should be expected to continue benefiting from a tax holiday.

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

14. Commitments & Contingencies

(A) *Capital 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 September 30, 2008.

(B) *Executive Compensation*

There were no severance packages to any key management personnel that have resigned their positions. The Company has the right to terminate employment for cause at any time.

(C) *Hog Purchase Agreement*

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 September 30, 2008, the Company expects to purchase minimum quantities of hogs detailed in the following table from the Group:

| Year | Hogs    | Price Per Hog | Amount         |
|------|---------|---------------|----------------|
| 2008 | 130,000 | \$ 211.01     | \$ 27,431,300  |
| 2009 | 800,000 | \$ 232.21     | 185,768,000    |
| 2010 | 800,000 | \$ 255.44     | 204,352,000    |
|      |         |               | \$ 417,551,300 |

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

(D) *Pledged Assets*

Prior to the financing transaction described in Note 18 undertaken by the Company at December 31, 2007, the Company owed the Group approximately \$20,000,000 (RMB 160,000,000). The Group, in turn, borrowed these funds from the China National Development Bank. These funds were guaranteed by a bond issued by China Export and Credit Insurance Corporation ("Bond Issuer"). The Company pledged land use rights and real property to the Bond Issuer in order to secure the bond.

As per the terms of the agreement under the financing transaction detailed in Note 18, the funds owed to the Group by the Company were set off against receivables owed by the Group to the Company. Although the Company no longer owes funds to the Group regarding this loan, the Group still has an outstanding balance with the China National Development Bank. Accordingly, 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.

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

15. Operating Segments

The Company individually tracks the performance of its three operating subsidiaries Meat Company, Food Company, Sales Company, and the ultimately holding parent 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 Statement of Income and Balance Sheet for its operating subsidiaries at, and for the nine months ended September 30, 2008. 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).

| <b>Results of Operations for<br/>the nine months ended<br/>September 30, 2008</b> | <b>Meat<br/>Company</b> | <b>Food<br/>Company</b> | <b>Sales<br/>Company</b> | <b>Chuming<br/>WFOE,<br/>PSI, &amp;<br/>Eliminations</b> | <b>Total</b>         |
|---|-------------------------|-------------------------|--------------------------|--|----------------------|
| Sales   | \$ 128,208,596          | \$ 16,185,747           | \$ 62,110,427            | \$ (66,195,551)  | \$ 140,309,218       |
| Cost of Sales   | 111,689,686             | 13,481,540              | 61,353,808               | (66,195,551)   | 120,329,483          |
| Gross Profit  | 16,518,909              | 2,704,207               | 756,618                  | -  | 19,979,735           |
| Operating Expense   | 1,943,752               | 973,602                 | 2,124,161                | 303,569  | 5,345,085            |
| Operating (Loss)/Profit   | 14,575,157              | 1,730,605               | (1,367,543)              | (303,569)  | 14,634,650           |
| Other Income (Expense)  | 690,654                 | (505,527)               | 124,584                  | (318,751)  | (9,040)              |
| Earnings before Tax   | 15,265,811              | 1,225,078               | (1,242,959)              | (622,320)  | 14,625,611           |
| Tax   | 214,321                 | 234,817                 | -                        | -  | 449,138              |
| Net Income  | <b>\$ 15,051,491</b>    | <b>\$ 990,261</b>       | <b>\$ (1,242,959)</b>    | <b>\$ (622,320)</b>                                      | <b>\$ 14,176,473</b> |

**Eliminated Intercompany Sales of Products Sold**

| <b>Sold From:</b> | <b>Sold To:</b> | <b>Amount</b>        |
|-------------------|-----------------|----------------------|
| Food Company      | Sales Company   | \$ 10,914,340        |
| Meat Company      | Sales Company   | 44,347,880           |
| Meat Company      | Food Company    | 10,933,331           |
|                   |                 | <b>\$ 66,195,551</b> |

**Energrou Holdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

| <b>Financial Position at<br/>September 30, 2008</b> | <b>Meat<br/>Company</b> | <b>Food<br/>Company</b> | <b>Sales<br/>Company</b> | <b>Chuming<br/>WFOE,<br/>PSI, &amp;<br/>Eliminations</b> | <b>Total</b>         |
|---|-------------------------|-------------------------|--------------------------|--|----------------------|
| Current Assets                                      | \$ 74,843,828           | \$ 28,297,353           | \$ 33,956,051            | \$ (79,806,095)  | \$ 57,291,137        |
| Non Current Assets                                  | 22,912,019              | 16,743,108              | 350,179                  | 58,351   | 40,063,657           |
| <b>Total Assets</b>                                 | <b>97,755,847</b>       | <b>45,040,461</b>       | <b>34,306,230</b>        | <b>(79,747,745)</b>                                      | <b>97,354,793</b>    |
| <br>  |                         |                         |                          |  |                      |
| Current Liabilities                                 | 46,801,246              | 39,586,300              | 36,637,780               | (89,335,814)   | 33,689,511           |
| <b>Total Liabilities</b>                            | <b>46,801,246</b>       | <b>39,586,300</b>       | <b>36,637,780</b>        | <b>(89,335,814)</b>                                      | <b>33,689,511</b>    |
| <br>  |                         |                         |                          |  |                      |
| Net Assets  | 50,954,601              | 5,454,161               | (2,331,550)              | 9,987,570  | 63,665,282           |
| <br>  |                         |                         |                          |  |                      |
| <b>Total Liabilities<br/>&amp; Net Assets</b>       | <b>\$ 97,755,847</b>    | <b>\$ 45,040,461</b>    | <b>\$ 34,306,230</b>     | <b>\$ (79,747,745)</b>                                   | <b>\$ 97,354,793</b> |



**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

16. Earnings Per Share

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

|  | 3 months<br>ended<br>September 30,<br>2008 | 3 months<br>ended<br>September 30,<br>2007 | 9 months<br>ended<br>September 30,<br>2008 | 9 months<br>ended<br>September 30,<br>2007 |
|--|--|--|--|--|
| Net Income   | \$ 4,320,288                               | \$ 2,504,970                               | \$ 14,176,473                              | \$ 8,298,587                               |
| Original Shares  | 13,409,120                                 | 13,409,120                                 | 13,409,120                                 | 13,409,120                                 |
| Addition to Common Stock from Offering on December 31, 2007                | 3,863,636                                  | -  | 3,863,636                                  | -  |
| Basic Weighted Average Shares Outstanding                                  | 17,272,756                                 | 13,409,120                                 | 17,272,756                                 | 13,409,120                                 |
| Addition to Common Stock if Contingent Shares Held in Escrow Were Released | 3,863,636                                  | 3,863,636                                  | 3,863,636                                  | 3,863,636                                  |
| Addition to Common Stock if Warrants Were Exercised                        | 46,364                                     | -  | 46,364                                     | -  |
| Diluted Weighted Average Shares Outstanding                                | 21,182,756                                 | 2,504,970                                  | 21,182,756                                 | 17,272,756                                 |
| <b>Earnings Per Share</b>  |  |  |  |  |
| Basic  | \$ 0.25                                    | \$ 0.19                                    | \$ 0.82                                    | \$ 0.62                                    |
| Diluted  | \$ 0.20                                    | \$ 0.15                                    | \$ 0.67                                    | \$ 0.48                                    |
| <b>Weighted Average Shares Outstanding</b>                                 |  |  |  |  |
| Basic  | 17,272,756                                 | 13,409,120                                 | 17,272,756                                 | 13,409,120                                 |
| Diluted  | 21,182,756                                 | 17,272,756                                 | 21,182,756                                 | 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.

(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.

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

18. Financing Transaction

On December 31, 2007, the Company, a Nevada corporation (“Energroupholdings” 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 Energroupholdings, PSI, and all of the shareholders of PSI’s issued and outstanding share capital (the “PSI Shareholders”). PSI owned 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”). Chuming 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”).

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

Under the Exchange Agreement, Energroupholdings 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 Energroupholdings 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 Energroupholdings were issued to reflect this reverse take-over transaction.

Concurrently with the Exchange Agreement, Energroupholdings also entered into a Securities Purchase Agreement (the “Purchase Agreement”) pursuant to which Energroupholdings 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 September 30, 2008, the total number of shares outstanding, on a fully diluted basis, is shown in the following table:

|  |            |
|--|------------|
| i. Common shares<br>outstanding prior to<br>offering of securities | 17,272,756 |
| ii. Common shares issued<br>under securities<br>purchase agreement | 3,863,635  |
| iii. Common shares<br>issuable upon exercise                       | 386,364    |

of placement agent  
warrants

21,522,755

29

---

**Energroupholdings Corporation**  
**Notes to Consolidated Financial Statements**  
**As of September 30, 2008 and December 31, 2007**  
**and for the three and nine months ended September 30, 2008, and 2007**

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 its 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 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.

