

ENERGROUP HOLDINGS CORP  
Form 10-Q  
November 16, 2009

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, 2009

- 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  
(Address of principal executive offices)

116039  
(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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

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):

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Large Accelerated filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting  
Company

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, 2009, the Registrant had 21,136,392 shares of Common Stock outstanding.

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## ENERGROUP HOLDINGS CORPORATION

## FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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Energroupholdings Corporation

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To: Board of Directors and Stockholders  
Energroup Holdings Corporation

Report of Registered Independent Public Accounting Firm

We have reviewed the accompanying interim consolidated Balance Sheets of Energroup Holdings Corporation (the “Company”) as of September 30, 2009 and December 31, 2008, and the related statements of income, stockholders’ equity, and cash flows for the three-month and nine-month periods ended September 30, 2009 and 2008. These interim consolidated financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with U.S. generally accepted accounting principles.

South San Francisco, California  
October 25, 2009

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

Energroup Holdings Corporation  
Consolidated Balance Sheets

As of September 30, 2009 and December 31, 2008

(Stated in US Dollars)

| ASSETS                           | Note   | At<br>September 30,<br>2009 | At<br>December 31,<br>2008 |
|----------------------------------|--------|-----------------------------|----------------------------|
| <b>Current Assets</b>            |        |                             |                            |
| Cash                             |        | \$ 14,670,937               | \$ 5,695,798               |
| Restricted Cash                  | 2(D),3 | 2,175,676                   | 2,177,091                  |
| Accounts Receivable              | 2(E),4 | 30,311,236                  | 18,661,065                 |
| Other Receivable                 |        | 6,378,797                   | 2,162,412                  |
| Related Party Receivable         | 5      | 17,714,847                  | 10,919,777                 |
| Inventory                        | 2(F),6 | 6,305,385                   | 6,051,109                  |
| Purchase Deposit                 | 2(G)   | 1,198,540                   | 1,453,861                  |
| Prepaid Expenses                 |        | 36,268                      | 62,734                     |
| Prepaid Taxes                    |        | 274,979                     | 334,413                    |
| Deferred Tax Asset               |        | 645,171                     | 643,609                    |
| <b>Total Current Assets</b>      |        | <b>79,711,836</b>           | <b>48,161,869</b>          |
| <b>Non-Current Assets</b>        |        |                             |                            |
| Property, Plant & Equipment, net | 2(H),7 | 24,261,966                  | 25,794,151                 |
| Land Use Rights, net             | 2(I),8 | 13,265,187                  | 13,430,435                 |
| Construction in Progress         | 2(J)   | 6,691,893                   | 3,262,146                  |
| Other Assets                     |        | -                           | 34,807                     |
| <b>TOTAL ASSETS</b>              |        | <b>\$ 123,930,882</b>       | <b>\$ 90,683,408</b>       |
| <b>LIABILITIES</b>               |        |                             |                            |
| <b>Current Liabilities</b>       |        |                             |                            |
| Bank Loans & Notes               | 9      | \$ 16,672,517               | \$ 6,419,422               |
| Accounts Payable                 |        | 4,634,941                   | 7,695,208                  |
| Taxes Payable                    |        | 5,657,814                   | 2,341,971                  |
| Other Payable                    |        | 3,951,402                   | 2,318,142                  |
| Accrued Liabilities              |        | 2,444,836                   | 1,724,266                  |
| Customer Deposits                | 2(L)   | 4,312,331                   | 3,258,752                  |
| <b>Total Current Liabilities</b> |        | <b>37,673,841</b>           | <b>23,757,761</b>          |
| <b>TOTAL LIABILITIES</b>         |        | <b>\$ 37,673,841</b>        | <b>\$ 23,757,761</b>       |

See Accompanying Notes to the Consolidated Financial Statements

## Energroup Holdings Corporation

Consolidated Balance Sheets  
As of September 30, 2009 and December 31, 2008  
(Stated in US Dollars)

| STOCKHOLDERS' EQUITY   | Note    | At<br>September 30,<br>2009 | At<br>December 31,<br>2008 |
|--|---------|-----------------------------|----------------------------|
| Preferred Stock - \$0.001 par value 10,000,000 shares authorized; 0 shares issued & outstanding at September 30, 2009 and December 31, 2008, respectively.     |         | \$ -                        | \$ -                       |
| Common Stock \$0.001 par value 21,739,130 shares authorized; 21,136,392 shares issued & outstanding at September 30, 2009 and December 31, 2008, respectively. |         | 21,137                      | 21,137                     |
| Additional Paid in Capital   |         | 38,900,380                  | 26,062,337                 |
| Statutory Reserve  | 2(M),11 | 2,077,488                   | 2,077,488                  |
| Retained Earnings  |         | 39,995,333                  | 35,275,457                 |
| Accumulated Other Comprehensive Income   | 2(N)    | 5,262,704                   | 3,489,228                  |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  |         | <b>86,257,041</b>           | <b>66,925,647</b>          |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |         | <b>\$ 123,930,882</b>       | <b>\$ 90,683,408</b>       |

See Accompanying Notes to the Consolidated Financial Statements

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Energroup Holdings Corporation  
Consolidated Statements of Income

For the three and nine months ended September 30, 2009 and 2008

(Stated in US Dollars)

|                                     | Note    | 3 months<br>ended<br>September 30,<br>2009 | 3 months<br>ended<br>September 30,<br>2008 | 9 months<br>ended<br>September 30,<br>2009 | 9 months<br>ended<br>September 30,<br>2008 |
|-------------------------------------|---------|--|--|--|--|
| Sales                               | 2(O)    | \$ 67,821,080                              | \$ 53,725,596                              | \$ 156,852,674                             | \$ 140,309,218                             |
| Cost of Sales                       | 2(P)    | (57,246,206)                               | (47,254,631)                               | (133,615,742)                              | (120,329,483)                              |
| Gross Profit                        |         | 10,574,874                                 | 6,470,965                                  | 23,236,932                                 | 19,979,735                                 |
| Selling Expenses                    | 2(Q)    | (706,664)                                  | (878,893)                                  | (2,079,027)                                | (3,463,947)                                |
| General & Adm.<br>Expenses          | 2(R)    | (614,806)                                  | (734,976)                                  | (1,885,651)                                | (1,881,138)                                |
| Operating Income                    |         | 9,253,405                                  | 4,857,096                                  | 19,272,254                                 | 14,634,650                                 |
| Other Income                        |         | 7,204                                      | 680,344                                    | 35,552                                     | 1,420,060                                  |
| Other Expenses                      |         | (8,270)                                    | (413,264)                                  | (71,978)                                   | (514,000)                                  |
| Interest Income                     |         | 13,574                                     | -  | 131,139                                    | 279,097                                    |
| Interest Expense                    |         | (206,869)                                  | (587,118)                                  | (509,464)                                  | (1,194,197)                                |
| Government<br>Subsidy Income        |         | 14   | -  | 141,834                                    | -  |
| Release of Make<br>Good Shares      |         | (4,619,816)                                | -  | (12,838,043)                               | -  |
| Earnings before<br>Tax              |         | 4,439,242                                  | 4,537,058                                  | 6,161,294                                  | 14,625,611                                 |
| Income Tax                          | 2(V),13 | (686,232)                                  | (216,770)                                  | (1,441,418)                                | (449,138)                                  |
| Net Income                          |         | \$ 3,753,010                               | \$ 4,320,288                               | \$ 4,719,876                               | \$ 14,176,473                              |
| Earnings Per Share                  | 2(Y),16 |  |  |  |  |
| Basic                               |         | \$ 0.22                                    | \$ 0.25                                    | \$ 0.27                                    | \$ 0.82                                    |
| Diluted                             |         | \$ 0.18                                    | \$ 0.20                                    | \$ 0.22                                    | \$ 0.67                                    |
| Weighted Average Shares Outstanding |         |  |  |  |  |
| Basic                               |         | 17,272,756                                 | 17,272,756                                 | 17,272,756                                 | 17,272,756                                 |
| Diluted                             |         | 21,136,392                                 | 21,182,756                                 | 21,136,392                                 | 21,182,756                                 |

See Accompanying Notes to the Consolidated Financial Statements

Energroup Holdings Corporation  
Consolidated Statements of Changes in Stockholders' Equity  
As of September 30, 2009 and December 31, 2008  
(Stated in US Dollars)

|  | Common Stock          |           | Additional<br>Paid in<br>Capital | Statutory<br>Reserve | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income |               | Total |
|--|-----------------------|-----------|----------------------------------|----------------------|----------------------|---|---------------|-------|
|  | Shares<br>Outstanding | Amount    |                                  |                      |                      |   |               |       |
| Balance,<br>January 1, 2008                      | 21,136,392            | \$ 21,137 | \$ 15,440,043                    | \$ 751,444           | \$ 29,764,236        | \$ 2,960,951                                    | \$ 48,937,811 |       |
| Release of<br>Shares Placed in<br>Escrow         | -                     | -         | 10,622,294                       | -                    | -                    | -   | 10,622,294    |       |
| Net Income                                       | -                     | -         | -                                | -                    | 6,837,265            | -   | 6,837,265     |       |
| Appropriations<br>of Retained<br>Earnings        | -                     | -         | -                                | 1,326,044            | (1,326,044)          | -   | -             |       |
| Foreign<br>Currency<br>Translation<br>Adjustment | -                     | -         | -                                | -                    | -                    | 528,277   | 528,277       |       |
| Balance,<br>December 31,<br>2008                 | 21,136,392            | \$ 21,137 | \$ 26,062,337                    | \$ 2,077,488         | \$ 35,275,457        | \$ 3,489,228                                    | \$ 66,925,647 |       |
| Balance,<br>January 1, 2009                      | 21,136,392            | \$ 21,137 | \$ 26,062,337                    | \$ 2,077,488         | \$ 35,275,457        | \$ 3,489,228                                    | \$ 66,925,647 |       |
| Release of<br>Shares Placed in<br>Escrow         | -                     | -         | 12,838,043                       | -                    | -                    | -   | 12,838,043    |       |
| Net Income                                       | -                     | -         | -                                | -                    | 4,719,876            | -   | 4,719,876     |       |
| Appropriations<br>of Retained<br>Earnings        | -                     | -         | -                                | -                    | -                    | -   | -             |       |
| Foreign<br>Currency<br>Translation<br>Adjustment | -                     | -         | -                                | -                    | -                    | 1,773,476                                       | 1,773,476     |       |
| Balance,<br>September 30,<br>2009                | 21,136,392            | \$ 21,137 | \$ 38,900,380                    | \$ 2,077,488         | \$ 39,995,333        | \$ 5,262,704                                    | \$ 86,257,041 |       |

|                            | Note | 12 months<br>ended<br>December 31,<br>2008 | 9 months<br>ended<br>September 30,<br>2009 | Total         |
|----------------------------|------|--|--|---------------|
| Comprehensive Income       | 2(M) |  |  |               |
| Net Income                 |      | \$ 6,837,265                               | \$ 4,719,876                               | \$ 11,557,141 |
| Other Comprehensive Income |      |  |  |               |

|   |    |           |    |           |    |            |
|---|----|-----------|----|-----------|----|------------|
| Foreign Currency Translation Adjustment |    | 528,277   |    | 1,773,476 |    | 2,301,753  |
| Total Comprehensive Income              | \$ | 7,365,542 | \$ | 6,493,352 | \$ | 13,858,894 |

