

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, 2007 AND DECEMBER 31, 2006

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	1
CONSOLIDATED BALANCE SHEETS	2
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME	3
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6 - 32

# Madsen & Associates CPAs, Inc.

684 East Vine Street #3, Murray, UT 84107

PHONE: (801) 268-2632 FAX: (801) 268-3978

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Sino Agro Food, Inc.  
(Incorporated in the State of Nevada, United States of America)

We have audited the accompanying consolidated balance sheets of Sino Agro Food, Inc. and subsidiaries as of December 31, 2007 and December 31, 2006, the consolidated statements of income and other comprehensive income, the consolidated statements of stockholders' equity, and the consolidated statements of cash flows for the years ended December 31, 2007 and December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. 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 have we been 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 financial position of Sino Agro Food, Inc. and subsidiaries as of December 31, 2007, and December 31, 2006 the results of its operations and its cash flows for each of the years ended December 31, 2007 and December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Madsen & Associates CPAs, Inc.

Salt Lake City, Utah  
[Date]

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

CONSOLIDATED BALANCE SHEETS  
AS AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

	2007	2006
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	358,514	205,200
Inventory	626,801	-
Deposits and prepaid expenses	7,782,252	-
Accounts receivable, net of allowance for doubtful debts	19,243,730	12,200,000
Other receivable	472,167	10,245,351
Due from a director	8,686	-
<b>Total current assets</b>	<b>28,492,150</b>	<b>22,650,551</b>
Property, plant and equipment, net of accumulated depreciation	5,330,122	84,287
Construction in progress	3,832,384	-
Land use rights, net of accumulated amortization	12,385,369	-
Goodwill	12,000,000	-
	<b>33,547,875</b>	<b>84,287</b>
<b>Other assets</b>		
Licence rights	1	1
Investment in unconsolidated equity investee	800,559	-
	<b>800,560</b>	<b>1</b>
<b>Total assets</b>	<b>\$ 62,840,585</b>	<b>\$ 22,734,839</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accruals	3,341,648	2,707,885
Sales deposits received	-	50,000
Due to directors	-	237,797
Other payable	588,114	-
Short term debt	2,275,812	-
	<b>6,205,574</b>	<b>2,995,682</b>
<b>Other liabilities</b>		
Long term debt	4,112,913	-
<b>Minority interest</b>	<b>5,407,332</b>	<b>-</b>
<b>Commitments and contingencies</b>		
	<b>-</b>	<b>-</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 and 32,000,000 shares issued and outstanding at December 31, 2007 and 2006 respectively)	52,944	32,000
Additional paid- in capital	43,489,213	19,675,157
Retained earnings	3,174,089	32,000
Accumulated other comprehensive income	398,520	-
<b>Total stockholders' equity</b>	<b>47,114,766</b>	<b>19,739,157</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 62,840,585</b>	<b>\$ 22,734,839</b>

The accompanying notes are an integral part of these statements.

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

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

	2007	2006
	\$	\$
<b>Revenue</b>	16,230,827	13,912,046
<b>Cost of goods sold</b>	3,956,157	3,444,441
<b>Gross profit</b>	12,274,670	10,467,605
<b>Selling and marketing expenses</b>	(89,744)	-
<b>General and administrative expenses</b>	(2,212,805)	(744,106)
<b>Net income from operations</b>	9,972,121	9,723,499
<b>Other income</b>	199,604	-
<b>Interest expense</b>	(77,495)	-
<b>Impairment loss on goodwill</b>	(6,786,942)	(19,657,157)
<b>Minority interest</b>	(219,718)	-
<b>Income from unconsolidated equity investee</b>	54,873	-
<b>Net income before income taxes</b>	3,142,443	(9,933,658)
<b>Provision for income taxes</b>	(354)	-
<b>Net income</b>	3,142,089	(9,933,658)
<b>Other comprehensive income</b>		
<b>Foreign currency translation gain</b>	398,520	-
<b>Comprehensive income</b>	3,540,609	(9,933,658)
<b>Earnings per share</b>		
<b>Basic</b>	0.08	(0.31)
<b>Diluted</b>	0.06	(0.31)
<b>Weighted average number of shares outstanding:</b>		
<b>Basic</b>	39,893,158	32,000,000
<b>Diluted</b>	52,943,579	32,000,000

The accompanying notes are an integral part of these statements.

**SINO AGRO FOOD, INC. AND SUBSIDIARIES**  
(Incorporated in the State of Nevada, United States of America)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

	Common stock			Retained earnings	Accumulated other comprehensive income	Total
	Par Value \$0.001 (2006: \$0.001)		Additional paid in capital			
	Shares	Nominal amount				
	\$	\$	\$	\$	\$	
Balance at January 1,2006 (50,000 shares of \$ 1 )	50,000	50,000	-	9,965,658	-	10,015,658
July 24, 2007 The whole share capital of Capital Award Inc. in exchange Sino Agro Food, Inc. after merger (Note 1)	(50,000)	(50,000)	-	-	-	(50,000)
July 24, 2007 Original share capital of Sino Agro Food, Inc. (Note 1)	9,900,000	199,800	-	-	-	199,800
July 24, 2007 Cancellation of shares of Sino Agros Food, Inc. (Note 1)	(9,900,000)	(199,800)	-	-	-	(199,800)
July 24, 2007 Issue of Sino Agros Food, Inc. Common stock in exchange for 100% of Capital Award Inc. (Note 1)	32,000,000	32,000	19,675,157	-	-	19,707,157
Net income for the year	-	-	-	(9,933,658)	-	(9,933,658)
Balance at December 31, 2006	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 Limitada	2,000,000.00	2,000	4,673,000	-	-	4,675,000
September 5, 2007 Issue ordinary shares for acquisition of 100% equity of Hang Yu Tai Investment Limitada	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
Net income for the year	-	-	-	3,142,089	-	3,142,089
Foreign currency translation gain	-	-	-	-	398,520	398,520
Balance at December 31, 2007	<u>52,943,579</u>	<u>52,944</u>	<u>43,489,213</u>	<u>3,174,089</u>	<u>398,520</u>	<u>47,114,766</u>

