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# FORM 10-Q

**Sino Agro Food, Inc. - N/A**

**Filed: November 14, 2018 (period: September 30, 2018)**

Quarterly report with a continuing view of a company's financial position

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2018

OR

TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-54191**

**SINO AGRO FOOD, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

(State of Other Jurisdiction of Incorporation or  
Organization)

**33-1219070**

(I.R.S. Employer Identification Number)

**Room 3801, Block A, China Shine Plaza  
No. 9 Lin He Xi Road  
Tianhe District, Guangzhou City, P.R.C.**  
(Address of Principal Executive Offices)

**510610**

(Zip Code)

**(860) 20 22057860**

(Registrant's Telephone Number, Including Area Code)

Copies to:

Sichenzia Ross Ference LLP  
1185 Avenue of the Americas, 37<sup>th</sup> Floor  
New York, NY10036  
Attn: Marc Ross, Esq.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  
Non-accelerated filer

Accelerated filer  
Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of September 30, 2018 there were 47,410,329 shares of our common stock issued and outstanding.

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**SINO AGRO FOOD, INC. AND SUBSIDIARIES**

**QUARTERLY FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

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**SINO AGRO FOOD, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|   | Note | September 30, 2018<br>(Unaudited) | December 31, 2017<br>(Audited) |
|---|------|-----------------------------------|--------------------------------|
| <b>ASSETS</b>   |      |                                   |                                |
| <b>Current assets</b>   |      |                                   |                                |
| Cash and cash equivalents   | 5    | \$ 417,373                        | \$ 560,043                     |
| Inventories   | 6    | 56,409,897                        | 52,628,947                     |
| Costs and estimated earnings in excess of billings on uncompleted contracts   | 18   | 250,828                           | 1,249,187                      |
| Deposits and prepayments  | 7    | 56,588,099                        | 70,459,650                     |
| Accounts receivable, net of allowance for doubtful accounts   | 8    | 94,884,040                        | 82,971,418                     |
| Other receivables   | 9    | 26,241,744                        | 20,680,478                     |
| <b>Total current assets</b>   |      | <u>234,791,981</u>                | <u>228,549,723</u>             |
| <b>Plant and equipment</b>  |      |                                   |                                |
| Plant and equipment, net of accumulated depreciation  | 10   | 233,357,869                       | 246,857,797                    |
| Construction in progress  | 11   | 13,561,210                        | 6,178,308                      |
| Land use rights, net of accumulated amortization  | 12   | 54,153,816                        | 54,838,031                     |
| <b>Total plant and equipment</b>  |      | <u>301,072,895</u>                | <u>307,874,136</u>             |
| <b>Other assets</b>   |      |                                   |                                |
| Goodwill  | 13   | 724,940                           | 724,940                        |
| Proprietary technologies, net of accumulated amortization   | 14   | 9,080,565                         | 9,588,605                      |
| Interests in unconsolidated equity investees  | 15   | 202,786,870                       | 193,267,696                    |
| Temporary deposits paid to entities for investments in Sino joint venture companies   | 16   | 34,916,517                        | 34,917,222                     |
| <b>Total other assets</b>   |      | <u>247,508,892</u>                | <u>238,498,463</u>             |
| <b>Total assets</b>   |      | <u><u>\$ 783,373,768</u></u>      | <u><u>\$ 774,922,322</u></u>   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |      |                                   |                                |
| <b>Current liabilities</b>  |      |                                   |                                |
| Accounts payable and accrued expenses   |      | \$ 8,515,417                      | \$ 4,243,496                   |
| Billings in excess of costs and estimated earnings on uncompleted contracts   | 18   | 5,350,165                         | 5,740,065                      |
| Due to a director   |      | -                                 | 107,074                        |
| Other payables  | 19   | 38,414,675                        | 40,593,482                     |
| Borrowings - Short term bank loan   | 20   | 4,506,468                         | 4,667,890                      |
| Negotiable promissory notes   | 21   | 977,155                           | 977,155                        |
| Derivative liability  | 22   | 2,100                             | 2,100                          |
| Convertible note payable  | 22   | 3,894,978                         | 3,894,978                      |
| Income tax payable  |      | 343                               | 377                            |
|   |      | <u>61,661,301</u>                 | <u>60,226,617</u>              |
| <b>Non-current liabilities</b>  |      |                                   |                                |
| Other payables  | 19   | 10,826,560                        | 11,089,779                     |
| Borrowings - Long term bank loan  | 20   | 5,669,429                         | 6,045,302                      |
|   |      | <u>16,495,989</u>                 | <u>17,135,081</u>              |
| <b>Commitments and contingencies</b>  |      | -                                 | -                              |
| <b>Stockholders' equity</b>   |      |                                   |                                |
| Preferred stock: \$0.001 par value (10,000,000 shares authorized, 100 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)                       |      |                                   |                                |
| Series A preferred stock: \$0.001 par value (100 shares designated, 100 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)                     | 23   | -                                 | -                              |
| Series B convertible preferred stock: \$0.001 par value (10,000,000 shares designated, 0 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)    | 23   | -                                 | -                              |
| Series F Non-convertible preferred stock: \$0.001 par value (1,000,000 shares designated, 0 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively) | 23   | -                                 | -                              |
| Common stock: \$0.001 par value (50,000,000 shares authorized, 47,410,329 and 29,362,875 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)    | 23   | 47,410                            | 29,363                         |
| Additional paid - in capital  |      | 180,766,756                       | 169,743,640                    |
| Retained earnings   |      | 450,924,456                       | 441,488,507                    |
| Accumulated other comprehensive (loss) income   |      | (7,965,574)                       | 2,346,174                      |
| Treasury stock  | 23   | (1,250,000)                       | (1,250,000)                    |
| <b>Total Sino Agro Food, Inc. and subsidiaries stockholders' equity</b>   |      | <u>622,523,048</u>                | <u>612,357,684</u>             |
| Non - controlling interest  |      | 82,693,430                        | 85,202,940                     |
| <b>Total stockholders' equity</b>   |      | <u>705,216,478</u>                | <u>697,560,624</u>             |

|   |                       |                       |
|---|-----------------------|-----------------------|
| <b>Total liabilities and stockholders' equity</b> | <u>\$ 783,373,768</u> | <u>\$ 774,922,322</u> |
|---|-----------------------|-----------------------|

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

**SINO AGRO FOOD, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**

|   | <b>Note</b> | <b>Three months ended<br/>September 30, 2018</b> | <b>Three months ended<br/>September 30, 2017</b> | <b>Nine months ended<br/>September 30, 2018</b> | <b>Nine months ended<br/>September 30, 2017</b> |
|---|-------------|--|--|---|---|
| <b>Continuing operations</b>  |             |  |  |   |   |
| <b>Revenue</b>  |             |  |  |   |   |
| - Sale of goods   |             | \$ 32,247,645                                    | \$ 45,414,562                                    | \$ 96,439,242                                   | \$ 150,564,890                                  |
| - Consulting and service income from development contracts  |             | 6,502,372  | 2,978,371  | 10,036,762                                      | 16,167,636                                      |
| - Commission and management fee   | 3           | 38,750,017                                       | 48,392,933                                       | 106,476,004                                     | 166,732,526                                     |
| <b>Cost of goods sold</b>   | 3           | (27,086,184)                                     | (39,612,509)                                     | (80,620,463)                                    | (128,230,874)                                   |
| <b>Cost of services</b>   | 3           | (5,469,059)                                      | (2,234,070)                                      | (8,133,799)                                     | (11,016,962)                                    |
| <b>Gross profit</b>   |             | 6,194,774  | 6,546,354  | 17,721,742                                      | 27,484,690                                      |
| <b>General and administrative expenses</b>  |             | (3,991,962)                                      | (3,254,065)                                      | (11,787,745)                                    | (15,133,146)                                    |
| <b>Net income from operations</b>   |             | 2,202,812  | 3,292,289  | 5,933,997                                       | 12,351,544                                      |
| <b>Other income (expenses)</b>  |             |  |  |   |   |
| Government grant  |             | 43,796   | -  | 176,643   | 457,288   |
| Share of income from unconsolidated equity investee   |             | 1,793,661  | 1,379,672  | 7,125,632                                       | 5,452,523                                       |
| Other income  |             | 57,580   | 4,468  | 117,318   | 4,468   |
| Non-operating expenses  |             | -  | -  | (3,161,333)                                     | -   |
| Interest expense  |             | (407,728)  | (331,596)  | (1,278,685)                                     | (1,561,908)                                     |
| <b>Net income (expenses)</b>  |             | 1,487,309  | 1,052,544  | 2,979,575                                       | 4,352,371                                       |
| <b>Net income before income taxes</b>   |             | 3,690,121  | 4,344,833  | 8,913,572                                       | 16,703,915                                      |
| Provision for income taxes  | 4           | -  | -  | -   | -   |
| <b>Net income</b>   |             | 3,690,121  | 4,344,833  | 8,913,572                                       | 16,703,915                                      |
| Less: Net (income) loss attributable to non - controlling interest                                |             | (224,559)  | (893,985)  | 522,377   | (4,179,202)                                     |
| <b>Net income attributable to the Sino Agro Food, Inc. and subsidiaries</b>                       |             | 3,465,562  | 3,450,848  | 9,435,949                                       | 12,524,713                                      |
| Other comprehensive income (loss)   |             |  |  |   |   |
| - Foreign currency translation gain (loss)  |             | (13,737,567)                                     | 569,938  | (12,298,881)                                    | 8,555,686                                       |
| <b>Comprehensive income (loss)</b>  |             | (10,272,005)                                     | 4,020,786  | (2,862,932)                                     | 21,080,399                                      |
| Less: Other comprehensive (income) loss attributable to non - controlling interest                |             | 2,837,539  | (983,217)  | 1,987,133                                       | (2,011,228)                                     |
| <b>Comprehensive income (loss) attributable to the Sino Agro Food, Inc. and subsidiaries</b>      |             | \$ (7,434,466)                                   | \$ 3,037,569                                     | \$ (875,799)                                    | \$ 19,069,171                                   |
| Earnings per share attributable to the Sino Agro Food, Inc. and subsidiaries common stockholders: |             |  |  |   |   |
| Basic   | 28          | \$ 0.09  | \$ 0.14  | \$ 0.27   | \$ 0.62   |
| Diluted   | 28          | \$ 0.09  | \$ 0.15  | \$ 0.27   | \$ 0.63   |
| Weighted average number of shares outstanding:  |             |  |  |   |   |
| Basic   |             | 36,650,450                                       | 24,231,617                                       | 35,381,345                                      | 20,309,014                                      |
| Diluted   |             | 36,650,450                                       | 26,357,758                                       | 35,381,345                                      | 22,496,396                                      |

