

SINO AGRO FOOD, INC. AND SUBSIDIARIES  
(Incorporated in the State of Nevada, United States of America)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

SINO AGRO FOOD, INC. AND SUBSIDIARIES  
(Incorporated in the State of Nevada, United States of America)

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NEW ENGLISH TRANSLATION NAME OF SUBSIDIARIES	

# Madsen & Associates CPAs, Inc.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Sino Agro Food, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Sino Agro Food, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2008. Sino Agro Food, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sino Agro Food, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

s/Madsen & Associates CPA's, Inc.  
Madsen & Associates CPA's, Inc.

Murray, Utah

September 21, 2010

SINO AGRO FOOD, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007

	2008 \$	2007 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,731,118	358,514
Inventories	5,199,241	626,801
Deposits and prepaid expenses	10,189,266	7,782,252
Accounts receivable, net of allowance for doubtful accounts	2,073,567	19,243,730
Other receivables	1,197,617	472,167
Due from directors	835,553	8,686
<b>Total current assets</b>	<b>21,226,362</b>	<b>28,492,150</b>
Property and equipment, net of accumulated depreciation	6,970,522	5,330,122
Construction in progress	4,224,253	3,832,384
Land use rights, net of accumulated amortization	13,464,781	12,385,369
Proprietary technologies, net of accumulated amortization	7,946,667	-
Goodwill	12,000,000	12,000,000
Long term accounts receivable	9,325,174	-
	<b>53,931,397</b>	<b>33,547,875</b>
<b>Other assets</b>		
Licence rights	1	1
Investment in unconsolidated equity investee	-	800,559
	<b>1</b>	<b>800,560</b>
<b>Total assets</b>	<b>\$ 75,157,760</b>	<b>\$ 62,840,585</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accruals	1,030,695	3,341,648
Other payables	4,621,679	588,114
Short term debt	-	2,275,812
<b>Total current liabilities</b>	<b>5,652,374</b>	<b>6,205,574</b>
<b>Other liabilities</b>		
Long term debt	6,836,223	4,112,913
<b>Total liabilities</b>	<b>12,488,597</b>	<b>10,318,487</b>
<b>Commitments and contingencies</b>		
	-	-
<b>Stockholders' equity</b>		
Preferred stock: \$0.001 par value (10,000,000 shares authorized, 0 shares issued and outstanding)		
Common stock: \$0.001 par value (100,000,000 shares authorized, 52,943,579 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively)	52,944	52,944
Additional paid - in capital	43,489,213	43,489,213
Retained earnings	10,279,010	3,174,089
Accumulated other comprehensive income	2,138,447	398,520
<b>Total Sino Agro Food, Inc. and subsidiaries stockholders' equity</b>	<b>55,959,614</b>	<b>47,114,766</b>
Non - controlling interest	6,709,549	5,407,332
Total stockholders' equity	62,669,163	52,522,098
<b>Total liabilities and stockholders' equity</b>	<b>\$ 75,157,760</b>	<b>\$ 62,840,585</b>

The accompanying notes are an integral part of these consolidated financial statements.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

	2008	2007
	\$	\$
<b>Revenue</b>	16,189,467	16,230,827
<b>Cost of goods sold</b>	7,947,659	3,956,157
	<u>8,241,808</u>	<u>12,274,670</u>
<b>Gross profit</b>	8,241,808	12,274,670
<b>Selling and marketing expenses</b>	-	(89,744)
<b>General and administrative expenses</b>	(2,811,352)	(2,212,805)
<b>Impairment loss</b>	(293,404)	(6,786,942)
	<u>5,137,052</u>	<u>3,185,179</u>
<b>Net income from operations</b>	5,137,052	3,185,179
<b>Other income (loss)</b>		
<b>Other income</b>	62,142	199,604
<b>Interest expenses</b>	(419,130)	(77,495)
	<u>(356,988)</u>	<u>122,109</u>
<b>Total other income (expenses)</b>	(356,988)	122,109
<b>Income from unconsolidated corporate joint venture and equity investee</b>	191,992	54,873
	<u>4,972,056</u>	<u>3,362,161</u>
<b>Net income from continuing operations before income taxes</b>	4,972,056	3,362,161
<b>Provision for income taxes</b>	-	(354)
	<u>4,972,056</u>	<u>3,361,807</u>
<b>Net income from continuing operations</b>	4,972,056	3,361,807
<b>Net income from discontinued operations net of amount attributable to non - controlling interest (net of income taxes of \$0)</b>	3,412,449	-
	<u>8,384,505</u>	<u>3,361,807</u>
<b>Net income</b>	8,384,505	3,361,807
<b>Less: Net income attributable to the non - controlling interest</b>	(1,279,584)	(219,718)
	<u>7,104,921</u>	<u>3,142,089</u>
<b>Net income attributable to the Sino Agro Food, Inc. and subsidiaries</b>	7,104,921	3,142,089
<b>Other comprehensive income</b>		
<b>Foreign currency translation gain</b>	1,762,560	398,520
	<u>8,867,481</u>	<u>3,540,609</u>
<b>Comprehensive income</b>	8,867,481	3,540,609
<b>Less: other comprehensive income attributable to the non - controlling interest</b>	(22,633)	-
	<u>8,844,848</u>	<u>3,540,609</u>
<b>Comprehensive income attributable to Sino Agro Food, Inc. and subsidiaries</b>	8,844,848	3,540,609
<b>Earnings per share attributable to Sino Agro Food, Inc. and subsidiaries common stockholders:</b>		
<b>Basic - From continuing operations</b>	0.07	0.08
<b>Basic - From discontinued operations</b>	0.06	-
	<u>0.13</u>	<u>0.08</u>
<b>Diluted - From continuing operations</b>	0.07	0.06
<b>Diluted - From discontinued operations</b>	0.06	-
	<u>0.13</u>	<u>0.06</u>
<b>Weighted average number of shares outstanding:</b>		
<b>Basic</b>	52,943,579	39,893,158
<b>Diluted</b>	52,943,579	52,943,579

The accompanying notes are an integral part of these consolidated financial statements.

