

AgFeed Industries, Inc. and Subsidiaries
Consolidated Financial Statements
For the Years Ended December 31, 2010, 2009, and 2008

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
AgFeed Industries, Inc.

We have audited the accompanying consolidated balance sheet of AgFeed Industries, Inc. and subsidiaries as of December 31, 2010, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 AgFeed Industries, Inc. and subsidiaries as of December 31, 2010 and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AgFeed Industries, Inc.'s and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our report dated March 16, 2011 expressed an opinion that AgFeed Industries, Inc. had not maintained effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ MCGLADREY & PULLEN, LLP

Des Moines, Iowa
March 16, 2011

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of
AgFeed Industries, Inc.

We have audited the accompanying consolidated balance sheets of AgFeed Industries, Inc. and subsidiaries (Company) as of December 31, 2009, and the related consolidated statements of income and other comprehensive income, stockholders' equity, and cash flows for the years ended December 31, 2009 and 2008. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the Note 19 to the financial statements. We have audited AgFeed Industries, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AgFeed Industries, Inc.'s management is responsible for these financial statements, financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Management's Report on Internal Control is included in item 9A of AgFeed Industries, Inc.'s Form 10-K for the year ended December 31, 2009. Our responsibility is to express an opinion on these financial statements, financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding on internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our audits.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AgFeed Industries, Inc. and subsidiaries as of December 31, 2009, and the consolidated results of their operations and their cash flows for the years ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America. In our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management excluded certain newly acquired entities from its assessment of internal control over financial reporting. These entities constitute 6% of total assets as of December 31, 2009 and 0% and (7%) of revenue and net income, respectively, for the year ended December 31, 2009. Our opinion on internal control over financial reporting also excludes these entities.

/s/ Goldman Parks Kurland Mohidin LLP

Encino, California
March 3, 2010

AgFeed Industries, Inc. and Subsidiaries
Consolidated Balance Sheet
as of December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,399,916	\$ 37,580,154
Accounts receivable, net of allowance for doubtful accounts of \$707,968 and \$415,765	21,872,121	14,397,793
Advances to suppliers	1,708,637	1,173,941
Other receivables	-	2,186,643
Inventory	84,579,778	23,835,412
Prepaid expenses and other current assets	2,251,181	1,359,856
Deferred tax asset	83,685	
Total current assets	122,895,318	80,533,799
PROPERTY AND EQUIPMENT, net	66,003,779	34,606,983
INTANGIBLE ASSETS, net	5,785,471	1,064,252
GOODWILL	22,365,414	42,744,247
DEFERRED TAX ASSET	2,329,548	-
OTHER ASSETS	4,115,132	3,998,739
TOTAL ASSETS	\$ 223,494,662	\$ 162,948,020
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Short-term loan	\$ 4,551,000	\$ 4,401,000
Accounts payable	9,664,374	6,162,385
Other payables	3,736,931	1,892,858
Unearned revenue	542,856	582,266
Accrued expenses	6,731,854	83,649
Accrued payroll	1,209,120	975,485
Tax and welfare payable	1,920,389	396,370
Interest payable	121,392	120,419
Current portion of long-term debt	1,703,658	-
Convertible notes, net of discount of \$10,864	989,136	-
Total current liabilities	31,170,710	14,614,432
CONVERTIBLE NOTES, net of debt discount of \$81,675	-	918,325
ACQUISITION NOTE PAYABLE	9,621,434	-
LINE OF CREDIT	42,231,176	-
LONG-TERM DEBT	15,024,666	-
TOTAL LIABILITIES	98,047,986	15,532,757
COMMITMENTS AND CONTINGENCIES (Note 15)	-	-
EQUITY:		
AgFeed stockholders' equity:		
Common stock, \$0.001 per share; 75,000,000 shares authorized; 51,756,907 issued and 51,370,212 outstanding at December 31, 2010 and 44,510,558 issued and 44,143,263 outstanding at December 31, 2009	51,758	44,511
Additional paid-in capital	125,788,151	109,281,086
Accumulated other comprehensive income	8,120,628	4,176,450

Statutory reserve	5,621,937	4,685,115
Treasury stock (386,695 shares)	(1,858,942)	(1,811,746)
Retained earnings (accumulated deficit)	<u>(12,430,229)</u>	<u>31,210,563</u>
Total AgFeed stockholders' equity	125,293,303	147,585,979
Noncontrolling interest (deficit)	<u>153,373</u>	<u>(170,716)</u>
Total equity	125,446,676	147,415,263
TOTAL LIABILITIES AND EQUITY	<u>\$ 223,494,662</u>	<u>\$ 162,948,020</u>

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

AgFeed Industries, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Years Ended December 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues	\$ 243,614,119	\$ 173,203,271	\$ 143,661,485
Cost of goods sold	<u>228,942,742</u>	<u>146,660,232</u>	<u>109,269,960</u>
Gross profit	14,671,377	26,543,039	34,391,525
Operating expenses			
Selling expenses	4,386,259	3,934,047	3,941,247
General and administrative expenses	20,087,416	10,945,838	6,510,238
Impairment of long-term assets	9,021,583	-	-
Impairment of goodwill	<u>21,612,398</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>55,107,656</u>	<u>14,879,885</u>	<u>10,451,485</u>
Income (loss) from operations	(40,436,279)	11,663,154	23,940,040
Non-operating income (expense):			
Other income (expense)	(75,551)	486,299	90,208
Interest income	117,457	213,018	190,965
Interest and financing costs	(1,364,706)	(1,022,626)	(5,704,358)
Foreign currency transaction loss	<u>(5,261)</u>	<u>(17,943)</u>	<u>(559,299)</u>
Total non-operating income (expense)	(1,328,061)	(341,252)	(5,982,484)
Income (loss) before income taxes	(41,764,340)	11,321,902	17,957,556
Income tax expense	<u>1,234,725</u>	<u>1,142,105</u>	<u>587,222</u>
Net income (loss)	(42,999,065)	10,179,797	17,370,334
Less: Net income (loss) attributed to noncontrolling interest	<u>(295,095)</u>	<u>(168,569)</u>	<u>421,519</u>
Net income attributed to AgFeed	<u>\$ (42,703,970)</u>	<u>\$ 10,348,366</u>	<u>\$ 16,948,815</u>
Comprehensive income (loss)			
Net income (loss)	\$ (42,999,065)	\$ 10,179,797	\$ 17,370,334
Foreign currency translation gain	<u>3,956,321</u>	<u>7,935</u>	<u>3,476,562</u>
Comprehensive income (loss)	<u>\$ (39,042,744)</u>	<u>\$ 10,187,732</u>	<u>\$ 20,846,896</u>
Weighted average shares outstanding :			
Basic	<u>47,458,026</u>	<u>40,978,457</u>	<u>31,557,742</u>
Diluted	<u>47,458,026</u>	<u>41,214,070</u>	<u>31,713,977</u>
Earnings per share attributed to AgFeed common stockholders:			
Basic	<u>\$ (0.90)</u>	<u>\$ 0.25</u>	<u>\$ 0.54</u>
Diluted	<u>\$ (0.90)</u>	<u>\$ 0.25</u>	<u>\$ 0.53</u>

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

AgFeed Industries, Inc. and Subsidiaries
Consolidated Statement of Equity
For The Years Ended December 31, 2010, 2009, and 2008