Note (1)As explained in note 2.3, the consolidated financial statements of the combined entity are prepared as if the combined entity had always existed. Since these common stock issued as part of a common control combination, the occurrence of these transactions were treated as if they were occurred in the year 2006 for reverse merger accounting purpose.

SINO AGRO FOOD, INC. AND SUBSIDIARIES  
(Incorporated in the State of Nevada, United States of America)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

	2007	2006
	\$	\$
Cash flows from operating activities		
Net income (loss) for the year	3,142,089	(9,933,658)
Adjustments to reconcile net income to net cash from operations:		
Impairment loss on goodwill	6,786,942	19,657,157
Depreciation	177,642	20,308
Income from unconsolidated equity investee	(54,873)	-
Amortisation of land use rights	217,425	-
Changes in operating assets and liabilities		
Increase in inventory	(626,801)	-
Increase in deposits and prepaid expenses	(7,782,252)	-
Increase in construction in progress	(3,832,384)	-
Increase in amount due from a director	(8,686)	-
Increase in minority interest	5,407,332	-
Increase in accounts payable and accruals	633,763	2,670,308
(Decrease) Increase in sales deposits received	(50,000)	50,000
(Decrease) Increase in amount due to directors	(237,797)	87,349
Increase in other payable	588,114	-
Increase in accounts receivable	(7,043,730)	(2,200,000)
Decrease (Increase) in other receivable	9,773,184	(10,245,351)
	7,089,968	106,113
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,423,477)	(913)
Acquisition of companies, net of cash received	(18,786,942)	(19,657,157)
Investment in unconsolidated equity investee	(745,686)	-
Acquisition of land use rights	(12,602,794)	-
	(37,558,899)	(19,658,070)
Cash flows from financing activities		
Proceeds from issuance of long term debt	4,112,913	-
Proceeds from issuance of short term debt	2,275,812	-
Common stock issued and additional paid in capital introduced	23,835,000	19,657,157
	30,223,725	19,657,157
Effects on exchange rate changes on cash	398,520	-
Increase in cash and cash equivalents	153,314	105,200
Cash and cash equivalents, beginning of year	205,200	100,000
Cash and cash equivalents, end of year	358,514	205,200
Supplementary disclosures of cash flow information:		
Cash paid for interest	244,214	-
Cash paid for income taxes	1,114	-

The accompanying notes are an integral part of these statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**1. CORPORATE INFORMATION**

Sino Agro Food, Inc. (formerly known as A Power Agro Agriculture Development, Inc. and previously known as Volcanic Gold, Inc.) (the “Company”) is an International Business Corporation limited by shares incorporated on October 1, 1974 in the State of Nevada, United States of America. The shares that are listed are publicly tradable comprise currently the un-restricted shares which are quoted on the Pink Sheet, OTCB under the ticker symbol of “SIAF”.

The Company was dormant without any business activity up until August 24, 2007 when a Merger and Acquisition exercise between the Company and Capital Award, Inc. (“CA”) was officially completed under its original name of Volcanic Gold, Inc. which name was changed 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 Investmento Limitada (“HYT”), a Macau incorporated company, the owner of 78% equity stake in ZhongXing Agriculture and Husbandry Co. Limited. (“ZX”);
- b) Tri-way Industries Limited (“TRW”), a Hong Kong incorporated company, the owner of 30% equity stake of TianQuan Science Technology Co. Limited. (“TQST”) and
- c) Macau EIJI Company Limitada (“MEIJI”), a Macau incorporated company, the owner of 75% equity stake in Hang Sing Tai Agriculture Co. Limited. (“HST”).

With these acquisitions, the Company became an ultimate holding company with its business operations located in the PRC.

The Company is headquartered in the USA with an operating office established in Guangzhou China on December 13, 2007.

The nature of the operations and principal activities of Sino Agro Food, Inc. and its subsidiaries are described in Note 4.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“US GAAP”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**2.2 FISCAL YEAR**

The company has adopted December 31 as its fiscal and financial year-end.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.3 BASIS OF CONSOLIDATION**

Subsidiary companies are wholly-owned subsidiaries, namely CA, HYT, TRW and MEIJI which in turn own, ZX, HST and TQST which are enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the enterprises so as to obtain benefits from their activities. HST and TQST have been officially approved as Sino Joint Venture Companies (SJVCs) on December 17, 2007 and December 18, 2007 respectively by the relevant authorities of PRC. Once approval are granted, the China Central Bank will provide SJVC with an approved foreign currency bank account to govern all movements (imports and exports) of the foreign currency made by the SJVC.