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

**SINO AGRO FOOD, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <b>Nine months<br/>ended September<br/>30, 2018</b> | <b>Nine months<br/>ended September<br/>30, 2017</b> |
|--|---|---|
| <b>Cash flows from operating activities</b>  |   |   |
| Net income for the period  | \$ 8,913,572  | \$ 16,703,915                                       |
| Adjustments to reconcile net income for the period to net cash from operations:                    |   |   |
| Share of income from unconsolidated equity investee  | (7,125,632)   | (5,452,523)   |
| Depreciation   | 7,877,928   | 6,997,754   |
| Amortization   | 1,605,125   | 2,020,253   |
| Inventory written off  | 3,071,068   | -   |
| Common stock issued for services   | 1,896,986   | 4,083,724   |
| Other amortized cost arising from convertible notes and others                                     | -   | 2,074,106   |
| Changes in operating assets and liabilities:   |   |   |
| Increase in inventories  | (6,852,017)   | (17,752,925)  |
| Decrease (increase) in cost and estimated earnings in excess of billings on uncompleted contacts   | 998,359   | (508,203)   |
| Decrease (increase) in deposits and prepaid expenses   | 11,213,396  | (2,395,890)   |
| Decrease in due to a director  | (107,074)   | (1,220,116)   |
| Increase in accounts payable and accrued expenses  | 5,504,887   | 3,763,245   |
| Increase in other payables   | 5,105,528   | 10,125,347  |
| (Increase)/decrease in accounts receivable   | (11,912,622)  | 17,756,843  |
| (Decrease)/increase in billings in excess of costs and estimated earnings on uncompleted contracts | (389,900)   | 2,971,929   |
| Increase in other receivables  | (5,561,268)   | (11,668,581)  |
| Increase in interests in an unconsolidated equity investee   | (2,600,812)   | -   |
| <b>Net cash provided by operating activities</b>   | <b>11,637,524</b>                                   | <b>27,498,878</b>                                   |
| <b>Cash flows from investing activities</b>  |   |   |
| Purchases of property and equipment and non-current assets held for sale                           | (3,500)   | (14,552,588)  |
| Investment in unconsolidated equity investee   | (52,258)  | -   |
| Payment for construction in progress   | (6,832,839)   | (7,073,340)   |
| <b>Net cash used in investing activities</b>   | <b>(6,888,597)</b>                                  | <b>(21,625,928)</b>                                 |
| <b>Cash flows from financing activities</b>  |   |   |
| Convertible note payable repaid through director's account   | -   | (1,500,000)   |
| Negotiable promissory notes repaid through director's account                                      | -   | (900,000)   |
| Short term bank loan repaid  | -   | (1,448,462)   |
| Capital contribution from non-controlling interest   | -   | 434,809   |
| <b>Net cash used in financing activities</b>   | <b>(4,891,597)</b>                                  | <b>(3,413,653)</b>                                  |
| Effects on exchange rate changes on cash   | (4,891,597)   | (3,169,671)   |
| (Decrease) increase in cash and cash equivalents   | (142,670)   | (710,374)   |
| Cash and cash equivalents, beginning of period   | 560,043   | 2,576,058   |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 417,373</b>                                   | <b>\$ 1,865,684</b>                                 |
| <b>Supplementary disclosures of cash flow information:</b>   |   |   |
| Cash paid for interest   | \$ 437,200  | \$ 280,532  |
| Cash paid for income taxes   | <u>\$ -</u>   | <u>\$ -</u>   |
| Non - cash transactions  |   |   |
| Common stock issued for services and employee compensation   | \$ 10,301,367                                       | \$ 403,650  |
| Common stock issue for debts issue and trade facilities  | \$ 739,796  | \$ 12,054,044                                       |
| Transfer to plant and equipment from construction in progress                                      | \$ -  | \$ 1,506,705  |
| Transfer to plant and equipment from deposits and prepayments                                      | <u>\$ -</u>   | <u>\$ 5,484</u>                                     |

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

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. CORPORATE INFORMATION**

Sino Agro Food, Inc. (the “**Company**” or “**SIAF**”) (formerly known as Volcanic Gold, Inc. and A Power Agro Agriculture Development, Inc.) was incorporated on October 1, 1974 in the State of Nevada, United States of America.

The Company was engaged in the mining and exploration business but ceased its mining and exploring business on October 14, 2005. On August 24, 2007, the Company entered into a Merger and Acquisition Agreement with Capital Award Inc., a Belize corporation (“**CA**”) and its subsidiaries Capital Stage Inc. (“**CS**”) and Capital Hero Inc. (“**CH**”). Effective the same date, CA completed a reverse merger transaction with SIAF. SIAF acquired all the outstanding common stock of CA from Capital Adventure, a shareholder of CA, for 3,232,323 shares of the Company’s common stock.

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

On September 5, 2007, the Company acquired three existing businesses in the People’s Republic of China (the “**P.R.C.**”):

- (a) Hang Yu Tai Investment Limited (“**HYT**”), a company incorporated in Macau, the owner of 78% equity interest in ZhongXingNongMu Ltd (“**ZX**”), a company incorporated in the P.R.C.;
- (b) Tri-way Industries Limited (“**TRW**”), a company incorporated in Hong Kong; and
- (c) Macau Eiji Company Limited (“**MEIJI**”), a company incorporated in Macau, the owner of 75% equity interest in Enping City Juntang Town Hang Sing Tai Agriculture Co. Ltd. (“**HST**”), a P.R.C. corporate Sino-Foreign joint venture. HST was dissolved in 2010.

On November 27, 2007, MEIJI and HST established a corporate Sino - Foreign joint venture, Jiang Men City Heng Sheng Tai Agriculture Development Co. Ltd. (“**JHST**”), a company incorporated in the P.R.C. with MEIJI owning a 75% interest and HST owning a 25% interest.

On November 26, 2008, SIAF established Pretty Mountain Holdings Limited (“**PMH**”), a company incorporated in Hong Kong with an 80% equity interest. On May 25, 2009, PMH formed a corporate Sino-Foreign joint venture, Qinghai Sanjiang A Power Agriculture Co. Ltd. (“**SJAP**”), incorporated in the P.R.C., of which PMH owns a 45% equity interest. At the time, the remaining 55% equity interest in SJAP was owned by the following entities:

- Qinghai Province Sanjiang Group Company Limited (English translation) (“**Qinghai Sanjiang**”), a company incorporated in the P.R.C with major business activities in the agriculture industry; and
- Guangzhou City Garwor Company Limited (English translation) (“**Garwor**”), a company incorporated in the P.R.C., specializing in sales and marketing.

SJAP is engaged in the business of manufacturing bio-organic fertilizer, livestock feed and development of other agriculture projects in the County of Huangyuan, in the vicinity of the Xining City, Qinghai Province, P.R.C.

In September 2009, the Company carried out an internal reorganization of its corporate structure and business, and formed a 100% owned subsidiary, A Power Agro Agriculture Development (Macau) Limited (“**APWAM**”), which was formed in Macau. APWAM then acquired PMH’s 45% equity interest in SJAP. By virtue of the acquisition, APWAM assumed all obligations and liabilities of PMH under the Sino Foreign Joint Venture Agreement. On May 7, 2010, Qinghai Sanjiang sold and transferred its equity interest in SJAP to Garwor. The State Administration for Industry and Commerce of Xining City Government of the PRC approved the sale and transfer. As a result, APWAM owned 45% of SJAP and Garwor owned the remaining 55%.

On September 9, 2010, an application was submitted by the Company to the Companies Registry of Hong Kong for deregistration of PMH under Section 291AA of the Hong Kong Companies Ordinance. On January 28, 2011, PMH was dissolved.

On March 23, 2017, Qinghai Quanwang Investment Management Company Limited (“Quanwang”) acquired 8.3% equity interest in SJAP for total cash consideration of \$459,137. As of September 30, 2018, APWAM owned 41.25% of SJAP, Garwor owned 50.45% and Quanwang owned the remaining 8.3%.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. CORPORATE INFORMATION (CONTINUED)**

On February 15, 2011 and March 29, 2011, the Company entered into an agreement and a memorandum of understanding (an “**MOU**”), respectively, to sell 100% equity interest in HYT group (including HYT and ZX) to Mr. Xin Ming Sun, a director of ZhongXingNong Nu Co., Ltd for \$45,000,000, with effective date of January 1, 2011.

On February 28, 2011, the Company applied to form Enping City Bi Tao A Power Prawn Culture Development Co Limited (“**EBAPCD**”), and the Company would indirectly own a 25% equity interest in future Sino Joint Venture Company (pending approval).

On February 28, 2011, TRW applied to form a corporate joint venture, Enping City Bi Tao A Power Fishery Development Co., Limited (“**EBAPFD**”), incorporated in the PRC. TRW owned a 25% equity interest in EBAPFD. On November 17, 2011, TRW formed Jiang Men City A Power Fishery Development Co., Limited (“**JFD**”) in which it acquired a 25% equity interest, while withdrawing its 25% equity interest in EBAPFD. As of December 31, 2011, the Company had invested for total cash consideration of \$1,258,607 in JFD. JFD operates an indoor fish farm. On January 1, 2012, the Company acquired an additional 25% equity interest in JFD for total cash consideration of \$1,662,365. As of January 1, 2012, the Company had consolidated the assets and operations of JFD. On April 1, 2012, the Company acquired an additional 25% equity interest in JFD for the total cash consideration of \$1,702,580. These acquisitions were at our option according the terms of the original development agreement. The Company owned a 75% equity interest in JFD, representing majority of voting rights and controls its board of directors. On August 15, 2016, the acquisition agreement was executed by TRW for acquiring the other 25% equity in JFD which was a Sino Foreign Joint Venture Co. that TRW had 100% equity interest with effect on October 5, 2016. Upon the acquisitions of 3 additional prawn farms assets at fair value of \$238.32 million from respective third parties and the master technology license at fair value of \$30 million from Capital Award, Inc. by JFD, and the consideration of the above acquisitions were planned to be settled by the new issue shares of 99,990,000 TRW shares at \$3.41 amounting to \$340.53 million on or before September 30, 2017. As a result, SIAF’s equity interest in TRW was diluted from 100% to 23.89% with effective on October 5, 2016. The above transactions leaded the Company loss of control over TRW group, the Company’s investments in TRW and JFD were reclassified from a subsidiary to investments in unconsolidated equity investees as of October 5, 2016. The dilution of the Company’s investments in TRW group constituted a deemed disposal of the subsidiaries. The deemed gain on disposal of \$56,947,005 was recorded in net income from discontinued operations of the consolidated statements of income and other comprehensive income of the Company for the year ended 31 December 2016. On October 1, 2016, SIAF took up all assets and liabilities of TRW and JFD except fish farm. The Company converted the amount due from unconsolidated equity investee into equity interest during the fourth quarter of 2017, which resulted in equity interest in TRW from 23.89% to 36.60%.

On April 15, 2011, MEIJI applied to form Enping City A Power Cattle Farm Co., Limited (“**ECF**”), all of which the Company would indirectly own a 25% equity interest on November 17, 2011. On January 1, 2012, the Company had invested \$1,076,489 in ECF and the amount was settled in contra against accounts receivable due from ECF. On September 17, 2012 MEIJI formed Jiang Men City Hang Mei Cattle Farm Development Co., Limited (“**JHMC**”) and acquired additional 50% equity interest for the total cash consideration of \$2,944,176 on September 30, 2012 while withdrawing its 25% equity interest in ECF. This acquisition was at our option according to the terms of the original development agreement. The Company presently owns 75% equity interest in JHMC, representing majority of voting right and controls its board of directors. As of September 30, 2012, the Company had consolidated the assets and operations of JHMC. This remains the case as of the date of this report.

