

INDUSTRY OVERVIEW

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In this section, information regarding the relevant industries has been recited or extracted from certain articles, reports or publications, and their preparations were not commissioned or funded by us or the Sponsor.

INTRODUCTION

We operate primarily in the edible corn oil industry by principally engaging in the manufacture of edible corn oil products for (1) sale under our brand 長壽花 (Longevity Flower) in the PRC consumer market; and (2) domestic or export bulk sales mainly to other enterprises that are engaged in the sale of edible corn oil under their own brands.

Edible oil, mainly used in cooking, is produced either from animal tissues or vegetable seeds and accordingly is broadly classified as edible animal oil and edible vegetable oil. Major types of edible animal oil include butter and lard while major types of edible vegetable oil include soybean oil, rapeseed oil, peanut oil, sunflower seed oil, cottonseed oil, olive oil, palm oil and corn oil.

According to the “Dietary Guidelines for Americans, 2005” issued by the US Department of Health and Human Services and the US Department of Agriculture, most dietary fats should come from polyunsaturated fatty acids, whereas the intakes of saturated fat should be minimised. Liquid vegetable oils, including soybean oil, corn oil, and safflower oil, being sources of omega-6 polyunsaturated fatty acids and with lower saturated fat content, are healthier than edible animal oil. The “Dietary Guidelines for Americans, 2005” also mentioned that high intake of saturated fats increases the risk of unhealthy blood lipid levels, which in turn may increase the risk of coronary heart disease. On the other hand, inadequate intake of essential fatty acids including polyunsaturated fatty acids may contribute to unfavourable changes in high-density lipoprotein blood cholesterol and triglycerides.

Corn oil is extracted from corn embryo and becomes edible corn oil after further production processes such as refining. Edible corn oil has a milder taste than other edible oils and its high smoke point makes it a valuable frying oil for cooking use. According to USDA National Nutrient Database for Standard Reference, Release 21 released by the US Department of Agriculture in 2008, compared to other popular edible vegetable oils such as soybean oil, rapeseed oil, peanut oil and cotton seed oil, edible corn oil generally has a higher polyunsaturated fatty acid level and/or lower saturated fatty acid level. A

INDUSTRY OVERVIEW

comparison of the levels of polyunsaturated and saturated fatty acids of different types of edible vegetable oil are illustrated below:

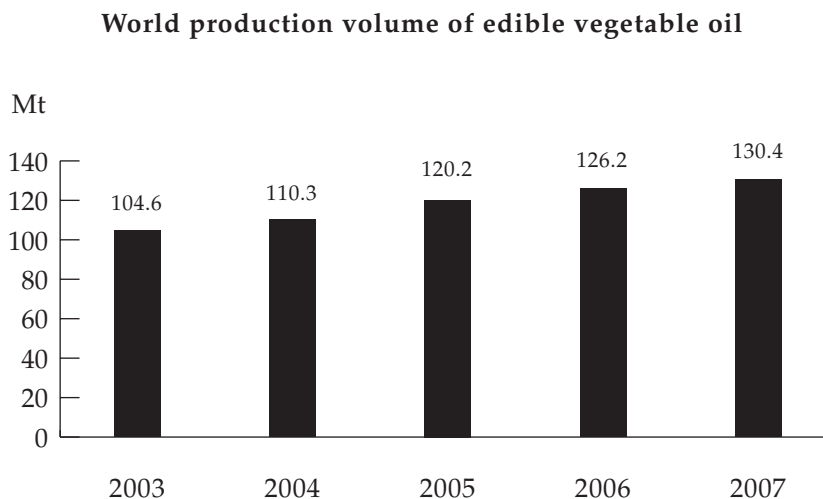
<u>Types of vegetable oil</u>	<u>Polyunsaturated fatty acid</u> (grams per tablespoon)	<u>Saturated fatty acid</u> (grams per tablespoon)
Corn oil	7.436	1.761
Cotton seed oil	6.542	2.448
Soybean oil	5.114	2.026
Peanut oil	4.320	2.282
Rapeseed oil	3.940	1.031

Source: USDA National Nutrient Database for Standard Reference, Release 21 released by the US Department of Agriculture

The PRC is the major market of our edible corn oil products during the Track Record Period. The performance of the PRC edible corn oil industry is driven by the growth of the PRC economy, the increase in disposable income of the PRC population and the consumers' increasing health awareness for the consumption of healthy edible vegetable oil in the PRC.