## SINO AGRO FOOD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

	Common stock		Additional paid - in capital	Retained earnings	Accumulated other comprehensive income	Non - controlling interest	Total
	Par value \$0.001	Nominal amount					
	Number of shares	\$	\$	\$	\$	\$	\$
Balance at January 1, 2007	32,000,000	32,000	19,675,157	32,000	-	-	19,739,157
July 24, 2007 Issue ordinary shares to existing debenture holders from additional paid-in capital	10,804,579	10,805	(10,805)	-	-	-	-
July 24, 2007 Issue ordinary shares to existing public shareholders from additional paid - in capital	139,000	139	(139)	-	-	-	-
September 5, 2007 Issue ordinary shares for acquisition of 100% equity of Macau Eiji Company Limited	2,000,000	2,000	4,673,000	-	-	-	4,675,000
September 5, 2007 Issue ordinary shares for acquisition of 100% equity of Hang Yu Tai Investment Limited	7,000,000	7,000	16,903,000	-	-	-	16,910,000
September 5, 2007 Issue ordinary shares for acquisition of 100% equity of Tri-way Industries Limited	1,000,000	1,000	2,249,000	-	-	-	2,250,000
Capital contribution of non-controlling interest of Enping City Juntang Town Hang Sing Tai Agriculture Co. Limited	-	-	-	-	-	1,984,663	1,984,663
Capital contribution of non-controlling interest of ZhongXingNongMu Co. Limited	-	-	-	-	-	3,202,951	3,202,951
Net income for the year	-	-	-	3,142,089	-	219,718	3,361,807
Foreign currency translation gain	-	-	-	-	398,520	-	398,520
Balance at December 31, 2007	52,943,579	52,944	43,489,213	3,174,089	398,520	5,407,332	52,522,098
Net income for the year	-	-	-	7,104,921	-	1,279,584	8,384,505
Foreign currency translation gain	-	-	-	-	1,739,927	22,633	1,762,560
Balance at December 31, 2008	52,943,579	52,944	43,489,213	10,279,010	2,138,447	6,709,549	62,669,163

The accompanying notes are an integral part of these consolidated financial statements.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

	2008	2007
	\$	\$
Cash flows from operating activities		
Net income for the year	8,384,505	3,361,807
Adjustments to reconcile net income to net cash from operations:		
Impairment loss	293,404	6,786,942
Depreciation	706,912	177,642
Profit from disposal of unconsolidated equity investee	(3,412,449)	-
Income from unconsolidated equity investee	(191,992)	(54,873)
Amortization	605,581	217,425
Changes in operating assets and liabilities:		
Increase in inventories	(4,572,440)	(626,801)
Increase in construction in progress	(391,869)	(3,832,384)
Increase in deposits and prepaid expenses	(2,407,014)	(7,782,252)
Increase in due from directors	(826,867)	(8,686)
(Decrease) increase in accounts payable and accruals	(2,310,953)	633,763
Decrease in sales deposits received	-	(50,000)
Decrease in amount due to directors	-	(237,797)
Increase in other payables	4,033,565	588,114
Decrease (increase) in accounts receivables	7,844,989	(7,043,730)
(Increase) decrease in other receivables	(725,450)	9,773,184
Net cash provided by operating activities	<u>7,029,922</u>	<u>1,902,354</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,983,664)	(5,423,477)
Acquisition of companies, net of cash received	-	(18,786,942)
Acquisition of proprietary technologies	(8,000,000)	-
Proceeds from disposal of unconsolidated equity investee	4,405,000	-
Investment in unconsolidated equity investee	-	(745,686)
Acquisition of land use rights	(764,128)	(12,602,794)
Net cash used in investing activities	<u>(6,342,792)</u>	<u>(37,558,899)</u>
Cash flows from financing activities		
Proceeds from issuance of debts	2,723,310	6,388,725
Additional contribution from non - controlling interest	-	5,187,614
Repayment of debts	(2,275,812)	-
Common stock issued	-	23,835,000
Net cash provided by financing activities	<u>447,498</u>	<u>35,411,339</u>
Effects on exchange rate changes on cash	<u>237,976</u>	<u>398,520</u>
Increase in cash and cash equivalents	1,372,604	153,314
Cash and cash equivalents, beginning of year	358,514	205,200
Cash and cash equivalents, end of year	<u>1,731,118</u>	<u>358,514</u>
Supplementary disclosures of cash flow information:		
Cash paid for interest	<u>419,130</u>	<u>77,495</u>
Cash paid for income taxes	<u>-</u>	<u>1,114</u>

The accompanying notes are an integral part of these consolidated financial statements.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**1. CORPORATE INFORMATION**

Sino Agro Food, Inc. (“the Company”) (formerly known as Volcanic Gold, Inc. and A Power Agro Agriculture Development, Inc.) is an International Business Corporation incorporated on October 1, 1974 in the State of Nevada, United States of America. The shares are quoted on the Pink Sheet, OTC under the ticker symbol of “SIAF”.

The Company operated mining and exploration business before, and ceased its mining and exploring business after October 14, 2005. On August 24, 2007, the Company entered into a Merger and Acquisition Agreement between the Company and Capital Award Inc. (“CA”) and its subsidiaries Capital Stage Inc. (“CS”) and Capital Hero Inc. (“CH”). Effective the same date, CA, a Belize Corporation, completed a reverse merger transaction with SIAF; a public shell into which CA merger pursuant to which SIAF acquired all the outstanding common stock of CA from Capital Adventure, a shareholder of CA for 32,000,000 shares of the company’s common stock.

On August 24, 2007 the Company changed its name from Volcanic Gold, Inc. to A Power Agro Agriculture Development, Inc. On December 8, 2007, the Company officially changed its name to Sino Agro Food, Inc.

On September 5, 2007, the Company made further acquisitions by acquiring three existing businesses in the People’s Republic of China (“PRC”) by acquiring of:

- a) Hang Yu Tai Investment Limited (“HYT”), a Macau incorporated company, the owner of 78% equity interest in ZhongXingNongMu Co. Limited (“ZX”);
- b) Tri-way Industries Limited (“TRW”), a Hong Kong incorporated company, the owner of 30% equity interest of TianQuan Science and Technology Limited (“TQST”) and
- c) Macau Eiji Company Limited (“MEIJI”), a Macau incorporated company, the owner of 75% equity interest in Enping City Juntang Town Hang Sing Tai Agriculture Co. Ltd. (“HST”), a PRC corporate Sino-Foreign joint venture.

On November 26, 2008, the Company established Pretty Mountain Holdings Limited. (“PMH”), a Hong Kong incorporated company of 80% equity interest.

On November 27, 2007, MEIJI and HST established a corporate joint venture, Jiang Men City Juntang Heng Sheng Tai Agriculture Development Co. Ltd. (“JHST”), a PRC incorporated company, of 75% and 25% equity interest, respectively.

The Company is headquartered in the USA with an operating office established in Room 3711, China Shine Plaza, No. 9 Lin He Xi Road, Tianhe District, Guangzhou City, Guangdong Province, PRC 510610 on December 13, 2007.