On July 18, 2011, the Company formed Hunan Shenghua A Power Agriculture Co., Limited (“**HSA**”), in which the Company owns a 26% equity interest, and SJAP owns a 50% equity interest with the Chinese partner owning the remaining 24%. On April 5, 2017, SJAP transferred all of its equity interest to MEIJI. This remains the case of the date of this report.

On November 12, 2013, the Company acquired a shell company, Goldcup9203 AB, incorporated in Sweden, in which the Company owns a 100% equity interest. Goldcup 9203 AB changed its name to Sino Agro Food Sweden AB (publ) (“**SAFS**”). As of September 30, 2017, the Company invested \$77,664 in SAFS. During the year ended December 31, 2016, SAFS changed from a public to a private company.

SJAP formed Qinghai Zhong He Meat Products Co., Limited (“**QZH**”), with SJAP would owning 100% equity interest. On October 25, 2015, both QZH and new stockholder, Qinghai Quanwang Investment Management Co., Ltd (“**QQI**”) contributed additional capital of \$4,157,682 and \$769,941, respectively. As a result, SJAP decreased its equity interest from 100% to 85% and QQI owned a 14% equity interest. In addition, according to investment agreement between QZH and QQI, (i) QQI only enjoy interest 6% annually on its capital contribution and did not enjoy profit distribution; (ii) investment period was 3 years only, and (iii) SJAP shared 100% on profit or loss after deduction 6% interest to QQI and enjoyed 100% voting rights of QZH’s board and stockholders meetings. SJAP disposed its 85% equity interest in QZH for RMB2 (equivalent to \$0) for cash and completed on December 30, 2017. As a result, QZH was derecognized as variable interest entity of the company.

The Company’s principal executive office is located at Room 3801, Block A, China Shine Plaza, No. 9 Lin He Xi Road, Tianhe District, Guangzhou City, Guangdong Province, P.R.C., 510610.

The nature of the operations and principal activities of the Company and its subsidiaries are described in Note 2.2.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 FISCAL YEAR**

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

**2.2 REPORTING ENTITIES**

| <b>Name of subsidiaries</b>  | <b>Place of incorporation</b> | <b>Percentage of interest</b>          | <b>Principal activities</b>  |
|--|-------------------------------|--|--|
| Capital Award Inc. ("CA")  | Belize                        | 100% (12.31.2017: 100%) directly       | Fishery development and holder of A-Power Technology master license.   |
| Capital Stage Inc. ("CS")  | Belize                        | 100% (12.31.2017: 100%) indirectly     | Dormant  |
| Capital Hero Inc. ("CH")   | Belize                        | 100% (12.31.2017: 100%) indirectly     | Dormant  |
| Sino Agro Food Sweden AB ("SAFS")                                      | Sweden                        | 100% (12.31.2017: 100%) directly       | Dormant  |
| Macau Eiji Company Limited ("MEIJI")                                   | Macau, P.R.C.                 | 100% (12.31.2017: 100%) directly       | Investment holding, cattle farm development, beef cattle and beef trading  |
| A Power Agro Agriculture Development (Macau) Limited ("APWAM")         | Macau, P.R.C.                 | 100% (12.31.2017: 100%) directly       | Investment holding   |
| Jiang Men City Heng Sheng Tai Agriculture Development Co. Ltd ("JHST") | P.R.C.                        | 75% (12.31.2017: 75%) indirectly       | HylocereusUndatus Plantation ("HU Plantation").  |
| Jiang Men City Hang Mei Cattle Farm Development Co., Limited ("JHMC")  | P.R.C.                        | 75% (12.31.2017: 75%) indirectly       | Beef cattle cultivation  |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                | P.R.C.                        | 76% (12.31.2017: 76%) indirectly       | Manufacturing of organic fertilizer, livestock feed, and beef cattle and sheep cultivation, and plantation of crops and pastures |
| <b>Name of variable interest entity</b>                                | <b>Place of incorporation</b> | <b>Percentage of interest</b>          | <b>Principal activities</b>  |
| Qinghai Sanjiang A Power Agriculture Co., Ltd ("SJAP")                 | P.R.C.                        | 41.25% (12.31.2017: 41.25%) indirectly | Manufacturing of organic fertilizer, livestock feed, and beef cattle and plantation of crops and pastures                        |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.3 BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and follow the requirements of the Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments that are necessary for a fair statement of our financial information. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any other interim period or for any other future year. The balance sheet as of December 31, 2017 has been derived from audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

Reverse stock split and new conversion rate of Series B preferred stock to share of common stock on December 16, 2014, the Company implemented a 9.9-for-1 reverse stock split. On December 17, 2014, the Company implemented new conversion rate of 9.9 for 1 share of common stock. All share information contained within this report, including consolidated balance sheets, consolidated statements of income and other comprehensive income, and footnotes have been retroactively adjusted for the effects of reverse stock split and new conversion rate of Series B preferred stock to share of common stock.

In the first quarter of 2018, the company adopted Accounting Standards Update ("ASU") 2014-09 (ASC Topic 606), "Revenue from Contracts with Customers" using the modified retrospective method in which the new guidance was applied retrospectively to contracts that were not completed as of January 1, 2018. Results for the reporting period beginning after January 1, 2018 have been presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with previous guidance. See Note 2.8 for a further discussion of the adoption and the impact on the consolidated financial statements.

**2.4 BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of the Company, its subsidiaries CA, CS, CH, MEIJI, JHST, JHMC, HSA, APWAM, SAFS and its variable interest entity, SJAP. All material inter-company transactions and balances have been eliminated in consolidation. QZH was derecognized as variable interest entity on December 30, 2017.

SIAF, CA, CS, CH, MEIJI, JHST, JHMC, HSA, APWAM, SAFS and SJAP are hereafter referred to as (the "Company").

**2.5 BUSINESS COMBINATION**

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

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

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

**2.7 USE OF ESTIMATES**

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

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.8 REVENUE RECOGNITION**

On January 1, 2018, the Company adopted Topic 606, using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 605. There was no adjustment to beginning retained earnings on January 1, 2018.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expect to be entitled to in exchange for those goods or services.

ASU 2014-09, “Revenue from Contracts with Customers” outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price.

ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” clarifies the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies how an entity determines whether to report revenue gross or net based on whether it controls a specific good or service before it is transferred to a customer. ASU 2016-08 also reframes the indicators to focus on evidence that an entity is acting as a principal rather than as an agent.

ASU 2016-10, “Identifying Performance Obligations and Licensing” amends certain aspects of ASU 2014-09. ASU 2016-10 amends how an entity should identify performance obligations for immaterial promised goods or services, shipping and handling activities and promises that may represent performance obligations. ASU 2016-10 also provides implementation guidance for determining the nature of licensing and royalties arrangements.

ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients” also clarifies certain aspects of ASU 2014-09 including the assessment of collectability, presentation of sales taxes, treatment of noncash consideration, and accounting for completed contracts and contract modifications at transition.

ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” allows an entity to determine the provision for loss contracts at either the contract level or the performance obligation level as an accounting policy election. The company determines its provision for loss contracts at the contract level.

ASU 2017-05, “Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” clarifies that the scope and application of ASC 610-20 on accounting for the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales, applies only when the asset (or asset group) does not meet the definition of a business.

ASU 2017-13, “Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments” provides guidance related to the effective dates of the ASUs noted above.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.8 REVENUErecognition (CONTINUED)**

*Consulting and service income from development contracts*

The company recognizes *consulting and service income from development contracts* revenue over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. *Consulting and service income from development contracts* are generally accounted for as a single unit of account (a single performance obligation) and are not segmented between types of services. The company recognizes revenue using the percentage-of-completion method, based primarily on contract cost incurred to date compared to total estimated contract cost. The percentage-of-completion method (an input method) is the most faithful depiction of the company's performance because it directly measures the value of the services transferred to the customer. Cost of revenue includes an allocation of depreciation and amortization. Customer-furnished materials, labor and equipment and, in certain cases, subcontractor materials, labor and equipment, are included in revenue and cost of revenue when management believes that the company is acting as a principal rather than as an agent (i.e., the company integrates the materials, labor and equipment into the deliverables promised to the customer). Customer-furnished materials are only included in revenue and cost when the contract includes construction activity and the company has visibility into the amount the customer is paying for the materials or there is a reasonable basis for estimating the amount. The company recognizes revenue, but not profit, on certain uninstalled materials that are not specifically produced, fabricated, or constructed for a project. Revenue on these uninstalled materials is recognized when the cost is incurred (when control is transferred). Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract level. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the client. Project mobilization costs are generally charged to project costs as incurred when they are an integrated part of the performance obligation being transferred to the client. Customer payments on consulting and service income from development contracts are typically due within 360 days of billing, depending on the contract.

*Variable Consideration*

The nature of the company's contracts gives rise to several types of variable consideration, including claims and unpriced change orders; awards and incentive fees; and liquidated damages and penalties. The company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The company estimates the amount of revenue to be recognized on variable consideration using the expected value (i.e., the sum of a probability-weighted amount) or the most likely amount method, whichever is expected to better predict the amount. Factors considered in determining whether revenue associated with claims (including change orders in dispute and unapproved change orders in regard to both scope and price) should be recognized include the following: (a) the contract or other evidence provides a legal basis for the claim, (b) additional costs were caused by circumstances that were unforeseen at the contract date and not the result of deficiencies in the company's performance, (c) claim-related costs are identifiable and considered reasonable in view of the work performed, and (d) evidence supporting the claim is objective and verifiable. If the requirements for recognizing revenue for claims or unapproved change orders are met, revenue is recorded only when the costs associated with the claims or unapproved change orders have been incurred. Back charges to suppliers or subcontractors are recognized as a reduction of cost when it is determined that recovery of such cost is probable and the amounts can be reliably estimated. Disputed back charges are recognized when the same requirements described above for claims accounting have been satisfied.

The company generally provides limited warranties for work performed under its engineering and construction contracts. The warranty periods typically extend for a limited duration following substantial completion of the company's work on a project. Historically, warranty claims have not resulted in material costs incurred.

Revenue excludes sales and usage-based taxes where it has been determined that the Company is acting as a pass-through agent.

Government grants are recognized when (i) the Company has substantially accomplished what must be done pursuant to the terms of the grant that are established by the local government; and (ii) the Company receives notification from the local government that the Company has satisfied all of the requirements to receive the government grants; and (iii) the amounts are received.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.9 COST OF GOODS SOLD AND COST OF SERVICES**

Cost of goods sold consists primarily of direct purchase cost of merchandise goods, and related levies. Cost of services consist primarily direct cost and indirect cost incurred to date for development contracts and provision for anticipated losses for development contracts.

**2.10 SHIPPING AND HANDLING**

Shipping and handling costs related to cost of goods sold are included in general and administrative expenses, which totaled \$0 and \$1,716, \$2,745 and \$17,862 for the three months and the nine months ended September 30, 2018 and 2017, respectively.

**2.11 ADVERTISING**

Advertising costs are included in general and administrative expenses, which totaled \$375,221 and \$382,424, \$1,175,724 and \$1,386,186 for the three months ended and the nine months ended September 30, 2018 and 2017, respectively.