THE GLOBAL EDIBLE VEGETABLE OIL INDUSTRY

The global demand for edible vegetable oil has grown steadily in recent years. According to the Food and Agriculture Organization of the United Nations, the world production volume of edible vegetable oil from 2003 to 2007 grew at a CAGR of approximately 5.66%. The following chart sets out the world production volume of edible vegetable oil from 2003 to 2007.



Source: Food and Agriculture Organization of the United Nations

INDUSTRY OVERVIEW

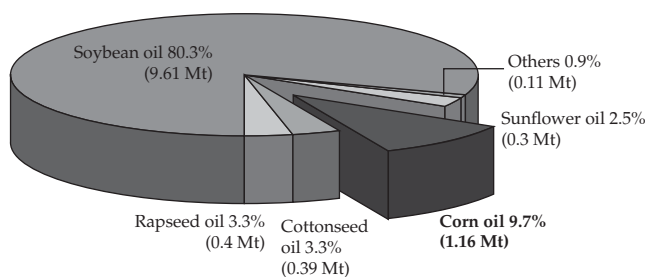
THE GLOBAL AND THE US EDIBLE CORN OIL INDUSTRY

According to the Food and Agriculture Organization of the United Nations, the global edible corn oil market has shown steady growth in recent years with global production volume increased from approximately 1.98 million tonnes in 2003 to approximately 2.2 million tonnes in 2007, representing a CAGR of approximately 2.7%. Edible corn oil remains as a minor oil product in the global edible vegetable oil market with global production volume accounted for approximately 1.69% of the global production volume of all edible vegetable oils in 2007, yet the development of edible corn oil market is very much different in developed countries such as the US.

With over 100 years of history of production and consumption, edible corn oil has been widely used by people in the US and has the second largest market share in the US edible oil market in terms of production volume in 2007, following soybean oil and the third largest market share in the US edible oil market in terms of consumption volume in 2007, following soybean oil and rapeseed oil. According to the Oil Crops Yearbook 2008 released by the US Department of Agriculture, the production volume of edible corn oil amounted to approximately 1.16 million tonnes and represented approximately 9.7% of the production volume of all edible vegetable oils in the US in 2007 whereas the consumption volume of edible corn oil amounted to approximately 0.84 million tonnes and represented approximately 6.5% of the consumption volume of all edible vegetable oils in US in 2007.

The following charts respectively set forth (i) the production volume of edible corn oil in the US and its contribution to the total production volume of all edible vegetable oils in the US in 2007; and (ii) the consumption volume of edible corn oil in the US and its contribution to the total consumption volume of all edible vegetable oils in the US in 2007.

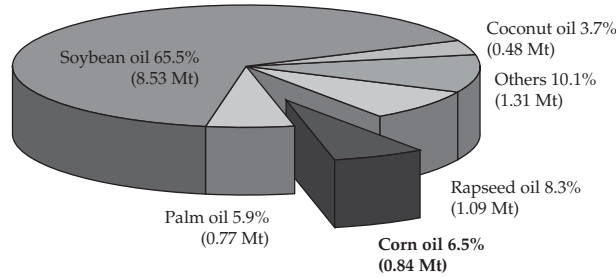
Production volume of edible vegetable oil in the US by oil types in 2007



Source: Oil Crops Yearbook 2008, the US Department of Agriculture

INDUSTRY OVERVIEW

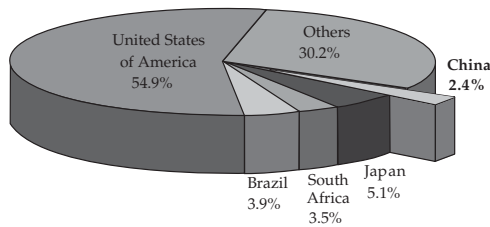
Consumption volume of edible vegetable oils in US by oil types in 2007



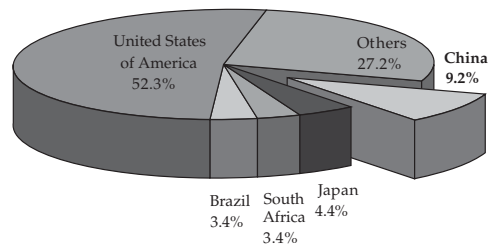
Source: *Oil Crops Yearbook 2008, US Department of Agriculture*

The US has been the largest corn oil producer and consumer for over a decade. According to the Food and Agriculture Organization of the United Nations, the US is the world's largest edible corn oil producer with production volume accounted for approximately 52.3% of the total global production volume of edible corn oil in 2007, whereas China has become the world's second largest edible corn oil producer with production volume accounted for approximately 9.2% of the total global production volume of edible corn oil in 2007. The following chart sets forth the global production volume of edible corn oil in 2003 and 2007 respectively.