	Common Stock		Additional Paid	Accumulated	Statutory	Treasury	Retained	Total	Non-controlling	Total
	Shares	Amount	in Capital	Other Comprehensive Income	Reserve	Stock	Earnings (Accumulated Deficit)	Stockholders' Equity	Interest/(Deficit)	Equity
Balance December 31, 2007	27,026,756	\$ 27,027	\$ 10,094,095	\$ 780,907	\$ 752,225	\$ -	\$ 7,846,272	\$ 19,500,526	\$ -	\$ 19,500,526
Issuance of common stock for cash	9,392,290	9,392	65,940,677					65,950,069		65,950,069
Payment of offering costs			(7,030,261)					(7,030,261)		(7,030,261)
Value of warrants issued with convertible debt			1,269,442					1,269,442		1,269,442
Beneficial conversion feature associated with convertible debt			2,770,443					2,770,443		2,770,443
Cashless exercise of warrants (199,131 warrants exercised)	91,934	92	(92)					-		-
Exercise of warrants for cash	269,456	269	2,138,579					2,138,848		2,138,848
Conversion of convertible debentures	1,520,000	1,520	15,198,480					15,200,000		15,200,000
Stock compensation expense for options issued to employees			231,368					231,368		231,368
Value of re-priced warrants			22,782					22,782		22,782
Value of change in conversion price of convertible notes			267,748					267,748		267,748
Purchase of treasury shares (367,295 shares)						(1,811,746)		(1,811,746)		(1,811,746)
Foreign currency translation gain				3,386,310				3,386,310	90,252	3,476,562
Net income							16,948,815	16,948,815	421,519	17,370,334
Transfer to statutory reserve					2,483,829		(2,483,829)	-		-
Capital contributed by non-controlling interest									1,097,690	1,097,690
Value of non-controlling interest in purchased subsidiaries									508,150	508,150
Balance December 31, 2008	38,300,436	38,300	90,903,261	4,167,217	3,236,054	(1,811,746)	22,311,258	118,844,344	2,117,611	120,961,955
Proceeds from the issuance of common stock	2,329,645	2,330	9,997,670					10,000,000		10,000,000
Payment of offering costs			(1,740,072)					(1,740,072)		(1,740,072)
Conversion of convertible debt to equity	560,000	560	2,799,440					2,800,000		2,800,000
Stock compensation expense for options issued to employees			572,605					572,605		572,605
Cashless exercise of warrants (300,000 warrants)	95,473	96	(96)					-		-
Exercise of warrants	3,225,004	3,225	8,059,285					8,062,510		8,062,510
Excess of cost over fair value of noncontrolling interests acquired			(1,311,007)					(1,311,007)		(1,311,007)
Foreign currency translation gain				9,233				9,233	(1,298)	7,935
Net income							10,348,366	10,348,366	(168,569)	10,179,797
Transfer to statutory reserve					1,449,061		(1,449,061)	-		-
Capital contributed by non-controlling interest									118,826	118,826
Capital returned to non-controlling interest									(586,800)	(586,800)
Purchase of non-controlling interest									(1,650,486)	(1,650,486)
Balance, December 31, 2009	44,510,558	44,511	109,281,086	4,176,450	4,685,115	(1,811,746)	31,210,563	147,585,979	(170,716)	147,415,263
Issuance of common stock for services	780,000	780	1,508,189					1,508,969		1,508,969
Common stock issued for cancellation of warrants	150,000	150	(150)					-		-
Common stock issued for cash, net of offering costs	5,029,762	5,030	12,952,965					12,957,995		12,957,995
Common stock issued for	1,286,587	1,287	2,433,286					2,434,573		2,434,573

acquisition										
Purchase of treasury shares (19,400 shares)					(47,196)		(47,196)			(47,196)
Stock compensation expense for options issued to employees	224,636						224,636			224,636
Purchase of non-controlling interest	(611,861)						(611,861)	205,759		(406,102)
Foreign currency translation gain			3,944,178				3,944,178	12,143		3,956,321
Net income (loss)					(42,703,970)		(42,703,970)	(295,095)		(42,999,065)
Transfer to statutory reserve				936,822		(936,822)				
Capital contributed by non-controlling interest									401,282	401,282
Balance, December 31, 2010	51,756,907	\$ 51,758	\$ 125,788,151	\$ 8,120,628	\$ 5,621,937	\$ (1,858,942)	\$ (12,430,229)	\$ 125,293,303	\$ 153,373	\$ 125,446,676

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

AgFeed Industries, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For The Years Ended December 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (42,999,065)	\$ 10,179,797	\$ 17,370,334
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,420,945	2,596,689	1,580,843
Amortization of intangible assets	226,110	92,740	86,543
Loss on disposal of assets	2,658,823	1,292,480	17,248
Impairment of long-term assets	9,021,583	-	-
Impairment of goodwill	21,612,398	-	-
Stock based compensation	224,636	572,605	231,368
Issuance of common stock for services	1,508,969	-	-
Value of re-priced warrants	-	-	22,782
Value of change in conversion price of convertible notes	-	-	267,748
Amortization of debt issuance costs	30,089	211,517	1,470,443
Amortization of discount on convertible debt	70,811	497,769	3,460,441
Change in working capital components, net of effects of acquisitions			
Accounts receivable	(3,000,232)	(4,936,388)	(2,324,978)
Other receivables	2,298,738	(2,110,081)	(5,464,327)
Inventory	1,459,054	(3,592,137)	(8,815,870)
Advances to suppliers	(501,481)	(679,134)	(44,147)
Prepaid expenses	240,567	(159,176)	(499,047)
Deferred taxes	(2,413,233)	-	-
Other assets	-	(1,356,005)	(2,239,491)
Accounts payable	(2,149,043)	1,048,356	3,300,773
Other payables	(7,473,558)	(44,890)	8,509,638
Unearned revenue	(61,264)	260,441	211,081
Accrued expenses	5,103,218	(80,828)	119,325
Accrued payroll	(641,830)	157,338	626,587
Tax and welfare payable	1,513,971	(69,463)	447,753
Interest payable	(132,624)	(720)	121,139
Net cash provided by (used in) operating activities	<u>(9,982,418)</u>	<u>3,880,910</u>	<u>18,456,186</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(21,136,415)	(9,810,142)	(10,696,569)
Purchase of intangible assets	(450,059)	(67,551)	(140,580)
Cash paid for the purchase of business, net of cash acquired	(11,983,170)	-	(67,490,049)
Proceeds from the sale of subsidiary	-	835,770	-
Net cash used in investing activities	<u>(33,569,644)</u>	<u>(9,041,923)</u>	<u>(78,327,198)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the sale of common stock	13,000,000	10,000,000	65,950,069
Offering costs paid	(42,005)	(1,740,072)	(7,030,261)
Proceeds from exercise of warrants	-	8,062,510	2,138,848
Repayment of borrowings under line of credit facility, net	5,455,755	-	-
Proceeds from short-term loans	-	4,541,500	-
Proceeds from issuance of convertible notes	-	-	19,000,000
Issuance costs for convertible notes	-	-	(1,716,666)
Payment on note payable	(421,373)	-	(1,161,297)
Purchase of treasury shares	(47,196)	-	(1,811,746)
Capital contributed by noncontrolling interest holders	401,282	118,664	1,097,690
Purchase of noncontrolling interest in majority owed hog farms	(406,103)	(2,518,089)	-
Repayment of contribution of noncontrolling interest holder	-	(586,800)	-

Net cash provided by financing activities	17,940,360	17,877,713	76,466,637
Effect of exchange rate changes on cash and cash equivalents	431,464	24,076	547,544
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(25,180,238)	12,740,776	17,143,169
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	37,580,154	24,839,378	7,696,209
CASH & CASH EQUIVALENTS, ENDING BALANCE	<u>\$ 12,399,916</u>	<u>\$ 37,580,154</u>	<u>\$ 24,839,378</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid, net of amounts capitalized	<u>\$ 826,485</u>	<u>\$ 312,620</u>	<u>\$ 363,191</u>
Income taxes paid	<u>\$ 1,960,804</u>	<u>\$ 1,211,610</u>	<u>\$ 408,435</u>

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

Note 1 - Organization and Basis of Presentation

Organization and Lines of Business

AgFeed Industries, Inc. (the “Company” or “AgFeed”) was incorporated in the State of Nevada on March 30, 2005.