**Reverse merger**

Effective August 24, 2007, 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. Although legally the issuing publicly tradable entity is regarded as the parent and the private entity is regarded as the subsidiary, the legal subsidiary is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. For accounting purposes, CA is considered the accounting acquirer. Accordingly, the reverse merger was accounted for as recapitalization of CA and the assets and liabilities of the company have been recorded using CA historical values and the shareholders of CA received approximately 100% of the post reverse merger common stock of SIAF. In addition, the historical shareholders equity of CA prior to the reverse merger has been retroactively restated (recapitalization) for the equivalent number of shares received in acquisition. The consolidated retained earnings of CA have been carried forward after the reverse merger.

Under reverse merger, the consolidated financial statements shall be issued under the name of the legal parent, but described in the notes as a continuation of the financial statements of the legal subsidiary (ie: the acquirer for accounting purposes). Because such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary:

- (a) the assets and liabilities of the legal subsidiary shall be recognized and measured in those consolidated financial statements at their pre-combination carrying amounts.
- (b) the retained earnings and other equity balances recognized in those consolidated financial statements shall be the retained earnings and other equity balances of the legal subsidiary immediately before the business combination.
- (c) the amount recognized as issued equity instruments in those consolidated financial statements shall be determined by adding to the issued equity of the legal subsidiary immediately before the business combination the cost of the combination determined. However, the equity structure appearing in those consolidated financial statements (ie the number and type of equity instruments issued) shall reflect the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination.
- (d) comparative information presented in those consolidated financial statements shall be that of the legal subsidiary.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.3 BASIS OF CONSOLIDATION (CONTINUED)**

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The consolidated financial statements are prepared on the basis of subsidiaries and unconsolidated equity investee acquired by the Company on September 5, 2007, and profits up to this date are recognized as pre-acquisition profits and profits thereafter are recognized as post-acquisition profits. In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries are accounted for by the parent at cost less any allowance for impairment. Acquisitions are accounted for using the purchase / acquisition method of accounting for HYT, TRW and MEIJI. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Minority interests represent the portion of profit or loss (where attributable) and net assets in ZX, HST and TQST not held by the Group and are presented separately in the consolidated statements of income and balance sheets respectively.

**2.4 BUSINESS ACQUISITION**

**(a) HYT and ZX Group acquisition**

On September 5, 2007, the Company made further acquisitions by acquiring of Hang Yu Tai Investmento Limitada (“HYT”), a Macau incorporated company, the owner of 78% equity stake in ZhongXing Agriculture and Husbandry Co. Ltd. (“ZX”). The results of ZX’s operations have been included in the consolidated financial statements of the Company since that date. The aggregate purchase price was \$17,760,099 including \$10,000,000 of cash and common stock valued at \$7,7610,099

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.4 BUSINESS ACQUISITION (CONTINUED)**

**(a) HYT and ZX Group acquisition**

	(Unaudited)
	\$
Inventory, net	188,578
Accounts receivable, net of allowance	8,051,414
Other receivable	455,578
Cash and cash equivalents	104,649
Property, plant and equipment, net of accumulated depreciation	5,340,315
Construction in progress	3,353,625
Land use rights, net of accumulated amortization	6,037,907
Goodwill	15,560,248
<b>Total assets acquired</b>	<b>39,092,314</b>
Loans	6,164,266
Minority interest	3,430,349
Accounts payable	658,258
Tax payable	4,218
Other payable	11,075,124
<b>Total liabilities assumed</b>	<b>21,332,215</b>
<b>Total purchase price</b>	<b>17,760,099</b>

**(b) MELJI and HST Group acquisition**

On September 5, 2007, the Company made further acquisitions by acquiring of Macau EIJI Company Limitada (“MEIJI”), a Macau incorporated company, the owner of 75% equity stake in Hang Sing Tai Agriculture Co. Limited. (“HST”). The aggregate purchase price was \$5,878,739 including \$2,000,000 of cash and common stock valued at \$3,878,739.

The purchase price allocation is not considered final as of the date of this report, as we are still reviewing all of the underlying assumption and calculations used in the allocation. However, we believe the final purchase price allocation will not be materially different than presented herein.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.4 BUSINESS ACQUISITION (CONTINUED)**

**(b) MEIJI and HST Group acquisition**

	(Unaudited) \$
Inventory, net	416,201
Accounts receivable, net of allowance	558,911
Other receivable	472,167
Cash and cash equivalents	41,031
Property, plant and equipment, net of accumulated depreciation	37,460
Construction in progress	478,759
Land use rights, net of accumulated amortization	6,347,462
Goodwill	724,940
Total assets acquired	9,076,931
Minority interest	1,976,468
Other payable	1,221,724
Total liabilities assumed	3,198,192
Total purchase price	5,878,739

The following tables show supplemental information of the results of operations on a pro forma basis as if the acquisitions of SST had been completed at the beginning of the respective period.

The unaudited pro forma financial information does not necessarily reflect the results that would have occurred if the acquisitions had been in effect for the periods presented. In addition, they are not intended to be a projection of future results.

The pro forma calculations do not reflect any synergies that might be achieved from combining the operations.