**2.12 RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses are included in general and administrative expenses, which totaled \$0 and \$449,910, \$0 and \$449,910 for the three months ended and the nine months ended September 30, 2018 and 2017, respectively.

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

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

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

Accumulated other comprehensive income in the consolidated statement of shareholders' equity amounted to \$2,886,309 as of September 30, 2018 and \$2,346,174 as of December 31, 2017. The balance sheet amounts with the exception of equity as of September 30, 2018 and December 31, 2017 were translated using an exchange rate of RMB 6.88 to \$1.00 and RMB 6.53 to \$1.00, respectively. The average translation rates applied to the statements of income and other comprehensive income and of cash flows for the nine months ended September 30, 2018, and 2017 were RMB 6.51 to \$1.00 and RMB 6.80 to \$1.00, respectively.

**2.14 CASH AND CASH EQUIVALENTS**

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

**2.15 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. Reserves are recorded primarily on a specific identification basis.

The standard credit period for most of the Company's clients is three months. The collection period over 1 year is classified as long-term accounts receivable. Management evaluates the collectability of the receivables at least quarterly. Provision for doubtful accounts as of September 30, 2018 and December 31, 2017 are \$0.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.16 INVENTORIES**

Inventories are valued at the lower of cost (determined on a weighted average basis) and net realizable value. Costs incurred in bringing each product to its location and conditions are accounted for as follows:

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

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

**2.17 PLANT AND EQUIPMENT**

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

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

|                                      |                |
|--------------------------------------|----------------|
| Plant and machinery                  | 5 - 10 years   |
| Structure and leasehold improvements | 10 - 30 years  |
| Mature seeds and herbage cultivation | 20 years       |
| Furniture and equipment              | 2.5 - 10 years |
| Motor vehicles                       | 4 - 10 years   |

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

**2.18 GOODWILL**

Goodwill is an asset representing the fair economic benefits arising from other assets acquired in a business combination that are not individually identified or separately recognized. Goodwill is tested for impairment on an annual basis at the end of the Company's fiscal year, or when impairment indicators arise. The Company uses a fair-value-based approach to test for impairment at the level of each reporting unit. The Company directly acquired MEIJI, which is the holding company of JHST that operates the Hu Plantation. As a result of this acquisition, the Company recorded goodwill in the amount of \$724,940. This goodwill represents the fair value of the assets acquired in these acquisitions over the cost of the assets acquired.

**2.19 LONG TERM INVESTMENT**

On October 29, 2014, the Company invested in Huangyuan County Rural Credit Union ("RCU"), Huangyuan County, Xining City, Qinghai Province, the P.R.C. RCU is engaged in the financing and crediting business to agricultural projects for local farmers. The Company has a 5% stake in RCU. The Company has no representative on the board of directors to oversee corporate operations. The Company accounts for its long term investment at cost. On October 18, 2017, the Company withdrew its equity interest in RCU.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.20 PROPRIETARY TECHNOLOGIES**

A master license of stock feed manufacturing technology was acquired and the costs of acquisition are capitalized as proprietary technologies when technological feasibility has been established. Cost of acquisition of stock feed manufacturing technology master license is amortized using the straight-line method over its estimated life of 20 years.

An aromatic cattle-feeding formula was acquired and the costs of acquisition are capitalized as proprietary technologies when technological feasibility has been established. Cost of acquisition on aromatic cattle-feeding formula is amortized using the straight-line method over its estimated life of 20 years.

The cost of sleepy cods breeding technology license is capitalized as proprietary technologies when technological feasibility has been established. Cost of granting sleepy cods breeding technology license is amortized using the straight-line method over its estimated life of 25 years.

Bacterial cellulose technology license and related trade mark are capitalized as proprietary technologies when technological feasibility has been established. Cost of license and related trade mark is amortized using the straight-line method over its estimated life of 20 years.

The Company has determined that technological feasibility is established at the time a working model of products is completed. Proprietary technologies are intangible assets of finite lives. Management evaluates the recoverability of proprietary technologies on an annual basis at the end of the Company's fiscal year, or when impairment indicators arise. As required by ASC Topic 350 "Intangible - Goodwill and Other", the Company uses a fair-value-based approach to test for impairment.

**2.21 CONSTRUCTION IN PROGRESS**

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

**2.22 LAND USE RIGHTS**

Land use rights represent acquisition of rights to agricultural land from farmers and are amortized on the straight-line basis over their respective lease periods. The lease period of agricultural land is in the range from 10 to 60 years. Land use rights purchase prices were determined in accordance with the P.R.C. Government's minimum lease payments on agricultural land and mutually agreed to terms between the Company and the vendors.

**2.23 EQUITY METHOD INVESTMENTS**

Investee entities, in which the company can exercise significant influence, but not control, are accounted for under the equity method of accounting. Under the equity method of accounting, the company's share of the earnings or losses of these companies is included in net income. A loss in value of an investment that is other than a temporary decline is recognized as a charge to operations. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment.

**2.24 CORPORATE JOINT VENTURE**

A corporation formed, owned, and operated by two or more businesses as a separate and discrete business or project (venture) for their mutual benefit is considered to be a corporate joint venture. Investee entities, in which the Company can exercise significant influence, but not control, are accounted for under the equity method of accounting. Under the equity method of accounting, the Company's share of the earnings or losses of these companies is included in net income.

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

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.25 VARIABLE INTEREST ENTITY**

A variable interest entity (“**VIE**”) is an entity (investee) in which the investor has obtained less than a majority interest, according to the Financial Accounting Standards Board (FASB). A VIE is subject to consolidation if a VIE meets one of the following three criteria as elaborated in ASC Topic 810-10, Consolidation:

- (a) equity-at-risk is not sufficient to support the entity’s activities;
- (b) as a group, the equity-at-risk holders cannot control the entity; or
- (c) the economics do not coincide with the voting interest.

If a firm is the primary beneficiary of a VIE, the holdings must be disclosed on the balance sheet. The primary beneficiary is defined as the person or company with the majority of variable interests. A corporation formed, owned, and operated by two or more businesses (ventures) as a separate and discrete business or project (venture) for their mutual benefit is defined as a joint venture.

**2.26 TREASURY STOCK**

Treasury stock means shares of a corporation’s own stock that have been issued and subsequently reacquired by the corporation. Converting outstanding shares to treasury shares does not reduce the number of shares issued but does reduce the number of shares outstanding. These shares are not eligible to receive dividends. Accounting for excesses and deficiencies on treasury stock transactions is governed by ASC 505-30-30.

State laws and federal agencies closely regulate transactions involving a company’s own capital stock, so the purchase of outstanding shares must have a legitimate purpose. Some of the most common reasons for purchasing outstanding shares are as follows:

- (a) to meet additional stock needs for various reasons, including newly implemented stock option plans, stock for convertible bonds or convertible preferred stock, or a stock dividend.
- (b) to make more shares available for acquisitions of other entities.

The cost method of accounting for treasury shares has been adopted by the Company. The purchase of outstanding shares and thus converting them into treasury shares is treated as a temporary reduction in shareholders’ equity in view of the expectation to reissue the shares instead of retiring them. When the Company reissues the treasury shares, the temporary account is eliminated. The cost of acquiring outstanding shares for converting into treasury shares is charged to a contra account, in this case a contra equity account that reduces the stockholder equity balance.

**2.27 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED**

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Property and equipment are not depreciated once classified as held for distribution. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheets. A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income and other comprehensive income.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.28 INCOME TAXES**

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

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

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

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

**2.29 POLITICAL AND BUSINESS RISK**

The Company's operations are carried out in the P.R.C. Accordingly, the political, economic and legal environment in the P.R.C. may influence the Company's business, financial condition and results of operations by the general state of the P.R.C.'s economy. The Company's operations in the P.R.C. are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

**2.30 CONCENTRATION OF CREDIT RISK**

Cash includes cash at banks and demand deposits in accounts maintained with banks within the P.R.C. Total cash in these banks as of September 30, 2018 and December 31, 2017 amounted to \$162,685 and \$327,019, respectively, none of which is covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks to its cash in bank accounts.

The Company had 5 major customers (A, B, C, D and E) whose business individually represented the following percentages of the Company's total revenue for the period indicated:

|            | <b>Three months ended<br/>September 30,<br/>2018</b> | <b>Three months ended<br/>September 30,<br/>2017</b> | <b>Nine months ended<br/>September 30,<br/>2018</b> | <b>Nine months ended<br/>September 30,<br/>2017</b> |
|------------|--|--|---|---|
| Customer A | 29.44%   | 21.89%   | 33.40%  | 22.03%  |
| Customer B | 15.09%   | 10.32%   | 17.73%  | 9.22%   |
| Customer C | 20.94%   | 16.34%   | 16.63%  | 14.42%  |
| Customer D | 16.74%   | 6.15%  | 5.22%   | 9.70%   |
| Customer E | 4.27%  | -%   | 7.64%   | -%  |
| Customer F | -%   | 24.59%   | -%  | 24.83%  |
| Customer G | <u>86.48%</u>  | <u>79.29%</u>  | <u>80.62%</u>                                       | <u>80.20%</u>                                       |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.30 CONCENTRATION OF CREDIT RISK (CONTINUED)**

|            |                                  | <b>Percentage<br/>of revenue</b> | <b>Amount</b> |
|------------|----------------------------------|----------------------------------|---------------|
| Customer A | Corporate and others Division    | 33.40%                           | \$ 22,619,734 |
| Customer B | Corporate and others Division    | 17.73%                           | \$ 12,010,575 |
| Customer C | Cattle Farm Development Division | 16.63%                           | \$ 11,265,270 |

Accounts receivable are derived from revenue earned from customers located primarily in the P.R.C. The Company performs ongoing credit evaluations of customers and has not experienced any material losses to date.

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

|            | <b>September 30, 2018</b>                  | <b>December 31, 2017</b>                   |
|------------|--|--|
| Customer A | 62.91%                                     | 27.13%                                     |
| Customer B | 12.43%                                     | 7.34%                                      |
| Customer C | 9.01%                                      | 7.49%                                      |
| Customer D | 6.23%                                      | 4.78%                                      |
| Customer E | 2.61%                                      | -%   |
| Customer F | -%   | 12.31%                                     |
|            | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |
|            | 93.19%                                     | 59.05%                                     |
|            | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |

As of September 30, 2018, amounts due from customers A and B are \$59,710,606 and \$11,798,976, respectively. The Company has not experienced any significant difficulty in collecting its accounts receivable in the past and is not aware of any financial difficulties of its major customers.

**2.31 IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLE ASSETS**

In accordance with ASC Topic 360, "Property, Plant and Equipment," long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company reviews the carrying amount of its long-lived assets, including intangibles, for impairment, during each reporting period. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is considered not recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. As of September 30, 2018 and December 31, 2017, the Company determined no impairment losses were necessary.

**2.32 EARNINGS PER SHARE**

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

ASC 260-10-55 requires that stock dividends or stock splits be accounted for retroactively if the stock dividends or stock splits occur during the year, or retroactively if the stock dividends or stock splits occur after the end of the period but before the release of the financial statements, by considering it outstanding of the entirety of each period presented. Dilution is computed by applying the treasury stock method. Under this method, options and 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 year.

