

ENERGROUP HOLDINGS CORP
Form 10-Q
November 15, 2010

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, 2010

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 000-32873

ENERGROUP HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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Nevada
(State of Incorporation)

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

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

N/A
(Zip Code)

+86 411 867 166 96

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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):

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, 2010, the Registrant had 21,136,392 shares of Common Stock outstanding.

ENERGROUP HOLDINGS CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Energroupholdings Corporation

Reviewed Consolidated Financial Statements

September 30, 2010 and December 31, 2009

(Stated in US Dollars)

Energroupholdings Corporation

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Board of Directors and Stockholders

Energroupholdings Corporation

Report of Registered Independent Public Accounting Firm

We have reviewed the accompanying interim consolidated Balance Sheets of Energroupholdings Corporation (the Company) as of September 30, 2010 and December 31, 2009, and the related statements of income, stockholders' equity, and cash flows for the three-month and nine-month periods ended September 30, 2010 and 2009. 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.

San Mateo, California
October 26, 2010

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

Energrou Holdings Corporation

Consolidated Balance Sheets

As of September 30, 2010 and December 31, 2009

(Stated in US Dollars)

	Notes	At September 30, 2010	At December 31, 2009
ASSETS			
Current Assets			
Cash	2(D)	\$ 23,993,544	\$ 41,984,101
Restricted Cash	3	21,647,930	2,176,224
Accounts Receivable	2(E),4	40,858,902	39,876,187
Other Receivable		343,651	591,025
Related Party Receivable	5	41,071,360	
Inventory	2(F),6	9,857,403	3,683,989
Advance to Suppliers	2(G)	653,524	844,964
Prepaid Expenses		19,730	30,103
Prepaid Taxes		1,248,149	231,568
Deferred Tax Asset	2(Q)	478,660	468,922
Total Current Assets		140,172,853	89,887,082
Non-Current Assets			
Property, Plant & Equipment, <i>net</i>	2(H),7	22,688,930	23,727,484
Land Use Rights, <i>net</i>	2(I),8	13,228,484	13,175,559
Construction in Progress	2(J)	6,842,058	6,692,837
Total Assets		\$ 182,932,325	\$ 133,482,962
LIABILITIES & STOCKHOLDERS EQUITY			
Current Liabilities			
Bank Loans	9(A)	\$ 43,410,072	\$ 15,942,197
Notes Payable	11	7,464,803	7,312,935
Accounts Payable		3,234,400	3,272,626
Taxes Payable		9,689,005	6,987,848
Other Payable		1,936,176	2,096,958
Accrued Liabilities		196,275	1,922,103
Customer Deposits	2(L)	2,765,786	2,416,615
Related Party Payable	5		2,307,429
Total Current Liabilities		68,696,517	42,258,711
Long Term Liabilities			
Bank Loans	9(B)		
Total Liabilities		\$ 68,696,517	\$ 42,258,711

See Notes to Financial Statements and Accountant's Report

Energroup Holdings Corporation

Consolidated Balance Sheets

As of September 30, 2010 and December 31, 2009

(Stated in US Dollars)

	Notes	At September 30, 2010	At December 31, 2009
Stockholders' Equity			
Preferred Stock - \$0.001 Par Value 10,000,000 Shares Authorized; 0 Shares Issued & Outstanding at September 30, 2010 and December 31, 2009.		\$	\$
Common Stock - \$0.001 Par Value 21,739,130 Shares Authorized; 21,136,392 Shares Issued & Outstanding at September 30, 2010 and December 31, 2009.		21,137	21,137
Additional Paid in Capital		44,230,331	42,530,331
Statutory Reserve	2(M), 12	2,077,488	2,077,488
Retained Earnings		60,417,426	41,329,899
Accumulated Other Comprehensive Income	2(N)	7,489,426	5,265,396
Total Stockholders' Equity		114,235,808	91,224,251
Total Liabilities & Stockholders' Equity		\$ 182,932,325	\$ 133,482,962

See Notes to Financial Statements and Accountant's Report

Energroup Holdings Corporation

Consolidated Statements of Income

For the three-month and nine-month periods ended September 30, 2010 and 2009

(Stated in US Dollars)