Year ended December 31, 2007

	(Unaudited)			
	Historical Combined	Proforma adjustment - HYT and ZX group	Proforma adjustment - MEIJI and HST group	
	\$	\$	\$	\$
Sales	16,230,827	5,630,034	-	21,860,861
Net income (loss) from operations	9,972,121	2,109,501	(76,482)	12,005,140
Net income (loss)	9,929,031	2,217,643	(58,895)	12,087,779
Basis and diluted earning per share	0.20	0.04	-	0.24

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.4 BUSINESS ACQUISITION (CONTINUED)**

Year ended December 31, 2006

	(Unaudited)				
	Historical Combined	Proforma adjustment - HYT and ZX goup	Proforma adjustment - MEIJI and HST goup	Proforma	
		\$	\$	\$	\$
Sales	13,912,046	61,261	-	13,973,307	
Net income from operations	9,723,499	(202,069)	-	9,521,430	
Net loss	-9,933,658	(201,538)	-	(10,135,196)	
Basis amd diluted earning per share	(0.31)	(0.01)	-	(0.32)	

**2.5 PROPERTY, PLANT AND EQUIPMENT AND IMPAIRMENT OF ASSETS**

Property, plant 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 amortization 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
Leasehold improvements	10 years
Motor vehicles	5 -10 years
Furniture, fixtures and equipment	2.5 - 10 years

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.5 PROPERTY, PLANT AND EQUIPMENT AND IMPAIRMENT OF ASSETS (CONTINUED)**

An item of property, plant and equipment is written 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.

**2.6 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, plant 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.

**2.7 LAND USE RIGHTS**

Land use rights represent acquisition of land use right 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 are in the range from 30 years to 60 years.

**2.8 OTHER ASSETS**

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No.144, "Accounting for the Impairment of Disposal of Long-Lived Assets." Factors we consider important which could trigger an impairment review include, but are not limited to, significant underperformance relative to expected or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, or a significant decline in our market capitalization relative to net book value. An asset is considered impaired if its carrying amount exceeds its fair market value. We assess the recoverability of our long-lived assets by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting our average cost of capital.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.9 REVENUE RECOGNITION**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- sale of goods – revenue is recognized when goods are delivered and title has passed and when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer;
- service fee – revenue is recognized when services have been rendered to a buyer by reference to stage of completion;
- license fee – income is recognized on the accrual basis in accordance with the underlying agreements; and
- dividends – revenue is recognized when the shareholders' right to receive the payment is established.

**2.10 TRADE AND OTHER RECEIVABLES**

Trade receivables in general, which are non-interest bearing and generally have 2 to 30 day terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Trade receivables due from Government related contracts (primarily receivable of TQST) generally have a 180 day terms, are recognized and carried at original invoice less an allowance for any uncollectible amounts, if any.

An allowance for doubtful debts is made when there is objective evidence that the company will not be able to collect the debts. Bad debts are written off when identified.

**2.11 INVENTORIES**

Inventories are valued at the lower of cost 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.12 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.

The company holds indirectly a 30% equity investment in TianQuan Science and Technology Co Ltd

**2.13 INCOME TAXES**

We account for income taxes under an asset and liability approach that requires the expected future tax consequences of temporary differences between book and tax basis of assets and liabilities be recognized as deferred tax assets and liabilities. Generally accepted accounting principles require us to evaluate the realizability of our net deferred tax assets on an ongoing basis. A valuation allowance is recorded to reduce the net deferred tax assets to an amount that will more likely than not be realized. Significant factors considered by management in assessing the need for a valuation allowance include our historical operating results, the length of time over when the differences will be realized, tax planning opportunities and expectations for future earnings. In the consideration of the realizability of net deferred tax assets, recent losses must be given substantially more weight than any projections of future profitability.

The Company's consolidated earnings are not subjected to income tax of Nevada USA. Its branch office in china is primarily an administration office looking after its subsidiaries' operations in China will not derive profit so as to cause income tax to arise in China. However the PRC Government will impose Income Tax on all foreign owned offices operating in China including the Company's representative office in GuangZhou, China based on the following formulas:

Income = All expenses paid or incurred by its representative office in China will be multiplied 1.172 times

Income tax payable = 5% x Income

This means if your China office expense is USD 100, the income will be deemed USD 117.20 and taxed at 5% or USD 5.86.

The Company's income are derived through its subsidiaries and associate such that its consolidated earnings will incur income tax payable in accordance with the tax law of Nevada USA, if any. Its subsidiaries' incomes are subject to income tax of respective country where the subsidiaries were incorporated.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.13 INCOME TAXES (CONTINUED)**

CA is a international business company incorporated in Belize, and its earnings are not subjected to income tax, The Company has an associated office in China. However, all sales invoicing were raised by its representative office in Malaysia for its sales outside of Malaysia and as such income received in its offshore bank account, and thus does not result in any tax being imposed as a result of its trading and servicing activities in China nor Malaysia, which tax is imposed on a territorial basis and not on a worldwide basis.

Accordingly, no necessity to provide for income taxes in the CA's 2004 to 2007 financial statements which position is confirmed by the respective CPA firms in Malaysia and China.

Upon the commencement of the development of the fishery project, CA will participate as a foreign partner in a Sino Joint Venture Company (SJVC) to be incorporated in China. As a foreign partner of the SJVC the Company will officially be allowed to repatriate all capital investments invested and corresponding earnings earned from China but subject to whatever income tax payable in China then. However, the PRC Government has allowed income tax concession for agriculture, aquaculture and high technology industries starting from January 1, 2008 that will cap CA's income tax at a minimum and maximum rate of 5 to 13% respectively.