See Accompanying Notes to the Consolidated Financial Statements

Energroup Holdings Corporation  
Consolidated Statements of Cash Flows  
For the three and nine months ended September 30, 2009 and 2008  
(Stated in US Dollars)

|  | 3 months<br>ended<br>September 30,<br>2009 | 3 months<br>ended<br>September 30,<br>2008 | 9 months<br>ended<br>September 30,<br>2009 | 9 months<br>ended<br>September 30,<br>2008 |
|--|--|--|--|--|
| <b>Cash Flow from Operating Activities</b>                                   |  |  |  |  |
| Cash Received from customers   | \$ 41,789,815                              | \$ 45,452,629                              | \$ 135,386,459                             | \$ 116,666,578                             |
| Cash Paid to Suppliers & Employees   | (55,737,214)                               | (43,761,827)                               | (134,780,845)                              | (116,525,266)                              |
| Interest Received  | 13,574                                     | 315,155                                    | 131,139                                    | 279,097                                    |
| Interest Paid (net of amount capitalized)                                    | (149,325)                                  | (356,596)                                  | 105,637                                    | (242,428)                                  |
| Taxes Paid   | -  | (218,362)                                  | -  | (490,239)                                  |
| Miscellaneous Receipts   | 9,437                                      | 337  | 38,940                                     | 4,672                                      |
| <b>Cash Sourced/(Used) in Operating Activities</b>                           | <b>(14,073,713)</b>                        | <b>1,431,337</b>                           | <b>881,330</b>                             | <b>(307,586)</b>                           |
| <b>Cash Flows from Investing Activities</b>                                  |  |  |  |  |
| Funds Released from/(Interest Earned in) Escrow Account                      | (548)                                      | (3,720)                                    | 1,416                                      | 2,015,613                                  |
| Purchases of Property, Equipment, and Construction of Plants                 | (117,482)                                  | (2,042,604)                                | (3,642,200)                                | (2,689,418)                                |
| Purchase of Land Use Rights  | (15,499)                                   | (904,031)                                  | (326,785)                                  | (904,031)                                  |
| Payments/(Withdraw) of Deposits  | -  | (227)                                      | 34,808                                     | (60,535)                                   |
| <b>Cash Sourced/(Used) in Investing Activities</b>                           | <b>(133,529)</b>                           | <b>(2,950,582)</b>                         | <b>(3,932,762)</b>                         | <b>(1,638,371)</b>                         |
| <b>Cash Flows from Financing Activities</b>                                  |  |  |  |  |
| Proceeds from Bank Borrowings  | 5,861,390                                  | 15,004,489                                 | 10,253,095                                 | 6,418,579                                  |
| Repayment of Bank Loans  | -  | (14,988,890)                               | -  | (7,383,095)                                |
| <b>Cash Sourced/(Used) in Financing Activities</b>                           | <b>5,861,390</b>                           | <b>15,599</b>                              | <b>10,253,095</b>                          | <b>(964,516)</b>                           |
| <b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents for the Period</b> | <b>(8,345,852)</b>                         | <b>(1,503,647)</b>                         | <b>7,201,663</b>                           | <b>(2,910,473)</b>                         |
| Effect of Currency Translation   | 70,720                                     | 1,905,294                                  | 1,773,476                                  | 550,999                                    |
| <b>Cash &amp; Cash Equivalents at Beginning of Period</b>                    | <b>22,946,069</b>                          | <b>11,270,730</b>                          | <b>5,695,798</b>                           | <b>14,031,851</b>                          |
| <b>Cash &amp; Cash Equivalents at End of Period</b>                          | <b>\$ 14,670,937</b>                       | <b>\$ 11,672,377</b>                       | <b>\$ 14,670,937</b>                       | <b>\$ 11,672,377</b>                       |

See Accompanying Notes to the Consolidated Financial Statements

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## Energroup Holdings Corporation

Reconciliation of Net Income to Cash Sourced (Used) in Operations  
 For the three and nine months ended September 30, 2009 and 2008  
 (Stated in US Dollars)

|   | 3 months<br>ended<br>September 30,<br>2009 | 3 months<br>ended<br>September 30,<br>2008 | 9 months<br>ended<br>September 30,<br>2009 | 9 months<br>ended<br>September 30,<br>2008 |
|---|--|--|--|--|
| Net Income  | \$ 3,753,010                               | \$ 4,320,288                               | \$ 4,719,876                               | \$ 14,176,473                              |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operation Activities. |  |  |  |  |
| Release of Shares from Escrow   | 4,619,816                                  | -  | 12,838,043                                 | -  |
| Amortization  | 67,427                                     | 74,052                                     | 492,033                                    | 259,312                                    |
| Depreciation  | 584,736                                    | 576,203                                    | 1,744,638                                  | 1,983,977                                  |
| Provision for Bad Debt  | 159,028                                    | -  | 117,679                                    | -  |
| Increase in Accounts Receivable   | (15,902,773)                               | (10,487,495)                               | (11,767,850)                               | (27,906,092)                               |
| Increase in Other Receivable  | (5,202,956)                                | -  | (4,216,385)                                | -  |
| Increase in Related Party Receivable  | (5,422,362)                                | -  | (6,795,071)                                | -  |
| Increase in Inventory   | (1,197,330)                                | (1,987,668)                                | (254,276)                                  | (4,709,434)                                |
| Decrease in Advance to Suppliers  | 397,958                                    | -  | 255,321                                    | -  |
| Decrease/(Increase) in Prepaid Expenses   | (5,847)                                    | (934,281)                                  | 26,466                                     | -  |
| Decrease/(Increase) in Prepaid Taxes  | 91,419                                     | -  | 59,434                                     | (1,083,731)                                |
| Increase in Deferred Tax Asset  | (679)                                      | -  | (1,563)                                    | -  |
| Increase/(Decrease) in Accounts Payable   | 618,689                                    | 8,298,021                                  | (3,060,267)                                | 13,576,079                                 |
| Increase in Taxes Payable   | 1,398,295                                  | -  | 3,315,843                                  | -  |
| Increase in Other Payable   | 1,496,668                                  | -  | 1,633,260                                  | -  |
| Increase in Accrued Liabilities   | 133,405                                    | 394,292                                    | 720,570                                    | 547,767                                    |
| Increase in Customer Deposits   | 337,784                                    | 1,177,925                                  | 1,053,579                                  | 2,848,064                                  |
| Total of all adjustments  | (17,826,722)                               | (2,888,951)                                | (3,838,546)                                | (14,484,059)                               |
|   | \$ (14,073,713)                            | \$ 1,431,337                               | \$ 881,330                                 | \$ (307,586)                               |

See Accompanying Notes to the Consolidated Financial Statements

Energroupholdings Corporation

Notes to Consolidated Financial Statements  
As of September 30, 2009 and December 31, 2008

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.

Energroup Holdings Corporation  
Notes to Consolidated Financial Statements  
As of September 30, 2009 and December 31, 2008

### 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.

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, 2009, the detailed identities of the consolidating subsidiaries are as follows:

-

| Name of Company   | Place<br>of<br>Incorporation | Attributable<br>Equity<br>Interest | Registered<br>Capital |
|---|------------------------------|------------------------------------|-----------------------|
| Precious Sheen Investments Limited                            | BVI                          | 100%                               | USD 10,000            |
| Dalian Chuming Precious Sheen Investment Consulting Co., Ltd. | PRC                          | 100%                               | RMB 91,009,955        |
| Dalian Chuming Slaughtering & Pork Packaging Co. Ltd.         | PRC                          | 100%                               | RMB 10,000,000        |



|  |     |      |               |
|--|-----|------|---------------|
| Dalian Chuming Processed<br>Foods Co. Ltd. | PRC | 100% | RMB 5,000,000 |
| Dalian Chuming Sales Co. Ltd.              | PRC | 100% | RMB 5,000,000 |

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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.

(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.

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(G) Purchase Deposit

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

(H) Property, Plant, and Equipment

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

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

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

(I) Land Use Rights

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

(J) Construction in Progress

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

(K) Accounting for Impairment of Assets

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



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(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.

The Company collects a damage deposit (as a deterrent) recorded in Other Payable from showcase store operators as a means of enforcing proper use of the Company's trademarks. These are not fees, but deposits that are carried as current liabilities until and unless an operator violates the Company's policies (e.g. misuse of Company brand names, or sale of substandard or counterfeit products, or unacceptably poor customer service), or if the proprietor ceases to operate the showcase store. If no violations have been committed by the showcase store operator, the deposit is returned to the operator. The Company carries the amount of these deposits as a current liability because the Company will return the deposit immediately to the operator when the Company ceases to conduct business with the operator.

(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.

The Company supplies pork products, equipment, uniforms, and technical support to the proprietors of showcase stores, who are granted the right to use the Company's trademarks to sell pork products. Start-up fees relating to uniforms are immaterial and are charged to the showcase store operators merely to recoup setup costs. Any funds collected from store operators in conjunction with initial startup and operation is minimal and immaterial. The Company does not charge any fees for providing equipment to the showcase stores. The Company provides equipment at its own cost, and the Company owns all such equipment. Considering the foregoing, the Company takes the position that any amount it receives from the store operators is not material in accordance with Rule 5-03.1 of Regulation S-X. In addition, since the Company does not receive any material franchise fee revenue, SFAS 45 is not applicable.