19. Appointment of Chief Financial Officer

Effective September 18, 2008, the Company hired Mr. Yizhao Zhang to be the Chief Financial Officer. Mr. Zhang's annual salary is \$180,000. Mr. Zhang is eligible to participate in equity or non-equity bonus programs, to be determined by the Board. In connection with Mr. Zhang's hiring, the Company had fulfilled the second criteria discussed in *Note 3 – Restricted Cash*, which relates to the financing transaction discussed in *Note 18 – Financing Transaction*. Although the criteria was fulfilled, the hiring of the new Chief Financial Officer was late, and therefore, the Company has accrued a liability of \$399,500 against its third quarter earnings for liquidated damages.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

### Note Regarding Forward-Looking Statements

*This quarterly report on Form 10-Q and other reports filed by Registrant from time to time with the Securities and Exchange Commission (collectively the "Filings") contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, Registrant's management as well as estimates and assumptions made by Registrant's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words "anticipate", "believe", "estimate", "expect", "future", "intend", "plan", or the negative of these terms and similar expressions as they relate to Registrant or Registrant's management identify forward-looking statements. Such statements reflect the current view of Registrant with respect to future events and are subject to risks, uncertainties, assumptions, and other factors (including the risks contained in the section of this report entitled "Risk Factors") relating to Registrant's industry, Registrant's operations and results of operations, and any businesses that Registrant may acquire. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.*

*Although Registrant believes that the expectations reflected in the forward-looking statements are reasonable, Registrant cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Registrant does not intend to update any of the forward-looking statements to conform these statements to actual results. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this quarterly report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations, and prospects.*

*In this Form 10-Q, references to "we", "our", "us", "our company", "Energroup" or the "Registrant" refer to Energroup Holdings Corporation, a Nevada corporation.*

### OVERVIEW

Headquartered in the City of Dalian, Liaoning Province of the People's Republic of China (the "PRC" or "China"), we are a meat processing company primarily involved in the slaughtering, processing, packaging and distribution of pork and pork products. We also process and sell seafood, such as minced fillet products, which accounted for a small portion of our revenue (approximately 1.35%) in the third quarter of 2008.

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. 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. We also received ISO 9001:2000 certification that covers our production, research and development and sales activities.

Currently we have a wholesale and retail distribution network and sell either directly or indirectly across northeast China, including supermarkets and hypermarkets.

As of September 30, 2008, we had 595 employees, of whom 423 were operating personnel, 106 were sales personnel, 4 were research and development personnel and 62 were administrative personnel.

Dalian Precious Sheen Investments Consulting Co., Ltd., or Chuming WFOE, is our holding company established in China for our three PRC operating subsidiaries, collectively referred to elsewhere in this report as the “Chuming Operating Subsidiaries”:

1. Dalian Chuming Slaughter and Packaging Pork Company Ltd. (“Meat Company”), whose primary business activity is acquiring, slaughtering and packaging of pork and cattle;

2. Dalian Chuming Processed Foods Company Ltd. (“Food Company”), whose primary business activity is the processing of raw and cooked meat products; and
3. Dalian Chuming Sales Company Ltd. (“Sales Company”), which is responsible for our sales, marketing and distribution operations.

The Chuming Operating Subsidiaries are spin-off constituents of a former parent company, Dalian Chuming Group Co., Ltd., or the “Group.” Our primary business activities are the production and packing of fresh pork and production of processed meat products for distribution and sale to clients throughout the PRC. Chuming WFOE was incorporated in China as wholly foreign owned enterprise on in December 2007. Chuming WFOE’s parent company is Precious Sheen Investments Limited (“PSI”), a holding company established in the British Virgin Islands in May 2007.

Pork is widely regarded as China’s most important source of meat and is consumed at a much higher rate than other categories of meat. China, which is the largest pork-consuming nation in the world, consumed a total of 52 million metric tons in 2006, over half of the global consumption. Despite a decline in 2007 due to the blue ear disease, or Porcine Reproductive and Respiratory Syndrome (PRRS), China’s pork production is expected to recover to 48 million metric tons in 2008, according to a forecast from the United States Department of Agriculture Foreign Agriculture Service (USDA FAS) in Beijing. We believe that increasing levels of consumption of pork products in China is linked to the rapid development of the Chinese economy, urbanization and strong income growth.

Aside from increasing aggregate consumption, based on management’s research pork consumption patterns in recent years have shown two main characteristics. The first is that per capita pork is consumed at higher rates in the urban areas of China as opposed to rural areas, although the rate of growth in these urban consumption rates is relatively slight. The second is that consumers’ consumption preferences appear to have shifted from frozen meat to fresh meat, and from fat meat to lean meat, with a tendency toward high quality cuts. Management believes these trends continue to be very favorable to our business which is based on mechanized meat processing and sales to urban consumers.

During the third quarter, Beijing hosted the 29th Olympic Games. China’s state-owned electrical power grid had to cut the power supply to some provinces to ensure sufficient electricity supply to Beijing during the games. This resulted in occasional interruptions in production in our factories, due to intermittent power failures. Nevertheless, we managed to increase our production of various pork products. We increased total production to a company record high 23,490 tons in the third quarter of 2008, as we produced 19,044 tons in the second quarter of 2008, and 16,892 tons for the third quarter of 2007. Fresh pork sales and production have been growing at a faster rate than frozen pork in terms of our revenue and production volume during the past several quarters.

Due to a shortage in supply, live hog prices rose significantly in 2007. Retail pork prices are an important component of China’s Consumer Price Index (CPI), a key inflation indicator. In order to moderate increases in the CPI and maintain the living standard of its lower-income population, the Chinese government (as it pertains to the pork industry) has implemented a number of policies to encourage pork production. These policies are now beginning to take effect, and as a result, the price of pork to consumers has stabilized during the past several months. In the near future, we expect pork prices to continue to stabilize, or even begin to decline.

In China, the pork processing industry remains fragmented, and we believe, inefficient. As smaller players experience pressure from margin compression and stricter government regulations, we believe scaled pork processors, like ourselves, will be positioned to make acquisitions on favorable terms in order to capture market share, gain scale, secure raw material, and access more customers. We expect that the combined factors of stricter hygiene regulations, increasing competition from well-financed players, and struggling meat suppliers, will induce industry consolidation in the coming years. We believe we are in a strong position to continue to take advantage of the Chinese government’s support for leading pork producers, these market consolidation trends, and the emerging hog supply situation.



Management believes that this is a long-term trend.

Given the current competitive market conditions, we constantly strive to impose strict quality control in our products and utilize state-of-art slaughtering and cutting lines (which are imported from Stork Co. of the Netherlands), to ensure our product quality, increase awareness of our brand and develop customer loyalty. Our research suggests that consumers in China are increasingly conscious of food safety and nutrition, and they using their purchasing power to demand safer and higher quality food products for their families. For example, the recent tainted milk crisis in China prompted consumers to abandon milk and dairy products, and this has had a devastating impact on milk producers.

32

---

We place a very high priority on food safety and integrity. For the feeds which are used for our hogs, we control and monitor our feed sources by acquiring feeds only from qualified suppliers who are licensed in the nation or the province, and then carry out comprehensive tests to ensure quality. All of our production lines have also passed the Hazard Analysis and Critical Control Point (HACCP) test, which is certified by Moody International Certification Ltd. 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.

Management believes that we need to broaden our geographic sales network and diversify our customer base. Currently our distribution network is still limited to Liaoning province, especially Dalian city. In the near future we need to further extend this network and penetrate to all the northeast provinces of China. A broader customer base can not only mitigate our reliance on certain big customers, but also bring us more opportunities. We believe a broader market for our products can increase demand for our products, reduce our vulnerability to market changes, and provide additional areas of growth in the future.

Our top ten customers accounted for 62.54% for our total sales for the quarter ended September 30, 2008. We plan to position our business to diversify our customer base, which is expected to lower this percentage gradually in the future.

Management presently anticipates continued growth in our sales growth. Nevertheless, our ability to meet increased customer demand and maintain profitability will however continue to depend on factors such as our production capacity, availability of working capital, input costs, as well as the other factors described throughout this report.

## **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*

We maintain our 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 us 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. 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.

33

---

Our founders have directly or indirectly owned the three operating subsidiaries since their inception. We also own two intermediary holding companies. As of September 30, 2008, the detailed identities of the consolidating subsidiaries are as follows:

| <b>Name of Company</b>  | <b>Place of Incorporation</b> | <b>Attributable Equity Interest</b> | <b>Registered Capital</b> |
|---|-------------------------------|-------------------------------------|---------------------------|
| 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*

We extend unsecured, non-interest bearing credit to our customers; accordingly, we carry 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. In the second quarter of 2008, we revised our customer credit policy and began offering extended payment terms to some of our quality long term customers. In accordance with this revised policy, qualified customers were offered up to a two-month grace period for payment, whereas previously payment was required within 1-2 days of delivery of goods. See “Liquidity and Capital Resources – Cash Flows – Nine Months Ended September 30, 2008”. Management may extend credit to new customers who have met the criteria of our revised credit policy.