The nature of the operations and principal activities of Sino Agro Food, Inc. and its subsidiaries are described in Note 2.2.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 FISCAL YEAR**

The Company has adopted December 31 as its fiscal year end.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 REPORTING ENTITY

The accompanying consolidated financial statements include the following entities:

<u>Name of subsidiaries</u>	<u>Place of incorporation</u>	<u>Issued and paid - in capital</u>	<u>Percentage of interest</u>	<u>Principal activity</u>
Capital Award Inc. ("CA")	Belize	\$50,000	100% (2007: 100%) directly	Fishery development and holder of A-Power Technology master licence
Capital Stage Inc. ("CS")	Belize	\$50,000	100% (2007: 100%) indirectly	Dormant
Capital Hero Inc. ("CH")	Belize	\$50,000	100% (2007: 100%) indirectly	Dormant
Tri-way Industries Limited ("TRW")	Hong Kong, PRC	HK\$10,000	100% (2007: 100%) directly	Investment holding, holder of master licence of stock feed manufacturing technology and has yet commenced its business of fish farm operation
Pretty Mountain Holdings Limited ("PMH")	Hong Kong, PRC	HK\$10,000	80% (2007: Nil%) directly	Dormant
Macau Eiji Company Limited ("MEIJ")	Macau, PRC	Pataca 30,000	100% (2007: 100%) directly	Investment holding
Enping City Juntang Town Hang Sing Tai Agriculture Co. Ltd ("HST")	PRC	RMB100,000	75% (2007: 75%) indirectly	Hylocereus Undatus Plantation ("HU Plantation")
Jiang Men City Juntang Heng ShengTai Agriculture Development Co. Ltd ("JHST")	PRC	Issued capital: \$600,000 Paid - in capital: \$119,975	100% (2007: 100%) indirectly	The Company has yet commenced its business of Hylocereus Undatus Plantation ("HU Plantation")
Hang Yu Tai Investment Limited ("HYT")	Macau, PRC	Pataca 25,000	100% (2007: 100%) directly	Investment holding
ZhongXingNongMu Co. Ltd ("ZX")	PRC	RMB60,000,000	78% (2007: 78%) indirectly	Dairy production and manufacturing of organic fertilizer, livestock feed, and beef cattle and plantation of crops and pasture
A Power Agro Agriculture Development (Macau) Limited ("APWAM")	Macau, PRC	Pataca 25,000	100% (2007: 100%) directly	Investment holding
<u>Name of unconsolidated equity investee</u>	<u>Place of incorporation</u>	<u>Issued and paid - in capital</u>	<u>Percentage of interest</u>	<u>Principal activity</u>
TianQuan Science and Technology Limited	PRC	RMB10,000,000	Nil (2007: 30%) indirectly	Turf farming and agriculture technology development

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.3 BASIS OF PRESENTATION**

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

**2.4 BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of SIAF, CA, CS, CH, TRW, PMH, MEIJI, JHST, HST, HYT, ZX, and APWAM. In the opinion of management, the accompanying balance sheets, and statements of income, and cash flows and include all adjustments, considered necessary to give a fair presentation of operating results for the periods presented. All material inter-company transactions and balances have been eliminated in consolidation.

SIAF, CA, CS, CH, TRW, PMH, MEIJI, JHST, HST, HYT, ZX, and APWAM are hereafter referred to as ("the Company").

**2.5 BUSINESS COMBINATIONS**

The Company adopted the accounting pronouncements relating to business combinations (primarily contained in ASC Topic 805 "Business Combinations"), including assets acquired and liabilities assumed arising from contingencies. These pronouncements established principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquire as well as provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. In addition, these pronouncements eliminate the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria and require an acquirer to develop a systematic and rational basis for subsequently measuring and accounting for acquired contingencies depending on their nature. Our adoption of these pronouncements will have an impact on the manner in which we account for any future acquisitions.

**2.6 NON-CONTROLLING INTEREST IN CONSOLIDATED FINANCIAL STATEMENTS**

The Company adopted the accounting pronouncement on non-controlling interests in consolidated financial statements, which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance is primarily contained in ASC Topic "Consolidation". It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated financial statements. The adoption of this standard has not had material impact on our consolidated financial statements.

**2.7 USE OF ESTIMATES**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods covered thereby. Actual results could differ from these estimates. Judgments and estimates of uncertainties are required in applying the Company's accounting policies in certain areas. The following are some of the areas requiring significant judgments and estimates: determinations of the useful lives of assets, estimates of allowances for doubtful accounts, cash flow and valuation assumptions in performing asset impairment tests of long-lived assets, estimates of the realizability of deferred tax assets and inventories reserves.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.8 REVENUE RECOGNITION**

The Company's revenue recognition policies are in compliance with ASC 605. Sales revenue is recognized when all of the following have occurred: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable, and (iv) the ability to collect is reasonably assured. These criteria are generally satisfied at the time of shipment when risk of loss and title passes to the customer. Service revenue is recognized when services have been rendered to client by reference to stage of completion of service. License fee income is recognized on the accrual basis in accordance with the underlying agreements.

**2.9 COST OF GOODS SOLD**

Cost of goods sold consists primarily of direct purchase cost of merchandise goods, and related levies.

**2.10 SHIPPING AND HANDLING**

Shipping and handling costs related to cost of goods sold are included in selling and marketing expenses which totaled \$nil and \$41,363 for the years ended December 31, 2008 and December 31, 2007, respectively.

**2.11 ADVERTISING**

Advertising costs are expensed as incurred when incurred and totaled \$nil for the years ended December 31, 2008 and December 31, 2007, respectively.

**2.12 FOREIGN CURRENCY TRANSLATION AND OTHER COMPREHENSIVE INCOME**

The reporting currency of the Company is the U.S. dollars. The functional currency of the Company is the Chinese Renminbi (RMB).

For those entities whose functional currency is other than the U.S. dollars, all assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date; shareholders' equity is translated at historical rates and items in the statements of income and other comprehensive income and of cash flows are translated at the average rate for the period. Because cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported in the statements of cash flows will not necessarily agree with changes in the corresponding balances in the balance sheet. Translation adjustments resulting from this process are included in accumulated comprehensive income in the statements of shareholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the statements of income and comprehensive income as incurred.