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(P) Cost of Sales

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

(Q) Selling Expense

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

(R) General & Administrative

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

(S) Shipping and handling

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

(T) Advertising Expense

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

(U) Retirement Benefits

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

(V) Income Taxes

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

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

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

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

- Effective January 1, 2008, PRC government implements a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized.
- Since Energroup Holdings Corporation is primarily a holding company without any business activities in the United States, the Company shall not be subject to income tax.

(W)

## Economic and Political Risks

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

(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.



## Energroup Holdings Corporation

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

| Exchange Rates                          | 9/30/2009 | 12/31/2008 | 9/30/2008 |
|---|-----------|------------|-----------|
| Period end RMB : US\$ exchange rate     | 6.8376    | 6.8542     | 6.8551    |
| Average period RMB : US\$ exchange rate | 6.8425    | 6.9623     | 6.9989    |

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 May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009.

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In June 2009, FASB issued FASB Statement No. 166, Accounting for Transfers for Financial Assets and FASB Statement No. 167, a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities.

Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures.

Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity’s purpose and design and the reporting entity’s ability to direct the activities of the other entity that most significantly impact the other entity’s economic performance.

On July 1, 2009, FASB issued FASB Statement No. 168, The “FASB Accounting Standards Codification” and the Hierarchy of Generally Accepted Accounting Principles. The ASC has become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities and provides that all such guidance carries an equal level of authority. The ASC is not intended to change or alter existing GAAP. The ASC is effective for interim and annual periods ending after September 15, 2009.

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

### 3. Restricted Cash

The restricted cash reflects funds received from the financing transaction described in Note 18 that 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 that meets the approval of the investors, at such point the Company will release \$1.5 million from restriction, the Company must 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. There is \$250,000 in the escrow account that has already been earmarked for investor relations purposes.

At September 30, 2009, 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.

## Energroup Holdings Corporation

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## 4. Accounts Receivable

Accounts Receivable at September 30, 2009 and December 31, 2008 consisted of the following: -

|                                       | At<br>September 30,<br>2009 | At<br>December 31,<br>2008 |
|---------------------------------------|-----------------------------|----------------------------|
| Accounts Receivable – Trade           | \$ 30,617,410               | \$ 18,849,560              |
| Less: Allowance for Doubtful Accounts | (306,174)                   | (188,495)                  |
| Net Accounts Receivable               | \$ 30,311,236               | \$ 18,661,065              |

|                         | At<br>June 30,<br>2009 | At<br>December 31,<br>2008 |
|-------------------------|------------------------|----------------------------|
| Allowance for Bad Debts |                        |                            |
| Beginning Balance       | \$ (188,495)           | \$ (84,723)                |
| Allowance Provided      | (117,679)              | (103,772)                  |
| Reverse                 | -                      | -                          |
| Ending Balance          | \$ (306,174)           | \$ (188,495)               |

During the second quarter of the 2008 fiscal year, management revised the Company's credit policy. Based on management's review, the Company began extending more favorable credit terms to its top tier customers. Those customers that qualified as top tier were extended approximately 45 to 60 days of credit. The Company previously extended one to two days of credit. As of September 30, 2009, the Company has not had any receivables that were unrecoverable.

Accounts receivable aging analysis at September 30, 2009: -

|               |               |
|---------------|---------------|
| 1-30 Days     | \$ 15,229,122 |
| 30-60 Days    | 12,465,922    |
| 61-90 Days    | 2,542,560     |
| 91-120 Days   | 73,632        |
| 121-365 Days  | -             |
| Over 365 Days | -             |
| Total         | \$ 30,311,236 |

## Energroup Holdings Corporation

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## 5. Related Party Receivable

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

In the event that the Company has both receivables from, and payables to the Group it will, in accordance with FIN 39, setoff the balances in order to arrive at a single balance that is either due from, or due to the Group. The Company’s net receivable balance of \$17,714,847 at September 30, 2009 is shown in the following table.

| Ref. | Subsidiary<br>Due to: | Nature of Balance   | Related Party  | Balance    | Description of<br>Transaction  |
|------|-----------------------|---|--|------------|--|
| A    | Food                  | Sale of Products<br>resulting in Trade<br>Receivable from | Dalian Mingxing<br>Livestock<br>Product Co. Ltd.,        | 235,264    | Food Co. sold cooked<br>food to Mingxing dating<br>back to 1/2007.   |
|      |                       | Subtotal of Related Party Sales                           |  | \$ 235,264 |  |
| B    | Food                  | Loan Receivable<br>from                                   | Dalian Fodder<br>Co., Ltd.                               | 15,346     | Food Co. advanced<br>prepayment to Fodder<br>Co. for purchase of raw<br>materials dating back to<br>7/2009 |
| C    | Food                  | Loan Receivable<br>from                                   | Dalian Chuming<br>Industrial<br>Development<br>Co., Ltd. | 18,886,845 | Food Co. paid bank loan<br>principal and interest on<br>behalf of Industrial Co.<br>dating back to 1/2008  |
| D    | Food                  | Loan Receivable<br>From                                   | Dalian Chuming<br>Group Co., Ltd.                        | 6,193,761  | Food Co. paid bank loan<br>principal and interest on<br>behalf of Group dating<br>back to 9/2009           |
| E    | Meat                  | Loan Receivable<br>from                                   | Dalian Chuming<br>Industrial<br>Development<br>Co., Ltd. | 37,707,218 | Meat Co. paid bank loan<br>principal and interest on<br>behalf of Industrial Co.<br>dating back to 4/2009  |
| F    | Meat                  | Loan Receivable   | Dalian Chuming   | 2,327,531  | Meat Co. paid raw  |

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|   |       |                                      |  |                |   |
|---|-------|--------------------------------------|--|----------------|---|
|   |       | from                                 | Fodder Co., Ltd.   |                | materials and utility fees for Fodder Co. dating back to 7/2008.  |
| G | Meat  | Loan Receivable from                 | Dalian Chuming Stockbreeding Combo Development Co., Ltd. | 3,130,099      | Prepayment to Stockbreeding Combo for Purchase of hogs dating back to 7/2008.                                   |
| H | Meat  | Loan Receivable from                 | Dalian Chuming Group Co., Ltd.                           | 933,582        | Meat Co. advance prepayment to Group for the purchase of raw materials dating back to 7/2009                    |
| I | Sales | Loan Receivable from                 | Dalian Huayu Seafood Co., Ltd.                           | 2,616,249      | Sales Co. help Huayu purchase materials dating back to 9/2008.  |
| J | Sales | Loan Receivable from                 | Dalian Chuming Group Co., Ltd.                           | 9,089,041      | Sales Co. purchased hogs and paid general and administrative expenses on behalf of Group dating back to 7/2008. |
| K | Sales | Loan Receivable from                 | Dalian Chuming Stockbreeding Combo Development Co., Ltd. | 20,311,018     | Sales Co. paid for Stockbreeding to buy hogs from farmer dating back 7/2008                                     |
| L | Sales | Loan Receivable from                 | Dalian Chuming Industrial Development Co., Ltd.          | 5,593,753      | Sales Co. purchased materials for Industrial Co. dating back to 7/2009  |
| M | Sales | Loan Receivable from                 | Dalian Chuming Fodder Co., Ltd.                          | 1,456,814      | Sales Co. purchased feeding materials for Fodder Co. dating back to 5/2009                                      |
|   |       | Subtotal of Loans to Related Parties |  | \$ 108,261,257 |   |
|   |       | Gross Related Party Receivable       |  | \$ 108,496,521 |   |

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|   | Subsidiary<br>Due from: | Nature of Balance   | Related Party  | Balance       | Description of<br>Transaction   |
|---|-------------------------|---|--|---------------|---|
| N | Meat                    | Purchase of Raw<br>Materials resulting<br>in Trade Payable to | Dalian Chuming<br>Stockbreeding<br>Combo<br>Development<br>Co., Ltd. | 8,869,725     | Meat Co. purchased of<br>hogs from<br>Stockbreeding Combo<br>Development Co. dating<br>back to 7/2009   |
| O | Meat                    | Purchase of Raw<br>Materials resulting<br>in Trade Payable to | Dalian Chuming<br>Group Co., Ltd.                                    | 47,322,320    | Purchase of hogs from<br>Group dating back to<br>7/2008.  |
|   |                         | Subtotal of Purchases<br>from Related Parties                 |  | \$ 56,192,046 |   |
| P | Food                    | Loan Payable to   | Dalian Chuming<br>Group Co., Ltd.                                    | 583           | Food borrowed from<br>Group to purchase<br>materials dating back to<br>4/2009.                          |
| Q | Food                    | Loan Payable to   | Dalian Chuming<br>Stockbreeding<br>Combo<br>Development Co.,<br>Ltd. | 2,047,502     | Stockbreeding Combo<br>Development Co. bought<br>raw materials for Food<br>Co. dating back to<br>4/2009 |
| R | Food                    | Loan Payable to   | Dalian Mingxing<br>Livestock Product<br>Co., Ltd.                    | 1,569         | Food Co. borrowed<br>funds from Mingxing for<br>operations purpose<br>dating back to 12/2008            |
| S | Food                    | Loan Payable to   | Dalian Huayu<br>Seafood Co., Ltd.                                    | 2,907,515     | Food Company collected<br>customer deposits on<br>behalf of Huayu Co.<br>dating back to 7/2009          |
| T | Meat                    | Loan Payable to   | Dalian Chuming<br>Group Co., Ltd.                                    | 12,260,724    | Group loaned to Meat<br>Co. dating back to<br>4/2009  |
| U | Meat                    | Loan Payable to   | Dalian Huayu<br>Seafood Co., Ltd.                                    | 2,072,830     | Huayu Co. loaned to<br>Meat Co. dating back to<br>7/2009  |
| V | Meat                    | Loan Payable to   | Dalian Mingxing<br>Livestock Product<br>Co., Ltd.                    | 610,521       | Mingxing Co. paid the<br>operation expense on<br>behalf of Meat Co.,<br>dating back to 7/2009           |

|   |       |                 |  |               |   |
|---|-------|-----------------|--|---------------|---|
| W | Sales | Loan Payable to | Dalian Mingxing Livestock Product Co. Ltd.,                                      | 915,251       | Sales Co. collected bank loans on behalf of Mingxing dating back to 8/2008    |
| X | Sales | Loan Payable to | Dalian Chuming Fodder Co., Ltd.  | 3,259,311     | Fodder Co. bought materials on behalf of Sales Co. dating back to 4/2009      |
| Y | WFOE  | Loan Payable to | Dalian Chuming Group Co.   | 10,513,823    | Group loaned funds to WFOE (includes funds transferred from Meat for US RTO.) |
|   |       |                 | Subtotal of Loans from Related Parties   | \$ 34,589,629 |   |
|   |       |                 | Gross Related Party Payable  | \$ 90,781,674 |   |
|   |       |                 | Setoff Related Party Receivable (Receivables have been set-off against payables) | \$ 17,714,847 |   |