For the three months ended September 30, 2018 and 2017, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries common stockholders amounted to \$0.09 and \$0.14, respectively. For the three months ended September 30, 2018 and 2017, diluted earnings per share attributable to Sino Agro Food, Inc. and its subsidiaries' common stockholders amounted to \$0.09 and \$0.15, respectively.

For the nine months ended September 30, 2018 and 2017, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries common stockholders amounted to \$0.27 and \$0.62, respectively. For the nine months ended September 30, 2018 and 2017, diluted earnings per share attributable to Sino Agro Food, Inc. and its subsidiaries' common stockholders amounted to \$0.27 and \$0.63, respectively.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.33 ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

**2.34 RETIREMENT BENEFIT COSTS**

P.R.C. state managed retirement benefit programs are defined contribution plans and the payments to the plans are charged as expenses when employees have rendered service entitling them to the contribution made by the employer.

**2.35 STOCK-BASED COMPENSATION**

The Company has adopted both ASC Topic 718, “Compensation - Stock Compensation” and ASC Topic 505-50, “Equity-Based Payments to Non - Employees” using the fair value method in which an entity issues its equity instruments to acquire goods and services from employees and non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with this accounting standard and the accounting standard regarding accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling goods or services, as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured. This accounting standard allows the “simplified” method to determine the term of employee options when other information is not available. Under ASC Topic 718 and ASC Topic 505-50, stock compensation expenses is measured at the grant date on the value of the option or restricted stock and is recognized as expenses, less expected forfeitures, over the requisite service period, which is generally the vesting period.

**2.36 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

- Level 1     Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2     Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
- Level 3     Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company’s financial assets and liabilities, such as cash and accrued expenses, approximate their fair values because of the short maturity of these instruments. The Company does not have any assets or liabilities measured at fair value on a recurring or a non-recurring basis, consequently, the Company did not have any fair value adjustments for assets and liabilities measured at fair value as of September 30, 2018 or December 31, 2017, nor gains or losses are reported in the statements of income and comprehensive income that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date for the fiscal period ended September 30, 2018 or 2017.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2.37 NEW ACCOUNTING PRONOUNCEMENTS**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. This guidance will be effective for us in the first quarter of 2019 on a modified retrospective basis and early adoption is permitted. We will adopt the new standard effective January 1, 2019.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02), which allows companies to reclassify stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act (the Tax Act), from accumulated other comprehensive income to retained earnings. The new standard is effective for us beginning January 1, 2019, with early adoption permitted. We are currently evaluating the effects that the adoption of this guidance will have on our consolidated financial statements and the related disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, Revenue Recognition (Topic 605). ASU 2014-09 can be adopted using one of two retrospective transition methods: 1) retrospectively to each prior reporting period presented or 2) as a cumulative-effect adjustment as of the date of adoption. While the Company has not yet completed their evaluation, it has reviewed ASU 2014-09 and does not expect this new guidance to have a material impact on its consolidated financial statements. To the extent there is an impact, the Company will apply as a cumulative-effect adjustment as of the date of adoption.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory* (ASU 2016-16), which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. We adopted the new standard effective January 1, 2018, using the modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the effective date, which was not material to our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statements of cash flows. We adopted the new standard effective January 1, 2018, using the retrospective transition approach. The reclassified restricted cash balances from investing activities to changes in cash, cash equivalents and restricted cash on the consolidated statements of cash flows were nil for all periods presented.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. We adopted the new standard effective January 1, 2018 on a prospective basis. The new standard did not have a material impact on our consolidated financial statements.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION**

The Company establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as business segments and major customers in consolidated financial statements. The Company operates in five principal reportable segments: Fishery Development Division, HU Plantation Division, Organic Fertilizer and Bread Grass Division, Cattle Farm Development Division and Corporate and Others Division. No geographic information is required as all revenue and assets are located in the P.R.C. On December 30, 2017, QZH was disposed to third party and derecognized as variable interest entity on the same date.

|                   | <b>For the three months ended September 30, 2018</b> |                                   |  |   |                                 |                       |
|-------------------|--|-----------------------------------|--|---|---------------------------------|-----------------------|
|                   | <b>Fishery Development Division(1)</b>               | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> | <b>Total</b>          |
| Revenue           | \$ 6,502,373   | \$ 988,030                        | \$ 5,933,042   | \$ 8,028,334                                | \$ 17,298,238                   | \$ 38,750,017         |
| Net income (loss) | \$ 906,175   | \$ (599,743)                      | \$ 399,756   | \$ 992,139                                  | \$ 1,766,595                    | \$ 3,465,562          |
| Total assets      | <u>\$ 87,021,604</u>                                 | <u>\$ 45,899,308</u>              | <u>\$ 326,860,510</u>                                  | <u>\$ 39,856,112</u>                        | <u>\$ 283,736,237</u>           | <u>\$ 783,373,768</u> |

|                   | <b>For the three months ended September 30, 2017</b> |                                   |  |   |                                 |                       |
|-------------------|--|-----------------------------------|--|---|---------------------------------|-----------------------|
|                   | <b>Fishery Development Division(1)</b>               | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> | <b>Total</b>          |
| Revenue           | \$ 2,978,371   | \$ 1,486,465                      | \$ 21,057,805  | \$ 7,281,156                                | \$ 15,589,136                   | \$ 48,392,933         |
| Net income (loss) | \$ 696,266   | \$ 10,010                         | \$ 575,316   | \$ 684,685                                  | \$ 1,484,571                    | \$ 3,450,848          |
| Total assets      | <u>\$ 74,754,393</u>                                 | <u>\$ 48,728,564</u>              | <u>\$ 379,508,585</u>                                  | <u>\$ 36,656,931</u>                        | <u>\$ 276,688,775</u>           | <u>\$ 816,337,248</u> |

|                   | <b>For the nine months ended September 30, 2018</b> |                                   |  |   |                                 |                       |
|-------------------|---|-----------------------------------|--|---|---------------------------------|-----------------------|
|                   | <b>Fishery Development Division(1)</b>              | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> | <b>Total</b>          |
| Revenue           | \$ 10,036,762                                       | \$ 3,082,503                      | \$ 22,327,936  | \$ 19,100,254                               | \$ 51,928,550                   | \$ 106,476,004        |
| Net income (loss) | \$ 1,521,546  | \$ (1,123,369)                    | \$ 379,533   | \$ 1,687,951                                | \$ 6,970,288                    | \$ 9,435,949          |
| Total assets      | <u>\$ 87,021,604</u>                                | <u>\$ 45,899,308</u>              | <u>\$ 326,860,510</u>                                  | <u>\$ 39,856,112</u>                        | <u>\$ 283,736,237</u>           | <u>\$ 783,373,768</u> |

|                   | <b>For the nine months ended September 30, 2017</b> |                                   |  |   |                                 |                       |
|-------------------|---|-----------------------------------|--|---|---------------------------------|-----------------------|
|                   | <b>Fishery Development Division(1)</b>              | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> | <b>Total</b>          |
| Revenue           | \$ 16,167,636                                       | \$ 3,565,220                      | \$ 67,135,311  | \$ 23,094,392                               | \$ 56,769,967                   | \$ 166,732,526        |
| Net income (loss) | \$ 5,006,568  | \$ (488,030)                      | \$ 3,086,833   | \$ 2,574,704                                | \$ 2,344,638                    | \$ 12,524,713         |
| Total assets      | <u>\$ 74,754,393</u>                                | <u>\$ 48,728,564</u>              | <u>\$ 379,508,585</u>                                  | <u>\$ 36,656,931</u>                        | <u>\$ 276,688,775</u>           | <u>\$ 816,337,248</u> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

- (1) Operated by Capital Award, Inc. (“CA”).
- (2) Operated by Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited (“JHST”).
- (3) Operated by Qinghai Sanjiang A Power Agriculture Co., Limited (“SJAP”), Qinghai Zhong He Meat Products Co., Limited (“QZH”), A Power Agro Agriculture Development (Macau) Limited (“APWAM”), and Hunan Shenghua A Power Agriculture Co., Limited (“HSA”). On December 30, 2017, QZH was derecognized as variable interest entity of the company.
- (4) Operated by Jiang Men City Hang Mei Cattle Farm Development Co. Limited (“JHMC”) and Macau Eiji Company Limited (“MEIJI”).
- (5) Operated by Sino Agro Food, Inc. (“SIAF”) and Sino Agro Food Sweden AB (“SAFS”).

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of revenue:-

|   | For the three ended September 30, 2018  |                                   |  |   |                                 | <u>Total</u>  |
|---|---|-----------------------------------|--|---|---------------------------------|---------------|
|   | <u>Fishery Development Division (1)</u> | <u>HU Plantation Division (2)</u> | <u>Organic Fertilizer and Bread Grass Division (3)</u> | <u>Cattle Farm Development Division (4)</u> | <u>Corporate and others (6)</u> |               |
| Name of entity  | Sale of goods                           | Capital Award, Inc. ("CA")        | \$ -   | \$ -  | \$ -                            | \$ -          |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | -                                       | 988,029                           | -  | -   | -                               | 988,029       |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -                                       | -                                 | \$ 2,390,188   | -   | -                               | 2,390,188     |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -                                       | -                                 | \$ 3,542,853   | -   | -                               | 3,542,853     |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -                                       | -                                 | -  | -   | -                               | -             |
| Macau Eiji Company Limited ("MEIJI")  | -                                       | -                                 | -  | \$ 8,028,333                                | -                               | 8,028,333     |
| Sino Agro Food, Inc. ("SIAF")   | -                                       | -                                 | -  | -   | \$ 17,298,242                   | 17,298,242    |
| Consulting and service income for development contracts                     | Capital Award, Inc. ("CA")              | \$ 6,502,372                      | -  | -   | -                               | 6,502,372     |
| Commission and management fee   | Capital Award, Inc. ("CA")              | \$ 6,502,372                      | \$ 988,029   | \$ 5,933,041                                | \$ 8,028,333                    | \$ 38,750,017 |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of revenue:-

|   | For the three ended September 30, 2017  |                                   |  |   |                                 | <u>Total</u>                |
|---|---|-----------------------------------|--|---|---------------------------------|-----------------------------|
|   | <u>Fishery Development Division (1)</u> | <u>HU Plantation Division (2)</u> | <u>Organic Fertilizer and Bread Grass Division (3)</u> | <u>Cattle Farm Development Division (4)</u> | <u>Corporate and others (5)</u> |                             |
| Name of entity  | Sale of goods                           | Capital Award, Inc. ("CA")        |  |   |                                 |                             |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") |   |                                   | 1,486,465  |   |                                 | 1,486,465                   |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -                                       | -                                 | 1,669,684  | -   | -                               | 1,669,684                   |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -                                       | -                                 | 6,282,189  | -   | -                               | 6,282,189                   |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -                                       | -                                 | 13,105,932   | -   | -                               | 13,105,932                  |
| Macau Eiji Company Limited ("MEIJI")  | -                                       | -                                 |  | 7,281,156                                   | -                               | 7,281,156                   |
| Sino Agro Food, Inc. ("SIAF")   | -                                       | -                                 |  |   | 15,589,136                      | 15,589,136                  |
| Consulting and service income for development contracts                     |   | Capital Award, Inc. ("CA")        |  |   |                                 |                             |
|   | 2,978,371                               |                                   |  |   |                                 | 2,978,371                   |
| Commission and management fee   | Capital Award, Inc. ("CA")              |                                   |  |   |                                 |                             |
|   | <u><u>\$ 2,978,371</u></u>              | <u><u>\$ 1,486,465</u></u>        | <u><u>\$ 21,057,805</u></u>                            | <u><u>\$ 7,281,156</u></u>                  | <u><u>\$ 15,589,136</u></u>     | <u><u>\$ 48,392,933</u></u> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of revenue:-