	Note	3 months ended September 30, 2010	3 months ended September 30, 2009	9 months ended September 30, 2010	9 months ended September 30, 2009
Sales	2(O),20	\$ 55,701,960	\$ 67,821,080	\$ 165,496,536	\$ 156,852,674
Cost of Sales	2(P)	(47,934,479)	(57,246,206)	(140,969,005)	(133,615,742)
Gross Profit		7,767,481	10,574,874	24,527,531	23,236,932
Selling Expenses	2(Q)	(491,412)	(706,664)	(1,125,722)	(2,079,027)
General & Administrative Expenses	2(R)	(538,382)	(614,806)	(1,934,387)	(1,885,651)
Total Operating Expense		(1,029,794)	(1,321,470)	(3,060,109)	(3,964,678)
Operating Income		6,737,687	9,253,405	21,467,422	19,272,254
Other Income		197,646	7,204	227,939	35,552
Interest Income		50,703	13,574	126,352	131,139
Other Expenses		(25,609)	(8,270)	(34,030)	(71,978)
Interest Expense		(664,848)	(206,869)	(1,501,539)	(509,464)
Government Subsidy Income			14		141,834
Release of Make Good Shares			(4,619,816)		(12,838,043)
Total Other Income/(expense)		(442,108)	(4,814,163)	(1,181,278)	(13,110,960)
Earnings before Tax		6,295,579	4,439,242	20,286,144	6,161,294
Income Tax	2(V),14	(318,101)	(686,232)	(1,198,617)	(1,441,418)
Net Income		\$ 5,977,478	\$ 3,753,010	\$ 19,087,527	\$ 4,719,876
Earnings Per Share	2(Y),17				
Basic		\$ 0.29	\$ 0.22	\$ 0.90	\$ 0.27
Diluted		\$ 0.29	\$ 0.18	\$ 0.90	\$ 0.22
Weighted Average Shares Outstanding					
Basic		21,136,392	17,272,756	21,136,392	17,272,756
Diluted		21,136,392	21,136,392	21,136,392	21,136,392

See Notes to Financial Statements and Accountant's Report

Energroup Holdings Corporation

Consolidated Statements of Changes in Stockholders' Equity

As of September 30, 2010 and December 31, 2009

And for the nine-month ended September 30, 2010 and 2009

(Stated in US Dollars)

	Common Shares Outstanding	Common Amount	Additional Paid in Capital	Statutory Reserve	Retained Earnings	Accumulated Comprehensive Other Income	Total
Balance at 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 Shares Placed in Escrow			16,467,994				16,467,994
Net Income					6,054,442		6,054,442
Appropriations of Retained Earnings							
Foreign Currency Translation Adjustment						1,776,168	1,776,168
Balance at December 31, 2009	21,136,392	\$ 21,137	\$ 42,530,331	\$ 2,077,488	\$ 41,329,899	\$ 5,265,396	\$ 91,224,251
Balance at January 1, 2010	21,136,392	\$ 21,137	\$ 42,530,331	\$ 2,077,488	\$ 41,329,899	\$ 5,265,396	\$ 91,224,251
Reversal of liquidation damage deduction			1,700,000				1,700,000
Net Income					19,087,527		19,087,527
Appropriations of Retained Earnings							
Foreign Currency Translation Adjustment						2,224,030	2,224,030
Balance at September 30, 2010	21,136,392	\$ 21,137	\$ 44,230,331	\$ 2,077,488	\$ 60,417,426	\$ 7,489,426	\$ 114,235,808

	For the year ended December 31, 2009	For nine Months Ended September 30, 2010	Accumulated Totals
Comprehensive Income			
Net Income	\$ 6,054,442	\$ 19,087,527	\$ 25,141,969
<u>Other Comprehensive Income</u>			
Foreign Currency Translation Adjustment	1,776,168	2,224,030	4,000,198
	\$ 7,830,610	\$ 21,311,557	\$ 29,142,167

See Notes to Financial Statements and Accountants Report

Energroup Holdings Corporation

Consolidated Statements of Cash Flows

For the three-month and nine-month ended September 30, 2010 and 2009

(Stated in US Dollars)