Since year 2006, the Government of China has exempted sales tax of all primary produce and related value added products derived from the agriculture or husbandry or aquaculture industry, and provided much incentive schemes to encourage the developments of the industries. New tax legislation of China has been effective from January 2008 to allow the agriculture, husbandry and aquaculture sectors with free income tax, free sales tax and free value added tax. Therefore no enterprise income taxes are provided in the financial statements of CA, ZX, and HST.

Net income from unconsolidated equity investee (TQST) of the company is not subjected to income tax for the year and will not be taxable even though the investment is sold. Therefore no China Enterprise income tax and deferred tax have been provided in the financial statements.

The Company adopted Statement of Financial Accounting Standards No. 109, "*Accounting for Income Taxes*" (SFAS 109) that requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consist of taxes currently due plus deferred taxes. Since the Company had no operations within the United States there is no provision for US income taxes and there are no deferred tax amounts as of December 31, 2007.

The charge for taxation 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 by 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 probably that taxable profit will be available against which deductible temporary differences can be utilized.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.13 INCOME TAXES (CONTINUED)**

Deferred tax is 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.

The Company adopted FASB Interpretation 48, “*Accounting for Uncertainty in Income Taxes*” (“FIN 48”), as of January 1, 2007. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no affect on the Company’s financial statements.

**2.14 GOODWILL**

The company accounts for goodwill and intangible assets in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”. SFAS No. 142 requires that good will and other intangibles with indefinite lives tested for impairment annually or an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value..

Goodwill represents that the excess of the purchase price over the fair value of net assets acquire in business acquisitions. SFAS No.142 requires that goodwill be tested for impairment at reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests when circumstances indicate that the recoverability of the carrying amount of goodwill may of reporting units, assign be in doubt. Application of the goodwill impairment test requires judgment, including the identification of reporting unit. Significant judgments required to estimate the fair value of a reporting unit include estimating future cash flows, determining appropriate discounts rates and other assumptions. Changes in these estimates and assumptions or the occurrence of one or more confirming events in future periods could cause the actual results or outcomes to materially differ from such estimates and could also affect the determination of fair value and/ or goodwill impairment at future reporting dates. The company performs its impairment test annually during the fourth quarter of the fiscal year. During the year ended December 31, 2006, the Company decided to recognize impairment loss on goodwill of \$19,657,157 immediately as the result of reverse merger with the CA. During the year ended December 31, 2007, the Company decided to recognize impairment loss on goodwill of \$6,786,942 immediately as the result of business acquisition with the HYT group.

Impairment losses recognized for goodwill are not subsequently reversed.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.15 IMPAIRMENT OF LONG-LIVED ASSETS**

In accordance with SFAS No. 144, "Long-Live Assets", the Company reviews the carrying value of other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of long-lived assets is measured by comparison of their carrying amounts to be undiscounted cash flows that the assets or assets group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any exceeds its fair market value. The Company determined that there was no impairment of long-lived assets as of December 31, 2007 and December 31, 2006.

**2.16 TRADE AND OTHER PAYABLES**

Trade payables and other payables are carried at amortized cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are non-interest bearing and are normally settled on 7 to 60 day terms.

**2.17 FOREIGN CURRENCY TRANSACTIONS AND TRANSLATIONS**

The Company uses Renminbi (RMB) as the functional currency and United States Dollars (US\$) as the reporting currency. Transactions denominated in other than reporting currency are translated into US\$ at the average rate of exchange for the year. Monetary assets and liabilities denominated in other than reporting currency are translated into US\$ at rates of exchange at the balance sheet dates. Exchange differences are reported in equity and classified as other comprehensive income.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.18 CONCENTRATION OF CREDIT RISK**

Our cash and cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are deposited with financial institutions that we believe are of high credit quality. Our customers are selected based on the quality of their credit standing. The directors of the Company, subsidiaries and associate apply a strict credit policy when extending credit so as to mitigate risks associated with delinquent or bad debts notwithstanding that credit may be concentrated in the names of a few customers in the case of CA, ZX, HST and TQST. To date there are no incidence of any material doubtful and or bad debts due to the strict assessment of credit worthiness of customers.

**2.19 EARNINGS PER SHARE**

The Company reports earnings per share in accordance with the provisions of SFAS 128, "Earnings per Share." SFAS 128 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period

The equity structure appearing in the consolidated financial statements prepared following a reverse merger reflects the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the business combination.

For the purpose of calculating the weighted average numbers of common stockholders outstanding (the denominator) during the period in which the reverse merger occurs:

- (a) the number of common shares outstanding from the beginning of that period to the reverse merger date shall be deemed to be the number of common shares issued by the legal parent to the owners of the legal subsidiary; and
- (b) the number of ordinary shares outstanding from the reverse merger date to the end of that period shall be the actual number of common shares of the legal parent outstanding during that period.

The basic earnings per share disclosed for each comparative period before the reverse merger date that is presented in the consolidated financial statements following a reverse merger shall be calculated by dividing the income or loss of the legal subsidiary attributable to common stockholders in each of those periods by the number of common shares issued by the legal parent to the owners of the legal subsidiary in the reverse merger date.