#### *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.

*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.

Construction in progress represents the direct costs of design, acquisition, and construction of buildings, building improvements and land improvements. Capitalization of these costs ceases when substantially all activities necessary to prepare the assets for their intended use are completed. At such point, construction in progress is transferred to its respective asset classification. No depreciation is provided until it is completed and ready for intended use.

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:

| <b>Fixed Asset Classification</b>   | <b>Useful Life</b> |
|-------------------------------------|--------------------|
| 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            |

#### *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.

#### *Customer Deposits*

Customer Deposits represents money we have received in advance for purchases of pork and pork products. We consider customer deposits as a liability until products have been shipped and revenue is earned.

#### *Statutory Reserve*

Statutory reserve refers 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*

We compute 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.

#### *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.

We are currently evaluating the potential impact, if any, of the adoption of the above recent accounting pronouncements on our consolidated results of operations and financial condition.

## RESULTS OF OPERATIONS

### Comparison of Three Months Ended September 30, 2008 and September 30, 2007.

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

|  | <b>Quarter Ended<br/>September 30,<br/>2008</b> | <b>% of<br/>Sales</b> | <b>Quarter Ended<br/>September 30,<br/>2007</b> | <b>% of<br/>Sales</b> |
|--|---|-----------------------|---|-----------------------|
| Sales  | \$ 53,725,596                                   | 100.00%               | \$ 35,160,526                                   | 100.00%               |
| Cost of Sales                                  | 47,254,631                                      | 87.96%                | 29,430,153                                      | 83.70%                |
| Gross Profit                                   | 6,470,965                                       | 12.04%                | 5,730,373                                       | 16.30%                |
| Selling Expenses                               | 878,893   | 1.64%                 | 1,597,626                                       | 4.54%                 |
| General & Administrative Expenses              | 734,976   | 1.37%                 | 459,975   | 1.31%                 |
| Total Operating Expense                        | 1,613,869                                       | 3.01%                 | 2,057,601                                       | 5.85%                 |
| Operating Income / (Loss)                      | 4,857,096                                       | 9.04%                 | 3,672,772                                       | 10.45%                |
| Other Income (Expense)                         | (320,037)                                       | 0.60%                 | (418,298)                                       | 1.19%                 |
| Earnings Before Tax                            | 4,537,058                                       | 8.44%                 | 3,254,474                                       | 9.26%                 |
| (Income Tax Expense) / Deferred Tax<br>Benefit | 216,770   | 0.40%                 | 749,504   | 2.13%                 |
| Net Income                                     | \$ 4,320,288                                    | 8.04%                 | \$ 2,504,970                                    | 7.12%                 |
| Earnings Per Share                             |   |                       |   |                       |
| Basic  | 0.25  |                       | 0.19  |                       |
| Diluted  | 0.20  |                       | 0.15  |                       |
| Weighted Average Shares Outstanding            |   |                       |   |                       |
| Basic  | 17,272,756                                      |                       | 13,409,120                                      |                       |
| Diluted  | 21,182,756                                      |                       | 17,272,756                                      |                       |



*Sales.* Our sales include revenues from sales of our fresh pork, frozen pork, and processed food products. During the quarter ended September 30, 2008, we had sales of \$53,725,596 as compared to sales of \$35,160,526 for the quarter ended September 30, 2007, an increase of approximately 52.8%. Our sales for our various product categories in the third quarter of 2008 are summarized as follows:

| <b>Sales by product category</b> | <b>Third Quarter 2008 (amount in dollars)</b> | <b>% of Total Sales</b> | <b>Third Quarter 2007 (amount in dollars)</b> | <b>% of Total Sales</b> | <b>% of increase from 2007 to 2008</b> |
|----------------------------------|---|-------------------------|---|-------------------------|--|
| Fresh Pork                       | \$ 42,858,853                                 | 79.8%                   | \$ 27,499,174                                 | 78.2%                   | 55.9%                                  |
| Frozen Pork                      | 4,618,716                                     | 8.6%                    | 2,668,116                                     | 7.6%                    | 73.1%                                  |
| Processed Food Products          | 6,248,027                                     | 11.6%                   | 4,993,236                                     | 14.2%                   | 25.1%                                  |
| <b>Total Sales</b>               | <b>\$ 53,725,596</b>                          | <b>100%</b>             | <b>\$ 35,160,526</b>                          | <b>100%</b>             | <b>52.80%</b>                          |

| <b>Sales by product category, by weight of product</b> | <b>Third Quarter 2008 (Weight in tons)</b> | <b>% of Total Sales</b> | <b>Third Quarter 2007 (Weight in tons)</b> | <b>% of Total Sales</b> | <b>% of change from 2007 to 2008</b> |
|--|--|-------------------------|--|-------------------------|--------------------------------------|
| Fresh Pork   | 18,681                                     | 79.5%                   | 12,922                                     | 76.5%                   | 44.6%                                |
| Frozen Pork  | 2,190                                      | 9.3%                    | 1,353                                      | 8.0%                    | 61.9%                                |
| Processed Food Products                                | 2,619                                      | 11.2%                   | 2,617                                      | 15.5%                   | 0%                                   |
| <b>Total Sales</b>                                     | <b>23,490</b>                              | <b>100.00%</b>          | <b>16,892</b>                              | <b>100.00%</b>          | <b>39.1%</b>                         |

In the third quarter of 2008, we raised our average per-kilogram sale prices to our customers, as we did during 2007, which coincided with an increase in the cost of live pigs and other production costs. In addition, despite these consumer price increases, in the third quarter of 2008 our sales volume of fresh pork and frozen pork (by weight) increased by 44.6% and 61.9% respectively. We significantly increased our sales of fresh pork and frozen pork, both by weight and by sales revenue, in the third quarter of 2008 as compared with the same period in 2007. The frozen pork category experienced the highest growth in sales volume both by weight and in terms of sales revenue due strong consumer demand. For processed food products, because we significantly increased its per-kilogram prices, our sales revenue for this product category increased by 25.1%, even though we did not increase their sales volume. Management attributes the increases in sales revenue in all our product categories to the continuing strength in consumer demand for our products in the periods presented.

The following table shows the change in the average price per kilogram for our product to consumers in the quarter ending September 30, 2008, as compared to the same quarter last year:

| <b>Average Per-Kilogram Price to Customers (in \$US)</b> |                              |                              |                 |                        |
|--|------------------------------|------------------------------|-----------------|------------------------|
|  | <b>Third Quarter of 2008</b> | <b>Third Quarter of 2007</b> | <b>% change</b> | <b>Change in Price</b> |
| Fresh Pork   | \$ 2.29                      | \$ 2.13                      | 7.5%            | \$ 0.16                |
| Frozen Pork  | \$ 2.11                      | \$ 1.87                      | 12.8%           | \$ 0.24                |
| Processed Food Products                                  | \$ 2.39                      | \$ 1.91                      | 25.1%           | \$ 0.48                |

In the third quarter of 2008, we raised our prices for processed food products by 25.1%, mostly because of strong demand for hog byproducts, and partially due to the rapid price increases for packaging material and food additives that have occurred since the second quarter of 2008. The price of live pigs increased rapidly starting from the third quarter of 2007, and the bulk of these increases occurred in late 2007. By the second quarter of 2008, live pig prices began to level off. As a result, we raised our prices for fresh pork and frozen pork only modestly during the third

quarter, in contrast to our more substantial price increases during the second quarter of 2008.

37

---

We note that the above table showing average price per kilogram represents an average price per kilogram regardless of sales channel. Average sales prices per kilogram may vary depending on the sales channel used. For example, for sales through agents, our average price per kilogram is lower, because certain marketing costs are borne by the selling agent. In contrast, our average price per kilogram for supermarket sales is higher, because we absorb marketing costs, and pass on those costs to our supermarket customers.

Although we also sell our products through sales agents, our principal sales channels consist of Chuming-branded franchise stores, supermarkets and restaurants and canteens. The following table summarizes the changes in the number of participants within these sales channels:

| As of September 30, | Sales Channels   |              |                          |
|---------------------|------------------|--------------|--------------------------|
|                     | Franchise Stores | Supermarkets | Restaurants and Canteens |
| 2007                | 524              | 98           | 2,782                    |
| 2008                | 702              | 186          | 3,226                    |

As shown in the table above, as of September 30, 2008, as compared to September 30, 2007, we significantly increased the number of participants in all three of these sales channels, particularly the supermarkets. We believe the sales from supermarkets and hypermarkets, like Carrefour, are likely to continue to yield higher profit margins. Their orders tend to be large and stable in quantity. Usually they have better credit. The increase in the number of these participants has resulted in increased sales.