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- A. The Food Company sold USD 235 thousand (RMB 1.6 million) cooked food to Mingxing Company on credit.
- B. Food Company prepaid USD 15 thousand (RMB 104 thousand) to Fodder Company in third quarter of 2009 for the purchase of raw materials.
- C. Food Company paid USD 18.8 million (RMB 129 million) bank loan principal and interest on behalf of Industrial Development Company.
- D. Food Company paid USD 6.2 million (RMB 42 million) bank loan principal and interest on behalf of Chuming Group.
- E. Meat Co. paid USD 37.7 million (RMB 257.8 million) bank loan principal and interest on behalf Industrial Development Company.
- F. Meat Co. paid USD 2 million (RMB 16 million) raw materials and utility fees for Fodder Company.
- G. The prepayment of USD 3.1 million (RMB 21.4 million) from Meat Company to the Stockbreeding Combo Development Company was for the purchase of hogs.
- H. Meat Company advanced 933 thousand (RMB 6.4 million) to Chuming Group for the purchase of raw materials.
- I. Sales Company bought USD 2.6 million (RMB 17.9 million) raw materials for Huayu Seafood Company.
- J. The balance of USD 9.1 million (RMB 62 million) receivable from Chuming Group to Sales Company was for the payments of hogs and operation expense.
- K. Sales Company help the Combo Development Company to pay USD 20 million (RMB 140 million) to local farmers for the purchase of hogs.
- L. Sales Company purchased USD 5.6 million (RMB 38 million) materials for Industrial Development Company.
- M. The receivable of USD 1.5 million (RMB 10 million) due from Fodder Company to Sales Company is primary for the purchase of feeding materials.
- N. The balance of USD 8.9 million (RMB 61 million) payment owed by the Meat Company to Chuming Stockbreeding Combo Development Company was for the purchase of hogs.
- O. The Group sold hogs to Meat Co. for 47.3 million (RMB 323.6 million).
- P. Chuming Group purchased USD 583 (RMB 4 thousand) materials for Food Company
- Q. Stockbreeding Combo Development Company purchased USD 2 million (RMB 14 million) for Food Company.
- R. Mingxing Livestock Company paid USD 1.6 thousand (RMB 10.7 thousand) daily operation expenses on behalf of Food Company.



- S. Food Company collected USD 2.9 million (RMB 19.9 million) customer deposits on behalf of Huayu Seafood Company.
- T. Meat Company borrowed USD 12.2 million (RMB 83.8 million) operation funds from Chuming Group.
- U. Meat Company borrowed USD 2.1 million (RMB 14 million) operation funds from Huayu Seafood Company.
- V. Mingxing Livestock Company paid USD 611 thousand (RMB 4.1 million) general and administrative expenses for Meat Company.
- W. Sales Company collected USD 915 thousand (RMB 6.3 million) bank loans on behalf of Mingxing Livestock Company.
- X. Fodder Company bought USD 3.3 million (RMB 22.3 million) materials on behalf of Sales Company.
- Y. The outstanding payable balance of USD 10.5 million (RMB 70 million) due to the Group has been transferred to the books of Chuming.

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

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

Of the \$17,714,847 net receivable owed by the Group to the Company, \$4,387,504 has been securitized by bank drafts issued by the bank on behalf of Chuming Stockbreeding Combo. Development Co., Ltd. of the Group to the Company. These notes are collateralized by deposits at the bank by Chuming Stockbreeding Combo. The drafts can be endorsed and discounted to the bank for cash; however the Company currently intends to hold these drafts until maturity.

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Notes to Consolidated Financial Statements  
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## 6. Inventory

|                  | At<br>September 30,<br>2009 | At<br>December 31,<br>2008 |
|------------------|-----------------------------|----------------------------|
| Raw Materials    | \$ 2,404,890                | \$ 867,549                 |
| Work in Progress | 599,912                     | 241,738                    |
| Finished Goods   | 3,300,583                   | 4,941,822                  |
|                  | \$ 6,305,385                | \$ 6,051,109               |

## 7. Property, Plant &amp; Equipment

| At September 30, 2009:  | Cost          | Accumulated<br>Depreciation | Net           |
|-------------------------|---------------|-----------------------------|---------------|
| Buildings               | \$ 21,660,465 | \$ (4,055,819)              | \$ 17,604,646 |
| Manufacturing Equipment | 10,070,179    | (4,113,899)                 | 5,956,280     |
| Office Equipment        | 236,429       | (183,245)                   | 53,185        |
| Vehicles                | 938,180       | (630,378)                   | 307,802       |
| Furniture & Fixture     | 606,546       | (266,493)                   | 340,053       |
|                         | \$ 33,511,800 | \$ (9,249,834)              | \$ 24,261,966 |

| At December 31, 2008:   | Cost          | Accumulated<br>Depreciation | Net           |
|-------------------------|---------------|-----------------------------|---------------|
| Buildings               | \$ 21,604,325 | \$ (3,607,219)              | \$ 17,997,105 |
| Manufacturing Equipment | 10,061,608    | (3,132,725)                 | 6,928,883     |
| Office Equipment        | 195,577       | (150,670)                   | 44,907        |
| Vehicles                | 913,816       | (477,265)                   | 436,551       |
| Furniture & Fixture     | 524,020       | (137,315)                   | 386,705       |
|                         | \$ 33,299,346 | \$ (7,505,196)              | \$ 25,794,151 |

Depreciation expense for the nine months ended September 30, 2009 was \$1,744,638.

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8. Land Use Right

The Company had the following intangible assets outstanding at September 30, 2009 and December 31, 2008, respectively:-

|                                | At<br>September 30,<br>2009 | At<br>December 31,<br>2008 |
|--------------------------------|-----------------------------|----------------------------|
| Land Use Rights, at Cost       | \$ 14,734,288               | \$ 14,407,503              |
| Less: Accumulated Amortization | (1,469,101)                 | (977,068)                  |
|                                | \$ 13,265,187               | \$ 13,430,435              |

Amortization expense for the nine months ended September 30, 2009 was \$492,033

9. Bank Loans

At September 30, 2009, the Company had the following short-term loans outstanding:-

| Bank                           | Interest Rate | Due Date   | Amount        |
|--------------------------------|---------------|------------|---------------|
| Bank of China                  | 6.1586%       | 10/26/2009 | \$ 4,387,504  |
| Bank of Huaxie                 | 6.372%        | 3/3/2010   | 4,387,504     |
| Bank of China                  | 7.326%        | 10/17/2009 | 2,047,503     |
| Shanghai Pufa Development Bank | 5.841%        | 7/16/2010  | 5,850,006     |
|                                |               |            | \$ 16,672,517 |

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

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10. Capitalization

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

| Name of Shareholder          | Number of Shares | Common Stock Capital | Additional Paid in Capital | Equity % |
|------------------------------|------------------|----------------------|----------------------------|----------|
| Operating Companies Founders | 14,688,948       | \$ 14,689            | \$ 25,856,416              | 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        | 3,864                | 13,043,964                 | 18.28%   |
|                              | 21,136,392       | \$ 21,137            | \$ 38,900,380              | 100.00%  |

11. Commitments of Statutory Reserve

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

|  | At September 30, 2009 | At December 31, 2008 |
|--|-----------------------|----------------------|
| PRC Registered Capital   | \$ 15,566,849         | \$ 15,566,849        |
| - Statutory Reserve Ceiling based on 50% of Registered Capital | 7,783,424             | 7,783,424            |
| Less: - Retained Earnings appropriated to Statutory Reserve    | (2,077,488)           | (2,077,488)          |
| Reserve Commitment Outstanding                                 | \$ 5,705,936          | \$ 5,705,936         |

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12. Advertising Costs

Advertising expenses were \$163,029 and \$1,546,948 for the nine months ended September 30, 2009 and 2008, respectively.

13. Income Taxes

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

The operating subsidiary, Meat, 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 period ended September 30, 2009.

The Company's operating subsidiary, Food, has made provision for income taxes for the nine months ended September 30, 2009 of \$1,441,418.

The Company's operating subsidiary, Sales, has not made provision for income tax in 2009 as it has incurred operating losses during the nine months period.

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

|      |                  |           |
|------|------------------|-----------|
| i.   | 2008 Tax expense | (520,089) |
| ii.  | 2007 Tax expense | (967,539) |
| iii. | 2006 Tax benefit | 1,609     |

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

On March 16, 2007, the PRC government passed new tax legislation that repealed preferential tax treatment for foreign investment enterprises in the PRC and enacted new tax regulations. Under such regulations, with certain exceptions, both domestic and foreign enterprises will be taxed at a standard enterprise income tax rate of 25%. The Company's two operating subsidiaries, Food, and Sales 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.

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14. Commitments

It is company policy to develop plant facilities based on availability of cash resources without incurring capital commitments. Therefore, the Company did not have any capital commitments existing at September 30, 2009.