The Company is engaged in the animal nutrition business and commercial hog production business in the United States and China through its operating subsidiaries.

The Company’s animal nutrition business consists of the manufacture, marketing and sale of premix, concentrate and complete feed for use in the Chinese animal husbandry markets almost exclusively for hog production. Premix is an animal feed additive that is used in commercial animal production worldwide. The Company has been almost exclusively in the premix feed business since 1995 and now operates five premix, concentrate and complete feed manufacturing facilities located in the cities of Nanchang, Shandong, Shanghai, Nanning, and Hainan. The Company is expanding its concentrate and complete feed lines to meet the growing demand of commercial producers as they modernize their production technology and focus on the requirements of the food safety laws.

The Company entered the hog breeding and production business in China in November 2007. In this business, the Company mainly produces hogs for processing and sell breeding stock. The Company currently has two breeder farms and 21 meat hog producing farms in the Jiangxi, Shanghai, Hainan, Guangxi and Fujian provinces. The Company has almost finished construction of its western style hog farm in the Guangxi province and has just begun construction of another western style hog farm in the Jiangxi province.

The Company entered the hog breeding and production business in the United States in September 2010 with the acquisition of M2 P2, LLC (“M2P2”) (see Note 3). M2P2 operates hog farms and facilities in Colorado, Oklahoma, North Carolina and Iowa. The operating results of M2P2 are included in the accompanying consolidated statements of operations from the acquisition date.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of AgFeed Industries, Inc. and its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“US GAAP”). The Company’s Chinese subsidiaries’ functional currency is the Chinese Yuan Renminbi (“RMB”) and the Company’s United States subsidiaries’ functional currency is the United States Dollar (“USD”). The accompanying consolidated financial statements have been translated and presented in USD.

Note 2 – Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

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.

Advances to Suppliers

The Company makes advances to certain vendors for purchases of material. The advances are interest free and unsecured.

Inventory

Inventory is stated at the lower of cost, as determined primarily by the average cost method, or market. Management compares the cost of inventories with their market value, and an allowance is made for writing down the inventories to their market value, if lower. Costs of raised animals include proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance through the balance sheet date. Purchased pigs are carried at purchase cost plus costs of maintenance through the balance sheet date. The Company recorded a lower of cost or market adjustment of approximately \$1.6 million and \$0 and \$0 for the years ended December 31, 2010, 2009 and 2008, respectively.

Inventory consisted of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Raw material	\$ 12,146,155	\$ 7,638,999
Work in process	160,007	84,494
Finished goods – feed	810,786	460,349
Hogs	71,462,830	15,651,570
Total	<u>\$ 84,579,778</u>	<u>\$ 23,835,412</u>

Property & Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

Office equipment	1 to 5 years
Operating equipment	1 to 10 years
Vehicles	5 years
Swine for reproduction	2 to 3.5 years
Buildings	20 to 40 years

The following are the details of property and equipment at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Office equipment	\$ 1,091,559	\$ 525,991
Operating equipment	13,668,868	4,655,298
Vehicles	1,136,102	871,058
Swine for reproduction	13,279,690	13,432,353
Land	752,500	-
Buildings	29,999,691	11,659,693
Construction-in-process	<u>11,888,319</u>	<u>7,615,132</u>
Total	71,816,729	38,759,525
Less accumulated depreciation	<u>(5,812,950)</u>	<u>(4,152,542)</u>

\$ 66,003,779

\$ 34,606,983

Construction-in-process consists of amounts expended for construction. Once construction is completed, the cost accumulated in construction-in-process is transferred to property and equipment.

Long-Lived Assets

The Company applies the provisions of ASC Topic 360, "Property, Plant, and Equipment," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets, including intangible assets. ASC Topic 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. The Company determined that based on the criteria above, an impairment of certain assets was necessary and accordingly recorded an impairment of approximately \$9.0 million and \$0 and \$0 for the years ended December 31, 2010, 2009 and 2008, respectively.

Intangible Assets

The following are the details of intangible assets at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Right to use land	\$ 781,278	\$ 825,007
Customer relationships	4,835,195	293,400
Computer software	<u>485,381</u>	<u>159,894</u>
Total	6,101,854	1,278,301
Less Accumulated amortization	<u>(316,383)</u>	<u>(214,049)</u>
Intangibles, net	<u><u>\$ 5,785,471</u></u>	<u><u>\$ 1,064,252</u></u>

Per the People's Republic of China's ("PRC") governmental regulations, the PRC Government owns all Chinese land. Generally, the Company leases, through its PRC subsidiaries, land pursuant to land use contracts with the PRC government for periods of 30 to 50 years. Accordingly, the right to use land for these companies is amortized over 50 years or the lease term, if shorter. Customer relationships is amortized over five to twelve years and the computer software is amortized over three to nine years. For hog farms, the Company generally signed land leases with original owners of the farms.

The Company follows ASC Topic 350 in accounting for intangible assets, which requires impairment losses to be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by the assets are less than the assets' carrying amounts. There were no impairment losses recorded on intangible assets for the years ended December 31, 2010, 2009 and 2008.

Amortization of intangible assets for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 is expected to be approximately \$565,000, \$580,000, \$564,000, \$452,000 and \$372,000.

Goodwill

Goodwill represents the excess of purchase price over the underlying net assets of businesses acquired. Under accounting requirements, goodwill is not amortized but is subject to annual impairment tests. As of December 31, 2009 and 2008 the Company performed the required impairment review which resulted in no impairment adjustments.

The extreme operating conditions that the Company experienced during 2010 lead to a full review of its established Chinese production system (the farms acquired during 2007 and 2008). This review has resulted in a change in the management of this farm system and an assessment that while the system can be operated profitably it cannot sustain a high enough level of profitability to support the original acquisition values and resulting goodwill. In connection with the Company's annual review, management determined that a write down of goodwill of \$21,612,398 was necessary during the year ended December 31, 2010. The impairment was determined based on the fair value of the reporting units, which was estimated based on a discounted cash flow valuation model and the projected future cash flows of the underlying businesses.

Summary of changes in goodwill by reporting segments is as follows:

	<u>Animal</u>	<u>Hog Production</u>		<u>Total</u>
	<u>Nutrition</u>	<u>China</u>	<u>U.S. (M2P2)</u>	
Balance, December 31, 2007	\$ -	\$ -	\$ -	\$ -
Purchased through acquisitions	2,347,550	39,498,985	-	41,846,535
Foreign currency adjustment	9,258	888,454	-	897,712
Balance, December 31, 2008	2,356,808	40,387,439	-	42,744,247
Foreign currency adjustment	-	-	-	-
Balance, December 31, 2009	2,356,808	40,387,439	-	42,744,247
Write down due to impairment	-	(21,612,398)	-	(21,612,398)
Purchased through acquisition	-	-	326,000	326,000
Foreign currency adjustment	80,327	827,238	-	907,565
Balance, December 31, 2010	<u>\$ 2,437,135</u>	<u>\$ 19,602,279</u>	<u>\$ 326,000</u>	<u>\$ 22,365,414</u>

Revenue Recognition

Revenue is recognized when services are rendered to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue. The Company is not subject to VAT withholdings. The Company gives volume rebates to certain customers based on volume achieved. The Company accrues sales rebates based on actual sales volume.

