



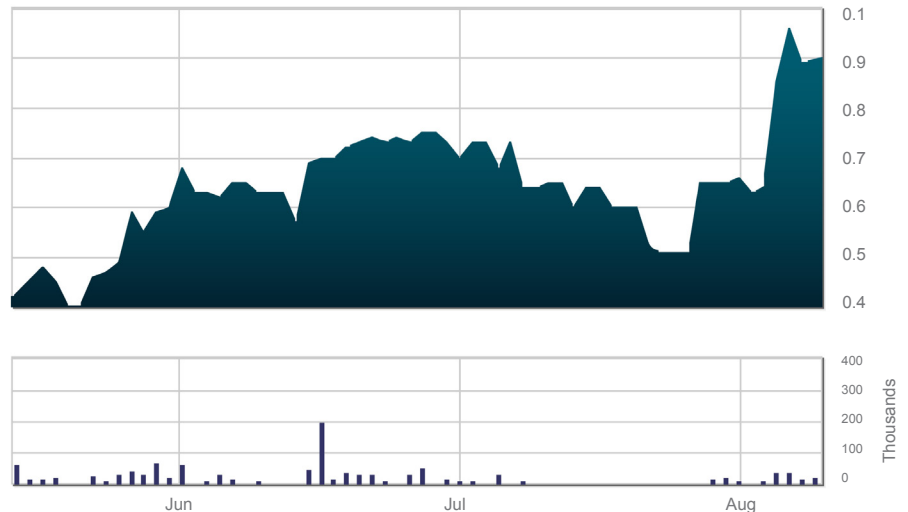
**SIAF**  
Sino Agro Food, Inc.

**MARKET DATA**

Symbol	SIAF
Exchanges	OTC PK
Current Price	\$0.96
Price Target	\$2.60
Rating	Speculative Buy
Outstanding Shares	52.9 Million
Market Cap.	\$50.7 Million
Average 3-m Volume	n/a

Source: Yahoo Finance, Analyst Estimates

SIAF daily



**Company Introduction**

Sino Agro Food Inc. ("SIAF") is an integrated, diversified agriculture technology and organic food company with subsidiaries operating in China. The Company, through its ZhungXing Cattle Husbandry Co. Ltd. and Heng Sing Tai Agriculture Development Co. Ltd. subsidiaries, provides organic produce, fresh liquid milk and fresh green *Hylocereus Undatus* ("HU") flowers for human consumption in China.

SIAF's Capital Award Inc. subsidiary develops and manages modern fisheries, which produce table seafood for the global market. The Company is China's exclusive licensee for "A Power RAS" ("Recirculating Aquaculture System") technology, which is used for the on-site production of chemical and pollution-free seafood. SIAF generated approximately 90% of revenues from its dairy operations last year, while the HU plantation and fishery business contributed 7.6% and 1.6%, respectively.

SIAF was incorporated in 1979 under the name Volcanic Gold Inc. but was dormant without business activities until 2007 when it merged with Capital Award, Inc. The Company acquired dairy operations, a turf plantation and a HU flower plantation in September 2007, and was re-named Sino Agro Food in October 2007. In 2008, the Company sold off its interest in its turf plantation operations to focus on its profitable operations. SIAF currently trades as a Pink Sheet company, but is taking steps to file a Form 10 with the Securities and Exchange Commission to seek a quotation on the OTCBB.

In June 2009, the Company formed a joint venture with Chinese state-owned Sanjiang Agriculture Co. Ltd., pursuant to which Sanjiang will license the Company's bio-organic fertilizer and stock-feed technology. This technology enables the processing of



agricultural waste products into feedstock for sheep and cattle. The finished product has a long shelf life and high nutritional value. SIAF will own a 45% equity interest in the joint-venture project, which is expected to produce approximately 2,000 tons of feedstock, 2,000 tons of organic fertilizer and 4,000 tons of combined fertilizer in 2009. SIAF will receive rebates of up to 33% on its investment in the project from the Chinese government, and SanJiang will provide a portion of the capital as well as financing guarantees and additional land rights.