On the assumption that there were no changes in the number of the legal subsidiary's issued common shares during the comparative periods and during the period from the beginning of the period in which the reverse merger occurred to the reverse merger date. The calculation of earnings per share shall be appropriately adjusted to take into account the effect of a change in the number of the legal subsidiary's issued common shares during those periods.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.19 EARNINGS PER SHARE (CONTINUED)**

Diluted earnings per share takes into account the potential dilution (using the treasury stock method) that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

**2.20 RETIREMENT BENEFIT COSTS**

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

**2.21 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**2.22 STOCK-BASED COMPENSATION**

At December 31, 2007 and December 31, 2006, the Company had no stock-based compensation plans.

**2.23 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Statement of Financial Accounting Standards No. 107 (SFAS 107), "*Disclosures about Fair Value of Financial Instruments*" requires disclosure of the fair value of financial instruments held by the Company. SFAS 107 defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company considers the carrying amount of cash, accounts receivable, other receivables, accounts payable, accrued liabilities, other payables and line of credit to approximate their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.24 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

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 September 2006, FASB issued SFAS No. 157, "*Fair Value Measurements*", which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The adoption of SFAS No. 157 is not expected to have a material effect on the Company's consolidated balance sheets and consolidated statement of income.

In February 2007, the FASB released SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*", which is effective for fiscal years beginning after November 15, 2007. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The adoption of SFAS No. 159 is not expected to have a material effect on the Company's consolidated balance sheet and consolidated statement of income.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "*Business Combinations*". This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces SFAS No. 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. The Statement retains the guidance in SFAS No. 141 for identifying and recognizing intangible assets separately from goodwill. SFAS 141(R) will now require acquisition costs to be expensed as incurred, restructuring costs associated with a business combination must generally be expensed prior to the acquisition date and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is the Company's 2009 fiscal year. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*", which is an amendment of Accounting Research Bulletin ("ARB") No. 51 ("SFAS 160"). This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. This statement is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 will change the accounting and reporting for minority interests, which will be classified as a component of equity. Early adoption is not permitted. Management is currently evaluating the impact this standard may have on the company's consolidated operating results and financial position upon adoption.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.24 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

In April 2008, the FASB issued FSP FAS 142-3 “Determination of the useful life of Intangible Assets”, which amends the factors a company should consider when developing renewal assumptions used to determine the useful life of an intangible asset under SFAS 142. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. SFAS 142 requires companies to consider whether renewal can be completed without substantial cost or material modification of the existing terms and conditions associated with the asset. FSP FAS 142-3 replaces the previous useful life criteria with a new requirement—that an entity consider its own historical experience in renewing similar arrangements. If historical experience does not exist, then the Company would consider market participant assumptions regarding renewal including 1) highest and best use of the asset by a market participant, and 2) adjustments for other entity-specific factors included in SFAS 142. The adoption of FSP FAS 142-3 did not have a material impact on the Company’s financial statements.

In May 2008, the FASB issued SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles.” This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the “GAAP hierarchy”). SFAS 162 did not have any effect on the Company’s financial statements.

In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset in a Market That Is Not Active” (FSP 157-3), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management’s internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The Company adopted the provisions of FSP 157-3, which did not impact Company’s financial position or results of operations.

In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”. FSP FAS 157-4 amends SFAS 157 and provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly for fair value measurements. This FSP shall be applied prospectively with retrospective application not permitted. This FSP shall be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting this FSP must also early adopt FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments”. Additionally, if an entity elects to early adopt either FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” or FSP FAS 115-2 and FAS 124-2, it must also elect to early adopt this FSP. We are currently evaluating this new FSP but do not believe that it will have a significant impact on the determination or reporting of our financial results.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2. This FSP amends SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities,” SFAS 124, “Accounting for Certain Investments Held by Not-for-Profit Organizations,” and EITF 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets,” to make the other-than-temporary impairments guidance more

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

**2.24 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

operational and to improve the presentation of other-than-temporary impairments in the financial statements. This FSP will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This FSP provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this FSP does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. This FSP

shall be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4. Also, if an entity elects to early adopt either FSP FAS 157-4 or FSP FAS 107-1 and APB 28-1, the entity also is required to early adopt this FSP. We are currently evaluating this new FSP but do not believe that it will have a significant impact on the determination or reporting of our financial results.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1. This FSP amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this FSP, fair values for these assets and liabilities were only disclosed annually. This FSP applies to all financial instruments within the scope of SFAS 107 and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This FSP shall be effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. We are currently evaluating the disclosure requirements of this new FSP.

**2.25 ACCUMULATED OTHER COMPREHENSIVE INCOME**

SFAS No. 130, "*Reporting Comprehensive Income*", establishes standards for reporting and displaying comprehensive income (loss) and its components in financial statements. Comprehensive income (loss) 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 (loss) for all periods presented includes both the reported net income (loss) and net change in cumulative translation adjustments.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**3. SEGMENT INFORMATION**

The Group's activities include the development of agriculture businesses and managing the distribution of agricultural products and related technology. The company's primarily geographic market is the People's Republic of China and operates through its subsidiaries, which enter into joint ventures with strategic partners using Sino Joint Venture Companies (SJVC).

The Group's primary reporting format is business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. The operating businesses are organized and managed separately according to the nature of the products and serves different markets. The Group operations are substantially in one material geographical segment only, being PRC, and therefore a secondary reporting format is not provided.

Transfer prices between business segments are set at an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between segments. Those transfers are eliminated on consolidation where material.