Production volume of edible corn oil by countries in 2003



Production volume of edible corn oil by countries in 2007



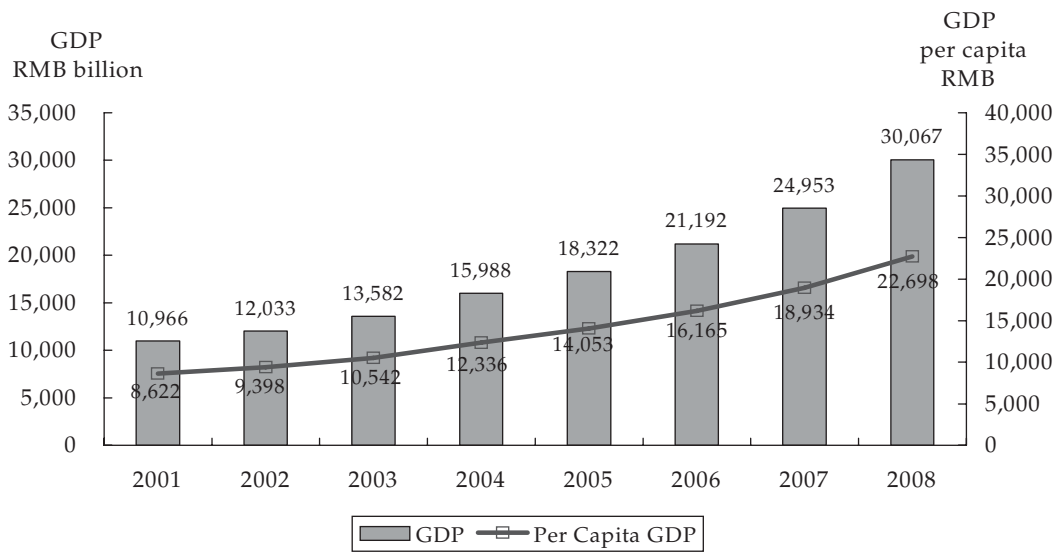
Source: *Food and Agriculture Organization of the United Nations*

INDUSTRY OVERVIEW

PRC ECONOMY

China is one of the world's fastest growing economies over the past decade. According to the National Bureau of Statistics of China, China achieved a gross domestic product CAGR of approximately 15.5% from approximately RMB10,966 billion in 2001 to approximately RMB30,067 billion in 2008, with the per capita gross domestic product increased from approximately RMB8,622 to approximately RMB22,698 during the same period. This growth has partially been driven by China being the world's largest domestic consumer market. The following chart sets out the Gross Domestic Product ("GDP") and the per capita GDP of the PRC from 2001 to 2008.