## Investment Highlights

### China's healthy appetite for organic food

Rising incomes and living standards in China are increasing demand for high-quality organic foods. Global demand for organic foods is estimated to be growing 20%-30% annually; China is expected to become the world's fourth-largest consumer of organic foods, with organic produce representing between 1.0% and 1.5% of China's entire food market. The value of China's food consumption is forecast to more than double from \$113.3 billion in 2006 to \$262.9 billion by 2013, suggesting consumption of organic foods will rise quickly as well.

### Diversified agricultural operations

SIAF is a diversified agriculture business with operations in dairy production, cattle farming, manufacturing of organic fertilizer, feedstock manufacturing, fisheries and HU plantations. The Company's dairy operation is one of the few commercial organic milk producers in China and received a 100% pure milk high-grade certification from the Agriculture Department of the Peoples Republic of China. Overall milk prices fell in China last year because of the tainted milk scandal, but SIAF's milk continued to fetch \$515 per ton, which is approximately twice the price paid by large processors for non-organic milk. In its fishery segment, SIAF has plans to develop two aquaculture demonstration farms, and agreements in principle from two companies to help fund these projects. SIAF plans to commence fish production in 2010 at approximately 500 metric tons and anticipates strong demand for its pollution-free fish. Seafood is a huge business in China, where some 47 million tons of seafood are consumed annually. The Company's HU flower plantation segment addresses a 252.7 million Kg. market. The Chinese consume HU flowers, also known as "dragon fruit", for their perceived health benefits; however, flowers are in short supply because of limited cultivated acreage. SIAF plans to develop a HU flower processing plant in 2009 and increase its planted acreage from 490 acres currently to 1,500 acres by 2013.

### Aggressive expansion plans

SIAF's longer-term goals include becoming China's first commercial organic fish producer and the largest commercial in-land fishery; establishing itself as one of the country's largest and highest-quality producers of organic milk and organic beef; and becoming a major HU flower supplier by developing up to 1,500 acres of HU plantation.

Joint ventures, China government subsidies and various financing commitments are helping fund SIAF's growth. For example, the Company has negotiated a joint-venture arrangement with SanJiang Agriculture Co. Ltd., one of China's 10 largest agricultural companies, to develop a bio-organic fertilizer manufacturing project, a stock feed manufacturing project, a cattle and sheep fattening farm, and an aquaculture fishery demonstration farm. As part of the joint venture agreement, SanJiang



Agriculture Co. Ltd. will provide land and buildings, and SIAF will provide relevant technologies and project management. SanJiang will provide part of the funding and corporate guarantees for SIAF's loans if necessary. The joint venture will also qualify for government grants, tax breaks and subsidies on transportation.

#### Exclusive license for "A Power RAS" technology in China

SIAF holds the only Chinese license for "A Power RAS" ("Re-circulating Aquaculture System") technology, which enables on-site farming of chemical and pollution-free fish and other seafood. The RAS technology has been successfully deployed in Europe and Australia for more than 30 years, but is new to China. The advantages of "A Power RAS" technology include reduced energy requirements, water usage and labor costs, as well as low fish mortality rates and favorable conversion rate of yield to feed consumption when compared to traditional fish farming.

#### Experienced management team

Chairman/CEO Solomon Yip Kim Lee has more than 35 years of agriculture industry experience and pioneered modern aquaculture development in Asia. He is also a seasoned trader of perishable produce and seafood in the Asian markets. Executive Directors Zeng Shao Quan and Peter Tan have decades of food industry experience and practical experience in accounting, strategic planning, M&A, joint ventures and financial management.

## China's Food Consumption Market

BMI estimates that the value of food consumption in China will nearly double over the next five years from an estimated \$179.3 billion in 2009 to \$262.9 billion by 2013. The value of per-capita food consumption is predicted to rise 40% from \$132 in 2009 to nearly \$188 by 2013. Major drivers of growth are China's sustained economic development and huge FDI inflows, which are boosting employment and income and stimulating domestic consumption.