The Group operates four business segments/divisions as follows:

**Aquaculture and Fishery Division**

- Bespoke system with design, development, management, processing and operations of modern state of the arts aquaculture fishery system and facilities applying APT technology including training;
- Sale of investor licenses and operator licenses;
- Supply of plant and equipment including accredited servicing and maintenance;
- Provision of consulting and professional services;
- Sales, marketing and packaging of fish and value added fish products; and
- Research and development of aquaculture technologies and value added fishery products

**Cattle, Dairy and Dairy Products Division**

- Bespoke system with design, development, management, operations of modern state of the arts cattle and dairy farms, milking systems, dairy products, processing systems and facilities including training;
- Sales and marketing of cattle, fresh liquid milk and related value added products to China and overseas markets;
- Development and sales of retailing franchise system and network of fresh and value added dairy products ;
- Cultivation and development of pasture land and forage for cattle consumption; and
- Research and development of cattle breeding, organic feedlot for fattening of cattle, manufacturing of cattle of forage technologies and value added dairy products.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**3. SEGMENT INFORMATION (CONTINUED)**

**Horticulture and HU Plantation Division**

- Bespoke system with design, development, management, operations of modern state of the arts horticulture and HU (Bean Cappers) Plantation systems, dehydrated HU flower products, processing systems and facilities including training;
- Sales and marketing of fresh, dry and dehydrated value added products to China and overseas markets;
- Cultivation and development of HU plantation land and other high margin vegetables for human consumption; and
- Research and development of HU plantation technology and seedling plants.

	2007			2006	
	Aquaculture and Fishery Division \$	Cattle, Dairy and Dairy Products Division \$	Horticulture and HU Plantation Division \$	Total \$	Aquaculture and Fishery Division \$
Sales and other revenue	<u>13,608,000</u>	<u>2,622,827</u>	<u>-</u>	<u>16,230,827</u>	<u>13,912,046</u>
Operating profits/(loss)	<u>9,337,181</u>	<u>805,205</u>	<u>(27,437)</u>	<u>10,114,949</u>	<u>9,723,499</u>
Total assets	<u>18,454,484</u>	<u>23,666,363</u>	<u>7,916,802</u>	<u>50,037,649</u>	<u>22,734,839</u>
Capital expenditure	<u>138,469</u>	<u>14,545,725</u>	<u>6,863,681</u>	<u>21,547,875</u>	<u>84,287</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**4. INVESTMENTS IN SUBSIDIARIES AND UNCONSOLIDATED EQUITY INVESTEE**

As at December 31, 2007, details of the subsidiaries and unconsolidated equity investee are as follows:

<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.	Belize	\$50,000	100% direct	Fishery
Capital Stage Inc.	Belize	\$50,000	100% indirectly	Dormant
Capital Hero Inc.	Belize	\$50,000	100% indirectly	Dormant
Tri-way Industries Limited	Hong Kong, PRC	HK\$10,000	100% direct	Investment holding
Macau Eiji Limitada	Macau, PRC	Pataca 30,000	100% direct	Investment holding
Hang Sing Tai Agriculture Co Limited	PRC	RMB100,000	75% indirectly	Hu Plantation and Horticulture operation
Hang Yu Tai Investmento Limitada	Macau, PRC	Pataca 25,000	100% direct	Investment holding
ZhongXian Agriculture and Husbandry Co Limited	PRC	RMB60,000,000	78% indirectly	Dairy and value added dairy products operation
A Power Agro Agriculture Development (Macau) Limited	Macau, PRC	Pataca 25,000	100% direct	Dormant
<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	30% indirectly	Turf Farming and Agriculture Technology operation

As at December 31, 2006, details of the subsidiaries are as follows:

<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 Stage, Inc.	Belize	\$50,000	100% indirectly	Dormant
Capital Hero, Inc.	Belize	\$50,000	100% indirectly	Dormant

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

5. **PLANT AND EQUIPMENT**

	2007	2006
	\$	\$
Plant and machinery	2,755,163	-
Furniture and equipment	83,942	12,047
Leasehold improvements	110,801	83,590
Milk cows	2,535,634	-
Motor vehicles	81,142	47,568
	5,566,682	143,205
Less: Accumulated depreciation	(236,560)	(58,918)
	5,330,122	84,287

Depreciation expense was \$102,172 and \$20,308 for the years ended December 31, 2007 and December 31, 2006 respectively.

6. **LAND USE RIGHTS**

	2007	2006
	\$	\$
At costs:		
Additions	12,602,794	-
Less: Accumulated amortisation	(217,425)	-
Net carrying amount	12,385,369	-

Amortization of land use rights was \$217,425 and \$Nil for the years ended December 31, 2007 and December 31, 2006.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**7. INVESTMENT IN UNCONSOLIDATED EQUITY INVESTEE**

On September 5, 2007, the Company made further acquisitions by acquiring the existing businesses in the People's Republic of China ("PRC") by acquiring Tri-way Industries Limited ("TRW"), a Hong Kong incorporated company, the owner of 30% equity stake of TianQuan Science Technology Co. Ltd. ("TQST").

	2007	2006
	\$	\$
Investment at cost	745,686	-
Share of post acquisition profits	54,873	-
	800,559	-
	800,559	-

The following table summarizes the assets and liabilities of TQST as of December 31, 2007.