On December 19, 2007, the Company entered into a hog purchase agreement whereby the Dalian Chuming Group Co., Ltd will provide at fair market price a minimum number of hogs to the Company. At September 30, 2009, the Company expects minimum quantities of hogs detailed in the following table:-

| Year                       | Hogs    | Price Per<br>Hog | Amount         |
|----------------------------|---------|------------------|----------------|
| 2009 (October to December) | 124,824 | \$ 187.13        | \$ 23,358,315  |
| 2010                       | 800,000 | \$ 205.84        | 164,674,737    |
|                            |         |                  | \$ 188,033,052 |

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

15. Operating Segments

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

The chief operating decision maker is the Chief Executive Officer of the Company. He evaluates each operating segment on the following measures of profit or loss: gross profit, operating income, and earnings before taxes, and net income. When he makes decisions on the strategic plans of each operating segment, he considers the foregoing measures of profit or loss and their impact on the overall performance of the Company as a whole.

Below is a presentation of the Company's results of operations and financial position for its operating subsidiaries at September 30, 2009 and 2008 and for the periods then ended. The Company has also provided reconciling adjustments with the Company and its intermediate holding companies Dalian Chuming Precious Sheen Investments Consulting Ltd. ("Chuming WFOE") and Precious Sheen Investments Ltd (PSI).

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| Results of Operations<br>For the period ended<br>September 30, 2009 | Meat<br>Company | Food<br>Company | Sales<br>Company | WFOE,<br>PSI, &<br>Eliminations | Total          |
|---|-----------------|-----------------|------------------|---------------------------------|----------------|
| Sales   | \$ 147,991,969  | \$ 24,184,096   | \$ 25,724,571    | \$ (41,047,962)                 | \$ 156,852,674 |
| Cost of Sales   | 129,915,408     | 17,675,199      | 27,073,097       | (41,047,962)                    | 133,615,742    |
| Gross Profit  | 18,076,560      | 6,508,897       | (1,348,526)      | -                               | 23,236,932     |
| Operating Expense   | (962,072)       | (627,660)       | (2,105,482)      | (269,463)                       | (3,964,678)    |
| Operating (Loss)/Profit   | 17,114,488      | 5,881,237       | (3,454,008)      | (269,463)                       | 19,272,254     |
| Other Income (Expense)  | (129,147)       | (115,566)       | (29,779)         | (12,836,469)                    | (13,110,961)   |
| Earnings before Tax   | 16,985,341      | 5,765,671       | (3,483,787)      | (13,105,932)                    | 6,161,294      |
| (Income Tax Expense)  | -               | (1,441,418)     | -                | -                               | (1,441,418)    |
| Net Income  | \$ 16,985,341   | \$ 4,324,253    | \$ (3,483,787)   | \$ (13,105,932)                 | \$ 4,719,876   |

## Eliminated Intercompany Sales of Products Sold

| Sold From:   | Sold To:      | Amount        |
|--------------|---------------|---------------|
| Food Company | Sales Company | \$ 5,854,487  |
| Meat Company | Sales Company | 20,292,333    |
| Meat Company | Food Company  | 14,901,142    |
|              |               | \$ 41,047,962 |

| Financial Position<br>At<br>September 30, 2009 | Meat<br>Company | Food<br>Company | Sales<br>Company | WFOE,<br>PSI, &<br>Eliminations | Total          |
|--|-----------------|-----------------|------------------|---------------------------------|----------------|
| Current Assets                                 | \$ 155,707,886  | \$ 40,871,873   | \$ 44,559,272    | \$ (161,427,196)                | \$ 79,711,836  |
| Non Current Assets                             | 25,153,643      | 18,805,949      | 258,786          | 669                             | 44,219,046     |
| Total Assets                                   | 180,861,529     | 59,677,822      | 44,818,058       | (161,426,527)                   | 123,930,882    |
| Current Liabilities                            | 108,685,613     | 49,435,520      | 51,909,253       | (172,356,544)                   | 37,673,841     |
| Total Liabilities                              | 108,685,613     | 49,435,520      | 51,909,253       | (172,356,544)                   | 37,673,841     |
| Net Assets                                     | 72,175,915      | 10,242,303      | (7,091,195)      | 10,930,017                      | 86,257,041     |
| Total Liabilities & Net Assets                 | \$ 180,861,529  | \$ 59,677,822   | \$ 44,818,058    | \$ (161,426,527)                | \$ 123,930,882 |

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| Results of Operations<br>For the period ended<br>September 30, 2008 | Meat<br>Company | Food<br>Company | Sales<br>Company | WFOE,<br>PSI, &<br>Eliminations | Total          |
|---|-----------------|-----------------|------------------|---------------------------------|----------------|
| 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     |
| (Income Tax Expense)  | (214,321)       | (234,817)       | -                | -                               | (449,138)      |
| Net Income  | \$ 15,051,491   | \$ 990,261      | \$ (1,242,959)   | \$ (622,320)                    | \$ 14,176,473  |

## Eliminated Intercompany Sales of Products Sold

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

| Financial Position<br>At<br>December 31, 2008 | Meat<br>Company | Food<br>Company | Sales<br>Company | WFOE,<br>PSI, &<br>Eliminations | Total         |
|---|-----------------|-----------------|------------------|---------------------------------|---------------|
| Current Assets                                | \$ 74,713,237   | \$ 21,126,826   | \$ 41,826,291    | \$ (89,504,485)                 | \$ 48,161,869 |
| Non Current Assets                            | 22,624,642      | 19,570,329      | 325,480          | 1,088                           | 42,521,539    |
| Total Assets                                  | 97,337,879      | 40,697,155      | 42,151,771       | (89,503,397)                    | 90,683,408    |
| Current Liabilities                           | 42,293,137      | 34,796,536      | 45,747,946       | (99,079,858)                    | 23,757,761    |
| Total Liabilities                             | 42,293,137      | 34,796,536      | 45,747,946       | (99,079,858)                    | 23,757,761    |
| Net Assets                                    | 55,044,742      | 5,900,619       | (3,596,175)      | 9,576,462                       | 66,925,647    |
| Total Liabilities & Net Assets                | \$ 97,337,879   | \$ 40,697,155   | \$ 42,151,771    | \$ (89,503,396)                 | \$ 90,683,408 |



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## 16. Earnings Per Share

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

|  | For nine<br>months ended<br>September 30,<br>2009 | For nine<br>months ended<br>September 30,<br>2008 |
|--|---|---|
| Net Income (A)   | \$ 4,719,876                                      | \$ 14,176,473                                     |
| Basic Weighted Average Shares Outstanding (B)  | 17,272,756  | 17,272,756  |
| Dilutive Shares:   |   |   |
| -Addition to Common Stock from Exercise of Placement Warrants                                | -   | 46,364  |
| -Addition to Common Stock from Contingent Shares Held in Escrow<br>(Please refer to Note 18) | 3,863,636   | 3,863,636   |
| Diluted Weighted Average Shares Outstanding: (C)   | 21,136,392  | 21,182,756  |
| Earnings Per Share:  |   |   |
| -Basic (A)/(B)   | \$ 0.27   | \$ 0.82   |
| -Diluted (A)/(C)   | \$ 0.22   | \$ 0.67   |
| Weighted Average Shares Outstanding:   |   |   |
| -Basic   | 17,272,756  | 17,272,756  |
| -Diluted   | 21,136,392  | 21,182,756  |

## 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.

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18. Financing Transaction

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

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

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

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

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

At September 30, 2009, the total number of shares outstanding, on a fully diluted basis, is shown in the following table:

|   |            |
|---|------------|
| i. Common shares outstanding prior to offering of securities          | 17,272,756 |
| ii. Common shares issued under securities purchase agreement          | 3,863,636  |
| iii. Common shares issuable upon exercise of placement agent warrants | 386,364    |
|   | 21,522,756 |

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

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

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

For the year ended December 31, 2008, the Company recorded an expense for the expected release of shares deposited in the escrow account. The Company expects that 1,931,818 shares will be released. The amount of expense recorded was \$10,622,294. The impact on earnings per share, on a basic and diluted basis, was \$0.61 and \$0.50, respectively. Simultaneously, for the nine months ended September 30, 2009, the Company expects that 1,448,864 shares will be released and have recorded the expense of \$12,838,043. The impact on earnings per share, on a basic and diluted basis, was \$0.75 and \$0.61, respectively.

## 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 7.86%) in the third quarter of 2009.

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, 2009, we had 732 employees, of whom 387 were operating personnel, 256 were sales personnel, 39 were research and development personnel and 50 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 a wholly foreign owned enterprise in December 2007. Chuming WFOE is 100% owned by 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. 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.

Our total sales volume was 82,585 metric tons in the third quarter of 2009, 27,697 metric tons in the second quarter of 2009, 18,512 metric tons in the first quarter of 2009, 18,007 metric tons in the fourth quarter of 2008.

Due to a shortage in supply, live hog prices rose significantly in 2008. 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. The average pork price has declined somewhat from the first quarter of 2009, mainly because of perceptions arising from the appearance of swine flu in late April and early May. In June 2009, the Chinese government purchased and placed in storage large quantities of pork products in order to adjust the pork price in an effort to cause it to rebound to a reasonable level. As a result of this action, the prices of pork have been rising since July 2009, and have risen to a level higher than the prices seen during the first quarter of 2009. The prices are continuing to trend higher.



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 are using their purchasing power to demand safer and higher quality food products for their families.

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. Our distribution network has been expanded to all three northeastern provinces where we have established our branches in the cities of Harbin and Daqing, Heilongjiang Province, and the City of Changchun, Jilin Province. 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 five customers accounted for 35.6% for our total sales for the quarter ended September 30, 2009. 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 volume of sales. 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.

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, 2009, the detailed identities of the consolidating subsidiaries are as follows:

| Name of Company   | Place of Incorporation | Attributable Equity Interest | Registered Capital |
|---|------------------------|------------------------------|--------------------|
| Precious Sheen Investments Limited                            | BVI                    | 100%                         | USD 10,000         |
| Dalian Chuming Precious Sheen Investment Consulting Co., Ltd. | PRC                    | 100%                         | RMB 91,009,955     |
| 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. 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.

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

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

### 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. We collect a damage deposit (as a deterrent) recorded on other payable from showcase store operators as a means of enforcing the proper use of our trademark. We carry the amount of these deposits as a current liability because we will return the deposit to the operator when we cease to conduct business with the operator.