The following table shows the total increase in our sales, from the third quarter of 2008 as compared to the third quarter of 2007, by product category and by sales channel.

| Product Category               | Increase in Sales from Third Quarter of 2007 to Third Quarter of 2008<br>By Product Group and Sales Channel (\$) |                     |                     |                          |                      |
|--------------------------------|--|---------------------|---------------------|--------------------------|----------------------|
|                                | Franchise Operators  | Sales Agents        | Super Markets       | Restaurants and Canteens | Total Increase (\$)  |
| Fresh Pork                     | \$ 2,342,668   | \$ 7,805,136        | \$ 5,211,875        | N/A <sup>2</sup>         | \$ 15,359,679        |
| Frozen Pork                    | N/A <sup>1</sup>   | 514,830             | N/A <sup>1</sup>    | 1,435,770                | 1,950,600            |
| Processed Food Products        | 481,625  | 263,322             | 469,601             | 40,244                   | 1,254,792            |
| <b>Total Increase in Sales</b> | <b>\$ 2,824,293</b>  | <b>\$ 8,583,288</b> | <b>\$ 5,681,476</b> | <b>\$ 1,476,014</b>      | <b>\$ 18,565,071</b> |

<sup>1</sup> In the periods presented, we did not sell frozen pork through franchise operators and supermarkets.

<sup>2</sup> In the periods presented, we did not sell fresh pork through restaurants and canteens.

In the third quarter of 2008, as compared to the same quarter in 2007, we achieved significantly higher sales revenue from the sale of fresh pork, which was a result of higher sales volume of this product category by weight, combined with increases in our per-kilogram prices to our customers. Management believes this is due to continued strong consumer demand for fresh pork.

In the third quarter of 2008, as compared to the same quarter in 2007, the majority of our increase in sales came from sales agents and supermarkets. The \$5.68 million sales increase through supermarkets is partly due to our efforts to expand the supermarket sales channel, which provides us with the largest profit margins, combined with increases in our per-kilogram prices of fresh pork. Besides developing new sales agents, we also extended credits to certain

long-term sales agents who had demonstrated good credit records, and encouraged their purchases from us instead of from our competitors. This is the major reason that we were able to significantly increase the sales through sales agents.

38

---

Overall, management believes that our increase in sales, despite higher consumer prices, resulted from increased consumer demand, the expansion of our sales channels and sales network, and increased consumer awareness and loyalty of our brand and availability of our products.

*Cost of Sales.* Cost of sales for the third quarter of 2008 increased by \$17,824,478 or approximately 60.57%, from \$29,430,153 for the three months ended September 30, 2007 to \$47,254,631 for the three months ended September 30, 2008. The increase in cost of goods sold is in tandem with the increase in sales of our products. Our cost of sales for our various product categories in the third quarter of 2008 is summarized as follows:

| <b>Cost of Sales<br/>by<br/>Product Category</b> | <b>Third Quarter<br/>2008 (in \$ US)</b> | <b>% of<br/>Overall<br/>Cost of<br/>Sales</b> | <b>Third Quarter<br/>2007 (in \$ US)</b> | <b>% of<br/>Overall<br/>Cost of<br/>Sales</b> | <b>% increase<br/>from<br/>2007 to 2008</b> |
|--|--|---|--|---|---|
| Fresh Pork                                       | \$ 38,455,262                            | 81.4%   | \$ 23,266,468                            | 79.1%   | 65.3%                                       |
| Frozen Pork                                      | 3,925,908                                | 8.3%  | 2,268,904                                | 7.7%  | 73.0%                                       |
| Processed Food Products                          | 4,873,461                                | 10.3%   | 3,894,781                                | 13.2%   | 25.1%                                       |
| <b>Total Cost of Sales</b>                       | <b>\$ 47,254,631</b>                     | <b>100.00%</b>                                | <b>\$ 29,430,153</b>                     | <b>100.0%</b>                                 | <b>60.6%</b>                                |

The following table shows the estimated average per-kilogram price we paid for live pigs in 2007 and 2008:

|                                 | <b>Average<br/>Unit Price Per<br/>Kilogram in<br/>2008 (in \$US)</b> | <b>Average<br/>Unit Price Per<br/>Kilogram in<br/>2007 (in \$US)</b> | <b>Price<br/>Increase<br/>(in \$US)</b> | <b>% Increase<br/>from 2007<br/>to 2008</b> |
|---------------------------------|--|--|---|---|
| First Quarter                   | 2.2936   | 1.0579   | 1.1357                                  | 107.35%                                     |
| Second Quarter                  | 2.2578   | 1.3535   | 0.9043                                  | 66.81%                                      |
| Third Quarter                   | 2.2513   | 1.8104   | 0.4409                                  | 24.35%                                      |
| Fourth Quarter                  | N/A  | 1.8656   | N/A                                     | N/A%  |
| <b>Average for Year to Date</b> | <b>2.2676</b>  | <b>1.5219</b>  | <b>0.7457</b>                           | <b>49.00%</b>                               |

The most rapid increase in live pig prices occurred in the third and fourth quarters of 2007, for the highest grades of live pigs. However, live pig prices slightly dropped from their highs in the second quarter of 2008 and became stable in the third quarter of 2008. Management believes that while increases in live pig prices may occur in the future, management does not expect further rapid escalation in live pig prices of the scale seen during 2007.

Although the prices of live pig have been volatile in the past years, management currently projects a 10% per year increase in the average price per kilogram for live pigs during the next several years. This expectation combines the factors of inflation, and the rising costs of inputs.

The following table shows our cost of sales in the third quarter of 2008 as compared with the same period in 2007, and also indicates cost of sales by product group, as a percentage of sales within each product group.

| <b>Cost of Sales by<br/>Product Category</b> | <b>Third<br/>Quarter of 2008</b> | <b>% of<br/>Product<br/>Group<br/>Sales</b> | <b>Third Quarter<br/>of 2007</b> | <b>% of Product<br/>Group Sales<br/>in the Third<br/>Quarter 2008</b> |
|--|----------------------------------|---|----------------------------------|---|
| Fresh Pork                                   | \$ 38,455,262                    | 89.7%                                       | \$ 23,266,468                    | 84.6%   |
| Frozen Pork                                  | 3,925,908                        | 85.0%                                       | 2,268,904                        | 85.0%   |

Edgar Filing: ENERGROUP HOLDINGS CORP - Form 10-Q

|                         |               |       |               |       |
|-------------------------|---------------|-------|---------------|-------|
| Processed Food Products | 4,873,461     | 78.0% | 3,894,781     | 78.0% |
| Total Cost of Sales     | \$ 47,254,631 | 88.0% | \$ 29,430,153 | 83.7% |

39

---

During the third quarter our overall cost of sales as a percentage of sales decreased 4.3% mainly because we increased the amount of our sales made through sales agents, who assumed the marketing expenses in selling our fresh pork products.

Our cost of sales as a percentage of sales of fresh pork increased significantly in the third quarter of 2008, as compared to the same period in 2007, primarily because the cost increases in live pigs primarily affected the grade-1 and grade-2 categories, which we use to produce fresh pork products. The cost of sales as a percentage of sales of frozen pork remained constant, which was due to the use of grade-3 and grade-4 pigs for such products, and we were able to pass our increased cost to our frozen pork customers. During the third quarter of 2008, the cost of sales as a percentage of sales of processed food products also remained unchanged, because we were able to pass the input costs, including the increase in packaging material and food additives.

*Gross Profit.* Gross profit was \$6,470,965 for the three months ended September 30, 2008 as compared to \$5,730,373 for the same period in 2007, representing an increase of \$740,592, or approximately 12.92%. Management attributes the increase in gross profit to strong increases in sales, driven by strong demand for our products, especially our fresh pork products. Our gross profit as a percentage of sales was 12.04% in the third quarter of 2008 as compared to 16.30% for the same period in 2007. The decrease in overall gross profit as a percentage of sales was mainly attributable to our decreased gross margin in fresh pork production as grade-1 and grade-2 live pigs increased in price, and these increases were not entirely offset by higher fresh pork prices charged to customers. During the third quarter of 2008 our overall cost of sales as a percentage of sales decreased by 4.3% mainly because we increased our sales made through sales agents, who assumed the marketing expenses in selling our fresh pork products.

The following table presents our gross profit for the three months ended September 30, 2008 and 2007. The table below also shows the percentage of gross profit for each of our product groups, as a percentage of sales for that product group.

| <b>Gross Profit by Product Category</b> | <b>Third Quarter of 2008</b> | <b>% of Product Group Sales</b> | <b>Third Quarter of 2007</b> | <b>% of Product Group Sales</b> | <b>% of increase from Third Quarter of 2007 to Third Quarter of 2008</b> |
|---|------------------------------|---------------------------------|------------------------------|---------------------------------|--|
| Fresh Pork                              | \$ 4,403,591                 | 10.3%                           | \$ 4,232,706                 | 15.4%                           | 4.0%   |
| Frozen Pork                             | 692,808                      | 15.0%                           | 399,212                      | 15.0%                           | 73.5%  |
| Processed Food Products                 | 1,374,566                    | 22.0%                           | 1,098,455                    | 22.0%                           | 25.1%  |
| Total Gross Profit                      | \$ 6,470,965                 | 12.04%                          | \$ 5,730,373                 | 16.30%                          | 12.92%   |

As shown in the table above, frozen pork as a product category delivered the highest increase in gross profit from the third quarter of 2008 as compared with the same period in 2007. This was due to the strong demand for our frozen pork products, while gross margins for frozen pork remained healthy. As discussed above, our sales of frozen pork increased by 73.1%, and by weight we sold 61.9% more kilograms of frozen pork in the third quarter as compared to the year before, representing the largest gain in sales among the three product categories. Management attributes this to an increase in purchases of frozen pork by canteens and restaurants, however, it is unclear whether this upsurge in purchasing will necessarily continue at this rate.

