

**AMERICAN ORIENTAL BIOENGINEERING, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2008 AND 2007**

**NOTE 7 - LAND USE RIGHTS**

Land use rights consist of the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Cost of land use rights	\$ 152,297,695	\$ 48,177,647
Less: Accumulated amortization	(3,308,825)	(1,867,407)
Land use rights, net	<u>\$ 148,988,870</u>	<u>\$ 46,310,240</u>

During 2008, the Company acquired land use rights located close to its operating subsidiaries for the expansion of manufacturing facilities and is summarized as follows:

<u>Subsidiary</u>	<u>Size of Land</u>	<u>Land Use Right Expires</u>	<u>Cost of land use rights</u>
Three Happiness	1,317,497 sq. feet	2056	\$ 28,527,502
CCXA	905,243 sq. feet	2058	14,965,904
Total	<u>2,222,740 sq. feet</u>		<u>\$ 43,493,406</u>

We also invested and purchased land use rights in Beijing Economic-Technological Development Area during 2008 for \$57,394,040. The size of the land is 551,715 sq. feet with the land use right expiring in 2054. We intend to utilize the facilities as our multi-functional headquarters for purposes including administration, research and development, convention and training.

As of December 31, 2008, the net book value of land use rights pledged as collateral was \$21,170,021. See Note 13.

Amortization expense for the years ended December 31, 2008, 2007 and 2006 was \$1,357,929, \$835,562 and \$585,243, respectively.

Amortization expense for the next five years and thereafter is as follows:

2009	\$ 2,947,091
2010	\$ 2,947,091
2011	\$ 2,947,091
2012	\$ 2,947,091
2013	\$ 2,947,091
Thereafter	<u>\$134,253,415</u>
Total	<u>\$148,988,870</u>

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**NOTE 8 - CONSTRUCTION IN PROGRESS**

Construction in progress as of December 31, 2008 and 2007 was \$25,385,835 and \$755,614, respectively. During 2008, the Company acquired land use rights located close to its operating subsidiaries and started construction projects for the expansion of manufacturing facilities.

**NOTE 9 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	December 31,	
	2008	2007
At cost:		
Buildings	\$ 91,261,579	\$ 41,017,380
Machinery and equipment	20,665,315	17,949,890
Motor vehicles	1,568,059	1,320,091
Office equipment	1,543,300	1,137,140
Other equipment	482,097	446,326
Leasehold improvements	29,150	108,348
	<u>115,549,500</u>	<u>61,979,175</u>
Less : Accumulated depreciation		
Buildings	(4,732,906)	(3,305,219)
Machinery and equipment	(10,782,285)	(8,774,745)
Motor vehicles	(998,535)	(694,256)
Office equipment	(771,630)	(510,926)
Other equipment	(91,078)	(118,528)
Leasehold improvements	(18,623)	(78,741)
	<u>(17,395,057)</u>	<u>(13,482,415)</u>
Property, plant and equipment, net	<u>\$ 98,154,443</u>	<u>\$ 48,496,760</u>

In 2008, we invested and purchased buildings in Beijing Economic-Technological Development Area for \$47,545,960.

As of December 31, 2008, the net book value of property, plant and equipment pledged as collateral for bank loans was \$19,650,294. See Note 13.

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was \$3,396,747, \$2,470,923 and \$1,796,691, respectively.