Major Customer

The Company has one major customer in 2010 which accounted for approximately \$63.9 million in revenues or 26% of total Company revenues for the year ended December 31, 2010.

Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. Advertising costs for the years ended December 31, 2010, 2009 and 2008 were not significant.

Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the years ended December 31, 2010, 2009 and 2008 were not significant.

Derivative Instruments

Under accounting requirements, all derivative instruments are recognized on the balance sheet at fair value. The accounting for changes in the fair value (gains or losses) depends on the nature of the derivative and hedging relationship.

M2P2 periodically utilizes derivative instruments in its risk management and commodity hedging activities. Derivative instruments primarily include futures and forward contracts which may be utilized to hedge price risk related to a portion of the Company's grain purchases. Although the derivatives are considered an economic hedge, they do not qualify for the defined hedge accounting and, accordingly, changes in fair value of the derivatives are recognized in net income. Gains or losses related to grain derivatives are classified in cost of goods sold on the consolidated statement of operations.

The Company's open derivative positions at year-end have been recorded at fair value (marked to market), resulting in a derivative asset and liability of approximately \$1,094,000 and \$980,000 at December 31, 2010, respectively. Derivative assets are included in other current assets and derivative liabilities are included in accrued expenses on the consolidated balance sheet. Realized and unrealized derivative gains (losses) included in net income during the year ended December 31, 2010 totaled \$(468,000) and \$114,000, respectively. The Company had no derivatives prior to 2010.

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, "Compensation – Stock Compensation." ASC Topic 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." ASC Topic 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Non-controlling Interest

In 2008, the Company purchased interests in 29 producing hog farms and one feed company ranging from 55% to 100%. The Company subsequently purchased the non-controlling interest in certain of these hog farms. Effective January 1, 2009, the Company adopted Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation," which established new standards governing the accounting for and reporting of non-controlling interests (NCIs) in partially owned consolidated subsidiaries.

Foreign Currency Translation

The accounts of the Company's Chinese subsidiaries are maintained in RMB and the accounts of the U.S. parent company and U.S. subsidiaries are maintained in USD. The accounts of the Chinese subsidiaries were translated into USD in accordance with Accounting Standards Codification ("ASC") Topic 830 "Foreign Currency Matters," with the RMB as the functional currency for the Chinese subsidiaries. According to ASC Topic 830, all assets and liabilities were translated at the exchange rate on the balance sheet dates, stockholders' equity is translated at historical rates and statement of income items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC Topic 220, "Comprehensive Income." Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the statements of income.

Foreign Currency Transactions and Comprehensive Income

US GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company's Chinese subsidiaries is the RMB. The unit of Renminbi is in Yuan. Translation gains are classified as an item of accumulated other comprehensive income in the stockholders' equity section of the consolidated balance sheet.

Basic and Diluted Earnings (Loss) Per Share

Earnings per share is calculated in accordance with the ASC Topic 260, "Earnings Per Share." Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock warrants were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. At December 31, 2010, the Company had a total of 2,589,435 common stock equivalents outstanding, including options, warrants and convertible debentures. All common stock equivalents for the year ended December 31, 2010 are anti-dilutive due to the net loss incurred.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations for the years ended December 31, 2010, 2009 and 2008:

	2010		2009		2008	
	Shares	Per Share Amount	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	47,458,026	\$ (0.90)	40,978,457	\$ 0.25	\$ 31,557,742	\$ 0.54
Effect of dilutive stock options and warrants	-	-	235,613	-	156,235	(0.01)
Diluted earnings per share	47,458,026	\$ (0.90)	41,214,070	\$ 0.25	\$ 31,713,977	\$ 0.53

Statement of Cash Flows

In accordance ASC Topic 230, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies using the average translation rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Segment Reporting

ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has four reportable segments (See Note 14).

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities and short-term debt, the carrying amounts approximate their fair values due to their short maturities. In addition, the Company has long-term debt with financial institutions. The carrying amounts of the line of credit and other long-term liabilities approximate their fair values based on current rates of interest for instruments with similar characteristics.

Fair Value Measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At December 31, 2010 the Company's derivative instruments were reported at fair value using Level 1 and Level 2 inputs, as follows:

- \$980,000 derivative liability consisting of exchange traded commodity futures contracts valued using Level 1 inputs. The fair value measurements are determined by quoted market prices from the Chicago Board of Trade (CBOT).
- \$1,094,000 derivative asset consisting of fixed price forward purchase contracts valued using Level 2 inputs. The fair value measurements are based on observable data for similar assets as well as quoted market prices from the CBOT.

At December 31, 2010 the Company had approximately \$19.6 million of goodwill which was measured at fair value on a non-recurring basis, and was valued using Level 3 inputs. As of December 31, 2009, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the previously reported net income or stockholders' equity.

Recent Accounting Pronouncements

In April 2010, the FASB issued ASU 2010-13, Compensation—Stock Compensation Topic 718, “Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades.” ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Note 3 – Purchase of M2P2, LLC

On September 13, 2010, pursuant to a Membership Purchase Agreement (the “Purchase Agreement”), the Company acquired all of the outstanding equity interests of M2P2 from AF Sellco, LLC. The total purchase price was \$24,250,301 and consisted of the following: i) cash of \$12,194,294; ii) note payable of \$9,621,434 (See Note 6); and iii) 1,286,587 shares of the Company’s common stock valued at \$2,434,573. The shares of common stock issued pursuant to the Purchase Agreement are subject to a lock-up period ending on March 13, 2012.

The transaction was accounted for under the acquisition method of accounting, with the purchase price allocated based on the fair value of the individual assets and liabilities acquired. The acquisition-date fair value of the total consideration was \$24,250,301, which was allocated as follows:

Cash	\$	211,124
Accounts receivable		3,879,200
Inventories		61,424,320
Prepaid and other assets		1,646,049
Property and equipment		22,095,924
Customer relationship		4,460,000
Goodwill		326,000
Accounts payable and accrued expenses		(15,867,198)
Notes payable and line of credit		(53,925,118)
Purchase price	\$	<u>24,250,301</u>

The weighted-average amortization period of intangible assets acquired was 12 years. All of the goodwill is expected to be amortizable for income tax purposes.

The purchase of M2P2 allowed the Company to establish hog farm operations in the United States and obtain a breadth and depth of human capital that the Company expects to be instrumental in the development of its western-style hog farms in China as well as its future harvest strategy. Furthermore, the Company believes that M2P2 provides the Company with a platform from which growth opportunities in the U.S. can be pursued. The operating results of M2P2 are included in the accompanying consolidated statements of operations from the acquisition date. M2P2’s operating results from the acquisition date to December 31, 2010 are as follows:

Revenue	\$	65,950,219
Cost of goods sold		63,199,139
Gross profit		2,751,080
Operating expenses		1,093,590
Income from operations		1,657,490
Net income		942,443

The pro forma financial information presented below show the consolidated operations of the Company as if the M2P2 acquisition had occurred as of January 1, 2009:

	Years Ended December 31,	
	2010	2009
Revenues	\$ 369,275,650	\$ 358,645,087
Gross profit	21,122,982	38,242,283
Income (loss) from operations	(35,966,283)	18,266,997
Provision for income taxes	2,004,142	2,273,573
Net income (loss)	(41,549,845)	12,045,568
Basic earnings (loss) per share	(0.85)	0.29

Note 4 – Convertible Notes and Warrants

On February 25, 2008, the Company entered into a Securities Purchase Agreement with Apollo Asia Opportunity Master Fund, L.P., Jabcap Multi-Strategy Master Fund Limited, J-Invest Ltd., and Deutsche Bank AG London Branch (collectively the “Investors”) in connection with a private placement providing for, among other things, the issuance of senior convertible notes (the “Notes”) for \$19 million and warrants (the “Warrants”) to purchase up to 380,000 shares of the Company’s common stock \$0.001 par value per share. The Notes mature on February 25, 2011, bear interest at 7% and are convertible into shares of the Company’s common stock at an initial conversion price of \$10.00 per share. The conversion price is subject to a “weighted average ratchet” anti-dilution adjustment. The conversion price is also subject to adjustment on a proportional basis, to the extent that the Company’s audited net income for the fiscal years ending 2008 and 2009 is less than \$30 million and \$40 million, respectively; subject to a per share floor price of \$5.00. In connection with the floor, the conversion price was decreased to \$5.00 and a beneficial conversion cost was recorded.