However, our overall cost of sales as a percentage of sales decreased by 4.3% during the third quarter of 2008, mainly because we increased the amount of our sales conducted through sales agents, who assumed the marketing expenses in

selling our products. Accordingly, we benefitted from increased sales through agents while not having to bear these marketing expenses.

40

---



The gross profit of our fresh pork products declined from 15.4% to 10.3%. This decrease was mostly because from the third quarter of 2008 we increased the sales of fresh pork through sales agents, who assumed the marketing expenses in selling our fresh pork products. As a result, our selling expenses associated with fresh pork were reduced significantly. Another reason was because for the third quarter of 2008, grade-1 and grade-2 live pigs increased significantly in price, and these increases were not entirely offset by higher fresh pork prices charged to customers. We did increase our prices for fresh pork by 7.5% for the third quarter of 2008 as compared to the same period in 2007, but this price increase was not sufficient to overcome the increased cost of inputs, i.e. primarily live pigs. By comparison, we increased our prices to customers for frozen pork by 12.8% and processed food products by 25.1%, for the third quarter of 2008 versus the same period of 2007. We were able to increase our prices for processed food products by greater amounts because of the strong demand of pork viscera, so that we had relatively strong pricing power in this category. We were able to raise our prices for frozen pork only moderately in response to input costs, by 12.8%, because the price of frozen pork was already elevated to a level where there was little difference from fresh pork, and consumers had a preference of fresh pork. This was also because of higher levels of competition within the frozen pork category, and accordingly, tighter pricing constraints. We did not raise our prices for fresh pork as much as we did for our other product categories because of competitive constraints, which are the strongest in the fresh pork category.

In both periods, our processed food product category yielded the highest gross profit as a percentage of sales within the product category. Management attributes this to the use of grade-3 and grade-4 pigs and unsold portions of grade-1 and grade-2 pigs in producing our processed food products. Grade-3 and grade-4 pigs are generally lower in price than grade-1 and grade-2 pigs. Due to our advanced processing and storage techniques and the strength of our brand name, we were able to sell our processed food products at the highest going market price for this category of products.

*Selling Expenses.* Selling expenses totaled \$878,893 for the three months ended September 30, 2008, as compared to \$1,597,626 for the same period in 2007, a decrease of \$718,733 or 45.0%. This decrease was due primarily to a decrease in our advertising expenses. During the three months ended September 30, 2007, we spent \$800,000 on a special marketing campaign in an effort to promote our brand. In contrast, during the three months ended September 30, 2008, we increased sales made through sales agents, who assumed certain marketing expenses in selling our fresh pork products, and as a result our overall marketing expenses were lower in that quarter in relation to the sales of fresh pork that we achieved.

*General and Administrative Expenses.* General and administrative expenses totaled \$734,976 for the three months ended September 30, 2008 as compared to \$459,975 for the same period in 2007, an increase of \$275,001 or 59.79%. This increase is partially attributable to the increased expenses we incurred after we became a public company, and partially attributable to an increase in salary expenses. We incurred new expenditures such as legal fees, audit and review fees, investor relationship activity fees, and other similar types of expenses, which were necessary as a public company. We continued to hire new staff to meet the needs of our expanding operations. Also, consistent with the recent escalation in the rate of inflation in China, especially in the earlier part of 2008, the salaries and the cost of benefits for our staff increased for the third quarter of 2008 as compared to the same period in 2007. These increases in salaries were made in order to maintain compensation levels that were sufficient to attract and retain qualified employees.

*Other Income (Expense).* Our other income (expense) consisted of interest income, other expenses, and interest expense. We had a total other expense of \$320,037 for the three months ended September 30, 2008 as compared to total other expense of \$418,298 for the same period in 2007. The slight decrease in other expenses in the third quarter of 2008 is primarily attributable to several offsetting factors. We received a one-time subsidy of more than \$1 million from the Dalian City government, which we recorded as other income. This subsidy is due to efforts by the local government to keep the price of pork stable in local markets. It is non-recurring in nature and cannot be exactly determined for the coming periods. This additional other income was offset by higher interest expenses on our borrowing, and the fact that we accrued a liability of \$399,500 in connection with the appointment of our new Chief

Financial Officer on September 18, 2008, as this appointment occurred later than the target date we agreed under the terms of our December 2007 financing. See Note 19 – Appointment of Chief Financial Officer, in our financial statements for the period ended September 30, 2008.

*Net Income.* Our net income for the three months ended September 30, 2008 was \$4,320,288 as compared to \$2,504,970 for the same period in 2007, an increase of \$1,815,318 or 72.47%. This increase in net income is attributable to the factors described above, but primarily from the increase in sales, and our sustained efforts to manage our costs.

**Comparison of Nine Months Ended September 30, 2008 and September 30, 2007.**

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

|  | <b>Nine<br/>Months Ended<br/>September 30,<br/>2008</b> | <b>% of<br/>Sales</b> | <b>Nine<br/>Months Ended<br/>September 30,<br/>2007</b> | <b>% of<br/>Sales</b> |
|--|---|-----------------------|---|-----------------------|
| Sales  | \$ 140,309,218  | 100.00%               | \$ 89,718,841   | 100.00%               |
| Cost of Sales                                  | 120,329,483   | 85.76%                | 74,966,451  | 83.56%                |
| Gross Profit                                   | 19,979,735  | 14.24%                | 14,752,390  | 16.44%                |
| Selling Expenses                               | 3,463,947   | 2.47%                 | 3,397,046   | 3.79%                 |
| General & Administrative Expenses              | 1,881,138   | 1.34%                 | 1,147,488   | 1.28%                 |
| Total Operating Expense                        | 5,345,085   | 3.81%                 | 4,544,534   | 5.07%                 |
| Operating Income / (Loss)                      | 14,634,650  | 10.43%                | 10,207,856  | 11.38%                |
| Other Income (Expense)                         | (9,040)   | 0.06%                 | (1,159,765)   | 1.30%                 |
| Earnings Before Tax                            | 14,625,611  | 10.42%                | 9,048,091   | 10.08%                |
| (Income Tax Expense) / Deferred Tax<br>Benefit | (449,138)   | 0.32%                 | (749,504)   | 0.84%                 |
| Net Income                                     | \$ 14,176,473   | 11.03%                | \$ 8,298,587  | 9.24%                 |
| Earnings Per Share                             |   |                       |   |                       |
| Basic  | 0.82  |                       | 0.62  |                       |
| Diluted  | 0.67  |                       | 0.48  |                       |
| Weighted Average Shares Outstanding            |   |                       |   |                       |
| Basic  | 17,272,756  |                       | 13,409,120  |                       |
| Diluted  | 21,182,756  |                       | 17,272,756  |                       |

*Sales.* Our sales include revenues from sales of our fresh pork, frozen pork, and processed food products. During the nine months ended September 30, 2008, we had sales of \$140,309,218 as compared to sales of \$89,718,841 for the same period of 2007, an increase of 56.39%. Our sales for our various product categories for the nine months period ended September 30, 2008 are summarized as follows:

| <b>Sales by product<br/>category</b> | <b>Nine Months Ended<br/>September 30,<br/>2008 (amount in<br/>\$US)</b> | <b>% of<br/>Total Sales</b> | <b>Nine Months<br/>Ended September 30,<br/>2007 (amount<br/>in \$US)</b> | <b>% of<br/>Total<br/>Sales</b> | <b>% of increase<br/>from<br/>2007 to 2008</b> |
|--------------------------------------|--|-----------------------------|--|---------------------------------|--|
| Fresh Pork                           | \$108,494,763  | 77.33%                      | \$70,294,209   | 78.35%                          | 54.34%   |
| Frozen Pork                          | 11,043,748   | 7.87%                       | 6,511,432  | 7.26%                           | 69.61%   |
| Processed Food Products              | 20,770,707   | 14.80%                      | 12,913,200   | 14.39%                          | 60.85%   |
| Total Sales                          | \$140,309,218  | 100%                        | \$89,718,841   | 100%                            | 56.39%   |

| Sales by product category,<br>by weight of product<br>(metric tons): | Nine Months<br>Ended September<br>30, 2008<br>(Weight in tons) |  | % of<br>Total<br>Sales | Nine Months<br>Ended September<br>30, 2007<br>(Weight in tons) |  | % of<br>Total<br>Sales | % of change<br>from<br>2007 to 2008 |
|--|--|--|------------------------|--|--|------------------------|-------------------------------------|
|  |  |  |                        |  |  |                        |                                     |
| Fresh Pork   | 48,123   |  | 80.14%                 | 35,596   |  | 74.87%                 | 35.19%                              |
| Frozen Pork  | 4,449  |  | 7.41%                  | 3,285  |  | 6.91%                  | 35.43%                              |
| Processed Food Products  | 7,475  |  | 12.45%                 | 8,665  |  | 18.22%                 | -13.73%                             |
| <b>Total Sales</b>   | <b>60,047</b>  |  | <b>100%\$</b>          | <b>47,546</b>  |  | <b>100%</b>            | <b>26.29%</b>                       |