|   | For the nine months ended September 30, 2018 |                                       |  |   |                                     |                              |
|---|--|---------------------------------------|--|---|-------------------------------------|------------------------------|
|   | <b>Fishery Development<br/>Division (1)</b>  | <b>HU Plantation<br/>Division (2)</b> | <b>Organic Fertilizer<br/>and Bread Grass<br/>Division (3)</b> | <b>Cattle Farm<br/>Development<br/>Division (4)</b> | <b>Corporate and<br/>others (6)</b> | <b>Total</b>                 |
| Name of entity  | Sale of goods                                | Capital Award, Inc. ("CA")            |  |   |                                     |                              |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") |  |                                       | 3,082,502  |   |                                     | 3,082,502                    |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -  | -                                     | 7,255,245  | -   | -                                   | 7,255,245                    |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -  | -                                     | 15,072,691   | -   | -                                   | 15,072,691                   |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -  | -                                     | -  | -   | -                                   | -                            |
| Macau Eiji Company Limited ("MEIJI")  | -  | -                                     | -  | 19,100,254  | -                                   | 19,100,254                   |
| Sino Agro Food, Inc. ("SIAF")   | -  | -                                     | -  | -   | 51,928,550                          | 51,928,550                   |
| Consulting and service income for development contracts                     | Capital Award, Inc. ("CA")                   | 10,036,762                            | -  | -   | -                                   | 10,036,762                   |
| Commission and management fee   | Capital Award, Inc. ("CA")                   |                                       |  |   |                                     |                              |
|   |  | <u><u>\$ 10,036,762</u></u>           | <u><u>\$ 3,082,502</u></u>                                     | <u><u>\$ 22,327,936</u></u>                         | <u><u>\$ 19,100,254</u></u>         | <u><u>\$ 51,928,550</u></u>  |
|   |  |                                       |  |   |                                     | <u><u>\$ 106,476,004</u></u> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of revenue:-

|   | For the nine months ended September 30, 2017 |                                   |  |   |                                 | <u>Total</u>                 |
|---|--|-----------------------------------|--|---|---------------------------------|------------------------------|
|   | <u>Fishery Development Division (1)</u>      | <u>HU Plantation Division (2)</u> | <u>Organic Fertilizer and Bread Grass Division (3)</u> | <u>Cattle Farm Development Division (4)</u> | <u>Corporate and others (5)</u> |                              |
| Name of entity  | Sale of goods                                | Capital Award, Inc. ("CA")        |  |   |                                 |                              |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") |  |                                   | 3,565,220  |   |                                 | 3,565,220                    |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -  | -                                 | 5,393,285  | -   | -                               | 5,393,285                    |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -  | -                                 | 21,695,718   | -   | -                               | 21,695,718                   |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -  | -                                 | 40,046,308   | -   | -                               | 40,046,308                   |
| Macau Eiji Company Limited ("MEIJI")  | -  | -                                 |  | 23,094,392                                  | -                               | 23,094,392                   |
| Sino Agro Food, Inc. ("SIAF")   | -  | -                                 |  |   | 56,769,967                      | 56,769,967                   |
| Consulting and service income for development contracts                     |  | Capital Award, Inc. ("CA")        |  |   |                                 |                              |
|   | 16,167,636                                   |                                   |  |   |                                 | 16,167,636                   |
| Commission and management fee   | Capital Award, Inc. ("CA")                   |                                   |  |   |                                 |                              |
|   |  |                                   |  |   |                                 |                              |
|   | <u><u>\$ 16,167,636</u></u>                  | <u><u>\$ 3,565,220</u></u>        | <u><u>\$ 67,135,311</u></u>                            | <u><u>\$ 23,094,392</u></u>                 | <u><u>\$ 56,769,967</u></u>     | <u><u>\$ 166,732,526</u></u> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of cost of goods sold and cost of services:-

**COST OF GOODS SOLD**

| Name of entity  | For the three months ended September 30, 2018 |                                   |  |   |                                 | <b>Total</b>         |
|---|---|-----------------------------------|--|---|---------------------------------|----------------------|
|   | <b>Fishery Development Division (1)</b>       | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                      |
| Name of entity Sale of goods Capital Award, Inc. ("CA")                     | \$ -  | \$ -                              | \$ -   | \$ -  | \$ -                            | \$ -                 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | -   | 815,981                           | -  | -   | -                               | 815,981              |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -   | -                                 | 1,530,851  | -   | -                               | 1,530,851            |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -   | -                                 | 2,355,398  | -   | -                               | 2,355,398            |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -   | -                                 | -  | -   | -                               | -                    |
| Macau Eiji Company Limited ("MEIJI")  | -   | -                                 | -  | 6,674,769                                   | -                               | 6,674,769            |
| Sino Agro Food, Inc. ("SIAF")   | -   | -                                 | -  | -   | 15,709,185                      | 15,709,185           |
|   | <b>\$ -</b>                                   | <b>\$ 815,981</b>                 | <b>\$ 3,886,249</b>                                    | <b>\$ 6,674,769</b>                         | <b>\$ 15,709,185</b>            | <b>\$ 27,086,184</b> |

**COST OF SERVICES**

| Name of entity  | For the three months ended September 30, 2018 |                                   |  |   |                                 | <b>Total</b>        |
|---|---|-----------------------------------|--|---|---------------------------------|---------------------|
|   | <b>Fishery Development Division (1)</b>       | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                     |
| Name of entity  |   |                                   |  |   |                                 |                     |
| Consulting and service income for development contracts |   |                                   |  |   |                                 |                     |
| Capital Award, Inc. ("CA")                              | 5,469,059                                     | -                                 | -  | -   | -                               | 5,469,059           |
|   | <b>\$ 5,469,059</b>                           | <b>\$ -</b>                       | <b>\$ -</b>  | <b>\$ -</b>                                 | <b>\$ -</b>                     | <b>\$ 5,469,059</b> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of cost of goods sold and cost of services:-

**COST OF GOODS SOLD**

| Name of entity  | For the three months ended September 30, 2017 |                                   |  |   |                                 | <b>Total</b>         |
|---|---|-----------------------------------|--|---|---------------------------------|----------------------|
|   | <b>Fishery Development Division (1)</b>       | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                      |
| Name of entity Sale of goods Capital Award, Inc. ("CA")                     | \$ -  | \$ -                              | \$ -   | \$ -  | \$ -                            | \$ -                 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | -   | 1,248,695                         | -  | -   | -                               | 1,248,695            |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -   | -                                 | 1,228,851  | -   | -                               | 1,228,851            |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -   | -                                 | 4,289,390  | -   | -                               | 4,289,390            |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -   | -                                 | 12,654,496   | -   | -                               | 12,654,496           |
| Macau Eiji Company Limited ("MEIJI")  | -   | -                                 | -  | 6,319,872                                   | -                               | 6,319,872            |
| Sino Agro Food, Inc. ("SIAF")   | -   | -                                 | -  | -   | 13,871,205                      | 13,871,205           |
|   | <b>\$ -</b>                                   | <b>\$ 1,248,695</b>               | <b>\$ 18,172,737</b>                                   | <b>\$ 6,319,872</b>                         | <b>\$ 13,871,205</b>            | <b>\$ 39,612,509</b> |

**COST OF SERVICES**

| Name of entity  | For the three months ended September 30, 2017 |                                   |  |   |                                 | <b>Total</b>        |
|---|---|-----------------------------------|--|---|---------------------------------|---------------------|
|   | <b>Fishery Development Division (1)</b>       | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                     |
| Name of entity  |   |                                   |  |   |                                 |                     |
| Consulting and service income for development contracts |   |                                   |  |   |                                 |                     |
| Capital Award, Inc. ("CA")                              | 2,234,070                                     | -                                 | -  | -   | -                               | 2,234,070           |
|   | <b>\$ 2,234,070</b>                           | <b>\$ -</b>                       | <b>\$ -</b>  | <b>\$ -</b>                                 | <b>\$ -</b>                     | <b>\$ 2,234,070</b> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of cost of goods sold and cost of services (Continued):-

**COST OF GOODS SOLD**

| Name of entity  | For the nine months ended September 30, 2018 |                                   |  |   |                                 | <b>Total</b>         |
|---|--|-----------------------------------|--|---|---------------------------------|----------------------|
|   | <b>Fishery Development Division (1)</b>      | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                      |
| Name of entity Sale of goods Capital Award, Inc. ("CA")                     | \$ -   | \$ -                              | \$ -   | \$ -  | \$ -                            | \$ -                 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | -  | 2,569,886                         | -  | -   | -                               | 2,569,886            |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -  | -                                 | 4,790,131  | -   | -                               | 4,790,131            |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -  | -                                 | 9,981,074  | -   | -                               | 9,981,074            |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -  | -                                 | -  | -   | -                               | -                    |
| Macau Eiji Company Limited ("MEIJI")  | -  | -                                 | -  | 16,711,195                                  | -                               | 16,711,195           |
| Sino Agro Food, Inc. ("SIAF")   | -  | -                                 | -  | -   | 46,568,177                      | 46,568,177           |
|   | <b>\$ -</b>                                  | <b>\$ 2,569,886</b>               | <b>\$ 14,771,205</b>                                   | <b>\$ 16,711,195</b>                        | <b>\$ 46,568,177</b>            | <b>\$ 80,620,463</b> |

**COST OF SERVICES**

| Name of entity   | For the nine months ended September 30, 2018 |                                   |  |   |                                 | <b>Total</b>        |
|--|--|-----------------------------------|--|---|---------------------------------|---------------------|
|  | <b>Fishery Development Division (1)</b>      | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                     |
| Name of entity Consulting and service income for development contracts | -  | -                                 | -  | -   | -                               | -                   |
| Capital Award, Inc. ("CA")   | 8,133,799                                    | -                                 | -  | -   | -                               | 8,133,799           |
|  | <b>\$ 8,133,799</b>                          | <b>\$ -</b>                       | <b>\$ -</b>  | <b>\$ -</b>                                 | <b>\$ -</b>                     | <b>\$ 8,133,799</b> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of cost of goods sold and cost of services (Continued):-