	3 months ended September 30, 2010	3 months ended September 30, 2009	9 months ended September 30, 2010	9 months ended September 30, 2009
Cash Flow from Operating Activities				
Net Income	\$ 5,977,478	\$ 3,753,010	\$ 19,087,527	\$ 4,719,876
Non Cash Expense Recorded for the Release of Escrow Shares		4,619,816		12,838,043
Reversal of liquidation damage deduction			1,700,000	
Amortization	101,789	67,427	253,080	492,033
Depreciation	728,773	584,736	1,895,276	1,744,638
Decrease/(Increase) in Accounts & Other Receivables	(11,225,441)	(26,369,063)	(41,806,703)	(22,661,628)
Decrease/(Increase) in Inventory & Purchase Deposit	(6,264,214)	(799,372)	(5,981,973)	(254,276)
Decrease/(Increase) in Prepaid Taxes & Expenses	(33,431)	84,893	(1,015,946)	339,659
Increase/(Decrease) Accounts, Taxes & Other Payables	(5,424,049)	3,513,652	346,588	1,888,836
Increase/(Decrease) in Accrued Liabilities	(18,338)	133,405	(1,725,830)	720,570
Increase in Customer Deposits	163,884	337,783	349,171	1,053,579
Cash Sourced/(Used) in Operating Activities	(15,993,549)	(14,073,713)	(26,898,810)	881,330
Cash Flows from Investing Activities				
Decrease/(Increase) Funds in Restricted Cash Account	6,992,319	(548)	(19,471,706)	1,461
Purchases of Property, Equipment, and Construction of Plants	(678,843)	(117,482)	(1,005,940)	(3,642,200)
Increase of Land Use Rights	(244,110)	(15,499)	(306,006)	(326,785)
Payments/(Withdraw) of Deposits				34,808
Cash Sourced/(Used) in Investing Activities	6,069,366	(133,529)	(20,783,652)	(3,932,762)
Cash Flows from Financing Activities				
Proceeds from Bank Borrowings	18,588,522	5,861,390	27,467,874	10,253,095
Cash Sourced/(Used) in Financing Activities	18,588,522	5,861,390	27,467,874	10,253,095
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period				
Effect of Currency Translation	1,798,896	70,720	2,224,030	1,773,476
Cash & Cash Equivalents at Beginning of Period	13,530,309	22,946,069	41,984,102	5,695,798
Cash & Cash Equivalents at End of Period	\$ 23,993,544	\$ 14,670,937	\$ 23,993,544	\$ 14,670,937
Supplementary information:				
Interest Received	\$ 50,703	\$ 13,574	\$ 126,352	\$ 131,139
Interest Paid	674,164	149,325	1,551,532	105,637
Income Tax Paid	68,531	2,233	84,777	3,388

Energroupholdings Corporation

Notes to Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009

And for the nine months ended September 30, 2010 and 2009

(Stated in US Dollars)

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 (BVI) 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.

Energroupholdings Corporation

Notes to Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009

And for the nine months ended September 30, 2010 and 2009

(Stated in US Dollars)

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*

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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, 2010, 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	105,241,234
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

Energroupholdings Corporation

Notes to Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009

And for the nine months ended September 30, 2010 and 2009

(Stated in US Dollars)

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 (FASB ASC 810 *Consolidation*).

(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*

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

(G) *Purchase Deposit*

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

(H) *Property, Plant, and Equipment*

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

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

Energroupholdings Corporation**Notes to Consolidated Financial Statements****As of September 30, 2010 and December 31, 2009****And for the nine months ended September 30, 2010 and 2009****(Stated in US Dollars)**

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.

(L) *Customer Deposit*

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

(M) *Statutory Reserve*

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

Energroupholdings Corporation

Notes to Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009

And for the nine months ended September 30, 2010 and 2009

(Stated in US Dollars)

(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.

Beginning in March 2008, the Company encouraged its independent sales agents to share the cost in marketing Chuming pork products. The Company encouraged such behavior by offering to its agents: (1) favorable credit terms, such as 45 to 60 days unsecured credit and (2) more significant discount. The Company recognizes the sales revenue directly based on the dollar amount sold to independent sales agents. In accordance to 605-50-45-2, discounts offered to independent sales agent are accounted for as reductions in revenue.

Independent sales agents are customers of the Company. They do not have the right to return products for refunds. Accordingly, the Company does not provide sales allowances for products sold to customers.

(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. Selling expense, in absolute dollars, and as a percentage of revenue, has decreased because of the coordinated effort with independent sales agents to gain higher return on marketing efforts. Refer to Note 2(O) for further details.

(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.

Energroupholdings Corporation

Notes to Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009

And for the nine months ended September 30, 2010 and 2009

(Stated in US Dollars)

(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 (FASB ASC 740), 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.

(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 exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company which are prepared using the functional currency have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and

Energroupholdings Corporation**Notes to Consolidated Financial Statements****As of September 30, 2010 and December 31, 2009****And for the nine months ended September 30, 2010 and 2009****(Stated in US Dollars)**

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	9/30/2010	12/31/2009	9/30/2009
Period end RMB : US\$ exchange rate	6.6981	6.8372	6.8376
Average period RMB: US\$ exchange rate	6.8164	6.8409	6.8425

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 (FASB ASC 260), 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 June 2009, FASB issued ASC 860, *Transfers and Servicing*, and ASC 810, *Consolidation, a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FASB ASC 810 Consolidation)*. The Company has adopted the new accounting policies and has determined that there is no material impact to the financial statements presented herein.