Accumulated other comprehensive income in the consolidated statements of shareholders' equity amounted to \$2,138,447 as of December 31, 2008 and \$398,520 as of December 31, 2007. The balance sheet amounts with the exception of equity at December 31, 2008 and December 31, 2007 were translated at RMB6.82 to \$1.00 and RMB7.29 to \$1.00, respectively. The average translation rates applied to the statements of income and of cash flows for the years ended December 31, 2008 and December 31, 2007 were RMB6.94 to \$1.00 and RMB7.62 to \$1.00, respectively.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.13 CASH AND CASH EQUIVALENTS**

The Company considers all highly liquid securities with original maturities of three months or less when acquired to be cash equivalents. Cash and cash equivalents kept with financial institutions in People's Republic of China ("PRC") are not insured or otherwise protected. Should any of those institutions holding the Company's cash become insolvent, or the Company is unable to withdraw funds for any reason, the Company could lose the cash on deposit on that institution.

**2.14 ACCOUNTS RECEIVABLE**

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Terms of the sales vary. Reserves are recorded primarily on a specific identification basis.

The standard credit period of the Company's most of client is three months. The collection period over 1 year is classified as long term accounts receivable. Management evaluates the collectability of the receivables at least quarterly. There was no allowance for doubtful account as of December 31, 2008 and December 31, 2007.

**2.15 INVENTORIES**

Inventories are valued at the lower of cost (determined on a weighted average basis) and net realizable value.

Costs incurred in bringing each product to its location and conditions are accounted for as follows:

- raw materials – purchase cost on a weighted average basis;
- manufactured finished goods and work-in-progress – cost of direct materials and labor and a proportion of manufacturing overheads based on normal operation capacity but excluding borrowing costs; and
- retail and wholesale merchandise finished goods – purchase cost on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**2.16 PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Such costs include the cost of replacing parts that are eligible for capitalization when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalization. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets.

Milk cows	10 years
Plant and machinery	5 - 10 years
Structure and leasehold improvements	10 -20 years
Mature seed	20 years
Furniture, fixtures and equipment	2.5 - 10 years
Motor vehicles	5 -10 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.16 PROPERTY AND EQUIPMENT (CONTINUED)**

An item of property and equipment is removed from the accounts upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statements of income in the period the item is disposed.

**2.17 GOODWILL**

Goodwill is an asset representing the fair economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is stated at cost less accumulated losses. Goodwill is tested for impairment on an annual basis of the end of the company's fiscal year, or when impairment indicators arise. The Company uses a fair-value-based approach to test for impairment at the level of reporting unit. The Company directly acquired three groups of companies, HYT, TRW and MEIJI. HYT is engaged in the dairy farm, TRW is engaged in proprietary technologies holding and MEIJI is engaged in HU Plantation. As a result of these acquisitions after deduction of impairment loss, the Company recorded goodwill in the amount of \$12,000,000. This goodwill represents the fair value of the assets acquired in these acquisitions over the cost of the assets acquired.

**2.18 PROPRIETARY TECHNOLOGIES**

The Company has determined that technological feasibility is established at the time a working model of products is completed. Master license of stock feed manufacturing technology was acquired and the cost of acquisition are capitalized as proprietary technologies when technological feasibility has been established. Proprietary technologies are intangible assets of finite lives. Proprietary technologies are amortized using the straight line method over their estimated lives of 25 years. Management evaluates the recoverability of proprietary technologies on an annual basis of the end of the company's fiscal year, or when impairment indicators arise. As required by ASC Topic 350 "Intangible – Goodwill and Other", the Company uses a fair-value-based approach to test for impairment.

**2.19 CONSTRUCTION IN PROGRESS**

Construction in progress represents direct costs of construction as well as acquisition and design fees incurred. Capitalization of these costs ceases and the construction in progress is transferred to property and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until construction is completed and the asset is ready for its intended use.

**2.20 LAND USE RIGHTS**

Land use rights represent acquisition of land use rights of agriculture land from farmers and are amortized on the straight line basis over their respective lease periods. The lease period of agriculture land is in the range from 30 years to 60 years. Land use rights purchase prices were determined in accordance with the 2007 PRC Government's minimum lease payments of agriculture land and mutually agreed between the company and the vendors. No independent professional appraiser performed valuation of land use rights at the balance sheet date.

**2.21 EQUITY METHOD INVESTMENTS**

Investee entities in which the company can exercise significant influence, but not control, are accounted for under the equity method of accounting. Under the equity method of accounting, the company's share of the earnings or losses of these companies is included in net income.

A loss in value of an investment that is other than a temporary decline is recognized as a charge to operations. Evidence of a loss in value might include, but would not necessarily be limited to absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.22 INCOME TAXES**

The Company accounts for income taxes under the provisions of ASC 740 "Accounting for Income Taxes". Under ASC 740, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

The provision for income tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred income taxes are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

ASC 740 also prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. ASC 740 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. Any interest and penalties accrued related to unrecognized tax benefits will be recorded in tax expense.

**2.23 ECONOMIC AND POLITICAL RISK**

The Company's operations are carried out 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's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

**2.24 CONCENTRATION OF CREDIT RISK**

Cash includes cash at bank and demand deposits in accounts maintained with financial institution within the People's Republic of China. Total cash in these financial institutions on December 31, 2008 and December 31, 2007 amounted to \$1,270,785 and \$90,990 of which no deposits are covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

Accounts receivable are derived from revenue earned from customers located primarily in the People's Republic of China. The Company performs ongoing credit evaluations of customers and have not experienced any material losses to date.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 CONCENTRATION OF CREDIT RISK (CONTINUED)

The Company had 5 major customers whose revenue individually represented the following percentages of the Company's total revenue:

	2008	2007
Customer A	21.86%	-
Customer B	18.11%	-
Customer C	17.02%	15.00%
Customer D	8.07%	1.30%
Customer E	4.20%	-
Customer F	-	77.01%
Customer G	-	2.83%
Customer H	-	2.26%
	<u>69.26%</u>	<u>98.40%</u>

The company had 5 major customers whose accounts receivable balance individually represented of the Company's total accounts receivable as follows:

	2008	2007
Customer A	50.45%	51.96%
Customer B	31.36%	29.10%
Customer C	14.68%	14.53%
Customer D	2.39%	-
Customer E	1.01%	-
Customer F	-	3.56%
Customer G	-	0.53%
	<u>99.89%</u>	<u>99.68%</u>

The Company had four customers as of December 31, 2008 that comprised approximately 65.06% of total revenue. These customers had accounts receivable of \$ 2,060,343 as of December 31, 2008. The Company had two customers as of December 31, 2007 that comprised approximately 92.01% of total revenue. These customers had accounts receivable of \$ 12,796,019 as of December 31, 2007.