GDP and Per capita GDP of the PRC

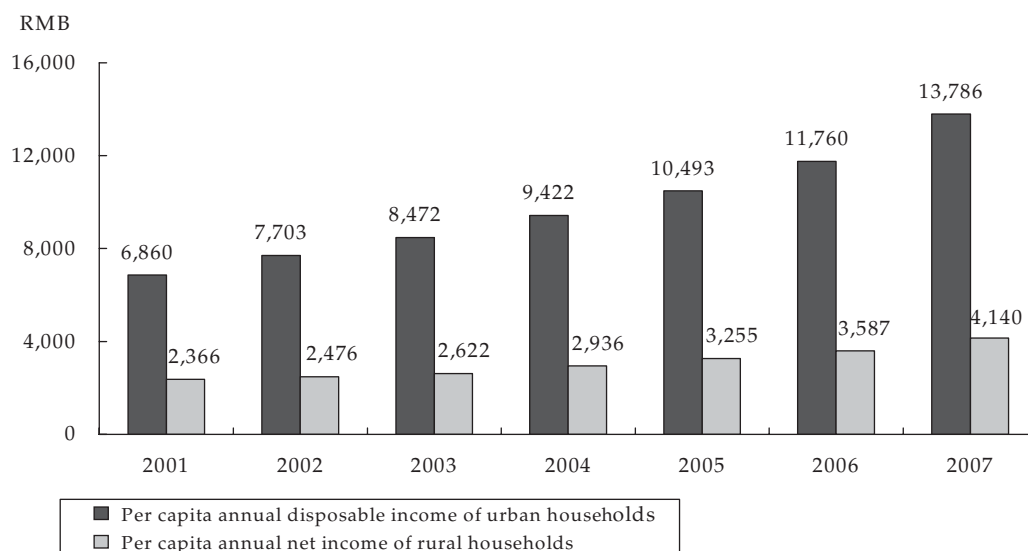


Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

The consumer purchasing power in China has been increasing along with the economic growth. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households in China has increased from approximately RMB6,860 in 2001 to approximately RMB13,786 in 2007, representing a CAGR of approximately 12.3%, while over the same period the per capita annual net income of rural households increased from approximately RMB2,366 in 2001 to approximately RMB4,140 in 2007, representing a CAGR of approximately 9.8%. The following chart sets out the per capita annual disposable income of urban households and the per capita annual net income of rural households of the PRC from 2001 to 2007.

Per capita income growth of urban and rural households of the PRC



Source: National Bureau of Statistics of China

We believe that the general increase in wealth and disposable income level of the Chinese population will result in the continuous growth of the middle-to-upper-class of the PRC society which is the target consumer group of our healthy edible corn oil products.

INDUSTRY OVERVIEW

THE CORN SUPPLY IN THE PRC

China is the world's second largest cultivator of corn in terms of production volume and growing area. According to the United States Department of Agriculture, China has the second largest production volume and growing area of corn which accounted for approximately 19.2% and approximately 18.4% of the global production volume and growing area respectively in 2007, following the US which accounted for approximately 41.8% and 21.9% respectively. According to the Food and Agriculture Organization of the United Nations, the harvest areas of corn in China has increased at a CAGR of approximately 5.2% from approximately 24.1 million hectares in 2003 to approximately 29.5 million hectares in 2007, whereas the production volume of corn in China has increased at a CAGR of approximately 7.0% from approximately 116 million tonnes in 2003 to approximately 152 million tonnes in 2007. According to CCOA (Oil and Fats Division)[†], the production volume of corn in 2008 in China has nearly reached 160 million tonnes which theoretically can facilitate the production of approximately 4 million tonnes of corn oil and the current utilisation rate is less than 10%. According to CCOA (Oil and Fats Division), the abundance of corn production in the PRC guarantees a sufficient supply of corn embryos for the future growth of the edible corn oil manufacturing industry. We believe that the abundant supply of corn embryo in the PRC can (i) stabilise the market price of corn embryos in the PRC and secure the profitability of edible corn oil manufacturers; and (ii) lessens the PRC edible corn oil manufacturers' reliance on the import of corn embryos which in turn lower their procurement costs.

THE EDIBLE VEGETABLE OIL INDUSTRY IN THE PRC

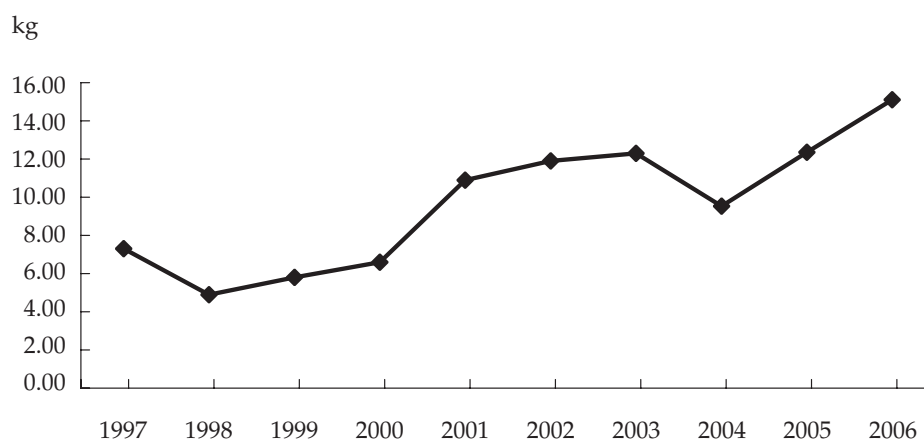
The edible vegetable oil consumption market in the PRC has experienced significant growth in recent years due to the people's gradual change in diet habits and increasing demand towards healthy edible oil products. With growing urbanisation and rising disposable incomes, consumers in the PRC have become more concerned over their health and the nutrition contents of food. Compared to urban households in the PRC whose edible oil consumption is almost solely from edible vegetable oil, there has been an