### 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 equaling 50% of the enterprise's registered 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

See Note 2(Z) to the consolidated financial statements included in Item 1 of this Quarterly Report of Form 10-Q for discussions on recently issued accounting announcements. 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, 2009 and September 30, 2009.

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

|  | Quarter Ended<br>September 30,<br>2009 | % of<br>Sales | Quarter Ended<br>September 30,<br>2008 | % of<br>Sales |
|--|--|---------------|--|---------------|
| Sales  | \$ 67,821,080                          | 100%          | \$ 53,725,596                          | 100%          |
| Cost of Sales                                  | (57,246,206)                           | 84.41%        | (47,254,631)                           | 87.96%        |
| Gross Profit                                   | 10,574,874                             | 15.59%        | 6,470,965                              | 12.04%        |
| Selling Expenses                               | (706,664)                              | 1.04%         | (878,893)                              | 1.64%         |
| General & Administrative Expenses              | (614,806)                              | 0.91%         | (734,976)                              | 1.37%         |
| Total Operating Expense                        | (1,321,470)                            | 1.95%         | (1,613,869)                            | 3.01%         |
| Operating Income / (Loss)                      | 9,253,405                              | 13.64%        | 4,857,096                              | 9.04%         |
| Other Income (Expense)                         | (4,814,163)                            | 7.10%         | (320,037)                              | 0.60%         |
| Earnings Before Tax                            | 4,439,242                              | 6.55%         | 4,537,058                              | 8.44%         |
| (Income Tax Expense) / Deferred Tax<br>Benefit | (686,232)                              |               | (216,770)                              |               |
|  |  | 1.01%         |  | 0.40%         |
| Net Income                                     | \$ 3,753,010                           | 5.53%         | \$ 4,320,288                           | 8.04%         |
| Earnings Per Share                             |  |               |  |               |
| Basic  | \$ 0.22                                |               | \$ 0.25                                |               |
| Diluted  | 0.18                                   |               | 0.20                                   |               |
| Weighted Average Shares Outstanding            |  |               |  |               |
| Basic  | 17,272,756                             |               | 17,272,756                             |               |
| Diluted  | 21,136,392                             |               | 21,182,756                             |               |

Sales. Our sales include revenues from sales of our fresh pork, frozen pork, and processed food products. During the quarter ended September 30, 2009, we had sales of \$67,821,080 as compared to sales of \$53,725,596 for the quarter ended September 30, 2008, an increase of approximately 26.24%. Our sales for our various product categories in the

third quarter of 2009 are summarized as follows:

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| Sales by product category, in dollars: | Third Quarter 2009 (amount) | % of Total Sales | Third Quarter 2008 (amount) | % of Total Sales | % of increase from 2008 to 2009 |
|--|-----------------------------|------------------|-----------------------------|------------------|---------------------------------|
| Fresh Pork                             | \$ 48,102,469               | 70.90%           | \$ 42,858,853               | 79.80%           | 12.23%                          |
| Frozen Pork                            | 8,244,934                   | 12.20%           | 4,618,716                   | 8.60%            | 78.51%                          |
| Processed Food Products                | 11,473,677                  | 16.90%           | 6,248,027                   | 11.60%           | 83.64%                          |
| <b>Total Sales</b>                     | <b>\$ 67,821,080</b>        | <b>100%</b>      | <b>53,725,596</b>           | <b>100%</b>      | <b>26.24%</b>                   |

| Sales by product category, by weight of product (metric tons): | Third Quarter 2009 (Weight in tons) | % of Total Sales | Third Quarter 2008 (Weight in tons) | % of Total Sales | % of change from 2008 to 2009 |
|--|-------------------------------------|------------------|-------------------------------------|------------------|-------------------------------|
| Fresh Pork   | 28,322                              | 77.86%           | 18,681                              | 79.53%           | 51.61%                        |
| Frozen Pork  | 4,196                               | 11.54%           | 2,190                               | 9.32%            | 91.60%                        |
| Processed Food Products  | 3,858                               | 10.61%           | 2,619                               | 11.15%           | 47.31%                        |
| <b>Total Sales</b>   | <b>36,376</b>                       | <b>100%</b>      | <b>23,490</b>                       | <b>100%</b>      | <b>54.86%</b>                 |

In the third quarter of 2009, we raised our average per-kilogram sale price for processed food products and decreased our average per-kilogram sale prices for fresh pork and frozen pork to our customers. These changes were inline with changes in the market price for these products. In the third quarter of 2009, our sales volume of fresh pork, frozen pork and processed food products (by weight) increased as compared to the third quarter of 2008, with the frozen pork category continuing experiencing the highest growth in sales volume by weight. We also increased our sales of fresh pork by weight in the third quarter of 2009 as compared with the same period in the prior year. For processed food products, our sales by weight increased by 47.31%, but because of higher per-kilogram prices, our sales revenue for this product category increased by 83.64%. Management attributes the increases in sales revenue in 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, 2009, as compared to the same quarter last year:

|                         | Average Per-Kilogram Price to Customers (in \$US) |                       |          |                 |
|-------------------------|---|-----------------------|----------|-----------------|
|                         | Third quarter of 2009                             | Third quarter of 2008 | % change | Change in Price |
| Fresh Pork              | \$ 1.70   | \$ 2.29               | -25.97%  | \$ -0.60        |
| Frozen Pork             | \$ 1.96   | \$ 2.11               | -6.83%   | \$ -0.14        |
| Processed Food Products | \$ 2.97   | \$ 2.39               | 24.66%   | \$ 0.59         |

Although we also sell our products through sales agents, our principal sales channels consist of Chuming-branded showcase 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, | Showcase Stores | Sales Channels Supermarkets | Restaurants and |
|---------------------|-----------------|-----------------------------|-----------------|
|                     |                 |                             |                 |

|      |     |     | Canteens |
|------|-----|-----|----------|
| 2008 | 702 | 186 | 3,226    |
| 2009 | 924 | 572 | 5,013    |

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As shown in the table above, as of September 30, 2009, as compared to September 30, 2008, we significantly increased the number of participants in all three of these sales channels. We believe the sales from supermarkets and hypermarkets are likely to continue to yield higher profit margins. Their orders tend to be large and stable in quantity, and they usually have better credit. The increase in the number of these participants has resulted in increased sales volume.

**Cost of Sales.** Cost of sales for the third quarter of 2009 increased by \$9,991,575 or approximately 21.14%, from \$47,254,631 for the three months ended September 30, 2008 to \$57,246,206 for the three months ended September 30, 2009. The increase was principally attributable to the concession on the sales price of the products to sales agents on a condition that sales agent assumes marketing expenses in selling our products, starting in the third quarter of 2008. Our cost of sales for our various product categories in the third quarter of each of 2009 and 2008 is summarized and shown as a percentage of overall cost of sales in the following chart:

| Product Category           | 2009                        |                            | 2008                        |                            | % of Change from 2008 to 2009 |
|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-------------------------------|
|                            | Cost of Sales Third quarter | % of Overall Cost of Sales | Cost of Sales Third quarter | % of Overall Cost of Sales |                               |
| Fresh Pork                 | \$ 41,643,459               | 72.74%                     | \$ 38,455,262               | 81.38%                     | 8.29%                         |
| Frozen Pork                | 7,093,774                   | 12.39%                     | 3,925,908                   | 8.31%                      | 80.69%                        |
| Processed Food Products    | 8,508,973                   | 14.86%                     | 4,873,461                   | 10.31%                     | 74.60%                        |
| <b>Total Cost of Sales</b> | <b>\$ 57,246,206</b>        | <b>100%</b>                | <b>\$ 47,254,631</b>        | <b>100%</b>                | <b>21.14%</b>                 |

The following table shows our cost of sales in the third quarter of each of 2009 and 2008 as a percentage of sales within each product group.

| Product Category:          | 2009                        |                          | 2008                        |                          | % Change Product Group Sales |
|----------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|------------------------------|
|                            | Cost of Sales Third quarter | % of Product Group Sales | Cost of Sales Third quarter | % of Product Group Sales |                              |
| Fresh Pork                 | \$ 41,643,459               | 86.57%                   | \$ 38,455,262               | 89.73%                   | -3.15%                       |
| Frozen Pork                | 7,093,774                   | 86.04%                   | 3,925,908                   | 85.00%                   | 1.04%                        |
| Processed Food Products    | 8,508,973                   | 74.16%                   | 4,873,461                   | 78.00%                   | -3.84%                       |
| <b>Total Cost of Sales</b> | <b>\$ 57,246,206</b>        | <b>84.41%</b>            | <b>\$ 47,254,631</b>        | <b>87.96%</b>            | <b>-3.55%</b>                |

Our cost of sales of fresh pork products increased by 8.29% and decreased by 3.15% as a percentage of sales of fresh pork products, in each case as compared to the third quarter of 2008. This change resulted principally from the concession on the sales price of the products to sales agents on a condition that each such sales agent assumed marketing expenses in selling our products, starting in the third quarter of 2008. Our cost of sales of frozen pork products increased by 80.69% and by 1.04% as a percentage of sales of frozen pork products, in each case as compared to the third quarter of 2008, because production and sales of this product increased over the respective periods. During the third quarter of 2009, the cost of sales of processed food products increased by 74.60% and decreased by 3.84% as a percentage of sales of processed food products, in each case as compared to the same period last year. Contributing factors to this increase of cost of sales were an increase in sales volume of processed food products and the higher transportation and delivery cost associated with an expanded sales range of this product period over period.



The following table shows the estimated average per-kilogram price we paid for live pigs in 2009 and 2008:

|                | Average<br>Unit<br>Price Per<br>Kilogram<br>in 2009<br>(in \$US) | Average<br>Unit<br>Price Per<br>Kilogram<br>in 2008<br>(in \$US) | Price<br>Increase/(Decrease)<br>(in \$US) | %<br>Increase/(Decrease)<br>from 2008 to 2009 |
|----------------|--|--|---|---|
| First Quarter  | 1.7652   | 2.2936   | (0.5284)                                  | (23.03)%                                      |
| Second Quarter | 1.5032   | 2.2578   | (0.7546)                                  | (33.42)%                                      |
| Third Quarter  | 1.7477   | 2.2513   | (0.5036)                                  | (22.37)%                                      |
| Fourth Quarter | N/A  | 2.105  | N/A                                       | N/A%  |

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 dropped from their highs in the second quarter of 2008 and have been stable since the third quarter of 2008. We believe that live pig prices will continue to remain stable, or perhaps trend lower, potentially through the first quarter of 2010. We believe this trend of lower, stable prices to be temporary.