In the nine months ended September 30, 2008, we raised our average per-kilogram sale prices to our customers, as we did during 2007, which coincided with an increase in the cost of live pigs and other production costs. In addition, despite these consumer price increases, we increased our sales of fresh pork and frozen pork, both by weight and by sales revenue, in the first nine months of 2008 as compared with the same period in the prior year. For processed food products, our sales by weight decreased by 13.73%, and management believe this is because increased prices to customers discouraged sales. As discussed previously, we increased our prices for processed food products to recoup our increased input costs, for such items as packaging material and food additives. However, because of higher per-kilogram prices, our overall sales revenue for this product category increased by 60.85%. Management attributes the increases in sales revenue in all our product categories to the continuing strength in consumer demand for our products in the periods presented.

The following table shows the change in the average price per kilogram for our product to consumers in the nine months ended September 30, 2008, as compared to the same quarter last year:

|                         | Average Per-Kilogram Price to Customers (in \$US) |         |  |          |                         |
|-------------------------|---|---------|--|----------|-------------------------|
|                         | Nine Months<br>Ended September<br>30, 2008        |         | Nine Months<br>Ended September<br>30, 2007 |          | Change in<br>Price (\$) |
|                         |   |         |  | % change |                         |
| Fresh Pork              | \$ 2.25   | \$ 1.97 |  | 14.21%   | \$ 0.28                 |
| Frozen Pork             | \$ 2.48   | \$ 1.98 |  | 25.25%   | \$ 0.50                 |
| Processed Food Products | \$ 2.78   | \$ 1.49 |  | 86.58%   | \$ 1.29                 |

In the nine months ended September 30, 2008, we raised our prices to our customers for processed food products significantly, while we made relatively smaller increases in the prices of our fresh pork and frozen pork. We raised our prices for processed food products in response to several factors. First, we experienced a surge in customer demand for our pig viscera products, which is a subcategory within the processed food category. In response to this surge in demand, and due to limited supply, we raised our prices to customers for that subcategory of the processed food products. Second, the cost to us for packaging material and food additives increased substantially during the first half of 2008, and we passed much of these cost increases on to customers in the form of higher product prices. These input cost increases affected processed food products more than other categories. We raised our prices for fresh pork by only 14.21% because we were not able to pass on the entire amount of the live pig price increases to our customers. In management's view, more aggressive price increases in the fresh pork category would have discouraged customers from consuming fresh pork, possibly damaging customer goodwill, and would have been out of line with our competitors.

Currently our principal sales channels consist of supermarkets, sales agents, Chuming-branded franchise stores, as well as restaurants and canteens.

The following table shows the total increase in our sales, from the first nine months ending on September 30, 2008 as compared to same period of 2007, by product category and by sales channel.



**Increase in Sales from The Nine Months Ended September 30, 2007  
to the same period of 2008**

**By Product Group and Sales Channel (\$)**

| Product<br>Category            | Franchise<br>Operators | Sales<br>Agents   | Super<br>Markets  | Restaurants<br>and<br>Canteens | Total Increase (\$) |
|--------------------------------|------------------------|-------------------|-------------------|--------------------------------|---------------------|
| Fresh Pork                     | 8,148,131              | 14,409,956        | 15,642,467        | N/A <sup>2</sup>               | 38,200,554          |
| Frozen Pork                    | N/A <sup>1</sup>       | 850,639           | N/A <sup>1</sup>  | 3,681,667                      | 4,532,316           |
| Processed Food Products        | 3,714,216              | 855,831           | 3,015,022         | 261,436                        | 7,857,505           |
| <b>Total Increase in Sales</b> | <b>11,862,347</b>      | <b>16,127,426</b> | <b>18,657,489</b> | <b>3,943,113</b>               | <b>50,590,375</b>   |

<sup>1</sup> In the periods presented, we did not sell frozen pork through franchise operators and supermarkets.

<sup>2</sup> In the periods presented, we did not sell fresh pork through restaurants and canteens.

In the first nine months of 2008, as compared to the same period in 2007, we achieved significantly higher sales revenue from the sale of fresh pork, which was a result of higher sales volume of this product category by weight, combined with increases in our per-kilogram prices to our customers. Management believes this is due to continued strong consumer demand for fresh pork.

In the first nine months of 2008, as compared to the same period in 2007, the majority of our increase in sales came through supermarkets, sales agent and franchise operators, respectively. The \$18.66 million increase in sales through supermarkets was due to our efforts to expand the supermarket sales channel, combined with increases in our per-kilogram prices of fresh pork. Orders from supermarkets and hypermarkets tend to be large and stable in quantity. Also, typically our supermarket and hypermarket customers are more credit-worthy than our other types of customers. We also increased our sales through sales agents by \$16.13 million for the first nine months of 2008. Aside from developing new sales agents, we also extended credit to certain long-standing sales agents who had have established good credit with us, and encouraged them to purchase their product through us instead of from our competitors. These efforts, management believes, is why we were able to significantly increase our sales through sales agents.

Overall, management believes that our increase in sales, despite higher consumer prices, resulted from increased consumer demand, the expansion of our sales channels and sales network, and increased consumer awareness of our brand and availability of our products.

*Cost of Sales.* Cost of sales for the first nine months of 2008 increased by \$45,363,032 or 60.5%, from \$74,966,451 for the nine months ended September 30, 2007 to \$120,329,483 for the nine months ended September 30, 2008. This increase in cost of goods sold was in line with the increase in sales of our products. Our cost of sales for our various product categories in the nine months end 2008 is summarized as follows:

| Cost of Sales<br>by<br>Production Category: | Nine Months<br>Ended September 30,<br>2008 | % of<br>Overall<br>Sales | Nine Months<br>Ended September 30,<br>2007 | % of<br>Overall<br>Sales | % of increase<br>from<br>2007 to 2008 |
|---|--|--------------------------|--|--------------------------|---------------------------------------|
| Fresh Pork                                  | \$ 94,805,397                              | 78.79%                   | \$ 59,873,173                              | 79.87%                   | 58.34%                                |
| Frozen Pork                                 | 9,322,935                                  | 7.75%                    | 5,535,723                                  | 7.38%                    | 68.41%                                |
| Processed Food Products                     | 16,201,151                                 | 13.46%                   | 9,557,555                                  | 12.75%                   | 69.51%                                |
| <b>Total Cost of Sales</b>                  | <b>\$ 120,329,483</b>                      | <b>100%</b>              | <b>\$ 74,966,451</b>                       | <b>100%</b>              | <b>60.51%</b>                         |



The following table shows our cost of sales in the nine months ended September 30, 2008 as compared with the same period in 2007, and also indicates cost of sales by product group, as a percentage of sales within each product group.

| <b>Cost of Sales<br/>by Product Category:</b> | <b>Nine Months<br/>Ended September<br/>30, 2008</b> | <b>% of<br/>Product<br/>Group<br/>Sales</b> | <b>Nine Months<br/>Ended September 30,<br/>2007</b> | <b>% of Product<br/>Group Sales</b> |
|---|---|---|---|-------------------------------------|
| Fresh Pork                                    | \$ 94,805,397                                       | 87.38%                                      | \$ 59,873,173                                       | 85.18%                              |
| Frozen Pork                                   | 9,322,935   | 84.42%                                      | 5,535,723   | 85.02%                              |
| Processed Food Products                       | 16,201,151  | 78.00%                                      | 9,557,555   | 74.01%                              |
| Total Cost of Sales                           | \$ 120,329,483                                      | 85.76%                                      | \$ 74,966,451                                       | 83.46%                              |

Our cost of sales as a percentage of sales of fresh pork increased by 2.2% in the first nine months of 2008, as compared to the same period in 2007, primarily because of the increase in the cost of inputs (i.e., live pigs), which were not completely offset by higher prices to our customers. In addition, during the three months ended September 30, 2008, we significantly increased sales of fresh pork through our sales agents, who assumed the marketing expenses in selling our fresh pork products. This sales channel typically provides us with lower profit margins. Our cost of sales as a percentage of sales of frozen pork fell slightly, however, which was due to the use of grade-3 and grade-4 pigs for such products, which are lower in price than the grade-1 and grade-2 pigs, which we use to produce fresh pork products. The bulk of the cost increase in live pigs occurred in the grade-1 and grade-2 categories. Our cost of sales as a percentage of sales of processed food products increased around 2%. This was primarily due to moderate price increases for grade-3 and grade-4 live pigs, packaging material and food additives.