**Exhibit1: China Food Consumption Indicators - Historical Data & Forecasts**

	2006	2007e	2008f	2009f	2010f	2011f	2012f	2013f
<i>Food consumption (US\$bn)</i>	113.3	129.5	158.6	179.3	196.3	217.0	239.3	262.9
<i>Food consumption (CNYbn)</i>	902.9	984.1	1,101.7	1,231.0	1,324.8	1,399.0	1,483.3	1,577.1
<i>Per capita food consumption (US\$)</i>	86.2	96.9	117.8	132.1	143.5	157.3	172.2	187.7
<i>Food consumption as % GDP</i>	4.3	4.0	4.1	4.3	4.3	4.3	4.2	4.1

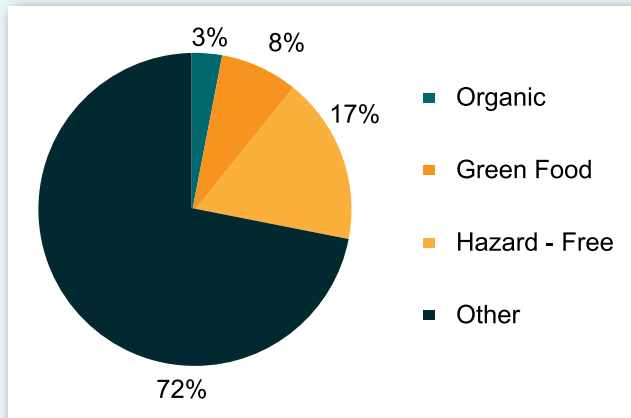
Source: e/f = BMI estimate/forecast. Source: National Bureau of Statistics, BMI

#### Organic food demand

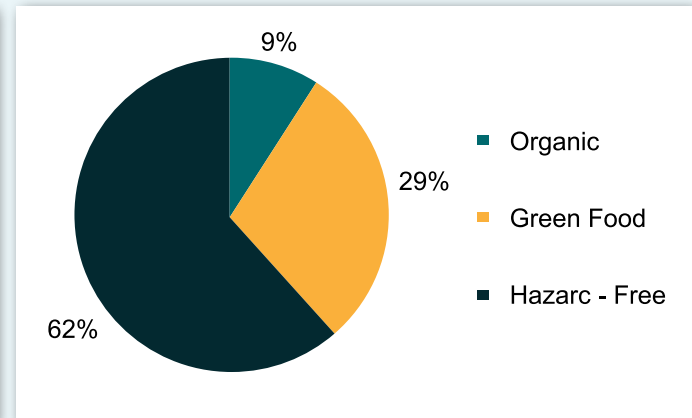
People's Daily Online notes that China is becoming a country with high organic food consumption. Experts predict that both organic farmland and produce will grow 20% to 30% annually over the next decade, with organic farmland accounting for between 1.0% and 1.5% of China's total agricultural land. China is also expected to become the world's fourth-largest organic food producer, with organic food expected to account for 1%-1.5% of China's entire food market. China has already become a world leader in organic production with some 34.2 million hectares of eco-food production, which is nearly equivalent to the total area of land under certified organic

agriculture in the rest of the world, i.e. 30.4 million hectares. Organic food produced by China is expected to soon represent 5.0% of the international organic food market.

**Exhibit 2: Distribution of Organic, Green Hazard-Free relative to the total (122 m ha) supply of cultivated land in China.**



**Exhibit 3: Three styles of China eco-labeling, by hectares**



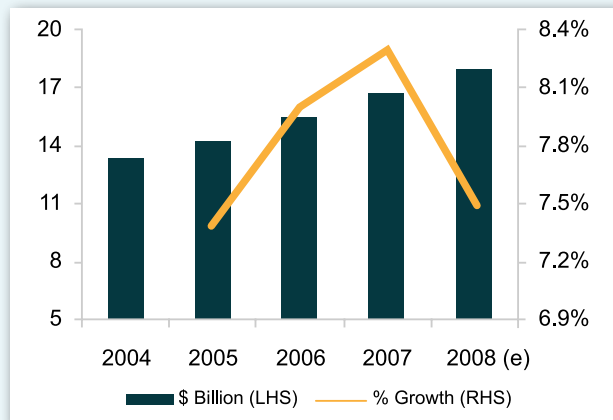
Source: SCIO, 2007

Organic-certified hectares represent approximately 2.5% of China's total agricultural land. Of the total of 34.2 million hectares devoted to eco-food production, organic food production represents 9.1%.