On June 30, 2009, FASB issued ASC 105, *Accounting Standards Codification (FASB ASC 105 Generally Accepted Accounting Principles) a replacement of FASB Statement No. 162 the Hierarchy of Generally Accepted Accounting Principles*. On the effective date of this standard, ASC

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became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. If an accounting change results from the application of this guidance, an entity should disclose the nature and reason for the change in accounting principle in their financial statements. This new standard categorizes the US GAAP hierarchy to two levels: one that is authoritative (in ASC) and one that is non-authoritative (not in ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative US GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. Statement No. 168 is the final standard that will be issued by FASB in that form. There will no longer be, for example, accounting standards in the form of statements, staff positions, Emerging Issues

Energrou Holdings Corporation

Notes to Consolidated Financial Statements

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Task Force (EITF) abstracts, or AICPA Accounting Statements of Position. The Company has adopted and implemented the new accounting policy.

In October 2009, the FASB issued ASU No. 2009-13 Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force . This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The management is in the process of evaluating the impact of adopting this ASU on the Company s financial statements.

The FASB issued ASU-2010-09 (Topic 855) to amend guidance on subsequent events to remove the requirement for SEC filers (as defined in ASU 2010-09) to disclose the date through which an entity has evaluated subsequent events. This change alleviates potential conflicts with current SEC guidance. An SEC filer is still required to evaluate subsequent events through the date financial statements are issued, but disclosure of that date is no longer required. The amendments in ASU 2010-09 became effective upon issuance of the guidance. Management adopted this pronouncement as of July 1, 2010.

Energroup Holdings Corporation

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3. Restricted Cash

The restricted cash of \$21,647,930 represents compensating balances held at banks to partially secure banking facilities in the form of notes payable. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding notes payable, and the funds are only allowed to be used to settle bank indebtedness. The funds deposited as compensating balances are interest bearing.

4. Accounts Receivable

Accounts Receivable at September 30, 2010 and December 31, 2009 consisted of the following: -

	At September 30, 2010	At December 31, 2009
Accounts Receivable Trade	\$ 41,271,618	\$ 40,278,976
<u>Less:</u> Allowance for Doubtful Accounts	(412,716)	(402,789)
Net Accounts Receivable	\$ 40,858,902	\$ 39,876,187

	At September 30, 2010	At December 31, 2009
<u>Allowance for Bad Debts</u>		
Beginning Balance	\$ (402,789)	\$ (188,495)
Allowance Provided	(9,927)	(214,294)
Charged Against Allowance		
Reversal*		
Ending Balance	\$ (412,716)	\$ (402,789)

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. As of September 30, 2010, the Company has not had any receivables that were unrecoverable.

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Accounts receivable aging analysis:-

	At September 30, 2010	At December 31, 2009
<u>1-30 Days</u>	\$ 17,259,056	\$ 17,757,223
<u>30-60 Days</u>	14,650,459	12,643,466
<u>61-90 Days</u>	2,115,266	5,004,370
<u>91-120 Days</u>	2,103,373	4,833,711
<u>121-365 Days</u>	2,271,908	40,206
<u>Over 365 Days</u>	2,871,556	
<u>Total</u>	\$ 41,271,618	\$ 40,278,976

The Company believes it has provided adequate provisions for doubtful accounts. In the past, the Company has not experienced any accounts that have become uncollectible. As a result of the Company's position in its industry and the type of products that it sells, which are considered consumer staples, it can exert significant influence and bargaining power on its customers, which includes, among others, the collection of outstanding accounts. If in the event that the Company's customers do not pay, they will be faced with the consequence that the Company will cease to supply its products to them, and that the Company can take legal action to recover losses.

Energroup Holdings Corporation

Notes to Consolidated Financial Statements

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5. Related Party Receivable and Payable

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 (FASB ASC 210-20), 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 \$41,071,360 at September 30, 2010 is shown in the following table.