2.25 IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLE ASSETS

In accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company reviews the carrying amount of its long-lived assets, including intangibles, for impairment, each reporting period. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is considered not recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. As of December 31, 2008 and December 31, 2007, the Company determined no impairment charges were necessary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**2.26 EARNINGS PER SHARE**

As prescribed in ASC Topic 260 "*Earning per Share*", Basic Earnings per Share ("EPS") is computed by dividing net income available to common stockholders by the weighted average number of common stock shares outstanding during the year. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common stock shares outstanding during the year plus potential dilutive instruments such as stock options and warrants. The effect of stock options on diluted EPS is determined through the application of the treasury stock method, whereby proceeds received by the Company based on assumed exercises are hypothetically used to repurchase the Company's common stock at the average market price during the period.

For the years ended December 31, 2008 and December 31, 2007, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries stockholders from continuing operations amount to \$0.07 and \$0.08, respectively. For the years ended December 31, 2008 and December 31, 2007, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries stockholders from discontinued operations amount to \$0.06 and \$nil, respectively. For the years ended December 31, 2008 and December 31, 2007, diluted earnings per share attributable to Sino Agro Food, Inc. and subsidiaries stockholders from continuing operations amount to \$0.07 and \$0.06, respectively. For the years ended December 31, 2008 and December 31, 2007, diluted earnings per share attributable to Sino Agro Food, Inc. and subsidiaries stockholders from discontinued operations amount to \$0.06 and \$nil, respectively.

**2.27 ACCUMULATED OTHER COMPREHENSIVE INCOME**

ASC Topic 220 "*Comprehensive Income*" establishes standards for reporting and displaying comprehensive income and its components in financial statements. Comprehensive income is defined as the change in stockholders' equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The comprehensive income for all periods presented includes both the reported net income and net change in cumulative translation adjustments.

**2.28 RETIREMENT BENEFIT COSTS**

PRC state managed retirement benefit programs are defined contribution plan and the payments to the plan are charged as expenses when employees have rendered service entitling them to the contribution.

**2.29 STOCK-BASED COMPENSATION**

As of December 31, 2008 and December 31, 2007, the Company had no stock-based compensation plans.

**2.30 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB Accounting Standards Codification ("Paragraph 820-10-35-37") to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company's financial assets and liabilities, such as cash and accrued expenses, approximate their fair values because of the short maturity of these instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The Company does not have any assets or liabilities measured at fair value on a recurring or a non-recurring basis, consequently, the Company did not have any fair value adjustments for assets and liabilities measured at fair value as of December 31, 2008 or December 31, 2007, nor gains or losses are reported in the statements of income and other comprehensive income that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date for the fiscal year ended December 31, 2008 or December 31, 2007.

**2.31 NEW ACCOUNTING PRONOUNCEMENTS**

The Company does not expect any recent accounting pronouncements to have a material effect on the Company's financial position, results of operations, or cash flows.

In June 2009, the FASB approved the "FASB Accounting Standards Codification" (the "Codification") as the single source of authoritative nongovernmental U.S. GAAP to be launched on July 1, 2009. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered non-authoritative. The Codification is effective for interim and annual periods ending after September 15, 2009.

In June 2009, the FASB amended its guidance on accounting for variable interest entities ("VIE"). The new accounting guidance will result in a change in our accounting policy effective January 1, 2010. Among other things, the new guidance requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE; requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE; enhances disclosures about an enterprise's involvement with a VIE; and amends certain guidance for determining whether an entity is a VIE. Under the new guidance, a VIE must be consolidated if the enterprise has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company is evaluating the impact that this change in accounting policy will have on our consolidated financial statements. Based on our initial assessment, we anticipate that certain entities that are consolidated under our current accounting policy may not be consolidated subsequent to the effective date of the new guidance.

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05 "Fair Value Measurement and Disclosures Topic 820 – Measuring Liabilities at Fair Value", which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. This update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a. The quoted price of the identical liability when traded as an asset b. Quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements.

In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-09 "Accounting for Investments -Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees". This update represents a correction to Section 323-10-S99-4, Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee. Additionally, it adds observer comment Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees to the Codification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.31 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-12 “Fair Value Measurements and Disclosures Topic 820 – Investment in Certain Entities That Calculate Net Assets Value Per Share (or Its Equivalent)”, which provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures-Overall, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity’s measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. The amendments in this update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this update, such as the nature of any restrictions on the investor’s ability to redeem its investments at the measurement date, any unfunded commitments (for example, a contractual commitment by the investor to invest a specified amount of additional capital at a future date to fund investments that will be made by the investee), and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types in U.S. GAAP on investments in debt and equity securities in paragraph 320-10-50-1B. The disclosures are required for all investments within the scope of the amendments in this update regardless of whether the fair value of the investment is measured using the practical expedient.

In January 2010, FASB issued ASU No. 2010-01 Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December.

In January 2010, FASB issued ASU No. 2010-02 regarding accounting and reporting for decreases in ownership of a subsidiary. Under this guidance, an entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, and entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. This ASU clarifies the scope of the decrease in ownership provisions, and expands the disclosures about the deconsolidation of a subsidiary or de-recognition of a group of assets. This ASU is effective for beginning in the first interim or annual reporting period ending on or after December 31, 2009. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements. In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51.” If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.31 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

In February 2010, the FASB issued Accounting Standards Update 2010-09, “Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements,” or ASU 2010-09. ASU 2010-09 primarily rescinds the requirement that, for listed companies, financial statements clearly disclose the date through which subsequent events have been evaluated. Subsequent events must still be evaluated through the date of financial statement issuance; however, the disclosure requirement has been removed to avoid conflicts with other SEC guidelines. ASU 2010-09 was effective immediately upon issuance and was adopted in February 2010.

## SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007**3. SEGMENT INFORMATION**

The Company establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as business segments and major customers in financial statements. The Company operates in three principal reportable segments: Fishery Development Division, Dairy Production Division and HU Plantation Division.

	2008				
	Fishery Development Division \$	Dairy Production Division \$	HU Plantation Division \$	Corporate others \$	and Total \$
Revenue	562,497	14,388,014	1,238,956	-	16,189,467
Net income	495,718	4,221,500	284,420	2,103,283	7,104,921
Total assets	14,832,962	30,823,721	9,390,175	20,110,902	75,157,760
Capital expenditures	48,734	16,118,887	8,444,959	7,993,643	32,606,223
	2007				
	Fishery Development Division \$	Dairy Production Division \$	HU Plantation Division \$	Corporate others \$	and Total \$
Revenue	13,608,000	2,622,827	-	-	16,230,827
Net income (loss)	9,337,181	805,205	(27,437)	(6,972,860)	3,142,089
Total assets	18,454,484	23,666,363	7,916,802	12,802,936	62,840,585
Capital expenditures	138,469	14,545,725	6,863,681	-	21,547,875

**4. INCOME TAXES**

## China

Beginning January 1, 2008, the new Enterprise Income Tax ("EIT") law replaced the existing laws for Domestic Enterprises ("DEs") and Foreign Invested Enterprises ("FIEs"). The new standard EIT rate of 25% replaced the 33% rate currently applicable to both DEs and FIEs. The Company is currently evaluating the impact that the new EIT will have on its financial condition. Beginning January 1, 2008, China unified the corporate income tax rule on foreign invested enterprises and domestic enterprises. The unified corporate income tax rate is 25%.