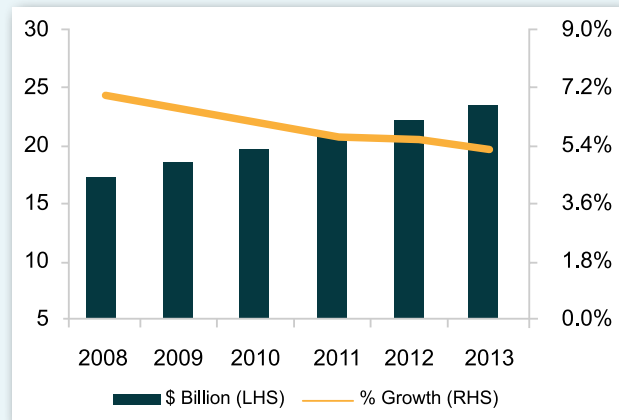
### Dairy demand

SIAF notes in its business plan that per-capita consumption of milk products in China, at just 22 Kg. per person, is a fraction of the level of developed countries, where consumption averages more than 300 Kg. per person. China's rapidly improving standard of living is increasing demand for fresh, high-quality dairy products. Dairy production has grown 9% annually over the past decade, and liquid milk production has risen more than 15% per year. China's dairy industry predicts that milk production will grow 9% annually over the next 10 to 15 years and demand for milk products will rise 6.1% annually.

**Exhibit 5: China Dairy Market Value: \$ billion, 2004-2008**



**Exhibit 6: China Dairy Market Value Forecast: \$ billion, 2008-2013**



Source: Datamonitor

Up to now, the largest increases in per-capita food consumption in China have occurred in major urban areas. As investment rises in secondary and tertiary cities, however, these areas should also experience an increase in disposable income, which in turn may lead to rising demand for fresh dairy products.

### Business Strategy

SIAF is an integrated, diversified agriculture technology and organic food company operating in China. Through various subsidiaries, the Company operates an aquaculture fishery business, a dairy farm and HU flower plantations.

#### Exhibit 7: SIAF subsidiaries and their offerings

Name of subsidiary	% of equity held	Business activities
<i>Capital Award Inc.</i>	100%	Fishery Development and Consulting <ul style="list-style-type: none"> <li>• Selling Technology Sub-licenses</li> <li>• Providing fishery consulting services</li> <li>• Selling fishery plants and equipment</li> <li>• Marketing of fish and fish products</li> <li>• Management of fisheries.</li> </ul>
<i>ZhungXing Cattle Husbandry Co. Ltd.</i>	78%	Dairy & Cattle ranch for production and sale of: <ul style="list-style-type: none"> <li>• Fresh liquid milk</li> <li>• Beef cattle</li> <li>• Stock-feed</li> <li>• Fertilizer</li> </ul>
<i>Heng Sing Tai Agriculture Development Co. Ltd</i>	75%	Grower of <i>Hylocereus Undatus</i> , “dragon fruit” flowers and Processor of green “dragon fruit” flowers

Source: Company business plan

### Zhung Xing Agriculture and Husbandry (ZX)

ZX is one of only a handful of government-certified organic milk producers in China. It had a herd of approximately 3,100 dairy cows in 2008 and produced some 21,000 tons of liquid milk. Current plans call for an increase in the herd to 15,000 cows by 2010, which will together produce around 120,000 tons of milk. The dairy is located approximately 90 kilometers from Beijing City and benefits from a new highway under construction that will improve access to Beijing’s population of 30 million to 60 million people.