The Notes impose penalties on the Company for any failure to timely deliver any shares of its common stock issuable upon conversion.

In connection with the issuance of the Notes and the Warrants issued to the Investors on February 25, 2008, the Company paid \$1,716,666 in debt issuance cost which is amortized over the life of the Notes. For the years ended December 31, 2010, 2009 and 2008, the Company amortized \$30,089, \$211,517 and \$1,470,443, respectively, of the aforesaid issuance costs as interest and financing costs in the accompanying consolidated statements of operations.

The Notes contain certain limitations on conversion. For example, they provide no conversion may be made if, after giving effect to the conversion, an Investor would own over 9.99% of the Company’s outstanding shares of common stock. In addition, the Notes provide no conversion may be made if the conversion would cause the Company to breach of its obligations under the rules and regulations of the Nasdaq Global Market, unless the Company obtains stockholder approval for such issuances as required by such rules and regulations.

The Warrants are immediately exercisable, expire on February 25, 2011 and entitled their holders to purchase up to \$3,800,000 of common stock at an initial exercise price of \$10.00 per share.

The exercise price of the Warrants is subject to a “weighted average ratchet” anti-dilution adjustment. The exercise price is also subject to adjustment, on a proportional basis, to the extent that the Company’s audited net income for the fiscal years ending 2008 and 2009 is less than \$30 million and \$40 million, respectively; subject to a per share floor price of \$5.00. Due to the Company not generating \$30 million net income for the year ended December 31, 2008, the exercise price on the Warrants was reduced to \$5.00.

The Company determined the fair value of the detachable warrants issued in connection with the Notes to be \$1,269,442, using the Black-Scholes option pricing model. In addition, the Company determined the value of the beneficial conversion feature to be \$2,770,442. The combined total discount for the Notes was \$4,039,885 and is being amortized over the term of the Notes. For the years ended December 31, 2010, 2009 and 2008, the Company amortized \$70,811, \$497,769 and \$3,460,411, respectively, of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations.

During the years ended December 31, 2010, 2009 and 2008, \$0, \$2,800,000 and \$15,200,000, respectively, of the Notes were converted into 0, 560,000 and 1,520,000, respectively, shares of common stock.

Note 5 – Short-Term Loan

Short term loan at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Short-term bank loan payable to Shanghai Pudong Development Bank. The loan accrues interest at 5.84%. The note was renewed in May 2010 and is due May 4, 2011. The loan is collateralized by buildings and land use rights.	<u>\$ 4,551,000</u>	<u>\$ 4,401,000</u>

Note 6 – Acquisition Note Payable

In connection with the acquisition of M2P2, the Company issued a promissory note payable in the amount of \$9,621,434. The note bears interest at a rate of 8.0% per year, with interest payable quarterly in cash on March 31, June 30, September 30 and December 31 of each year, beginning on December 31, 2010. The Company will make interest only payments until June 30, 2012 and thereafter it will make amortizing principal and interest payments with the last payment due on September 30, 2020. The Company granted AF Sellco, LLC a perfected first-priority lien on, and security interest in, all of the outstanding equity interests of M2P2 as collateral security for the Company's obligations on the promissory notes.

Future maturities of the acquisition note payable at December 31, 2010 are as follows:

Year ending December 31,	\$
2011	-
2012	404,617
2013	858,934
2014	929,738
2015	1,006,378
Thereafter	6,421,767
	<u>\$ 9,621,434</u>

Note 7 – Line of Credit

The Company's wholly-owned subsidiary, M2P2 has a \$65 million senior revolving loan facility that expires on June 1, 2012. The first \$25 million borrowed under the facility bears interest at 3.95%; and the remaining amount borrowed under the facility bears interest at the 1-month LIBOR plus 3.25% (3.50% at December 31, 2010). (Effective January 1, 2011 the interest rate was changed to 1-month LIBOR plus 3.00%). \$300,000 of the facility is being used for a letter of credit bearing a variable rate with the State of Colorado and is not accessible for borrowing until the letter of credit is released. Borrowings are limited to the lesser of \$64.7 million or a defined borrowing base (approximately \$56.3 million at December 31, 2010) based primarily on inventory and receivables. This facility is collateralized by substantially all of the assets of M2P2 and has various restrictive covenants, including, but not limited to, certain restrictions on distributions, maintenance of a minimum net worth and other financial covenant requirements.

Note 8 – Long-Term Debt

Long-term loans at December 31, 2010 and 2009 are follows:

	<u>2010</u>	<u>2009</u>
Note payable, bearing interest at the prime rate plus 2% (5.25% at December 31, 2010) and payable on November 25, 2018. The note is secured by the M2P2's 100% interest in Heritage Farms LLC and is subordinated to certain senior debt.	\$ 3,500,000	\$ -
Senior term loan - \$6 million; bears interest at 5.0%; quarterly installments of \$250,000 plus interest with remaining balance is due April 1, 2013. (A)	5,750,000	-
Senior term loan - \$7.6 million; \$6.1 million of the loan bears interest at 5.0% and the \$1.5 million remaining balance bears interest at the 3-month LIBOR plus 1.75% (2.05% at December 31, 2010); payments are due in monthly installments of approximately \$85,000. The remaining balance is due March 1, 2020. (A)	7,478,324	-
	<u>16,728,324</u>	-
Less current portion	<u>(1,703,658)</u>	-
	<u>\$ 15,024,666</u>	<u>\$ -</u>

- (A) These borrowings are collateralized by substantially all of the assets of M2P2 and have various restrictive covenants, including, but not limited to, certain restrictions on distributions, maintenance of a minimum net worth and other financial covenant requirements.

Aggregate future maturities of long-term debt at December 31, 2010 are as follows:

Year ending December 31,	\$
2011	1,703,658
2012	1,773,549
2013	4,557,567
2014	843,210
2015	880,560
Thereafter	6,969,780
	<u>\$ 16,728,324</u>

Note 9 – Stockholders' Equity

Treasury Stock

During the year ended December 31, 2008 and 2010, the Company purchased 367,295 and 19,400 shares, respectively, of its common stock on the open market (treasury shares) for \$1,811,746 and \$47,196, respectively. The Company accounted for the purchase of these treasury shares using the cost method.

Common Stock

On January 4, 2010, the Company approved grants of 760,000 shares of restricted stock to certain officers, directors and key employees of which 30,000 were forfeited due to the employee leaving the Company. In addition in November 2010 an additional 50,000 shares were granted. The restricted stock awards have vesting schedules ranging from 1 to 3 years. The value of the awards granted was calculated using the fair market value of the Company's stock price at the date of grant. This amount is being expensed over the vesting period as the restrictions lapse. The expense recognized during the year ended December 31, 2010 was \$1,508,969. At December 31, 2010 there is \$2,308,531 of compensation expense that will be amortized over the remaining vesting periods.