Under new tax legislation of China beginning January 2008, the agriculture, dairy and fishery sectors are exempted from enterprise income taxes.

SINO AGRO FOOD, INC. AND SUBSIDIARIES

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**4. INCOME TAXES (CONTINUED)**

No EIT has been provided in the financial statements of CA, ZX, JHST and HST since they are exempted from EIT for the years ended December 31, 2008 and December 31, 2007 as they are within the agriculture, dairy and fishery sectors.

Belize and Malaysia

CA, CS and CH are international business companies incorporated in Belize, and are exempted from corporation tax of Belize.

All sales invoices of CA were issued by its representative office in Malaysia and its trading and service activities are conducted in China. As the Malaysia tax law imposed on a territorial basis and not on a worldwide basis, CA's income is not subject to Malaysia corporation tax.

No Belize and Malaysia corporation tax have been provided in the financial statements of CA for the years ended December 31, 2008 and December 31, 2007.

Hong Kong

No Hong Kong profits tax has been provided in the financial statements of PMH and TRW, since they did not earned any assessable profits for the years ended December 31, 2008 and December 31, 2007.

Macau

No Macau Corporation tax has been provided in the financial statements of HYT , APWAM and MEIJI since they did not earned any assessable profits for the years ended December 31, 2008 and December 31, 2007.

**5. CASH AND CASH EQUIVALENTS**

	2008	2007
	\$	\$
Cash and bank balances	<u>1,731,118</u>	<u>358,514</u>

**6. INVENTORIES**

As of December 31, 2008 inventories are as follows:

	2008	2007
	\$	\$
Immature seeds	397,275	-
Harvested HU plantation	16	-
Unharvested HU plantation	106,478	431,356
Forage for milk cows and consumable	4,695,472	195,445
	<u>5,199,241</u>	<u>626,801</u>

SINO AGRO FOOD, INC. AND SUBSIDIARIES

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**7. DEPOSITS AND PREPAID EXPENSES**

	2008	2007
	\$	\$
Deposits for		
acquisition of land use rights	4,453,666	2,500,000
inventory purchased	219,551	431,527
tenancy agreement	2,129	2,129
materials used for construction in progress	79,607	147,736
Prepayments for purchases of milk cows, dairy farm and milk containers	5,434,313	4,700,860
	<u>10,189,266</u>	<u>7,782,252</u>

**8. ACCOUNTS RECEIVABLE**

Aging analysis of accounts receivable is as follows:

	2008	2007
	\$	\$
0 - 30 days	387,576	661,463
31 - 90 days	-	7,809,454
91 - 120 days	1,672,767	137,505
over 120 days and less than 1 year	13,224	635,308
over 1 year	<u>9,325,174</u>	<u>10,000,000</u>
	11,398,741	19,243,730
Less: amount reclassified as long term accounts receivable	<u>(9,325,174)</u>	<u>-</u>
	<u>2,073,567</u>	<u>19,243,730</u>

SINO AGRO FOOD, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**9. OTHER RECEIVABLES**

	2008	2007
	\$	\$
Advance to builders for construction of rangeland	307,302	63,005
Advance to service providers	12,983	12,133
Due from construction material suppliers	88,020	82,258
Due from related parties	114,630	-
Due from employees	653,168	294,666
Due from third parties	21,514	20,105
	<u>1,197,617</u>	<u>472,167</u>

Due from related parties and third parties are unsecured, interest free and without fixed term of repayment. Advance to builders for construction of rangeland are trade deposit for construction of rangeland for milk cows. Due from employees are the amounts advanced for handling business transactions on behalf of the Company.

**10. PROPERTY AND EQUIPMENT**

	2008	2007
	\$	\$
Milk cows	3,666,376	2,535,634
Plant and machinery	2,948,148	2,755,163
Structure and leasehold improvements	656,448	110,801
Mature seeds	484,436	-
Furniture and equipment	85,506	83,942
Motor vehicles	83,493	81,142
	<u>7,924,407</u>	<u>5,566,682</u>
Less: Accumulated depreciation	(953,885)	(236,560)
Net carrying amount	<u>6,970,522</u>	<u>5,330,122</u>

Depreciation expense was \$706,912 and \$102,172 for the years ended December 31, 2008 and December 31, 2007, respectively and included in general and administrative expenses

SINO AGRO FOOD, INC. AND SUBSIDIARIES

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**11. CONSTRUCTION IN PROGRESS**

	2008	2007
	\$	\$
Construction in progress		
- Rangeland for milk cows	4,224,253	3,353,624
- Structure for HU Plantation	-	478,760
	<u>4,224,253</u>	<u>3,832,384</u>

**12. LAND USE RIGHTS**

Private ownership of land is not permitted in the PRC. Instead, the Company has leased three lots of land. The cost of the first lot of land use rights acquired in 2007 was \$6,194,505 of 1,985.06 acres at Hebei Province, PRC and the leases expired in 2036, 2051, 2067 and 2077. The cost of the second lots of land use rights acquired in 2007 at Guangdong Province, PRC was \$6,408,289 of 174.94 acres and the lease expired in 2067. The cost of the third lot of land use rights acquired in 2008 at Guangdong Province, PRC was \$764,128 of 33.68 acres and the lease expired in 2068.

Land use rights are amortized on the straight line basis over their respective lease periods. The lease period of agriculture land is 30 to 60 years.

	2008	2007
	\$	\$
Cost	14,249,684	12,602,794
Less: Accumulated amortization	(784,903)	(217,425)
Net carrying amount	<u>13,464,781</u>	<u>12,385,369</u>

Amortization of land use rights was \$552,248 and \$217,425 for the years ended December 31, 2008 and December 31, 2007, respectively.

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**13. PROPRIETARY TECHNOLOGIES**

By an agreement dated November 12, 2008, TRW acquired enzyme technology master licence, registered under China patent, for the manufacturing of livestock feed and bio-organic fertilizer and its related labels for \$8,000,000.