### Capital Award (CA)

CA develops and manages modern fishery projects. It holds a Master license for “A Power RAS” technology, which is used to farm pollution-free seafood. The technology enables consistent production and supply of high-quality seafood to nearby city centers on a year-round basis. From 2005 to 2007, CA operated mainly as an aquaculture consultant. The Company plans to develop demonstration farms through joint ventures and has secured funding commitments from two partners. The first partner is a former paper manufacturing company that will provide the land and buildings to convert its factory site into fishery farms. The second partner is SanJiang Agriculture Co. Ltd., a state-owned agriculture business. The Company plans to begin building its first fish farm in 2009 and commence production in 2010 at 500 metric tons of seafood annually. CA expects to double production in

the second year and expand this business to 10,000 metric tons of seafood production by 2014. CA anticipates generating revenues from consulting and management fees, as well as its share in the profits of joint venture seafood production.

### Hang Sing Tai Agriculture Development (HST)

HST operates a 490-acre HU flower plantation. *Hylocereus Undatus* (“HU”) flowers, also known as “dragon fruit”, are popular in China for their perceived medicinal benefits. These flowers only grow in certain areas of China; before 2003, the main supply of HU flowers was from 50,000 acres of plantations in Guangdong Province. Since then, industrialization has reduced the plantation acreage to fewer than 5,000 acres. HST plans to triple its planted acreage to 1,500 acres by 2013, and is also developing a drying and processing plant. The majority of HU sales are dried flowers since the plant has a short harvesting seasons (i.e. only 25 days per year). As per SIAF’s business plan, HU flowers could potentially generate profits exceeding \$25,000 per acre.

## Competitors

There are many traditional fish farms operating in China but no commercial operations presently producing chemical and pollution-free fish or certified organic fish. The Company also benefits from its licensed technology, which enables more cost-effective fish farming. In its dairy segment, SIAF competes with several very large operators. The Company is differentiated by its focus on fresh, liquid milk, its high quality rating and its close proximity to Beijing, China’s largest urban market. SIAF’s dairy product has received a 100% pure milk high-grade certification from China’s agriculture department, which rated its milk as the best 100% pure milk in the country.

A few of SIAF’s publicly-traded competitors in China’s dairy segment are described below:

### China Mengniu Dairy Company Limited

China Mengniu Dairy Company Limited is a leading Chinese producer and distributor of dairy products. Its products include liquid milk products, ultra-high temperature milk (UHT) milk, milk beverages, yogurt, ice cream and milk powder. The Company operates through three business segments and has annual production capacity of approximately 1.5 million tons of dairy.

### Inner Mongolia Yili Industrial Group Company Ltd

Inner Mongolia Yili Industrial Group is China’s second-largest dairy producer. It generated sales of \$2.9 billion last year. It has five operating segments and produces liquid milk, milk powder, yoghurt, ice cream, cheese and other products. Its primary market is China, with north China and south China being its stronghold areas.

### Bright Dairy & Food Company Ltd

Bright Dairy & Food Company is majority owned by Shanghai Industrial Holdings, which announced in July its intent to sell its Bright Dairy stake. The company generated sales of



## Financial Analysis

approximately \$1.8 billion last year and has 500,000 tons of annual production capacity. Its primary products are fresh milk, ordinary milk, ultra heat-treated (UHT) milk, flavored milk, yogurt, milk powder, including products for infants, and industrial milk powder products. It also produces and distributes a variety of juices as well as cheese products. Its products are distributed in China.

### Financial Record

SIAF generated sales of approximately \$15.5 million in 2008 primarily from its dairy business, which accounted for some 90% of revenues. Sales were down 4% in 2008 from \$16.2 million in the prior year mainly as a result of the tainted milk scandal, which reduced overall dairy industry sales. During the six months ended June 30, 2009, SIAF recorded revenues of \$8.2 million.

Gross profits were \$7.7 million (50% of sales) in 2008 versus \$12.2 million (75% of sales) in the prior year, reflecting lower revenues and high feed costs. Gross profits were \$4.8 million and gross margins improved to 58% during the first six months of 2009.

Operating expenses totaled \$3.7 million (24% of sales) in 2008 and \$1.4 million (17% of sales) during the first six months of 2009. EBIT was \$4.0 million (26% of sales) in 2008 and \$3.4 million (41% of sales) during the first six months of 2009. Despite lower revenues, net income improved to \$3.9 million (25% of sales) in 2008 versus \$3.1 million (20% of sales) in 2007. For the first six months of 2009, net income was \$2.5 million or 31% of sales.