[†] CCOA (Oil and Fats Division) is a division of the Chinese Cereals and Oils Association, which is a national academic association under the guidance and supervision of The China Association for Science and Technology with members mainly being technicians and entrepreneurs engaging in scientific research and industrial production of the cereals and oil industry. Chinese Cereals and Oils Association is a cross-border and cross-industry association with over 6,000 individual members and over 550 corporate members, and has established 5 professional divisions in the areas of: storage of grain and oils, grain and food, oil and fats processing, animal feed processing and information automation. After approved by The China Association for Science and Technology, Chinese Cereals and Oils Association has participated as a national member in the International Association of Cereal Science and Technology and has exchanged knowledge and established cooperation relationship with academic associations from the US, Germany, Canada, Australia, United Kingdom, France, Japan and Italy, etc. "Journal of the Chinese Cereals and Oils Association", the major publication of Chinese Cereals and Oils Association, is published both in the PRC and overseas with Chinese editions every two months and English editions annually. "Journal of the Chinese Cereals and Oils Association" is a national first class periodic journal and is approved by the PRC government as a recognised publication for academic thesis to be released by PRC technicians. Save for the fact that Mr. Wang Ruiyuan, our independent non-executive Director, is currently the vice president of Chinese Cereals and Oils Association, CCOA (Oil and Fats Division) has no relationship with our Group. Certain information and statistics set out in this section have been extracted or derived from a market overview prepared by CCOA (Oil & Fats Division) which has not been commissioned by us.

INDUSTRY OVERVIEW

increasing trend for rural households to switch from edible animal oil to edible vegetable oil as well. According to the National Bureau of Statistics of China, the per capita consumption of edible vegetable oil by rural households in the PRC accounted for approximately 84.9% of the per capita consumption of all edible oil in 2007 while the proportion was approximately 68.5% in 1990, indicating that the consumption of edible vegetable oil has increased in rural areas of the PRC. According to the Ministry of Agriculture of the PRC, the per capita edible vegetable oil consumption in the PRC has increased from approximately 7.3kg in 1997 to approximately 15.1kg in 2006, representing a CAGR of approximately 8.4%. The following charts sets forth the per capita consumption of edible vegetable oil in the PRC from 1997 to 2006.

Per capita edible vegetable oil consumption in the PRC



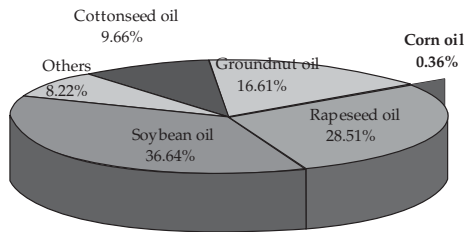
Source: Ministry of Agriculture of the PRC

According to the Ministry of Agriculture of the PRC, the production volume of edible vegetable oil in the PRC has increased from approximately 8.94 million tonnes in 1997 to approximately 19.86 million tonnes in 2006, representing a CAGR of approximately 9.3%. According to the Ministry of Agriculture of the PRC, China has remained a net importer of edible vegetable oils since 1986, and the import volume of edible vegetable oil grew at a CAGR of approximately 10.2% from 1997 to 2006 while the export volume of edible vegetable oils grew at a mere CAGR of 0.5% during the same period.

INDUSTRY OVERVIEW

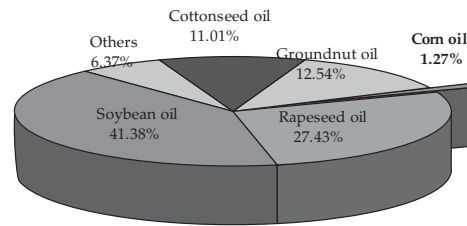
According to the Food and Agriculture Organization of the United Nations, the production volume of edible corn oil in the PRC has increased from approximately 0.36% in 2003 to approximately 1.27% in 2007 of the total production volume of all edible vegetable oils in the PRC which indicates a large growth potential for edible corn oil products.