Ref.	Subsidiary Due to:	Nature of Balance	Related Party	Balance	Description of Transaction
A	Food	Sale of Products resulting in Trade Receivable from	Dalian Huayu Seafood Food Co., Ltd.	\$ 5,629,947	Food Co. sold cooked food to Huayu dating back to 1/2007.
Subtotal of Related Party Sales				5,629,947	
B	Food	Loan Receivable from	Dalian Mingxing Livestock Product Co., Ltd.	187,061	Food Co. purchased material on behalf of Mingxing Dating back to 6/2009
C	Food	Loan Receivable from	Dalian Chuming Industrial Development Co., Ltd.	22,415,415	Food Co. paid bank loan principal and interest on behalf of Industrial Co. dating back to 1/2008
D	Food	Loan Receivable from	Dalian Chuming Trading Co., Ltd	11,943,685	Food Co. paid material on behalf of Trading Co. dating back to 3/2010
E	Meat	Loan Receivable from	Dalian Chuming Industrial Development Co., Ltd.	29,173,438	Meat Co. paid bank loan principal and interest on behalf of Industrial Co. dating back to 4/2009
F	Meat	Loan Receivable from	Dalian Chuming Stockbreeding Combo Development Co., Ltd.	2,250,225	Prepayment to Stockbreeding Combo for Purchase of hogs dating back to 7/2008.
G	Meat	Loan Receivable from		66,946,812	

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			Dalian Chuming Group Co., Ltd.		Chuming Group borrowed loan from Meat Co. dating back to 1/2008
H	Meat	Loan Receivable from	Dalian Chuming Trading Co., Ltd.	43,783,272	Trading Co. borrowed loan from Meat Co. dating back to 4/2010
I	Meat	Loan Receivable from	Dalian Huayu Seafood Food Co., Ltd.	536,364	Meat Co. purchased material on behalf of Huayu dating back to 7/2010
J	Meat	Loan Receivable from	Dalian Chuming Fodder Co., Ltd.	2,362,623	Meat Co. purchase raw materials on behalf of Fodder dating back to 7/2010
K	Sales	Loan Receivable from	Dalian Huayu Seafood Co., Ltd.	2,376,171	Sales Co. help Huayu purchase materials dating back to 9/2008.
L	Sales	Loan Receivable from	Dalian Chuming Stockbreeding Combo Development Co., Ltd.	16,255,161	Sales Co. paid for Stockbreeding to buy hogs from farmer dating back 7/2008
M	Sales	Loan Receivable from	Dalian Chuming Industrial Development Co., Ltd.	5,710,253	Sales Co. purchased materials for Industrial Co. dating back to 7/2009
		Subtotal loans to related parties		203,940,480	
		Gross related party receivables		\$ 209,570,426	

Energroup Holdings Corporation

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Ref.	Subsidiary Due from:	Nature of Balance	Related Party	Balance	Description of Transaction
N	Meat	Purchase of Raw Materials resulting in Trade Payable to	Dalian Chuming Stockbreeding Combo Development Co., Ltd.	\$ 89,775,342	Meat Co. purchased of hogs from Stockbreeding Combo dating back to 12/2009
O	Meat	Purchase of Raw Materials resulting in Trade Payable to	Dalian Chuming Group Co., Ltd.	33,517,102	Purchase of hogs from Group dating back to 7/2008.
Subtotal of Purchases from Related Parties				\$ 123,292,444	
P	Food	Loan Payable to	Dalian Chuming Group Co., Ltd.	1,598,750	Food Co. borrowed from Group to purchase materials dating back to 4/2009.
Q	Food	Loan Payable to	Dalian Chuming Stockbreeding Combo Development Co., Ltd.	7,016,915	Stockbreeding Combo bought raw materials on behalf of Food Co. dating back to 4/2009
R	Food	Loan Payable to	Dalian Huayu Seafood Co., Ltd.	9,314,269	Food Co. collected customer deposits on behalf of Huayu Co. dating back to 7/2009
S	Food	Loan Payable to	Dalian Chuming Fodder Co., Ltd.	2,897,101	Food Co. purchased materials on behalf of Fodder dating back to 7/2010
T	Meat	Loan Payable to	Dalian Chuming Fodder Co., Ltd.	1,258,039	Fodder Co. paid the materials on behalf of Meat dating back to 3/2010
U	Sales	Loan Payable to	Dalian Mingxing Livestock Product Co. Ltd.,	1,560,374	Sales Co. collected bank loans on behalf of Mingxing dating back to 8/2008
V	Sales	Loan Payable to	Dalian Chuming Fodder Co., Ltd.	9,655,687	Fodder Co. bought materials on behalf of Sales Co. dating back to 4/2009
W	Sales	Loan Payable to	Dalian Chuming Group Co., Ltd.	3,269,214	Sales Co. borrowed money from Group dated back to 7/2010
X	WFOE	Loan Payable to	Dalian Chuming Group Co.	8,636,273	Group loaned funds to WFOE (includes funds transferred from Meat for US RTO.)
Subtotal of Loans from Related Parties				45,206,622	
Gross Related Party Payable				168,499,066	
Setoff Related Party Receivable (Payables have been set-off against receivable)				\$ 41,071,360	