### Exhibit 9: income statement data

	Six months ended June 30, 2009	Year ended December 31, 2008
<i>Revenue</i>	\$8,249,339	\$15,504,154
<i>Cost of Goods Sold</i>	\$3,448,871	\$7,717,193
<i>Gross Profit</i>	\$4,800,468	\$7,786,961
<i>Operating Expenses</i>	\$1,404,827	\$3,729,782
<i>Net Income / (Loss)</i>	\$2,553,445	\$3,928,629
<i>EBIT</i>	\$3,395,641	\$4,057,179

Source: Company Reports

### Liquidity and capital requirements

As of December 31, 2008, the Company had cash and cash equivalents of \$380,175, working capital of \$13.2 million, long-term debt of \$4.4 million and shareholders' equity of \$51.0 million. SIAF has raised approximately \$43.5 million in capital since its inception and plans to raise an additional \$10 million through both traditional bank loans and equity once its shares become quoted on the OTCBB sometime in mid-2010. The additional capital will be used primarily to finance growth initiatives in the dairy business.

**Exhibit 10: Balance sheet data**

December 31, 2008	
Cash & cash equivalents	\$380,175
Working capital	\$13,281,562
Long term liabilities	\$4,411,765
Stockholders' Equity ( deficit )	\$51,043,395

Source: Company Reports

**Revenue Outlook and Valuation**

SIAF management targets 23% sales growth and revenues reaching a \$19.0 million range in 2009. Management expects revenues from dairy operations to rise 10% this year to a \$15.5 million level from \$14.1 million last year. HU flower plantation revenues are targeted at \$2.8 million in 2009, which is more than double prior year sales of \$1.2 million. In 2009, SIAF anticipates it will generate 81% of sales from dairy operations, 15% from HU flower plantation operations and the balance from licensing fees attributable to fishery operations.

An increasing sales contribution from the HU flower plantation segment should positively impact overall gross margins since this is a higher-margin business. SIAF anticipates 2009 gross margins from HU flower plantation operations in a 90% range versus 68% gross margins in its dairy business. For full-year 2009, SIAF targets an increase in corporate gross margins to a 64% range. The Company expects to trim approximately \$400,000 from general and operating expense this year, which will support an increase in net margins to a 47% range. Assuming sales of \$19.0 million and 47% net margins, total net income would climb to approximately \$8.9 million, which is over twice 2008 net income of \$4 million. SIAF owns approximately a 75%'s equity interest in its dairy and HU flower business so the Company's share of net profits would be approximately \$6.7 million. We divide this estimated net profit by 52 million shares outstanding to obtain our \$0.13 EPS estimate for 2009.

**Exhibit 11: Peer group Comparison**

Company Name	Ticker symbol	Share price \$	Mrkt. Cap. \$ Mn	P/E			P/S		
				2009E	2010E	2011E	2009E	2010E	2011E
China Mengniu Dairy Company Limited	CIADF.PK	CNY 16.4	CNY 25,552	29.7	23.4	18.6	1.1	0.9	0.8
Inner Mongolia Yili Industrial Group Co., Ltd.	600887.SS	CNY 16.0	CNY 12,813	30.2	22.9	21.7	0.6	0.5	0.4
Bright Dairy & Foods	600597.SS	CNY 7.5	CNY 7,793	57.5	37.4	35.6	1.0	0.9	0.8
<b>Peer Avg</b>				<b>39.2</b>	<b>27.9</b>	<b>25.3</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>
Sino Agro Foods	SIAF	\$0.66	\$34.9						

Source: Yahoo Finance

SIAF's peers in the Chinese dairy industry were recently trading at 30 times forward Price/Earnings multiples and one time forward Price/Sales multiples. We derive our \$2.60 price target for SIAF by multiplying our \$0.13 EPS estimate by a 20 times forward Price/Earnings multiple.