**COST OF GOODS SOLD**

| Name of entity  | For the nine months ended September 30, 2017 |                                   |  |   |                                 | <b>Total</b>          |
|---|--|-----------------------------------|--|---|---------------------------------|-----------------------|
|   | <b>Fishery Development Division (1)</b>      | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                       |
| Name of entity Sale of goods Capital Award, Inc. ("CA")                     | \$ -   | \$ -                              | \$ -   | \$ -  | \$ -                            | \$ -                  |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | -  | 2,334,052                         | -  | -   | -                               | 2,334,052             |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA")                     | -  | -                                 | 3,765,816  | -   | -                               | 3,765,816             |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP")                  | -  | -                                 | 14,517,323   | -   | -                               | 14,517,323            |
| Qinghai Zhong He Meat Products Co., Limited ("QZH")                         | -  | -                                 | 37,555,254   | -   | -                               | 37,555,254            |
| Macau Eiji Company Limited ("MEIJI")  | -  | -                                 | -  | 19,582,042                                  | -                               | 19,582,042            |
| Sino Agro Food, Inc. ("SIAF")   | -  | -                                 | -  | -   | 50,476,389                      | 50,476,389            |
|   | <b>\$ -</b>                                  | <b>\$ 2,334,052</b>               | <b>\$ 55,838,391</b>                                   | <b>\$ 19,582,042</b>                        | <b>\$ 50,476,389</b>            | <b>\$ 128,230,874</b> |

**COST OF SERVICES**

| Name of entity   | For the nine months ended September 30, 2017 |                                   |  |   |                                 | <b>Total</b>         |
|--|--|-----------------------------------|--|---|---------------------------------|----------------------|
|  | <b>Fishery Development Division (1)</b>      | <b>HU Plantation Division (2)</b> | <b>Organic Fertilizer and Bread Grass Division (3)</b> | <b>Cattle Farm Development Division (4)</b> | <b>Corporate and others (5)</b> |                      |
| Name of entity Consulting and service income for development contracts | -  | -                                 | -  | -   | -                               | -                    |
| Capital Award, Inc. ("CA")   | 11,016,962                                   | -                                 | -  | -   | -                               | 11,016,962           |
|  | <b>\$ 11,016,962</b>                         | <b>\$ -</b>                       | <b>\$ -</b>  | <b>\$ -</b>                                 | <b>\$ -</b>                     | <b>\$ 11,016,962</b> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**4. INCOME TAXES**

United States of America

The Company was incorporated in the State of Nevada, in the United States of America. The Company has no trading operations in United States of America and no U.S. corporate tax has been provided for in the consolidated financial statements of the Company.

Undistributed Earnings of Foreign Subsidiaries

The Company intends to use the remaining accumulated and future earnings of foreign subsidiaries to expand operations outside the United States and accordingly, undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States and no provision for U.S. Federal and State income tax or applicable dividend distribution tax has been provided thereon.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**4. INCOME TAXES (CONTINUED)**

China

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

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

No EIT has been provided in the financial statements of SIAF, CA, JHST, JHMC, HSA and SJAP since they are exempt from EIT for the nine months ended September 30, 2018 and 2017 as they are within the agriculture, and cattle sectors.

No EIT has been provided in the financial statements of QZH since they are exempt from EIT for the nine months ended September 30, 2017 as it is within the cattle sector. QZH was derecognized as variable interest entity on December 30, 2017.

Belize

CA, CS and CH are international business companies incorporated in Belize, and are exempt from corporate tax in Belize.

Macau

No Macau Corporate income tax has been provided in the consolidated financial statements of APWAM and MEIJI since these entities did not earn any assessable profits for the three months ended September 30, 2018 and 2017.

Sweden

No Sweden Corporate income tax has been provided in the consolidated financial statements of SAFS since SAFS incurred a tax loss for the three months ended September 30, 2018 and 2017.

No deferred tax assets and liabilities are of September 30, 2018 and December 31, 2017 since there was no difference between the financial statements carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the period in which the differences are expected to reverse.

Provision for income taxes is as follows:

|                               | <b>Three months ended<br/>September 30, 2018<br/>(Unaudited)</b> | <b>Three months ended<br/>September 30, 2017<br/>(Unaudited)</b> | <b>Nine months ended<br/>September 30, 2018<br/>(Unaudited)</b> | <b>Nine months ended<br/>September 30, 2017<br/>(Unaudited)</b> |
|-------------------------------|--|--|---|---|
| SIAF                          | \$ -   | \$ -   | \$ -  | \$ -  |
| SAFS                          | -  | -  | -   | -   |
| MEIJI and APWAM               | -  | -  | -   | -   |
| JHST, JHMC, SJAP, QZH and HSA | -  | -  | -   | -   |
|                               | <b>\$ -</b>  | <b>\$ -</b>  | <b>\$ -</b>   | <b>\$ -</b>   |

The Company did not recognize any interest or penalties related to unrecognized tax benefits in the nine months ended September 30, 2018 and 2017. The Company had no uncertain positions that would necessitate recording of tax related liability. The Company is subject to examination by the respective tax authorities.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. CASH AND CASH EQUIVALENTS**

|                        | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|------------------------|--|---------------------------------------|
| Cash and bank balances | \$ 417,373                               | <u>\$ 560,043</u>                     |

**6. INVENTORIES**

As of September 30, 2018, inventories are as follows:

|  | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|--|--|---------------------------------------|
| Bread grass  | 817,220                                  | 976,514                               |
| Beef cattle  | 12,670,022                               | 5,903,442                             |
| Organic fertilizer                                   | 13,514,239                               | 16,832,390                            |
| Forage for cattle and consumable                     | 7,180,751                                | 7,397,910                             |
| Raw materials for bread grass and organic fertilizer | 19,744,531                               | 19,113,274                            |
| Immature seeds                                       | 2,483,134                                | 2,405,417                             |
|  | <u>\$ 56,409,897</u>                     | <u>\$ 52,628,947</u>                  |

**7. DEPOSITS AND PREPAYMENTS**

|   | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|---|--|---------------------------------------|
| Deposits for  |  |                                       |
| - purchases of equipment  | \$ 1,204,333                             | \$ 2,815,774                          |
| - acquisition of land use rights  | 174,444                                  | 3,244,567                             |
| - inventories purchases   | 16,498,565                               | 24,282,950                            |
| - construction in progress  | 4,821,609                                | 6,774,380                             |
| - issue of shares as collateral   | 25,761,658                               | 25,427,293                            |
| Shares issued for employee compensation and overseas professional and bond interest | 1,055,341                                | 702,625                               |
| Others  | 7,072,149                                | 7,212,061                             |
|   | <u>\$ 56,588,099</u>                     | <u>\$ 70,459,650</u>                  |

**8. ACCOUNTS RECEIVABLE**

The Company has performed an analysis on all of its accounts receivable and determined that all amounts are collectible by the Company. As such, all accounts receivable are reflected as a current asset and no allowance for bad debt has been recorded as of September 30, 2018 and December 31, 2017.

Aging analysis of accounts receivable is as follows:

|                                    | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|------------------------------------|--|---------------------------------------|
| 0 - 30 days                        | \$ 8,485,275                             | \$ 7,973,308                          |
| 31 - 90 days                       | 27,446,204                               | 18,240,251                            |
| 91 - 120 days                      | 3,905,126                                | 5,725,069                             |
| over 120 days and less than 1 year | 11,757,890                               | 21,551,845                            |
| over 1 year                        | 43,289,545                               | 29,480,945                            |
|                                    | <u>\$ 94,884,040</u>                     | <u>\$ 82,971,418</u>                  |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. OTHER RECEIVABLES**

|                        | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|------------------------|--|---------------------------------------|
| Advanced to employees  | \$ 659,513                               | \$ 219,186                            |
| Advanced to suppliers  | 3,864,514                                | 3,768,585                             |
| Advanced to customers  | 14,096,509                               | 11,982,331                            |
| Advanced to developers | 343,073                                  | 399,449                               |
| Others                 | 7,278,135                                | 4,310,927                             |
|                        | <b><u>\$ 26,241,744</u></b>              | <b><u>\$ 20,680,478</u></b>           |

Advanced to employees, suppliers, customers and developers are unsecured, interest free and with no fixed terms of repayment.

**10. PLANT AND EQUIPMENT**

|                                      | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|--------------------------------------|--|---------------------------------------|
| Plant and machinery                  | \$ 5,269,857                             | \$ 5,501,975                          |
| Structure and leasehold improvements | 199,573,342                              | 209,378,338                           |
| Mature seeds and herbage cultivation | 52,767,958                               | 49,685,830                            |
| Furniture and equipment              | 694,717                                  | 699,494                               |
| Motor vehicles                       | 589,289                                  | 614,792                               |
|                                      | <b><u>258,895,163</u></b>                | <b><u>265,880,429</u></b>             |
| Less: Accumulated depreciation       | (25,537,294)                             | (19,022,632)                          |
| Net carrying amount                  | <b><u>\$ 233,357,869</u></b>             | <b><u>\$ 246,857,797</u></b>          |

Depreciation expense was \$2,552,397 and \$2,491,515, \$7,877,928 and \$6,997,754 for the three months ended and the nine months ended September 30, 2018 and 2017, respectively.

**11. CONSTRUCTION IN PROGRESS**

|   | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|---|--|---------------------------------------|
| Construction in progress                          |  |                                       |
| - Rangeland for beef cattle and office building   | 12,422,745                               | 6,178,308                             |
| - Oven room, road for production of dried flowers | 1,138,465                                | -                                     |
|   | <b><u>13,561,210</u></b>                 | <b><u>6,178,308</u></b>               |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. LAND USE RIGHTS**

|                                | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|--------------------------------|--|---------------------------------------|
| Cost                           | \$ 65,657,005                            | \$ 65,573,223                         |
| Less: Accumulated amortization | (11,503,189)                             | (10,735,192)                          |
| <b>Net carrying amount</b>     | <b>\$ 54,153,816</b>                     | <b>\$ 54,838,031</b>                  |

Land use rights are amortized on the straight-line basis over their respective lease periods. The lease period of agriculture land is 10 to 60 years. Amortization of land use rights was \$325,169, \$567,309, \$1,166,622 and \$1,572,669 for the three months and the nine months ended September 30, 2018 and 2017 respectively.

**13. GOODWILL**

Goodwill represents the fair value of the assets acquired the acquisitions over the cost of the assets acquired. It is stated at cost less accumulated impairment losses. Management tests goodwill for impairment on an annual basis or when impairment indicators arise. In these instances, the Company recognizes an impairment loss when it is probable that the estimated cash flows are less than the carrying value of the assets. To date, no such impairment loss has been recorded.

|                                     | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|-------------------------------------|--|---------------------------------------|
| Goodwill from acquisition           | \$ 724,940                               | \$ 724,940                            |
| Less: Accumulated impairment losses | -  | -                                     |
| <b>Net carrying amount</b>          | <b>\$ 724,940</b>                        | <b>\$ 724,940</b>                     |

**14. PROPRIETARY TECHNOLOGIES**

By an agreement dated November 12, 2008, TRW acquired an enzyme technology master license, registered under a Chinese patent, for the manufacturing of livestock feed and bioorganic fertilizer and its related labels for \$8,000,000. On October 1, 2015, the Company took up such assets at \$5,473,720.

On March 6, 2012, MEIJI acquired an aromatic-feed formula technology for the production of aromatic cattle for \$1,500,000. On October 1, 2013, SIAF was granted a license to exploit sleepy cods breeding technology to grow out of sleepy cods for \$2,270,000 for 50 years. SJAP booked bacterial cellulose technology license and related trademark for \$2,119,075 and amortized expenditures for 20 years starting from January 1, 2014.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**14. PROPRIETARY TECHNOLOGIES (CONTINUED)**

|                                | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|--------------------------------|--|---------------------------------------|
| Cost                           | \$ 11,111,740                            | \$ 11,211,100                         |
| Less: Accumulated amortization | (2,031,175)                              | (1,622,495)                           |
| <b>Net carrying amount</b>     | <b>\$ 9,080,565</b>                      | <b>\$ 9,588,605</b>                   |

Amortization of proprietary technologies was \$145,052 and \$152,440, \$438,503 and \$447,584 for the three months and the nine months ended September 30, 2018 and 2017, respectively. No impairments of proprietary technologies have been identified for the three months and the nine months ended September 30, 2018 and 2017.