	\$
Current assets	2,792,158
Non-current assets	5,532,279
Current liabilities	5,417,988
Non-current liabilities	283,911
Revenues	788,257
Gross margin	37%
Net income	54,125

**8. GOODWILL**

The goodwill represents the fair value of the assets acquired in the acquisitions over the cost of the assets acquired. Management tests goodwill for impairment on an annual basis or when impairment indicators arise. During the year ended December 31, 2006, the Company decided to recognize impairment loss on goodwill of \$19,657,157 immediately as the result of reverse merger with the CA. During the year ended December 31, 2007, the Company further recognize an impairment loss on goodwill of \$6,786,942 immediately as the result of business acquisition of HYT group.

	2007	2006
	\$	\$
Goodwill from acquisition	18,786,942	19,657,157
Less: Accumulated impairment losses	(6,786,942)	(19,657,157)
	12,000,000	-
	12,000,000	-

Impairment loss on goodwill was \$6,786,942 and \$19,657,157 for the year ended December 31, 2007 and December 31, 2006 respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**9. INVENTORY**

As at December 31, 2007 inventory is as follows:

	2007	2006
	\$	\$
Unharvested HU plantation	431,356	-
Forage for milk cows and consumable	195,445	-
	626,801	-

**10. DEPOSITS AND PREPAID EXPENSES**

	2007	2006
	\$	\$
Deposits for		
acquisition of land use rights	2,500,000	-
inventory purchased	431,527	-
tenancy agreement	2,129	-
materials used for construction in progress	147,736	-
Prepayments for dairy farm and milk containers	4,700,860	-
	7,782,252	-

**11. ACCOUNTS RECEIVABLE**

The Company has performed an analysis on all of its accounts receivable and determined that all amounts are probable of collection within one year. As such, all trade receivables are reflected as a current asset and no allowance for bad debt has been recorded as of December 31, 2007 and December 31, 2006.

Aging analysis of accounts receivable is as follows:

	2007	2006
	\$	\$
0 - 30 days	661,463	-
31 - 90 days	7,809,454	12,200,000
91 - 120 days	137,505	-
over 120 days and less than 1 year	635,308	-
over 1 year	10,000,000	-
	19,243,730	12,200,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**12. SHARE CAPITAL**

The Group's share capital as at December 31, 2007 and December 31, 2006 shown on the consolidated balance sheet represents the aggregate nominal value of the share capital of the Company as at that date and reverse merger date respectively.

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 and 32,000,000 issued and outstanding at December 31, 2007 and December 31, 2006 respectively.

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 Limitada

The purchase price of \$6,675,000 was satisfied by the issuance of 2,000,000 SIAF shares valued at \$4,675,000 or \$2.3375 per share and the balance of \$2,000,000 paid in cash.

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

The purchase price of \$26,910,000 was satisfied by the issuance of 7,000,000 SIAF shares valued at \$16,910,000 or \$2.4157 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 \$3,250,000 was satisfied by the issuance of 1,000,000 SIAF shares valued at \$2,250,000 or \$2.25 per share and the balance of \$1,000,000 paid in cash.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**13. BANK BORROWINGS**

There are no provisions in the group'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 group's business.

**Short term debt**

Name of bank	Interest rate	Term	Security	Amount	
				2007	2006
				\$	\$
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>2,275,812</u>	<u>-</u>

**Long term debt**

Name of bank	Interest rate	Term	Security	Amount	
				2007	2006
				\$	\$
Argicultural Development Bank of China	6.75%	4/29/2007-4/28/2012	Corporate guarantee by third party	4,112,913	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**14. CAPITAL AND PURCHASES COMMITMENTS**

As at the balance sheet date, the capital and purchases commitments of the company were as follows:

	2007				2006	
	Land use rights of agriculture land	Construction in progress of new facility	Capital investment in joint venture company	Purchases of goods	Total	
	\$	\$	\$	\$	\$	\$
Contracted amount	18,508,109	6,012,888	600,000	1,607,902	24,520,997	-
Less : Amount paid	<u>(1,892,261)</u>	<u>(3,501,361)</u>	<u>-</u>	<u>(431,527)</u>	<u>(5,393,622)</u>	<u>-</u>
Contracted but not provided for	<u><u>16,615,848</u></u>	<u><u>2,511,527</u></u>	<u><u>600,000</u></u>	<u><u>1,176,375</u></u>	<u><u>19,127,375</u></u>	<u><u>-</u></u>

**15. OPERATING LEASE COMMITMENT**

The future minimum lease payments at December 31, 2007 and December 31, 2006, are as follows:

	2007	2006
	\$	\$
Year ended December 31,2008	2,138	-
Year ended December 31,2009	534	-
Thereafter	<u>-</u>	<u>-</u>
	<u><u>2,672</u></u>	<u><u>-</u></u>

**16. CONTINGENCIES**

At December 31, 2007 and 2006, 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 operations and other comprehensive income or cash flows.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

**17. RELATED PARTY TRANSACTIONS**

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

<b>Name of related party</b>	<b>Nature of transactions</b>
Mr. Fang Xiang Jun, director and ultimate beneficiary owner of the Company and Hang Sing Tai Agriculture Development Co Ltd, subsidiaries of the Company	During the year ended December 31, 2007, Mr. Fang Xiang Jun sold his land use rights to the Group at \$1,943,717.
Mr. Solomon Lee, a director and a beneficial shareholder of the Company	During the year ended December 31, 2006, the Company effected sales of equipment amounting to \$367,171 to Irama Edaran Sdn Bhd. (“IESB”).