We are initiating coverage of SIAF with a Speculative Buy rating and a \$2.60 price target. We think the Company is well-positioned for growth as a result of China's rising demand for organic food. We also think SIAF is executing its business plan cost-effectively through joint ventures and funding commitments. However, we caution investors to consider the risk factors described below, as well as those discussed in the Company's 10-Q and 10-K filings, before investing. A business at SIAF's early development stage faces many challenges in executing its business plan, including threats from larger, more established competitors and the need to raise additional capital.

## Risk Factors

### Threat from larger competitors

In dairy operations, SIAF competes with several, larger players such as Inner Mongolia Yili Industrial Group, China Mengniu, and Bright Dairy & Foods. These competitors have larger distribution infrastructures, greater marketing resources and better access to capital. SIAF may find it difficult to compete. In addition, if threatened, these competitors may adopt more aggressive pricing tactics, which could in turn adversely impact SIAF's revenues, market share and profitability.

### Brand loyalty

Several of SIAF's dairy competitors have greater name recognition and longer-term relationships with their customers. Despite having a high-quality product, brand loyalty may make it difficult for SIAF to garner additional market share.

### Lingering effects of tainted milk scandal

China's tainted milk scandal in 2008 was one of the largest food safety events in recent years. Approximately 300,000 individuals, most of them children, were sickened by tainted milk. As the scope of the problem became apparent, China's dairy sales plunged. Several large dairy companies have gone out of business and a number of industry executives face criminal prosecution from Chinese authorities. The after-effects of the scandal are likely to continue for at least a few years. For example, China's dairy industry association reported in July that, while dairy sales have improved in 2009, sales are still only about 70% of pre-scandal levels. It may take a long time for consumer confidence to be restored, and SIAF may experience some of the fall-out in the form of reduced demand and lower dairy product sales.

### Reliance on joint-venture partners

SIAF relies on support and funding from joint-venture partners in several of its development-stage projects. If these partners fail to honor their commitments, implementation of SIAF's business plan could stall, and some projects critical to the Company's long-term growth could fail.

### Need to secure additional financing

The Company plans to raise \$10 million through bank loans and equity sales, which will be used to fund expansion of the dairy business. There is no guarantee that SIAF will be able to raise the necessary capital on favorable terms, if at all. Without sufficient capital, growth opportunities for the dairy business may be limited. Additional debt increases financial risk and equity offerings are dilutive to existing shareholders.

## Management

**Solomon Yip Kim Lee**  
*Chairman and Chief  
Executive Officer*

CEO Solomon Yip Kim Lee brings to the Company more than 35 years of food and agriculture industry experience. He is a pioneer of modern aquaculture development in Asia and is also a seasoned trader of perishable seafood and produce in the Asian market.

**Zeng Shao Quan**  
*Executive Director*

Zeng Shao Quan is the Company's China operations manager. He is a seasoned business executive who has also served on the boards of HKSE-listed 7817 Ship Building Company China) and Prosper FarEast Company.

**Tan Poay Teik**  
*Executive Director*

Tan Poay Teik has nearly three decades of food industry experience and practical expertise in accounting, strategic planning, mergers and acquisitions, joint ventures and financial management. He is also a director of several private and publicly-listed Malaysian companies.

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I, Victor Sula, Ph.D, the author of this report, certify that the material and views presented herein represent my personal opinion regarding the content and securities included in this report. In no way has my opinion been influenced by outside parties, nor has my compensation been either directly or indirectly tied to the performance of any security listed. I certify that I do not currently own, nor will own and shares or securities in any of the companies featured in this report.

### **Victor Sula, Ph.D. - Senior Analyst**

Victor Sula, Ph.D. has held the position of Senior Analyst with several independent investment research firms since 2004. Prior to 2004, Mr. Sula held Senior Financial Consultant positions within the World Bank sponsored Agency for Restructuring and Enterprise Assistance and TACIS sponsored Center for Productivity and Competitiveness of Moldova, where he was involved in corporate reorganization and liquidation. He is also employed as Associate Professor at the Academy of Economic Studies of Moldova. Mr. Sula earned his Ph.D. degree in 2001 and bachelor's degree in Finance in 1997 from the Academy of Economic Studies of Moldova. Mr. Sula is currently a level III candidate in the CFA program.