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(Stated in US Dollars)

- A. Food Company sold USD 5.6 million (RMB 37.71 million) cooked food to Huayu Company on credit.
- B. Food Company purchased material USD 187 thousand(RMB 1.2 Million) on behalf of Mingxing dating back to 6/2009
- C. Food Company paid USD 22 million (RMB 150 million) bank loan principal and interest on behalf of Industrial Development Company.
- D. Food Company paid USD 11.9 million (RMB 80 million) for materials on behalf of Trading Company.
- E. Meat Company paid USD 29 million (RMB 195 million) bank loan principal and interest on behalf Industrial Development Company.
- F. The prepayment of USD 2.25 million (RMB 15 million) from Meat Company to the Stockbreeding Combo Development Company was for the purchase of hogs.
- G. Meat Company lent USD 67 million (RMB 425 million) to Chuming Group.
- H. Trading Company borrowed USD 44 million (RMB 273 million) from Meat Company.
- I. Meat Company purchased USD 536 thousand (RMB 3.6 million) thousand materials on behalf of Huayu Company.
- J. Meat Company purchased USD 2.4 million raw materials on behalf of Fodder Company.

- K. Sales Company bought USD 2.4 million (RMB 16 million) raw materials on behalf of Huayu Seafood Company.

- L. Sales Company help the Combo Development Company to pay USD 16.2 million (RMB 109 million) to local farmers for the purchase of hogs.

- M. Sales Company purchased USD 5.7 million (RMB 38 million) materials for Industrial Development Company.

- N. The balance of USD 89.7 million (RMB 605 million) payment owed by the Meat Company to Stockbreeding Combo Development Company was for the purchase of hogs.

- O. The Group sold hogs to Meat Co. for 34 million (RMB 302 million).

- P. Food borrowed USD 1.6 million(RMB 10.7 million) from Group to purchase materials

- Q. Stockbreeding Combo Development Company purchased USD 7 million (RMB 67 million) for Food Company.

- R. Food Company collected USD 9.3 million (RMB 62.3 million) customer deposits on behalf of Huayu Seafood Company.

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- S. Food Company bought USD 2.8 million (RMB 18 million) materials on behalf of Fodder Company.
- T. Fodder Co. paid USD 1.2 million (RMB 8.4 million) the fodder materials on behalf of Meat Company.
- U. Sales Company collected USD 1.6 million (RMB 10.88 thousand) bank loans on behalf of Mingxing Livestock Company.
- V. Fodder Company bought USD 9.7 million (RMB 65 million) materials on behalf of Sales Company.
- W. Sales Company borrowed USD 3.3 million (RMB 19 million) from the Group.
- X. The outstanding payable balance of USD 10.6 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 (FASB ASC 850) 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 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.

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6. Inventory

	At September 30, 2010	At December 31, 2009
Raw Materials	\$ 748,146	\$ 1,479,197
Work in Progress	196,591	95,051
Finished Goods	8,912,666	2,109,741
	\$ 9,857,403	\$ 3,683,989

7. Property, Plant & Equipment

At September 30, 2010:	Cost	Accumulated Depreciation	Net
Buildings	\$ 22,212,402	\$ (5,257,677)	\$ 16,954,725
Manufacturing Equipment	10,257,946	(5,043,926)	5,214,020
Office Equipment	493,790	(440,558)	53,232
Vehicles	927,722	(741,865)	185,857
Furniture & Fixture	536,233	(255,137)	281,096
	\$ 34,428,093	\$ (11,739,163)	\$ 22,688,930

At December 31, 2009:	Cost	Accumulated Depreciation	Net
Buildings	\$ 21,661,732	\$ (4,341,813)	\$ 17,319,919
Manufacturing Equipment	9,983,958	(4,227,442)	5,756,516
Office Equipment	473,623	(397,488)	76,135
Vehicles	926,735	(664,628)	262,107
Furniture & Fixture	525,323	(212,516)	312,807
	\$ 33,571,371	\$ (9,843,887)	\$ 23,727,484