**Gross Profit.** Gross profit was \$10,574,874 for the three months ended September 30, 2009 as compared to \$6,470,965 for the same period in 2008, representing an increase of \$4,103,909, or approximately 63.42%. Management attributes the increase in gross profit to increased sales volume of all three product groups and increased pricing on processed pork products. Our gross profit as a percentage of sales was 15.59% in the third quarter of 2009 as compared to 12.04% for the same period in 2008.

The following table presents our gross profit for the three months ended September 30, 2009 and 2008. 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.

| Product Group              | Gross<br>Profit<br>Third<br>quarter<br>of 2009 | % of<br>Product<br>Group<br>Sales | Gross<br>Profit<br>Second<br>quarter<br>of 2008 | % of<br>Product<br>Group<br>Sales | % of<br>increase<br>from Third<br>quarter of<br>2008 to<br>Third<br>Quarter of<br>2009 |
|----------------------------|--|-----------------------------------|---|-----------------------------------|--|
| Fresh Pork                 | \$ 6,459,010                                   | 13.43%                            | \$ 4,403,591                                    | 10.27%                            | 46.68%   |
| Frozen Pork                | 1,151,160                                      | 13.96%                            | 692,808   | 15.00%                            | 66.16%   |
| Processed Food<br>Products | 2,964,704                                      | 25.84%                            | 1,374,566                                       | 22.00%                            | 115.68%  |
| Total Gross Profit         | \$ 10,574,874                                  | 15.59%                            | \$ 6,470,965                                    | 12.04%                            | 63.42%   |

In the third quarter of 2009, the gross profit of the fresh pork segment and frozen pork segment increased by 46.68% and 66.16%, respectively, as compared to the same period last year principally due to the increase in sales volume in those two segments despite a lower per-kilogram unit price to customers. The processed food products segment continued to yield period over period a gross profit amount that was the highest among all the product groups as a percentage of product group sales. Because of the high margins and increased prices to consumers of this product, we were able to maintain a stable amount of gross profit in dollar terms for this product period over period.

**Selling Expenses.** Selling expenses totaled \$706,664 for the three months ended September 30, 2009, as compared to \$878,893 for the same period in 2008, a decrease of \$172,229 or 19.60%. This decrease is due to a reduction in our advertising expenses. We continued to increase sales made through sales agents, who assumed certain marketing expenses in selling our fresh pork products.

**General and Administrative Expenses.** General and administrative expenses totaled \$614,806 for the three months ended September 30, 2009 as compared to \$734,976 for the same period in 2008, a decrease of \$120,170 or 16.35%. This change is partially attributable to decreased depreciation expense.

Other income (Expense). Our other income (expense) consists of interest income, other expenses, and interest expense. In the third quarter of 2009, we had other income totaled \$7,204. Our total other income in the third quarter of 2009 decreased by \$673,140, or 98.94% as compared to the same period in 2008. This decrease in other income is primarily attributable to the decrease of rental income from our frozen storage facility and the exclusion of the government subsidy that was part of other income in prior periods.

Net Income. Net income for the three months ended September 30, 2009 was \$3,753,010 as compared to \$4,320,288 for the same period in 2008, a decrease of \$567,278 or 13.13%. This decrease in net income is attributable to a compensatory expense arising from the expected release of 1,448,864 of our shares from an escrow arrangement entered into as part of a private equity financing consummated by us in December 2007. See note 18 of the consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Comparison of Nine Months Ended September 30, 2009 and September 30, 2008.

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

|  | Nine<br>Months Ended<br>September 30,<br>2009 |               | Nine<br>Months Ended<br>September 30,<br>2008 |               |   |
|--|---|---------------|---|---------------|---|
|  |   | % of<br>Sales |   | % of<br>Sales |   |
| Sales  | \$ 156,852,674                                | 100.00%       | \$ 140,309,218                                | 100.00%       | % |
| Cost of Sales                                  | (133,615,742)                                 | 85.19%        | (120,329,483)                                 | 85.76%        | % |
| Gross Profit                                   | 23,236,932                                    | 14.81%        | 19,979,735                                    | 14.24%        | % |
| Selling Expenses                               | (2,079,027)                                   | 1.33%         | (3,463,947)                                   | 2.47%         | % |
| General & Administrative Expenses              | (1,885,651)                                   | 1.20%         | (1,881,138)                                   | 1.34%         | % |
| Total Operating Expense                        | (3,964,678)                                   | 2.53%         | (5,345,085)                                   | 3.81%         | % |
| Operating Income / (Loss)                      | 19,272,254                                    | 12.29%        | 14,634,650                                    | 10.43%        | % |
| Other Income (Expense)                         | (13,110,960)                                  | 8.36%         | (9,040)                                       | 0.01%         | % |
| Earnings Before Tax                            | 6,161,294                                     | 3.93%         | 14,625,611                                    | 10.42%        | % |
| (Income Tax Expense) / Deferred<br>Tax Benefit | (1,441,418)                                   | 0.92%         | (449,138)                                     | 0.32%         | % |
| Net Income                                     | \$ 4,719,876                                  | 3.01%         | \$ 14,176,473                                 | 10.10%        | % |
| Earnings Per Share                             |   |               |   |               |   |
| Basic  | \$ 0.27                                       |               | \$ 0.82                                       |               |   |
| Diluted  | 0.22  |               | 0.67  |               |   |
| Weighted Average Shares<br>Outstanding         |   |               |   |               |   |
| Basic  | 17,272,756                                    |               | 17,272,756                                    |               |   |
| Diluted  | 21,136,392                                    |               | 21,182,756                                    |               |   |

Sales. Our sales include revenues from sales of our fresh pork, frozen pork, and processed food products. During the nine months ended September 30, 2009, we had sales of \$156,852,674 as compared to sales of \$140,309,218 for the same period of 2008, an increase of approximately 11.79%. Our sales for our various product categories for the nine months period ended September 30, 2009 are summarized as follows:

| Sales by product category, in dollars: | Nine Months Ended September 30, 2009<br>(amount) | % of Total Sales | Nine Months Ended September 30, 2008<br>(amount) | % of Total Sales | % of increase from 2008 to 2009 |
|--|--|------------------|--|------------------|---------------------------------|
| Fresh Pork                             | \$ 115,951,472                                   | 73.92%           | \$ 114,605,135                                   | 81.68%           | 1.17%                           |
| Frozen Pork                            | 16,686,335                                       | 10.64%           | 9,311,039  | 6.64%            | 79.21%                          |
| Processed Food Products                | 24,214,867                                       | 15.44%           | 16,393,044                                       | 11.68%           | 47.71%                          |
| Total Sales                            | \$ 156,852,674                                   | 100%             | 140,309,218                                      | 100%             | 11.79%                          |

| Sales by product category, by weight of product (metric tons): | Nine Months Ended September 30, 2009<br>(Weight in tons) | % of Total Sales | Nine Months Ended September 30, 2008<br>(Weight in tons) | % of Total Sales | % of change from 2008 to 2009 |
|--|--|------------------|--|------------------|-------------------------------|
| Fresh Pork   | 64,471   | 78.07%           | 48,123   | 80.14%           | 33.97%                        |
| Frozen Pork  | 9,763  | 11.82%           | 4,449  | 7.41%            | 119.44%                       |
| Processed Food Products  | 8,351  | 10.11%           | 7,475  | 12.45%           | 11.72%                        |
| Total Sales  | 82,585   | 100%             | 60,047   | 100%             | 37.53%                        |

In the nine months ended September 30, 2009, we raised our average per-kilogram sale price for processed food products and decreased our average per-kilogram sale prices for fresh pork and frozen pork to our customers. These changes were inline with changes in the market price for these products. In the nine months ended September 30, 2009, our sales volume of fresh pork, frozen pork and processed food products (by weight) increased, with the frozen pork category experiencing the highest growth in sales volume both by weight and in terms of sales revenue. Our sales revenue for fresh pork slightly increased due to the increase of sales volume for this product despite a reduction in the average per-kilogram price. For processed food products, our sales by weight increased by 11.72%, and because of higher per-kilogram prices, our sales revenue for this product category increased by 47.71% as compared with the same period in the prior year. Management attributes the increases in sales revenue in 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, 2009, as compared to the same period last year:

|                         | Average Per-Kilogram Price to Customers (in \$US) |   |          |                 |
|-------------------------|---|---|----------|-----------------|
|                         | Nine Months Ended September 30, 2009              | Nine Months Ended September 30, of 2008 | % change | Change in Price |
| Fresh Pork              | \$ 1.80   | \$ 2.38                                 | -0.24%   | \$ -0.58        |
| Frozen Pork             | \$ 1.71   | \$ 2.09                                 | -0.18%   | \$ -0.38        |
| Processed Food Products | \$ 2.90   | \$ 2.19                                 | 0.32%    | \$ 0.71         |

Cost of Sales. Cost of sales for the nine months ended September 30, 2009 increased by \$ \$13,286,259 or approximately 11.04%, from \$120,329,483 for the nine months ended September 30, 2008 to \$133,615,742 for the nine months ended September 30, 2009. The increase was principally attributable to the concession on the sales price of the products to sales agents on a condition that sales agent assumes marketing expenses in selling our products,

starting in the third quarter of 2008. Our cost of sales for our various product categories in the nine months ended September 30, 2009 and 2008 is summarized and shown as a percentage of overall cost of sales in the following chart:

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| Product Category           | Cost of Sales<br>Nine Months<br>Ended<br>September 30<br>2009 | % of<br>Overall<br>Cost of<br>Sales | Cost of Sales<br>Nine Months<br>Ended<br>September 30<br>2008 | % of<br>Overall<br>Cost of<br>Sales | % of<br>increase<br>from<br>2008 to 2009 |
|----------------------------|---|-------------------------------------|---|-------------------------------------|--|
| Fresh Pork                 | \$ 101,328,631  | 75.84%                              | \$ 100,269,410  | 83.33%                              | 1.06%                                    |
| Frozen Pork                | 14,405,427  | 10.78%                              | 7,681,210   | 6.38%                               | 87.54%                                   |
| Processed Food<br>Products | 17,881,684  | 13.38%                              | 12,378,863  | 10.29%                              | 44.45%                                   |
| Total Cost of Sales        | \$ 133,615,742  | 100%                                | \$ 120,329,483  | 100%                                | 11.04%                                   |