	2008	2007
	\$	\$
Proprietary technologies	8,000,000	-
Less: Accumulated amortization	(53,333)	-
Net carrying amount	<u>7,946,667</u>	<u>-</u>

Amortization of proprietary technologies was \$53,333 and \$nil for the years ended December 31, 2008 and December 31, 2007, respectively. No impairments of proprietary technologies have been identified during the years ended December 31, 2008 and December 31, 2007.

**14. GOODWILL**

	2008	2007
	\$	\$
Goodwill from acquisition	38,444,099	38,444,099
Less: Accumulated impairment losses	(26,444,099)	(26,444,099)
Net carrying amount	<u>12,000,000</u>	<u>12,000,000</u>

Impairment loss on goodwill was \$nil and \$6,786,942 for the years ended December 31, 2008 and December 31, 2007, respectively.

**15. INVESTMENT IN UNCONSOLIDATED EQUITY INVESTEE**

As of September 5, 2007, the Company purchased the 100% equity interest (100% ) in Tri-way Industries Limited (“TRW”), a company incorporated in Hong Kong. TRW had 30% equity interest in TianQuan Science and Technology Limited (“TQST”), a company incorporated in the People’s Republic of China (“PRC”) on April 4, 1999. Therefore, in turn the company indirectly held 30% equity in TQST. On January 31, 2008, the Company further invested of \$95,000 giving total interest of \$895,559. As of October 29, 2008, the Company disposed its 30% equity interest in TQST for \$4,500,000 to third party, and recorded net income from discontinued operations of \$3,604,441.

	2008	2007
	\$	\$
Investment at cost	-	745,686
Share of post acquisition profits	-	54,873
	<u>-</u>	<u>800,559</u>

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**16. LICENCE RIGHTS**

Pursuant to an agreement dated August 1, 2006 between Infinity Environmental Group Limited (“Infinity”) and the Company, the Company was granted an A Power Technology Licence with a condition that the Company required to pay the licence fee covering 500 units of APM as performance payment to Infinity on or before July 31, 2008. This license allows the Company to develop service, manage and supply A Power Technology Farms in the PRC using the A Power Technology, but subject to a condition that the Company is required to pay licence fee to Infinity once the Company sold the licence to his customer. Under the said licence, the Company has the right to authorize developers and/or joint venture partners to develop A Power Technology Farms in the PRC. Infinity is a company incorporated in Australia.

**17. OTHER PAYABLES**

	2008	2007
	\$	\$
Proprietary technologies payable	3,577,264	-
Due to third parties	601,326	547,775
Due to related parties	415,108	-
Stamp duty payable	4,678	4,371
Others	23,303	35,968
	<u>4,621,679</u>	<u>588,114</u>

Proprietary technologies are acquired from third party and proprietary technologies payable represents the amount of unsettled balance.

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**18. BANK BORROWINGS**

There are no provisions in the Company's bank borrowings that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business.

**Short term debt**

Name of bank	Interest rate	Term	Security	Amount	
				2008	2007
				\$	\$
Argicultural Development Bank of China	6.84%	1/23/2007-1/22/2008	Corporate guarantee by third party	-	1,316,132
Argicultural Development Bank of China	6.12%	1/23/2007-1/22/2008	Corporate guarantee by third party	-	664,921
Argicultural Development Bank of China	6.12%	1/23/2007-1/22/2008	Corporate guarantee by third party	-	294,759
				<u>-</u>	<u>2,275,812</u>
				<u>-</u>	<u>2,275,812</u>

**Long term debt**

Name of bank	Interest rate	Term	Security	Amount	
				2008	2007
				\$	\$
Argicultural Development Bank of China	6.84%	1/23/2007-7/31/2010	Corporate guarantee by third party	1,408,321	-
Argicultural Development Bank of China	6.12%	1/23/2007-7/22/2010	Corporate guarantee by third party	711,495	-
Argicultural Development Bank of China	6.12%	1/23/2007- 8/8/2010	Corporate guarantee by third party	315,405	-
Argicultural Development Bank of China	6.75%	4/29/2007-4/28/2012	Corporate guarantee by third party	4,401,002	4,112,913
				<u>6,836,223</u>	<u>4,112,913</u>
				<u>6,836,223</u>	<u>4,112,913</u>

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**19. SHARE CAPITAL**

The Company's share capital as of December 31, 2008 and December 31, 2007 shown on the consolidated balance sheet represents the aggregate nominal value of the share capital of the Company as of that date.

On July, 24 2007 the Company completed the implementation of capital reduction scheme and reverse merger that resulted in:-

- (a) The cancellation of shares outstanding of 9,900,000 valued at US\$199,800.
- (b) The issuance of 10,804,579 shares value at US\$10,805 to existing debenture holders; and
- (c) The issuance of 139,000 shares valued at US\$139 to existing public shareholders.
- (d) Reverse merger of 100% equity of Capital Award Inc.

The purchase price of \$19,707,157 was satisfied by the issuance of 32,000,000 SIAF shares valued at \$19,707,157 or \$ 0.6158 per share each in exchange for shares of CA.

On September 5, 2007, the Company completed the acquisition of the following subsidiaries as follows:-

- (a) Acquisition of 100% equity of Macau Eiji Company Limited

The purchase price of \$5,878,739 was satisfied by the issuance of 2,000,000 SIAF shares valued at \$3,878,739 or \$1.939 per share and the balance of \$2,000,000 paid in cash.

- (b) Acquisition of 100% equity of Hang Yu Tai Investment Limited

The purchase price of \$17,760,099 was satisfied by the issuance of 7,000,000 SIAF shares valued at \$7,760,099 or \$1.108 per share and the balance of \$ 10,000,000 paid in cash.

- (c) Acquisition of 100% equity of Tri-way Industries Limited

The purchase price of \$2,501,289 was satisfied by the issuance of 1,000,000 SIAF shares valued at \$1,501,289 or \$1.501 per share and the balance of \$1,000,000 paid in cash.

The Company has authorized capital of (i) preferred stock \$10,000 divided into 10,000,000 shares of par value \$0.001 each with 0 shares issued and outstanding, and (ii) common stock \$100,000 divided into 100,000,000 shares of par value \$0.001 each with 52,943,579 shares issued and outstanding as of December 31, 2008 and December 31, 2007, respectively.

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**20. OBLIGATION UNDER OPERATING LEASES**

The Company leases (i) 2,178 square feet of agriculture land space in used for office in Enping City, Guangdong Province, PRC, currently with a monthly rent of \$430 and the lease expires on March 31, 2009 and (ii) 2,300 square feet of office premise in Guangzhou City, Guangdong Province, PRC, currently with a monthly rent of \$4,267 and the lease expires on October 15, 2010.