8. Land Use Right

The Company had the following intangible assets outstanding:-

	At September 30, 2010	At December 31, 2009
Land Use Rights, at Cost	\$ 15,041,156	\$ 14,735,150
<u>Less:</u> Accumulated Amortization	(1,812,672)	(1,559,591)
	\$ 13,228,484	\$ 13,175,559

Energroup Holdings Corporation

Notes to Consolidated Financial Statements

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

At September 30, 2010 and December 31 2009, the Company had the following short-term loans outstanding:

Bank	Interest Rate	Due Date	At September 30, 2010
Bank of China - Liaoning Branch	5.841%	10/27/2010	\$ 2,090,145
Bank of China - Liaoning Branch	5.841%	12/12/2010	4,478,882
Bank of China - Liaoning Branch	5.310%	09/28/2011	7,728,311
Shanghai Pudong Development Bank - Dalian Branch	5.841%	11/25/2010	14,929,607
Huaxia Bank - Dalian Branch	5.576%	01/06/2011	7,464,803
Bank of East Asia - Dalian Branch	5.450%	10/22/2010	2,239,442
China Minsheng Banking Corp., Ltd. - Shanghai Branch	5.841%	04/12/2011	4,478,882
			\$ 43,410,072

Bank	Interest Rate	Due Date	At December 31, 2009
Bank of China - Liaoning Branch	5.841%	11/11/2010	\$ 2,252,384
Bank of China - Liaoning Branch	5.841%	11/18/2010	2,135,377
Bank of China - Liaoning Branch	5.841%	10/27/2010	2,047,620
Agricultural Bank of China - Wafangdian Branch	5.310%	10/30/2010	2,925,174
Shanghai Pudong Development Bank - Dalian Branch	5.841%	07/16/2010	4,387,761
Bank of East Asia - Dalian Branch	7.330%	10/22/2010	2,193,881
			\$ 15,942,197

The loans provided by the Bank of China are secured by the Meat Company's land use rights, which have been appraised at a fair market value of \$5,605,611 (RMB 41,000,000). Also, the Agricultural Bank and Shanghai Pudong Development Bank loans have been guaranteed by the Dalian Chuming Group Co., Ltd. Both the CEO Mr. Shi Huashan and Dalian Chuming Group Co., Ltd. have guaranteed the loan from Bank of East Asia.

(B) *Bank Loan through Group*

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

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At December 31, 2007, the Company repaid its debt, in its entirety to Dalian Chuming Group Co. Ltd by setting off receivables owed by the Group to the Company. The Company repaid the loan in order to meet the requirements of the equity financing transaction detailed in Note 19. The balances are now owed by Dalian Chuming Group Co. Ltd to the Banks, and liability for paying the bonding insurance annually lies with the Group. The pledged collateral of land use rights and buildings made to the Bond Issuer still underlie the loan currently owed by the Group, and as such, the Company's assets, namely the buildings and land use rights are at risk if the Group were to default on this loan.

10. Notes Payable

Notes payable consisted of the followings:-

Notes to	Due Date	At September 30, 2010
Shanghai Pudong Development Bank - Liaoning Branch	11/18/2010	\$ 7,464,803
		\$ 7,464,803

Notes to	Due Date	At December 31, 2009
Shanghai Pudong Development Bank - Liaoning Branch	5/18/2010	\$ 7,312,935
		\$ 7,312,935

The Notes do not carry a stated interest rate but do carry a specific due date. These notes are negotiable documents issued by financial institutions on the Company's behalf to vendors. These notes can either be endorsed by the vendor to other third parties as payment, or prior to coming due, they can discount these notes to other financial institutions. These notes are short term in nature so the Company does not calculate an imputed interest on them. These notes are collateralized by the Company's deposits as described in Note 3. Restricted Cash.

11. 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

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shown below:-

Name of Shareholder	Number of Shares	Common Stock Capital	Additional Paid in Capital	Equity %
Operating Companies Founders	14,688,948	\$ 14,689	\$ 31,186,367	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	\$ 44,230,331	100.00%

Energroupholdings Corporation**Notes to Consolidated Financial Statements****As of September 30, 2010 and December 31, 2009****And for the nine months ended September 30, 2010 and 2009****(Stated in US Dollars)**12. 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, 2010	At December 31, 2009
PRC Registered Capital	\$ 17,666,849	\$ 15,566,849
- Statutory Reserve Ceiling based on 50% of Registered Capital	8,833,425	7,783,424
<i>Less:</i> - Retained Earnings appropriated to Statutory Reserve	(2,077,488)	(2,077,488)
Reserve Commitment Outstanding	\$ 6,755,937	\$ 5,705,936

13. Advertising Costs

Advertising expenses were \$211,669 and \$163,029 for the nine-month periods ended September 30, 2010 and 2009, respectively.