*Gross Profit.* Gross profit was \$19,979,735 for the nine months ended September 30, 2008 as compared to \$14,752,390 for the same period in 2007, representing an increase of \$5,227,345, or 35.43%. Management attributes the increase in gross profit to strong increases in sales revenue, driven by strong demand for our products, especially our fresh pork products, despite higher input costs and related price increases to our customers. Our gross profit as a percentage of sales was 14.24% in the nine months ended September 30, 2008 as compared to 16.44% for the same period in 2007. The decrease in gross profit as a percentage of sales was attributable to these commodity and input price increases, and we did not (due to competitive and other factors) pass on all of these costs to our customers in the form of higher product prices.

The following table presents our gross profit for the nine months ended September 30, 2008 and 2007. The table below also shows the percentage of gross profit for each of our product groups, as a percentage of sales for that product group.

| <b>Gross Profit<br/>by Production Category</b> | <b>Nine Months<br/>Ended September<br/>30, 2008</b> | <b>% of<br/>Product<br/>Group<br/>Sales</b> | <b>Nine Months<br/>Ended September<br/>30, 2007</b> | <b>% of<br/>Product<br/>Group<br/>Sales</b> | <b>% of<br/>Increase<br/>from First<br/>Nine Months<br/>of 2007 to<br/>First<br/>Nine Months<br/>of 2008</b> |
|--|---|---|---|---|--|
| Fresh Pork                                     | \$ 13,689,366                                       | 12.62%                                      | \$ 10,421,036                                       | 14.82%                                      | 31.36%   |
| Frozen Pork                                    | 1,720,813   | 15.58%                                      | 975,709   | 14.98%                                      | 76.37%   |
| Processed Food Products                        | 5,569,556   | 22.00%                                      | 3,355,645   | 25.99%                                      | 65.98%   |
| Total Gross Profit                             | \$ 19,979,735                                       | 14.24%                                      | \$ 14,752,390                                       | 16.54%                                      | 35.43%   |



As shown in the table above, fresh pork as a product category delivered the lowest increase in gross profit from the first nine months of 2008 as compared with the same period in 2007. This is primarily because of an increase in the cost of inputs (i.e. live pigs), which was not completely offset by higher prices to our customers. In addition, particularly during the three months ended September 30, 2008, we significantly increased sales of fresh pork through our sales agents, who assumed certain marketing expenses in selling our fresh pork products. This sales channel typically provides us with lower profit margins.

However, in both periods, our processed food product category yielded the highest gross profit as a percentage of sales within the product category. Management attributes this to the use of grade-3 and grade-4 pigs and unsold portions of grade-1 and grade-2 pigs in producing our processed food products. Grade-3 and grade-4 pigs are generally lower in price per kilogram than grade-1 and grade-2 pigs. Because of our superior processing and storage techniques and the strength of our brand-name, however, we are able to sell our processed food products at prices comparable to other processed products that use more costly pork. However, because the price of live pigs, packaging material and food additives increased substantially during the second quarter of 2008, the gross profit of our processed food products decreased from 25.99% to 22.00%.

*Selling Expenses.* Selling expenses totaled \$3,463,947 for the nine months ended September 30, 2008, as compared to \$3,397,046 for the same period in 2007, a slight increase of \$66,901 or 2%. This decrease is due to a decrease in advertising expenses. We increased the salary of sales employees, leading to the increase of selling expenses. However, we did not carry out any major marketing campaign during the past three quarters of 2008, which we did last year, resulting in a significant decrease in advertising expenses.

*General and Administrative Expenses.* General and administrative expenses totaled \$1,881,138 for the nine months ended September 30, 2008 as compared to \$1,147,488 for the same period in 2007, an increase of \$733,650 or 64%. This increase is partially attributable to an increase in expenses we incurred after we became a public company, and partially attributable to an increase in salary expenses. We incurred additional expenditures during this period that we did not incur in the prior year, such as legal fees, audit and review fees, investor relationship activity fees, and other similar expenses, which were necessary as a public company. We continued to hire new staff to meet the needs of our expanding operations. Also, consistent with the recent escalation in the rate of inflation in China, especially in the earlier part of 2008, salaries and the cost of benefits for our staff increased for the third quarter of 2008 in comparison to the same period in 2007. These increases in salaries were made in order to maintain compensation levels that were sufficient to attract and retain qualified employees.

*Other Income (Expense).* Our other income (expense) consisted of interest income, other expenses, and interest expense. We had a total other expenses of \$9,040 for the nine months ended September 30, 2008 as compared to other expenses \$1,159,765 for the same period in 2007, representing a reduction of \$1,150,725. This decrease in other expenses is primarily attributable to a price subsidy in the amount of approximately \$1 million received from the Dalian metropolitan government, and loan interest reimbursement in the amount of approximately \$550,000 for building a new frozen pork processing facility, which has been classified by Dalian metropolitan government as a technology reformation project. This was a policy adopted by Dalian metropolitan government to accelerate the introduction of new technology into the city. We are not obligated to fulfill any specific obligations in exchange for these benefits. The subsidy and interest reimbursement was offset by an accrued liability of \$399,500 in connection with the appointment of our new Chief Financial Officer on September 18, 2008, as this appointment occurred later than the target date we agreed under the terms of our December 2007 financing. See Note 19 – Appointment of Chief Financial Officer, in our financial statements for the period ended September 30, 2008.

*Net Income.* Our net income for the nine months ended September 30, 2008 was \$14,176,473 as compared to \$8,298,587 for the same period in 2007, an increase of \$5,877,886 or 70.83%. This increase in net income is attributable to the factors described above, but primarily from the increase in sales, and our efforts to manage our costs, as compared to the same period in 2007.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flows**

#### *Nine Months Ended September 30, 2008*

As of September 30, 2008, we had cash and cash equivalents of \$11,672,377, other current assets of \$45,618,760 and current liabilities of \$33,290,011. At September 30, 2007, we had \$ 2,457,434 in cash and cash equivalents. We presently finance our operations primarily with cash flows from our operations, and we anticipate that this will continue to be our primary source of funds to finance our short-term cash needs. If we require additional capital to expand or enhance our existing facilities, we will consider debt or equity offerings or institutional borrowings as potential means of financing.

Net cash used in operating activities was \$307,586 for the nine months ended on September 30, 2008, while net cash flow sourced from operating activities was \$3,534,957 in the same period in 2007. This is primarily attributable to the fact that, in order to expand our sales, we began offering payment terms to accommodate our best customers. Beginning in the first quarter of 2008, we revised our customer credit policy and began offering extended payment terms to some of our quality long term clients with good credit (up to two months), where previously we required payment within 1-2 days of delivery of goods. This practice caused a decrease in, and some delay in collection of, our incoming cash.

Net cash used in investing activities was \$1,638,371 for the nine months ended September 30, 2008, compared to cash used in investing activities of \$4,177,864 in the same period in 2007. This is primarily due to the following factors: first, we purchased equipments with the amount of \$2,689,418 and land use rights of \$904,031 in the third quarter of 2008, while we paid \$847,063 to purchase equipment and paid \$3,333,506 to purchase land use rights for the nine months ended September 30, 2007. Second, we received additional funds in the amount of \$2,019,333 released from our escrow account in the nine months ended September 30, 2008, relating to our \$17 million private placement in December 2007.

Net cash used in financing activities was \$964,516 for the nine months ended on September 30, 2008, as compared to net cash used in financing activities of \$82,880 in the same period in 2007. The cash was used as payment of bank loan interest and repayment of a small portion of principal.

### **Capital Commitments**

In the first quarter of 2008, we relaxed our credit policy for certain of our major customers, permitting them up to a two-month grace period for payment for goods, where previously no such grace period was provided. Management expects that in the short term, this revised credit policy will result in an increase in accounts receivable, and a corresponding reduction in our cash position. Management does not anticipate that this change in our credit policy will result in any deficiency of working capital.

### **Uses of Liquidity**

Our cash requirements through the end of fiscal 2008 will be primarily to fund daily operations for the growth of our business. Management will consider acquiring additional manufacturing capacity for processed foods in the future to strengthen and stabilize our manufacturing base.

### **Sources of Liquidity**

Our primary sources of liquidity for our short-term cash needs are expected to be from cash flows generated from operations and cash and cash equivalents currently on hand. We believe that we will be able to borrow additional funds if needed.

We believe our cash flow from operations together with our cash and cash equivalents currently on hand will be sufficient to meet our needs for working capital, capital expenditure and other commitments through the end of 2008. For our long-term cash needs, we may consider a number of alternative financing opportunities, which may include debt and equity financing. No assurance can be made that such financing will be available to us, and adequate funds may not be available on terms acceptable to us. If additional funds are raised through the issuance of equity securities, dilution to existing shareholders may result. If funding is insufficient at any time in the future, we will develop or enhance our products or services and expand our business through our own cash flows from operations.