On April 23, 2010, the Company issued 150,000 shares of its common stock to Southridge Partners II, LP ("Southridge"), for Southridge's surrender of its existing warrant to purchase 400,000 shares of the Company's common stock. The warrant was subsequently cancelled by the Company. The warrant and common stock issued to Southridge were related to equity financing; therefore the charge related to the value of these equity instruments was recorded to additional paid-in capital.

On September 9, 2009, the Company entered into an Equity Credit Agreement with Southridge, amended and restated as of November 9, 2009, providing for, among other things, the issuance of shares of its common stock at any time and from time to time during the next two years for gross proceeds of up to \$50,000,000. In connection with the closing of the transaction, the Company also issued Southridge a warrant to purchase an additional 400,000 shares of its common stock during a five-year period at an exercise price of \$5.75 per share which were cancelled as discussed above. The original fair value of these warrants of \$1,594,338 was charged to additional paid in capital as they were issued in connection with an equity instrument. The Company determined the fair value of the warrants using the Black-Scholes option pricing model. During the quarter ended September 30, 2010, the Company issued 5,029,762 shares of its common stock for \$13,000,000 in connection with this Equity Credit Agreement.

On May 8, 2009, the Company closed a private placement offering by issuing 2,329,645 shares of common stock for gross proceeds of \$10 million. The Company paid \$1,103,835 in costs related to this offering which was offset against the offering proceeds. The Company also issued 1,164,822 common stock purchase warrants to the investors and 244,613 common stock purchase warrants to the placement agent. The warrants are exercisable immediately; have an exercise price of \$4.50 per share and expire on May 8, 2014. The Company determined the fair value of the 1,409,435 warrants issued in connection with this private placement offering to be \$4,379,181, using the Black-Scholes option pricing model. The value of the warrants was recorded directly to additional paid in capital as these warrants were issued in connection with the sale of the Company's equity securities.

During the year ended December 31, 2009, certain warrants holders exercised 300,000 warrants in connection with a cashless exercise provision in the warrant agreement that resulted in the issuance of 95,473 shares of the Company's common stock. In addition, during the year ended December 31, 2009, certain warrant holders exercised 3,225,004 warrants that resulted in gross proceeds to the Company of \$8,062,510.

Note 10 – Employee Benefit Plans

For the Company's employees in China, the total expense for the employee common welfare was \$370,572, \$768,963 and \$207,709 for the years ended December 31, 2010, 2009 and 2008, respectively.

M2P2 has a 401(k) defined contribution benefit plan for all employees who meet defined minimum service requirements. The Company provides certain matching contributions of the employee deferrals. During the year ended December 31, 2010 employer contribution expense totaled approximately \$64,000.

Note 11 – Statutory Common Welfare Fund

As stipulated by the Company Law of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i. Making up cumulative prior years' losses, if any;
- ii. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
- iii. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and
- iv. Allocations to the discretionary surplus reserve, if approved in the stockholders' general meeting.

Pursuant to the new Corporate Law effective on January 1, 2006, there is now only one "Statutory surplus reserve" requirement. The reserve is 10 percent of income after tax, not to exceed 50 percent of registered capital.

The Company appropriated \$936,822, \$1,449,061 and \$2,483,829 as reserve for the statutory surplus reserve and welfare fund for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 12 – Stock Options and Warrants

Long-Term Incentive Plans

The Company's 2008 Long-Term Incentive Plan ("2008 Plan") provides for awards to be issued that include stock options, stock appreciation rights, restricted stock, restricted stock units, performance grants and other types of awards at the discretion of the compensation committee. A total of 1,000,000 shares have been set aside under the 2008 Plan.

The Company's 2010 Long-Term Incentive Plan ("2010 Plan") provides for awards to be issued that include stock options, stock appreciation rights, restricted stock, restricted stock units, performance grants and other types of awards at the discretion of the compensation committee. A total of 3,000,000 shares have been set aside under the 2010 Plan.

Stock Options

Following is a summary of stock option activity:

	<u>Options outstanding</u>	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2007	42,000	\$ 7.00	4.62	\$ 80,620
Granted	185,000	\$ 9.32		
Forfeited	(47,000)	\$ 7.43		
Exercised	-	-		
Outstanding, December 31, 2008	180,000	\$ 9.27	4.65	\$ -
Granted	30,000	3.30		
Forfeited	-	-		
Exercised	-	-		
Outstanding, December 31, 2009	210,000	\$ 8.42	3.74	\$ 51,000
Granted	-	-		
Forfeited	(25,000)	\$ 4.50		
Exercised	-	-		
Outstanding, December 31, 2010	<u>185,000</u>	\$ 8.96	2.71	\$ -
Exercisable, December 31, 2010	165,000	\$ 9.28	2.66	\$ -

The assumptions used in calculating the fair value of options granted using the Black-Scholes option- pricing model for options granted during the years ended December 31, 2010, 2009 and 2008 are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Risk-free interest rate	n/a	2.5%	3.0%
Expected life of the options	n/a	5 years	5 years
Expected volatility	n/a	109%	76%
Expected dividend yield	n/a	0%	0%

The exercise price for options outstanding at December 31, 2010 is as follows:

Number of Options	Exercise Price
10,000	\$ 3.30
15,000	\$ 8.85
160,000	\$ 9.32
<u>185,000</u>	

For options granted during the year ended December 31, 2008 where the exercise price equaled the stock price at the date of the grant, the weighted-average fair value of such options was \$5.81 and the weighted-average exercise price of such options was \$9.32. No options were granted during the year ended December 31, 2008, where the exercise price was less than the stock price at the date of the grant or the exercise price was greater than the stock price at the date of grant.

For options granted during the year ended December 31, 2009 where the exercise price equaled the stock price at the date of the grant, the weighted-average fair value of such options was \$2.61 and the weighted-average exercise price of such options was \$3.30. No options were granted during the year ended December 31, 2009, where the exercise price was less than the stock price at the date of the grant or the exercise price was greater than the stock price at the date of grant. At December 31, 2010, the unamortized compensation costs related to nonvested options amounted to \$21,705, which will be expensed through the third quarter of 2011.

Warrants

Following is a summary of the warrant activity:

	Warrants outstanding	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2007	611,787	\$ 5.36	2.42	\$ 1,890,165
Granted	4,180,004	\$ 3.18		
Forfeited/canceled	-	-		
Exercised	(468,587)	\$ 6.95		
Outstanding, December 31, 2008	4,323,204	\$ 2.83	2.82	\$ -
Granted	1,809,435	\$ 4.78		
Forfeited/canceled	-	-		
Exercised	(3,525,004)	\$ 2.74		
Outstanding, December 31, 2009	2,607,635	\$ 4.29	3.61	\$ 2,142,218
Granted	-	-		
Forfeited/canceled	(403,200)	\$ 5.74		
Exercised	-	-		
Outstanding, December 31, 2010	<u>2,204,435</u>	\$ 4.03	2.42	\$ 253,000
Exercisable, December 31, 2010	2,204,435	\$ 4.03	2.42	\$ 253,000

All of the warrants outstanding at December 31, 2010 are fully vested.

The exercise price for warrants outstanding at December 31, 2010 is as follows:

Number of Warrants	Exercise Price
575,000	\$ 2.50
1,409,435	\$ 4.50
220,000	\$ 5.00
<u>2,204,435</u>	

Note 13 – Income Taxes

Pursuant to the tax laws of China, general enterprises are subject to income tax at an effective rate of 25%. Hog production is an income tax exempt sector in China and sow owners receive government grants and subsidies. In addition, certain of the Company's other entities have received various tax exemptions.