14. Income Taxes

The Company and its subsidiaries are subject to income tax under the jurisdictions under which they operate. The following table details the Company and its subsidiaries, and the statutory tax rates to which they are subject:

Entity	Country of Domicile	Income Tax Rate
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Energroupholdings Corporation	USA	15.00% - 35.00%
Precious Sheen Investments Limited	BVI	0.00%
Dalian Chuming Precious Sheen Investment Consulting Co., Ltd.	PRC	25.00%
Dalian Chuming Slaughtering & Pork Packaging Co., Ltd.	PRC	25.00%
Dalian Chuming Processed Foods Co., Ltd.	PRC	25.00%
Dalian Chuming Sales Co., Ltd.	PRC	25.00%

As shown in the table above, Dalian Chuming Slaughtering & Pork Packaging Co. Ltd., Dalian Chuming Processed Foods Co. Ltd., Dalian Chuming Sales Co. Ltd., and Dalian Chuming Precious Sheen Investment Consulting Co. operate in the PRC. They generate substantially all of the profits for the Company. The Company expects that these subsidiaries will only be subject to PRC taxes in the foreseeable future, because the Company has not yet established a plan to repatriate its earnings to the United States.

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(Stated in US Dollars)

Although the Companies PRC subsidiaries are subject to statutory income tax rates detailed above, the individual effective tax rates for each subsidiary vary significantly.

Dalian Chuming Slaughtering & Pork Packaging Co. Ltd. has been given special tax-free status by the PRC government because of the Company's standing as leader in its industry in Dalian. Accordingly, the Company has not made a provision for income taxes in the PRC for the nine-month periods ended September 30, 2010 and 2009.

Dalian Chuming Processed Foods Co. Ltd has provided for income taxes for the nine-month periods ended September 30, 2010 and 2009 in the amounts of \$1,198,617 and \$1,441,418, respectively.

Dalian Chuming Sales Co. Ltd. has not provided for income taxes in years 2010 and 2009 because it has incurred operating losses for those respective years. The Company has chosen to derecognize its deferred tax assets arising from net operating losses in prior periods by expensing the asset to the income tax expense account. The amounts expense related to de-recognition of deferred tax assets for the years ended December 31 2009 and 2008 were \$176,191 and \$11,246 respectively. Management made the decisions of de-recognition based on new information such as changes in market conditions and the further streamlining of the Company's business. Management does not believe that previously accrued deferred tax assets will be used to reduce taxes payables at any point in the foreseeable future. Management deemed the use of a valuation allowance inappropriate based on the circumstances in accordance to guidance provided under ASC 740-10-40.

Although the Company is subject to United States income taxes, it is a holding company with no operations or profits within the US borders. The Company currently only incurs expenses in the United States that are associated with being a public company.

After accounting for special tax-free status and net operating loss of aforementioned subsidiaries, the consolidated taxable earnings were determined, and the consolidated tax expenses were as follows: -

i.	2010	Tax expense	(1,198,617)
ii.	2009	Tax expense	(1,441,418)

15. Commitments

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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, 2010 except for the commitment to have the construction in progress finished.

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, 2010, the Company expects minimum quantities of hogs detailed in the following table:

Year	Hogs		Price Per Hog		Amount
2010 (Oct to Dec)	384,511	\$	205.84	\$	79,147,744

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

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Food Company	Sales Company	\$	5,854,487
Meat Company	Sales Company		20,292,333
Meat Company	Food Company		14,901,142
		\$	41,047,962

Energroupholdings Corporation

Notes to Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009

And for the nine months ended September 30, 2010 and 2009

(Stated in US Dollars)

Results of Operations For the period ended September 30, 2010	Meat Company	Food Company	Sales Company	WFOE, PSI, & Eliminations	Total
Sales	\$ 156,013,257	\$ 21,743,518	\$ 14,381,918	\$ (26,642,157)	\$ 165,496,536
Cost of Sales	137,498,825	16,237,740	13,874,597	(26,642,157)	140,969,005
Gross Profit	18,514,432	5,505,778	507,321		24,527,531
Operating (Loss)/Profit	17,418,690	4,976,812	(596,388)	(331,691)	21,467,422
Other Income (Expense)	(1,071,151)	(182,343)			