As of September 30, 2008, we had outstanding borrowings under two loans from the Bank of China, in the amount of \$4,376,304 and \$2,042,275 respectively, on which we pay interest at a rate of 8.217% and 8.019% per annum respectively. As of September 30, 2008, we did not have any standby letters of credit or standby repurchase obligations.

### Foreign Currency Translation Risk

Our operations are, for the most part, located in the PRC, and we earn our revenue in Chinese RMB. However, we report our financial results in U.S. Dollars using the closing rate method. As a result, fluctuations in the exchange rates between Chinese RMB and the U.S. Dollar will affect our reported financial results. The balance sheet items are translated into U.S. dollars using the exchange rates at the respective balance sheet dates. The capital and various reserves are translated at historical exchange rates prevailing at the time of the transactions while income and expenses items are translated at the average exchange rate for the period. All exchange differences are recorded within equity. The foreign currency translation adjustment for the nine months ended September 30, 2008 and 2007, which was in each instance a gain, was \$550,999 and \$1,174,740, respectively.

During 2003 and 2004 the exchange rate of RMB to the dollar remained constant at 8.26 RMB to the dollar. On July 21, 2005, the Chinese government adjusted the exchange rate from 8.26 to 8.09 RMB to the dollar. In 2008, the RMB continued to appreciate against the U.S. dollar. As of September 30, 2008, the market foreign exchanges rate was increased to 6.8551 RMB to one U.S. dollar. As a result, the ongoing appreciation of RMB to U.S. dollar negatively impacted our gross margins for the nine months and three months ended September 30, 2008.

### 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 September 30, 2008, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

|                                  | Total        | Payments Due by Period |           |           |           |
|----------------------------------|--------------|------------------------|-----------|-----------|-----------|
|                                  |              | Less than 1 year       | 1-3 Years | 3-5 Years | 5 Years + |
| <b>Contractual Obligations :</b> |              |                        |           |           |           |
| Bank Indebtedness                | \$ 6,418,579 | \$ 6,418,579           | \$ —      | \$ —      | \$ —      |

Edgar Filing: ENERGROUP HOLDINGS CORP - Form 10-Q

|                                |    |             |    |            |    |             |    |   |
|--------------------------------|----|-------------|----|------------|----|-------------|----|---|
| Other Indebtedness             | \$ | —           | \$ | —          | \$ | —           | \$ | — |
| Capital Lease Obligations      | \$ | —           | \$ | —          | \$ | —           | \$ | — |
| Operating Leases               | \$ | —           | \$ | —          | \$ | —           | \$ | — |
| Purchase Obligations           | \$ | 417,551,300 | \$ | 27,431,300 | \$ | 390,120,000 | \$ | — |
| Total Contractual Obligations: | \$ | 423,969,879 | \$ | 33,849,879 | \$ | 390,120,000 | \$ | — |

48

---

As indicated in the table, as of September 30, 2008 we had \$423,969,879 in purchase obligations, which relates to our agreement for the purchase and sale of hogs. On December 19, 2007, we entered into a hog purchase agreement whereby the Group will provide, at fair market prices, a minimum number of hogs to us.

At September 30, 2008, management projected minimum quantities of hogs as detailed in the following table:

| Year | Hogs    | Price Per Hog | Amount         |
|------|---------|---------------|----------------|
| 2008 | 130,000 | \$ 211.01     | \$ 27,431,300  |
| 2009 | 800,000 | \$ 232.21     | \$ 185,768,000 |
| 2010 | 800,000 | \$ 255.44     | \$ 204,352,000 |
|      |         |               | \$ 417,551,700 |

For purposes of estimating future payments, we project that the fair market price of the hogs will increase by 10% each year. The assumption of 10% reflects our expectations with regard to inflation and the rising costs of inputs in breeding livestock.

### *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.

### **ITEM 3. 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 investments and short-term obligations; thus, fluctuations in interest rates would not have a material impact on the fair value of these securities. At September 30, 2008, we had approximately \$11,270,730 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 Rates.* 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 the signing of sales contracts and the 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 stockholders' equity. We recorded net foreign currency gains of \$1,307,671 and \$3,097,786 in the second quarter of 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 subsidiaries is RMB. The value of an 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 an 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 4. 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 September 30, 2008, 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.

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 September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **PART II. OTHER INFORMATION**

#### **ITEM 1. 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 1A. 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
- upgrade 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 60% of our live pigs from Group, and the remainder from various 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.

**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 note that Mr. Shi Huashan, who is our Chief Executive Officer, is also the Chief Executive Officer of Dalian Chuming Group Co., Ltd., our former parent company. See also, "Certain Relationships and Related Party Transactions" elsewhere in this report. Due to the non-exclusive roles of Mr. Shi as our CEO and the principal executive officer of Dalian Chuming Group Co., Ltd., 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 Dalian Chuming Group Co., Ltd.,

and certain terms of agreements might be favorable to us, but conversely unfavorable to Dalian Chuming Group Co., Ltd., 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. If through these mechanisms we are not able to effectively handle such conflicts of interest to serve the Company's best interest, our business could be harmed or adversely affected.

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 derive 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.**

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 first half of 2008, these retail outlets accounted for approximately 43% 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 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 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, 2007. 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.**

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, have 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. In addition, on December 31, 2007, we increased compensation to our senior executive officers, allocated \$250,000 of the proceeds from our recent financing to our investor and public relations program (and shortly thereafter hired an investor relations firm) and expect to increase our financial and accounting staff in order to meet the demands and requirements of being a public reporting company. Such additional personnel, public relations, reporting and compliance costs may negatively impact our financial results.

**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.

56

---

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.

- *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 August 2007 is 6.5% and the rate of inflation for food in August 2007 was 18.2%, 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 prospectus.**

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 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 PRC (“Chuming”). Chuming 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”).

The PRC government restricts foreign investment in businesses in China. Accordingly, we operate our business in China through Chuming and the Chuming Operating Subsidiaries, each of which 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.

60

---

**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 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 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.

61

---



**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-averse 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.

63

---

**Mergers 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 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 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; and
- 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The following exhibits are included in this report or incorporated by reference into this report:

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 2.1                   | Share Exchange Agreement by and among the Energroup Holdings Corporation, PSI and PSI and Energroup Shareholders dated December 31, 2007 (1) |
| 2.2                   | Articles and Plan of Merger (change in domicile from Utah to Nevada) (2)   |
| 3.1                   | Articles of Incorporation of Great Lakes Funding, Inc. (Utah) (1)  |
| 3.2                   | Bylaws of Great Lakes Funding, Inc. (1)  |
| 3.3                   | Articles of Amendment to Articles of Incorporation of Great Lakes Funding, Inc. (Name Change) (1)  |

3.4 Articles of Amendment to Articles of Incorporation of Energroup Technologies, Inc. (Reverse Split) (2)

65

---



- 3.5 Articles of Incorporation of Energroup Holdings Corporation (Nevada) (2)
- 3.6 Bylaws of Energroup Holdings Corporation (2)
- 3.7 Certificate of Amendment to Articles of Incorporation of Energroup Holdings Corporation (3)
- 4.1 Registration Rights Agreement dated December 2007 among Energroup and the investors signatory thereto (1)
- 4.2 Common Stock Purchase Warrant issued to Placement Agent (December 2007) (2)
- 10.11 Short-term Loan Agreement between Shanghai Pu Dong Development Bank Dalian Branch and Dalian Chuming Meat Co. (English summary translation) (4)
- 10.12 Short-term Loan Agreement between Bank of China Liao Ning Branch and Dalian Chuming Food Co. (English summary translation) (4)
- 10.13 Short-term Loan Agreement between Bank of China Liao Ning Branch and Dalian Chuming Meat Co. (English summary translation) (4)
- 10.14 Guarantee Agreement between Dalian Chuming Food Co. and Bank of China Liaoning Branch. (English summary translation) (4)
- 10.15 Employment Agreement with Yizhao Zhang (5)
- 31.1 Rule 13a-14(a) / 15d-14(a)(4) Certification by the Company's Chief Executive Officer.\*
- 31.2 Rule 13a-14(a) / 15d-14(a)(4) Certification by the Company's Chief Financial Officer.\*
- 32.1 Section 1350 Certification by the Company's Chief Executive Officer.\*
- 32.2 Section 1350 Certification by the Company's Chief Financial Officer.\*

\* 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 Quarterly Report on Form 10-Q on May 20, 2008 and incorporated herein by reference.
- (5) Previously filed with our Current Report on Form 8-K on September 23, 2008 and incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements 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.

**ENERGROUP HOLDINGS CORPORATION**

Dated: November 19, 2008

By: /s/ Shi Huashan  
Shi Huashan  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 19, 2008

By: /s/ Yizhao Zhang  
Yizhao Zhang  
Chief Financial Officer  
(Principal Financial and Accounting Officer)