Income tax expense reflected in the consolidated statements of operations consist of the following for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Current expense (benefit):			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Foreign	3,647,958	1,142,105	587,222
	<u>3,647,958</u>	<u>1,142,105</u>	<u>587,222</u>
Deferred expense (benefit):			
Federal	(2,338,487)	-	-
State	(74,746)	-	-
Foreign	-	-	-
	<u>(2,413,233)</u>	<u>-</u>	<u>-</u>
Total income tax expense	<u>\$ 1,234,725</u>	<u>1,142,105</u>	<u>587,222</u>

The components of deferred income tax assets and liabilities as of December 31, 2010 and 2009 are as follows:

	2010	2009
Deferred tax assets:		
Net operating losses	\$ 924,000	\$ 373,000
Intangible assets	528,000	-
Stock awards	887,000	272,000
Accrued expenses	124,000	-
	<u>2,463,000</u>	<u>645,000</u>
Deferred tax liabilities:		
Inventory	(41,000)	-
Other	(9,000)	-
	<u>(50,000)</u>	<u>-</u>
Net deferred tax assets	2,413,000	645,000
Valuation allowance	-	(645,000)
Total	<u>\$ 2,413,000</u>	<u>\$ -</u>

A reconciliation of tax at United States federal statutory rate to provision for income tax recorded in the financial statements is as follows for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Tax provision (benefit) at statutory rate	(34%)	34%	34%
Foreign tax rate difference	9%	(9%)	(9%)
Change in deferred tax valuation allowance	2%	2%	1%
Effect of tax holiday/tax exemption	25%	(17%)	(23%)
Other	1%	-	-
	<u>3%</u>	<u>10%</u>	<u>3%</u>

At December 31, 2010, the Company has a net operating loss carryforward for U.S. federal tax purposes of approximately \$2.6 million, which expires in 2027 to 2030. Management evaluates the need for a deferred tax valuation allowance based on the likelihood that the deferred tax assets will be realized. In 2010, as a result of the M2P2 acquisition, the valuation allowance was reduced due to the estimated future realization of the assets because of taxable income expected to be generated in the future by M2P2.

Management has evaluated the Company's material tax positions and determined there were no material uncertain tax positions that require adjustment to the financial statements. The Company does not currently anticipate significant changes in its uncertain tax positions over the next 12 months. Generally, the Company remains subject to income tax examination by tax authorities for tax years 2007 and thereafter.

If the Company had not been exempt from paying income taxes, income tax expense for the years ended December 31, 2010, 2009 and 2008 would have been approximately \$2,152,000, \$3,463,000 and \$4,384,000 and earnings per share would have been reduced by \$0.05, \$0.06 and \$0.12, respectively. The hog business exemption is currently indefinite, and exemptions on other entities expire in 2011 and 2012.

Foreign pretax earnings approximated \$11,300,000, \$15,000,000 and \$24,200,000 for the years ended December 31, 2010, 2009 and 2008, respectively. Pretax earnings of a foreign subsidiary are subject to U.S. taxation when effectively repatriated. The Company provides income taxes on the undistributed earnings of non-U.S. subsidiaries except to the extent that such earnings are indefinitely invested outside the United States. At December 31, 2010, approximately \$56,900,000 of accumulated undistributed earnings of non-U.S. subsidiaries was indefinitely invested. At the existing U.S. federal income tax rate, additional taxes of \$13,968,000 would have to be provided if such earnings were remitted currently.

Note 14 – Segment Information

The Company's predominant businesses are the research and development, manufacture, marketing, distribution, and sale of pre-mix, concentrates and complete feeds and feed additives primarily for use in China's domestic pork husbandry market and the raising, breeding, and selling of pigs. The Company operates in four segments: (1) animal feed nutrition, (2) hog production – United States, (3) hog production – China and (4) western style hog farms in China. Certain of the reportable segments include geographic units which are aggregated due to having substantially similar products, production processes, distribution systems, and economic characteristics. The Company does not allocate the holding company income and expenses to the other four segments, but rather presents them as part of the segment disclosures so that all the captions reconcile to the financial statements. The Company added the US hog production (as a result of the acquisition of M2P2) and western style hog farms segments in 2010.

The following tables summarize segment information for the years ended December 31, 2010, 2009 and 2008:

	Years Ended December 31,		
	2010	2009	2008
Revenues from unrelated entities			
Animal feed nutrition	\$ 106,681,991	\$ 63,647,643	\$ 51,745,344
Hog production - United States	65,950,219	-	-
Hog production - China	70,981,909	109,555,628	91,916,141
Western style hog farms	-	-	-
Holding Company	-	-	-
	<u>\$ 243,614,119</u>	<u>\$ 173,203,271</u>	<u>\$ 143,661,485</u>
Intersegment revenues			
Animal feed nutrition	\$ 13,628,572	\$ 14,376,100	\$ 8,174,546
Hog production - United States	-	-	-
Hog production - China	1,172,352	729,713	1,518,230
Western style hog farms	-	-	-
Holding Company	-	-	-
	<u>\$ 14,800,924</u>	<u>\$ 15,105,813</u>	<u>\$ 9,692,776</u>
Total revenues			
Animal feed nutrition	\$ 120,310,563	\$ 78,023,743	\$ 59,919,890
Hog production - United States	65,950,219	-	-
Hog production - China	72,154,261	110,285,341	93,434,371
Western style hog farms	-	-	-
Holding Company	-	-	-
Less Intersegment revenues	(14,800,924)	(15,105,813)	(9,692,776)
	<u>\$ 243,614,119</u>	<u>\$ 173,203,271</u>	<u>\$ 143,661,485</u>
Gross profit			
Animal feed nutrition	\$ 18,634,354	\$ 14,270,123	\$ 13,764,064
Hog production - United States	2,751,080	-	-
Hog production - China	(6,714,057)	12,272,916	20,627,461
Western style hog farms	-	-	-
Holding Company	-	-	-
	<u>\$ 14,671,377</u>	<u>\$ 26,543,039</u>	<u>\$ 34,391,525</u>
Income (loss) from operations			
Animal feed nutrition	\$ 10,915,748	\$ 7,996,936	\$ 7,780,477
Hog production - United States	1,657,490	-	-
Hog production - China	(45,590,779)	6,704,646	17,240,607
Western style hog farms	(578,900)	(642,561)	-
Holding Company	(6,839,838)	(2,395,867)	(1,081,044)
	<u>\$ (40,436,279)</u>	<u>\$ 11,663,154</u>	<u>\$ 23,940,040</u>
Interest income			
Animal feed nutrition	\$ 44,994	\$ 57,414	\$ 90,986
Hog production - United States	-	-	-
Hog production - China	52,288	30,053	20,405
Western style hog farms	-	-	-
Holding Company	20,175	125,551	79,574
	<u>\$ 117,457</u>	<u>\$ 213,018</u>	<u>\$ 190,965</u>
Interest and financing costs			
Animal feed nutrition	\$ 318,691	\$ 92,666	\$ 39,861