The following table shows our cost of sales in the nine months ended September 30, 2009 and 2008 as a percentage of sales within each product group.

| Product Category:          | Cost of Sales<br>Nine Months<br>Ended<br>September 30,<br>2009 | % of<br>Product<br>Group<br>Sales | Cost of Sales<br>Nine Months<br>Ended<br>September<br>30, 2008 | % of<br>Product<br>Group<br>Sales | % Change<br>Product<br>Group<br>Sales |
|----------------------------|--|-----------------------------------|--|-----------------------------------|---------------------------------------|
| Fresh Pork                 | \$ 101,328,631   | 87.73%                            | \$ 100,269,410   | 87.49%                            | 0.24%                                 |
| Frozen Pork                | 14,405,427   | 83.93%                            | 7,681,210  | 82.50%                            | 1.44%                                 |
| Processed Food<br>Products | 17,881,684   | 73.85%                            | 12,378,863   | 75.51%                            | -1.67%                                |
| Total Cost of Sales        | \$ 133,615,742   | 85.19%                            | \$ 120,329,483   | 85.76%                            | -0.57%                                |

Our cost of sales of fresh pork products increased by 1.06% and increased by 0.24% as a percentage of sales of fresh pork products, in each case as compared to the nine months ended September 30, 2008. This change resulted principally from the increase of the sales volume. Our cost of sales of frozen pork products increased by 87.54% and by 1.44% as a percentage of sales of frozen pork products, in each case as compared to the nine months ended September 30, 2008, because production and sales of this product increased over the respective periods. During the nine months ended September 30, 2009, the cost of sales of processed food products increased by 44.45% but decreased by 1.67% as a percentage of sales of processed food products, in each case as compared to the same period last year. Contributing factors to this increase were an increase in sales volume of processed food products and the higher transportation and delivery cost associated with an expanded sales range of this product period over period.

Gross Profit. Gross profit was \$23,236,932 for the nine months ended September 30, 2009 as compared to \$19,979,735 for the same period in 2008, representing an increase of \$3,257,197, or approximately 16.30%. Management attributes the increase in gross profit to strong increases in sales revenue, driven by strong demand for our products, especially our frozen pork products, despite higher input costs and related price increases to our customers. Our gross profit as a percentage of sales was 14.81% in the nine months ended September 30, 2009 as compared to 14.24% for the same period in 2008.

The following table presents our gross profit for the nine months ended September 30, 2009 and 2008. 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.

| Product Group | Gross<br>Profit<br>Nine | % of<br>Product<br>Group | Gross<br>Profit<br>Nine | % of<br>Product<br>Group | % of<br>Change<br>from 2008 |
|---------------|-------------------------|--------------------------|-------------------------|--------------------------|-----------------------------|
|---------------|-------------------------|--------------------------|-------------------------|--------------------------|-----------------------------|



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|                            | Months<br>Ended<br>September<br>30, 2009 | Sales  | Months<br>Ended<br>September<br>30, 2008 | Sales  | to 2009 |
|----------------------------|--|--------|--|--------|---------|
| Fresh Pork                 | \$ 14,222,841                            | 12.27% | \$ 14,335,725                            | 12.51% | -0.79%  |
| Frozen Pork                | 2,680,908                                | 16.07% | 1,629,829                                | 17.50% | 64.49%  |
| Processed Food<br>Products | 6,333,183                                | 26.15% | 4,014,181                                | 24.49% | 57.77%  |
| Total Gross Profit         | \$ 23,236,932                            | 14.81% | \$ 19,979,735                            | 14.24% | 16.30%  |

In the nine months ended September 30, 2009, the gross profit of the fresh pork segment fell by 0.79% as compared to the same period last year principally due to lower average-per-kilogram price to customers which offset sales volume increases in this segment. The gross profit of the frozen pork products increased by 64.49% as compared to the same period last year primarily due to the dramatic increase of sales volume despite the lower average per-kilogram price to customers. The processed food products segment continued to yield period over period a gross profit amount that was the highest among all the product groups as a percentage of product group sales. Because of the high margins and increased prices to consumers of this product, we were able to maintain a stable amount of gross profit in dollar terms for this product period over period.

**Selling Expenses.** Selling expenses totaled \$2,079,027 for the nine months ended September 30, 2009, as compared to \$3,463,947 for the same period in 2008, a decrease of \$1,384,920 or 39.98%. This decrease is due to a reduction in our advertising expenses. We continued to increase sales made through sales agents, who assumed certain marketing expenses in selling our fresh pork products.

**General and Administrative Expenses.** General and administrative expenses totaled \$1,885,651 for the nine months ended September 30, 2009 as compared to \$1,881,138 for the same period in 2008, an increase of \$4,513 or 0.24%. This change is primarily attributable to increased outside legal fees and audit fees, and increased staff, which was partially offset by a decrease in depreciation expense.

**Other income (Expense).** Our other income (expense) consists of interest income, other expenses, and interest expense. In the nine months ended September 30, 2009, we had totaled other income of \$35,552 and we did have income of \$141,834 from a government subsidy. Our total other income in the nine months ended September 30, 2009 decreased by \$1,384,508, or 97.50% as compared to the same period in 2008. This decrease in total other income is primarily attributable to the decrease of rental income from our frozen storage facility and the exclusion of the government subsidy that was part of other income in prior periods.

**Net Income.** Net income for the nine months ended September 30, 2009 was \$4,719,876 as compared to \$14,176,473 for the same period in 2008, a decrease of \$9,456,597 or 66.71%. This decrease in net income is attributable to a compensatory expense arising from the expected release of 1,448,864 of our shares from an escrow arrangement entered into as part of a private equity financing consummated by us in December 2007. See note 18 of the consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

#### Nine Months Ended September 30, 2009

As of September 30, 2009, we had cash and cash equivalents of \$14,670,937, other current assets of \$79,711,836 and current liabilities of \$37,673,841. At September 30, 2008, we had \$5,695,798 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 sourced in operating activities was \$881,330 for the nine months ended September 30, 2009, while net cash flow used in operating activities was \$307,586 in the same period of 2008. This is primarily attributable to the increase in gross profits of our products.



Net cash used in investing activities was \$3,932,762 for the nine months ended September 30, 2009, compared to cash used in investing activities of \$1,638,371 in the same period of 2008. This change is primarily due to amounts used for improvements for one of our fresh food plants in the nine months ended September 30, 2009.

Net cash sourced from financing activities was \$10,253,095 for the nine months ended September 30, 2009, as compared to net cash used in financing activities of \$964,516 in the same period of 2008. This increase resulted principally from an increase in our borrowings from banks during the nine months ended September 30, 2009 as compared to the same period of 2008.

#### 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 2009 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 2009. 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, 2009, we had outstanding \$6,435,007 in aggregate borrowings from the Bank of China under two loans, in the principal amounts of \$4,387,504 and \$2,047,503, on which we pay interest at rates of 6.1586% and 7.3260% per annum respectively. As of September 30, 2009, we had outstanding \$4,387,504 in borrowings from the Bank of Huaxia under one loan, on which we pay interest at a rate of 6.732% per annum. As of September 30, 2009, we had outstanding \$5,850,006 in borrowings from Shanghai Pufa Development Bank under one loan, on which we pay interest at a rate of 5.841% per annum. As of September 30, 2009, 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, 2009 was \$1,773,476, which was a gain; and for the nine months ended September 30 of 2008, \$550,999 as a gain.

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 2009, the RMB continued to appreciate against the U.S. dollar. As of September 30, 2009, the market foreign exchanges rate was increased to 6.8376 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 ended September 30, 2009.

#### 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, 2009, 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<br>Year    | 1-3<br>Years  | 3-5<br>Years | 5<br>Years + |
| Contractual Obligations:       |                |                        |               |              |              |
| Bank Indebtedness              | \$ 16,672,517  | \$ 16,672,517          | \$ _          | \$ _         | \$ _         |
| Other Indebtedness             | \$ _           | \$ _                   | \$ _          | \$ _         | \$ _         |
| Capital Lease Obligations      | \$ _           | \$ _                   | \$ _          | \$ _         | \$ _         |
| Operating Leases               | \$ _           | \$ _                   | \$ _          | \$ _         | \$ _         |
| Purchase Obligations           | \$ 188,033,052 | \$ 156,700,000         | \$ 31,333,052 | \$ _         | \$ _         |
| Total Contractual Obligations: | \$ 204,705,569 | \$ 173,372,517         | \$ 31,333,052 | \$ _         | \$ _         |

As indicated in the table, as of September 30, 2009 we had \$188,033,052 in purchase obligations, which relates to our agreement for the purchase and sale of hogs. On December 19, 2007, the Company entered into a hog purchase agreement whereby the Dalian Chuming Group Co., Ltd will provide at fair market price a minimum number of hogs to the Company. At September 30, 2009, the Company expects minimum quantities of hogs detailed in the following table:

| Year                       | Hogs    | Price Per Hog | Amount         |
|----------------------------|---------|---------------|----------------|
| 2009 (October to December) | 124,824 | \$ 187.13     | \$ 23,358,315  |
| 2010                       | 800,000 | \$ 205.84     | 164,674,737    |
|                            |         |               | \$ 188,033,052 |

The Company believes that the fair market price of the hogs will increase by 10% each year. The assumption of 10% reflects the Company's expectations in regards 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, 2009, we had approximately \$14,670,937 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 \$1,773,476 and \$550,999 in the nine months ended September of 2009 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 4T. 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, 2009, 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, 2009 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

The risk factors included in our annual report on Form 10-K for the fiscal year ended December 31, 2008 have not materially changed as of September 30, 2009.

##### 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

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

| Exhibit Number | Description  |
|----------------|--|
| 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)                                       |
| 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)  |
| 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.

SIGNATURES

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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 16, 2009

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

Dated: November 16, 2009

By: /s/ Wang Shu  
Wang Shu  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)