The future minimum lease payments as of December 31, 2008, are as follows:

	2008
	\$
Year ended December 31,2009	51,772
Year ended December 31,2010	40,534
Thereafter	-
	<u>92,306</u>

Lease expense was \$52,560 and \$5,354 for the years ended December 31, 2008 and 2007, respectively.

**21. CONTINGENCIES**

As of December 31, 2008 and 2007, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated balance sheets, consolidated statements of income and other comprehensive income or cash flows.

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**22. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances as disclosed elsewhere in these consolidated financial statements, during the year, the Company had the following significant related party transactions:-

<b>Name of related party</b>	<b>Nature of transactions</b>
Mr. Rui Xiong He , director of Enping City Juntang Town Hang Sing Tai Agriculture Co. Ltd, subsidiary of the Company	<p>During the year ended December 31, 2008, Mr. Rui Xiong He sold his land use rights to the Company for \$764,128.</p> <p>Included in other payables, due to Mr. Rui Xiong He is \$306,620 and \$nil as of December 31, 2008 and December 31, 2007 respectively. The amounts are unsecured, interest free and have no fixed term of repayment.</p>
Mr. Xiang Jun Fang, director of Enping City Juntang Town Hang Sing Tai Agriculture Co. Ltd, subsidiary of the Company	<p>During the year ended December 31, 2007, Mr. Xiang Jun Fang sold his land use rights to the Company for \$1,943,717.</p> <p>Included in other receivables, due from Mr. Xiang Jun Fang is \$114,630 and \$nil as of December 31, 2008 and December 31, 2007 respectively. The amounts are unsecured, interest free and have no fixed term of repayment.</p> <p>Included in other payables, due to Mr. Xiang Jun Fang is \$108,488 and \$nil as of December 31, 2008 and December 31, 2007 respectively. The amounts are unsecured, interest free and have no fixed term of repayment.</p>
Mr. Solomon Lee, Chairman	<p>Included in due from directors, Mr. Solomon Lee is \$798,058 and \$8,686 as of December 31, 2008 and December 31, 2007 respectively. The amounts are unsecured, interest free and have no fixed term of repayment.</p>
Mr. Michael Bor Hann Chen, director and company secretary	<p>Included in due from directors, Mr. Michael Bor Hann Chen is \$37,495 and \$nil as of December 31, 2008 and December 31, 2007 respectively. The amounts are unsecured, interest free and have no fixed term of repayment.</p>

**23. SUBSEQUENT EVENTS**

On various dates through January 1, 2009 to September 15, 2010, (i) additional 8,567,000 shares of Common Stock were issued for \$2,032,150 at stated value in settlement of debts under promissory notes; (ii) 3,065,002 shares of Common Stock were redeemed at \$0.001 per share for \$3,065 at par value.

On March 11, 2009, an application for the incorporation of a Sino-Foreign joint venture company was submitted to the relevant authorities of PRC of which PHM had 45% equity interest. On May 25, 2009, PMH formed corporate Sino - Foreign joint venture, Qinghai Sanjiang A Power Agriculture Co. Ltd (“SJAP”), incorporated in the People’s Republic of China. On September 28, 2009, SIAF carried out an internal reorganization of its group structure and businesses, APWAM replaced PMH which in turn PMH became a dormant company. By virtue of this replacement, APWAM assumed all obligations and liabilities of PHM under the Sino - Foreign Joint Venture Agreement (“SFJVA”). APWAM invested \$630,000 in SJAP for its 45% equity interest. The main principal activity of SJAP are planting of pastures and crops, manufacturing livestock feed and bio-organic fertilizer, cattle rearing and fattening stations. On April 19, 2010, the China auditors of SJAP, issued final capital verification report that SJAP’s registered capital of \$1,400,000 had been fully paid up.

On January 29, 2010, the China auditors of JHST, 100% equity interest of Sino - Foreign corporate joint venture subsidiary, issued final capital verification report that JHST’s registered capital of \$600,000 had been fully paid up.

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**23. SUBSEQUENT EVENTS (CONTINUED)**

On March 22, 2010, Series B Convertible Preferred Stock is authorised to issue 7,000,000 shares of \$0.001 per share at par value. Series B Convertible Preferred Stock is irredemable, the stockholders are not entitled to receive any dividend and voting rights but are entitled to rank senior over common stockholders on liquidation, and can convert to common stock one for one at any time and their rights are protected against any alternation of their rights and privileges. On June 26, 2010, 7,000,000 shares of Common Stocks are retired and converted into 7,000,000 shares Series B Convertible Preferred Stock of \$1 per share at stated value.

On March 23, 2010, Series A Preferred Stock is authorised to issue 100 shares of \$0.001 per share at par value. As of the same date, 100 shares of Series A Preferred Stock were issued of \$1 per share for \$100 at stated value. Series A Preferred Stock stockholders are not entitled to receive any dividend and 80% voting rights of all votes but are entitled to rank senior over common stockholders and any other class or series of stock on liquidation, and has negative covenant clause in issue term to protect the rights of the stockholders against impairment.

On May 4, 2010, the Company granted employees a total of 497,059 shares of Common Stock of \$0.001 per share for \$497,097 at stated value as stock based compensation. The fair value of these shares of approximately \$248,530, based on the quoted market value, was accrued as of December 31, 2010 as the compensation was for services provided in 2010.

On August 23, 2010, the Company declared a cash dividend of \$0.01 share, which shall be paid on October 15, 2010, to the stockholders as of the close of business on August 27, 2010.

On September 9, 2010, PHM filed its application of company deregistration to the relevant authority.

As required by ASC Topic 855 "*Subsequent Events*," the Company has evaluated subsequent events that have occurred through September 21, 2010, the date the consolidated financial statements were issued.

**NEW ENGLISH TRANSLATION NAME OF SUBSIDIARIES**

( Old English translation name) <u>Name of subsidiaries</u>	( New English translation name) <u>Name of subsidiaries</u>
Macau Eiji Company Limitada ("MEIJI")	Macau Eiji Company Limited ("MEIJI")
Hang Yu Tai Investmento Limitada ("HYT")	Hang Yu Tai Investment Limited ("HYT")
ZhongXian Agriculture and Husbandry Co Limited ("ZX")	ZhongXingNongMu Co. Limited ("ZX")
Hang Sing Tai Agriculture Co Limited ("HST")	Enping City Juntang Town Hang Sing Tai Agriculture Co. Ltd ("HST")
A Power Agro Agriculture Development (Macau) Limited ("APAA")	A Power Agro Agriculture Development (Macau) Limited ("APWAM")