Hog production - United States	715,047	-	-
Hog production - China	199,303	88,394	22
Western style hog farms	(268,974)	-	-
Holding Company	400,639	841,566	5,664,475
	<u>\$ 1,364,706</u>	<u>\$ 1,022,626</u>	<u>\$ 5,704,358</u>
Income tax expense (benefit)			
Animal feed nutrition	\$ 2,807,831	\$ 1,142,105	\$ 587,222
Hog production - United States	-	-	-
Hog production - China	-	-	-
Western style hog farms	-	-	-
Holding Company	(1,573,106)	-	-
	<u>\$ 1,234,725</u>	<u>\$ 1,142,105</u>	<u>\$ 587,222</u>
Net income (loss)			
Animal feed nutrition	\$ 7,842,227	\$ 7,079,391	\$ 6,690,248
Hog production - United States	942,443	-	-
Hog production - China	(45,520,644)	6,811,731	16,923,585
Western style hog farms	(365,110)	(431,044)	-
Holding Company	(5,602,886)	(3,111,712)	(6,664,018)
	<u>\$ (42,703,970)</u>	<u>\$ 10,348,366</u>	<u>\$ 16,949,815</u>
Provision for depreciation			
Animal feed nutrition	\$ 676,255	\$ 345,342	\$ 121,813
Hog production - United States	646,748	-	-
Hog production - China	2,097,942	2,251,347	1,459,030
	<u>\$ 3,420,945</u>	<u>\$ 2,596,689</u>	<u>\$ 1,580,843</u>

	As of December 31, 2010	As of December 31, 2009
Total assets		
Animal feed nutrition	\$ 42,783,939	\$ 38,142,821
Hog production - United States	94,369,142	-
Hog production - China	65,212,115	105,210,224
Western style hog farms	15,162,473	5,507,975
Holding Company	5,966,993	14,087,000
	<u>\$ 223,494,662</u>	<u>\$ 162,948,020</u>
Goodwill		
Animal feed nutrition	\$ 2,437,135	\$ 2,356,808
Hog production - United States	326,000	-
Hog production - China	19,602,279	40,387,439
Western style hog farms	-	-
Holding Company	-	-
	<u>\$ 22,365,414</u>	<u>\$ 42,744,247</u>
Long-term asset by geographic region		
United States	\$ 29,581,577	\$ -
China	71,017,767	82,414,221
	<u>\$ 100,599,344</u>	<u>\$ 82,414,221</u>

Note 15 – Commitments and Contingencies

At December 31, 2010, the Company had commitments to expend approximately \$5,000,000 in connection to building construction currently in process.

The Company leases certain office space, hog facilities and equipment under operating leases. The Company's M2P2 subsidiary has also entered into non-cancelable service agreements for contract farrowing, growing and nursery facilities and services, with expiration dates through 2020.

Future minimum lease payments under operating leases and service commitments are as follows:

Year ending December 31,	Service Agreements	Operating Leases
2011	\$ 18,933,000	\$ 5,390,220
2012	16,486,000	3,678,315
2013	13,360,000	3,457,832
2014	11,629,000	3,471,742
2015	9,925,000	3,281,655
Thereafter	19,513,000	14,283,431
	<u>\$ 89,846,000</u>	<u>\$ 33,563,195</u>

The Company incurred rent expense on operating leases of \$3,514,123, \$3,180,984 and \$3,108,764 for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 16 – Acquisition and Dispositions

During the year ended December 31, 2010, the Company purchased the non-controlling interest of 10% and 20% in two hog farms for \$230,063 and \$176,040, respectively. As a result of the purchase of the non-controlling interest, the excess of the purchase price over the carrying value of the non-controlling interest of \$219,158 and \$146,144, respectively, was recorded against additional paid in capital. In addition during the year ended December 31, 2010, the Company acquired a 20% ownership in a joint venture that had negative equity and recorded \$246,559 against additional paid in capital.

During the year ended December 31, 2009, the Company purchased the non-controlling interest of 30% and 45% in two hog farms for \$370,026 and \$896,348, respectively. As a result of the purchase of the non-controlling interest, the excess of the purchase price over the carrying value of the non-controlling interest of \$159,249 and \$263,291, respectively, was recorded against additional paid in capital. Also, the Company purchased the non-controlling interest of 40% and 40% in two hog farms for \$987,655 and \$264,060, respectively. As a result of the purchase of the non-controlling interest, the excess of the purchase price over the carrying value of the non-controlling interest of \$639,754 and \$248,713, respectively was recorded against additional paid in capital. In addition, the Company sold its 70% interest in a subsidiary for \$307,650 and recognized a gain on disposition of \$9,965. This subsidiary had not commenced operations. The Company also sold its 60% interest in a subsidiary for \$528,120 and recognized a gain on disposition of \$54,382.

Purchases of Hog Farms

In 2008, the Company purchased interests in 29 producing hog farms and one feed company ranging from 55% to 100%. The following table summarizes the fair values of the aggregate assets acquired and liabilities assumed at the exchange rates at the date of acquisition for the entities purchased in 2008:

Cash	\$	95,573
Accounts receivable		388,384
Other receivables		20,795
Inventory		8,618,561
Other assets		353,753
Property and equipment		16,102,598
Construction in process		1,375,372
Goodwill		41,846,535
Accounts payable		(318,197)
Other payables		(389,602)
Minority Interest		(508,150)
	\$	<u>67,585,622</u>

Note 17 – Subsequent Events

On March 1, 2011, the Company issued 1,020,000 shares of restricted stock to certain officers, directors and key employees. The restricted stock awards vest over a three period. The value of the awards granted was calculated using the fair market value of the Company's stock price at the date of grant. Approximately \$2,300,000 of compensation expense will be charged to income over the three year vesting period.

Subsequent to December 31, 2010, the Company issued 3,368,231 shares of its common stock for approximately \$7,500,000 in connection with this Equity Credit Agreement.

The Company plans to close certain hog farms in 2011. Given the Company's closure process involves live animals, the process of closing a facility is generally done over the course of months. We believe the process for the identified facilities will be substantially completed by August 2011. During this period the Company expects to incur expenses costs in addition to the wind-down expenses in an amount up to \$3.0 million primarily for lease cancellations, legal, and repairs. Such costs will generally be expensed as incurred and for leases, will be expensed when the Company ceases to use the facilities.

Note 18 – Selected Quarterly Data (unaudited)

	Quarterly Periods Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Net Revenue	\$ 52,859,067	\$ 37,661,955	\$ 53,606,079	\$ 99,487,018
Gross Profit	\$ 6,319,282	\$ 2,559,278	\$ 4,321,649	\$ 1,471,168
Income (loss) from operation	\$ 1,525,157	\$ (2,366,589)	\$ (18,726,993)	\$ (20,867,854)
Other income (expense)	\$ (60,353)	\$ (56,985)	\$ (251,282)	\$ (959,441)
Net income (loss)	\$ 1,067,418	\$ (2,954,752)	\$ (20,635,865)	\$ (20,180,771)
Earnings (loss) per shares - basic	\$ 0.02	\$ (0.07)	\$ (0.43)	\$ (0.42)

	Quarterly Periods Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Net Revenue	\$ 33,429,274	\$ 38,527,770	\$ 45,115,442	\$ 56,130,785
Gross Profit	\$ 5,803,405	\$ 5,221,659	\$ 7,561,164	\$ 7,956,811
Income from operation	\$ 3,070,160	\$ 2,064,943	\$ 3,381,532	\$ 3,146,519
Other income (expense)	\$ 210,704	\$ (559,178)	\$ (193,506)	\$ 200,728
Net income	\$ 3,018,840	\$ 1,226,252	\$ 2,896,341	\$ 3,206,933
Earnings per shares - basic	\$ 0.08	\$ 0.03	\$ 0.07	\$ 0.07

Note 19 – Valuation and Qualifying Accounts

**Allowance for Doubtful
Accounts:**

For the Years Ended December 31,	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions From Reserves	Balance at End of Year
2008	\$ 191,497	\$ 456,523	\$ 127,607	\$ 520,413
2009	520,413	196,005	300,653	415,765
2010	415,765	294,780	2,577	707,968