**Production of vegetable oils in the PRC
by oil type in 2003**



Source: Food and Agriculture Organization of the United Nations

**Production of vegetable oils in the PRC
by oil type in 2007**

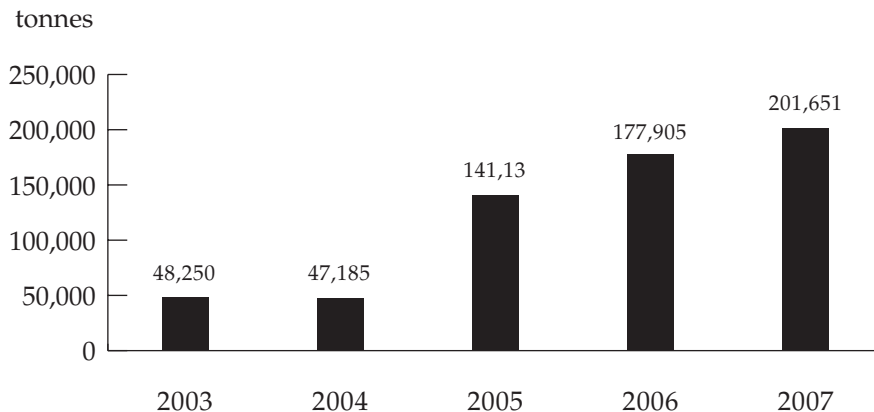


Source: Food and Agriculture Organization of the United Nations

THE EDIBLE CORN OIL INDUSTRY IN THE PRC

According to the Food and Agriculture Organization of the United Nations, the production volume of edible corn oil in the PRC increased from approximately 48,000 tonnes in 2003 to approximately 202,000 tonnes in 2007, representing a CAGR of approximately 43%. The significant growth in the production volume of edible corn oil in recent years indicates the huge development potential of the edible corn oil consumer market. The following chart sets forth the production volume of edible corn oil in the PRC from 2003 to 2007.

Production volume of edible corn oil in PRC



Source: Food and Agriculture Organization of the United Nations

INDUSTRY OVERVIEW

Despite significant growth in recent years, the production volume of edible corn oil still merely contributed for approximately 1.27% of the production volume of all edible vegetable oils in the PRC in 2007. We believe that the current small size of the edible corn oil market in the PRC is mainly due to the short development history for the production and consumption of edible corn oil in the PRC. Compared to the US with approximately 100 years history of edible corn oil production, the edible corn oil production in the PRC has only around 10 years history, yet the rapid development in recent years has led China to become the world's second largest corn oil producer in 2007, right after US according to the Food and Agriculture Organization of the United Nations. Considering (i) China's abundant supply of corn embryos for the development of edible corn oil production which is similar to the US; (ii) a growing size of middle-to-upper class population in the PRC with increasing awareness towards healthy and quality lifestyle and the consumption of healthy edible vegetable oil; (iii) the significant growth rate of the market demand relative to the industry supply of edible corn oil products; and (iv) the superior health value of edible corn oil compared with other edible oils, we believe that edible corn oil has the potential to become one of the major edible oil products in the PRC by following the steps of the development of edible corn oil industry in the US.

According to CCOA (Oil and Fats Division), Corn Industry was the first manufacturer in the PRC engaging in edible corn oil production and has been the largest edible corn oil manufacturer in terms of production volume during 2006 to 2008. According to CCOA (Oil and Fats Division), the total production volume of edible corn oil in the PRC was approximately 250,000 tonnes in 2008.

COMPETITIVE LANDSCAPE

The edible corn oil consumer market has a short development history in the PRC and the market is concentrated with competition mainly among several brands. According to CCOA (Oil and Fats Division), our brand 長壽花 (Longevity Flower) and the other two brands (which belong to two groups of companies and a member of each of such groups was our bulk sales customer during the Track Record Period), together have a significant share of the PRC's packaged edible corn oil market which accounted for over 50% of the sales volume of all packaged edible corn oil in the PRC in 2008, and our brand 長壽花 (Longevity Flower) had not less than 10% of the market share in terms of sale volume.

Considering the health awareness of the target customer group of edible corn oil that are mostly mid-to-upper class in the PRC, different brands had focused their marketing and product development efforts on the quality, nutrition value and health effect of edible corn oil products. Our Directors believe that the business of manufacture and sale of edible corn oil requires capital investment and specialised production technology, which are the major entry barriers to new players.

INDUSTRY OVERVIEW

Our reputation as one of the earliest and largest edible corn oil manufacturers in the PRC which supplies edible corn oil to other PRC edible corn oil brands helped position our brand 長壽花 (Longevity Flower) as a symbol of quality and health in the market. Comparing to our competitors which are also engaged in the production and sale of other packaged edible oil types apart from edible corn oil, we are more focused and more ambitious to expand and develop our brand 長壽花 (Longevity Flower) in the edible corn oil market. We believe that by focusing on the edible corn oil industry, we can establish our corporate image as the expert in edible corn oil market and make it easier for consumers to associate edible corn oil with our brand 長壽花 (Longevity Flower).