**15. INTERESTS IN UNCONSOLIDATED EQUITY INVESTEES**

On February 28, 2011, TRW applied to form a corporate joint venture, Enping City Bi Tao A Power Fishery Development Co., Limited ("EBAPFD"), incorporated in the PRC. TRW owned a 25% equity interest in EBAPFD. On November 17, 2011, TRW formed Jiang Men City A Power Fishery Development Co., Limited ("JFD") in which it acquired a 25% equity interest, while withdrawing its 25% equity interest in EBAPFD. As of December 31, 2011, the Company had invested for total cash consideration of \$1,258,607 in JFD. JFD operates an indoor fish farm. On January 1, 2012, the Company acquired an additional 25% equity interest in JFD for total cash consideration of \$1,662,365. As of January 1, 2012, the Company had consolidated the assets and operations of JFD. On April 1, 2012, the Company acquired an additional 25% equity interest in JFD for the total cash consideration of \$1,702,580. These acquisitions were at our option according the terms of the original development agreement. The Company owned a 75% equity interest in JFD, representing majority of voting rights and controls its board of directors.

On August 15, 2016, the acquisition agreement was executed by TRW for acquiring the other 25% equity in JFD which was a Sino Foreign Joint Venture Co. that TRW had 100% equity interest with effect on October 5, 2016. Upon the acquisitions of 3 additional prawn farms assets at fair value of \$238.32 million from respective third parties and the master technology license at fair value of \$30 million from Capital Award, Inc. by JFD, and the consideration of the above acquisitions were planned to be settled by the new issue shares of 99,990,000 TRW shares at \$3.41 amounting to \$340.53 million on or before September 30, 2017. As a result, SIAF's equity interest in TRW was diluted from 100% to 23.89% with effective on October 5, 2016. The above transactions leaded the Company loss of control over TRW group, the Company's investments in TRW and JFD were reclassified from a subsidiary to investments in unconsolidated equity investees as of October 5, 2016. The dilution of the Company's investments in TRW group constituted a deemed disposal of the subsidiaries. The deemed gain on disposal of \$56,947,005 was recorded in net income from discontinued operations of the consolidated statements of income and other comprehensive income of the Company for the year ended December 31, 2016. On October 1, 2016, SIAF took up all assets and liabilities of TRW and JFD except plant and equipment - fish farm. The Company converted the amount due from unconsolidated equity investee into equity interest during the fourth quarter of 2017, which resulted in equity interest in TRW from 23.89% to 36.60%.

On May 6, 2016, SJAP invested in 30% equity interest in Guangzhou Horan Taita Information Technology Co., Limited ("HTIT"), a company incorporated in P.R.C. for RMB 1,000,000. The investment has been fully impaired on December 31, 2017.

|  | <b>September 30, 2018</b><br>(Unaudited) | <b>December 31, 2017</b><br>(Audited) |
|--|--|---------------------------------------|
| Investments at cost                                  |  |                                       |
| - TRW  | \$ 142,694,669                           | \$ 134,694,930                        |
| Amount due from a consolidated equity investee - TRW | <u>60,092,201</u>                        | <u>58,572,766</u>                     |
|  | <u><b>\$ 202,786,870</b></u>             | <u><b>\$ 193,267,696</b></u>          |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. TEMPORARY DEPOSITS PAID TO ENTITIES FOR EQUITY INVESTMENTS IN FUTURE SINO JOINT VENTURE COMPANIES**

| Intended<br>unincorporated<br>Investee | Projects<br>Engaged                |  | September 30, 2018<br>(Unaudited) | December 31, 2017<br>(Audited) |
|--|------------------------------------|--|-----------------------------------|--------------------------------|
| A                                      | Trade center                       |  | * \$ 12,000,000                   | \$ 12,000,000                  |
| B                                      | Fish Farm 2 GaoQiqiang Aquaculture |  | * 17,403,959                      | 17,403,959                     |
| C                                      | Cattle farm 2                      |  | * 5,512,558                       | 5,513,263                      |
|  |                                    |  | <hr/> \$ 34,916,517               | <hr/> \$ 34,917,222            |

The Company made temporary deposits paid to entities for equity investments in future Sino Joint Venture companies (“SJVCs”) engaged in projects development of trade and seafood centers, fish, prawns and cattle farms. Such temporary deposits represented as deposits of the respective consideration required for the purchase of equity stakes of respective future SJVCs. The amounts were classified as temporary because legal procedures of formation of SJVCs have not yet been completed. As of September 30, 2018, the percentages of equity stakes of A (trade and seafood centers), B (fish farm 2 GaoQiqiang Aquaculture Farm) and C (cattle farm 2) are 31%, 23% and 35% respectively.

\* The above amounts were subject to conversion to an additional equity investment in the investees upon the completion of legal procedures of formation of SJVCs.

**17. VARIABLE INTEREST ENTITY**

On September 28, 2009, APWAM acquired the PMH's 45% equity interest in the Sino-Foreign joint venture company, Qinghai Sanjiang A Power Agriculture Co. Limited (“SJAP”), which was incorporated in the P.R.C. As of September 30, 2018, the Company has invested \$4,054,421 in this joint venture. SJAP is engaged in its business of the manufacturing of organic fertilizer, livestock feed, and beef cattle and plantation of crops and pastures.

**Continuous assessment of the VIE relationship with SJAP**

The Company may also have a controlling financial interest in an entity through an arrangement that does not involve voting interests, such as a VIE. The Company evaluates entities deemed to be VIE's using a risk and reward model to determine whether to consolidate. A VIE is an entity (1) that has total equity at risk that is not sufficient to finance its activities without additional subordinated financial support from other entities, (2) where the group of equity holders does not have the power to direct the activities of the entity that most significantly impact the entity's economic performance, or the obligation to absorb the entity's expected losses or the right to receive the entity's expected residual returns, or both, or (3) where the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately fewer voting rights.

**SINO AGRO FOOD, INC.**  
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**17. VARIABLE INTEREST ENTITY (CONTINUED)**

The Company also quantitatively and qualitatively examined if SJAP is considered a VIE. Qualitative analyses considered the extent to which the nature of its variable interest exposed the Company to losses. For quantitative analyses, the Company also used internal cash flow models to determine if SJAP was a VIE and, if so, whether the Company was the primary beneficiary. The projection of these cash flows and probabilities thereof requires significant managerial judgment because of the inherent limitations that relate to the use of historical data for the projection of future events. On September 30, 2018, the Company evaluated the above VIE testing results and concluded that the Company is the primary beneficiary of SJAP's expected losses or residual returns and that SJAP qualifies as a VIE of the Company. As a result, the Company has consolidated SJAP as a VIE.

The reasons for the changes are as follows:

- Originally, the board of directors of SJAP consisted of 7 members; 3 appointees from Qinghai Sanjiang (one stockholder), 1 from Garwor (one stockholder), and 3 from the Company, such that the Company did not have majority interest represented on the board of directors of SJAP.
- On May 7, 2010, Qinghai Sanjiang sold and transferred its equity interest in SJAP to Garwor. The State Administration for Industry and Commerce of Xining City Government of the P.R.C. approved the sale and transfer.

Consequently Garwor and the Company agreed that the new board of directors of SJAP would consist of 3 members; 1 appointee from Garwor and 2 appointees from the Company, such that the Company now had a majority interest in the board of directors of SJAP. Also, and in accordance with the Company's Sino Joint Venture Agreement, the Company's management appointed the chief financial officer of SJAP. As a result, the financial statements of SJAP were included in the consolidated financial statements of the Company.

**Continuous assessment of the VIE relationship with QZH**

The Company may also have a controlling financial interest in an entity through an arrangement that does not involve voting interests, such as a VIE. The Company evaluates entities deemed to be VIE's using a risk and reward model to determine whether to consolidate. A VIE is an entity (1) that has total equity at risk that is not sufficient to finance its activities without additional subordinated financial support from other entities, (2) where the group of equity holders does not have the power to direct the activities of the entity that most significantly impact the entity's economic performance, or the obligation to absorb the entity's expected losses or the right to receive the entity's expected residual returns, or both, or (3) where the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately fewer voting rights.

The Company also quantitatively and qualitatively examined if QZH is considered a VIE. Qualitative analyses considered the extent to which the nature of its variable interest exposed the Company to losses. For quantitative analyses, the Company also used internal cash flow models to determine if QZH was a VIE and, if so, whether the Company was the primary beneficiary. The projection of these cash flows and probabilities thereof requires significant managerial judgment because of the inherent limitations that relate to the use of historical data for the projection of future events. On September 30, 2017, the Company evaluated the above VIE testing results and concluded that the Company is the primary beneficiary of QZH's expected losses or residual returns and that QZH qualifies as a VIE of the Company. As a result, the Company has consolidated QZH as a VIE.

SJAP is sole stockholder of QZH and SJAP appointed sole director of QZH. Consequently, the Company indirectly control directorship of QZH, such that the Company now had a majority interest in the directorship of QZH. Also, and in accordance with the Company's Sino Joint Venture Agreement, the Company's management appointed the chief financial officer of QZH. As a result, the financial statements of QZH were included in the consolidated financial statements of the Company for the three months and nine months ended September 30, 2017.

The reasons for the QZH qualified as a VIE are as follows:

- Originally, SJAP was sole stockholder of QZH, owned 100% equity interest in QZH and controlled directorship of QZH.
- On October 25, 2015, both QZH and new stockholder, Qinghai Quanwang Investment Management Co., Ltd ("QQI") contributed additional capital of \$4,157,682 and \$769,941, respectively. As a result, SJAP decreased its equity interest from 100% to 86% and QQI owned 14% equity interest. In addition, according to investment agreement between QZH and QQI, (i) QQI only enjoyed interest 6% annually on its capital contribution and did not enjoy any profit distribution; (ii) investment period was 3 years only, and (iii) SJAP shared 100% on profit or loss after deduction 6% interest to QQI and enjoyed 100% voting rights of QZH's board and stockholders meetings.
- Consequently, the Company still indirectly control directorship of QZH, such that the Company now had a majority interest in the directorship of QZH. Also, and in accordance with the Company's Sino Joint Venture Agreement, the Company's controlled QZH's chief financial officer appointment. As a result, the financial statements of QZH were included in the consolidated financial statements of the Company.

As of December 30, 2017, QZH was derecognized as a VIE

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**18. CONSTRUCTION CONTRACT**

(i) Costs and estimated earnings in excess of billings on uncompleted contracts

|   | <b>September 30, 2018<br/>(Unaudited)</b> | <b>December 31, 2017<br/>(Audited)</b> |
|---|---|--|
| Costs   | \$ 6,186,261                              | \$ 8,208,912                           |
| Estimated earnings  | 4,777,300                                 | 6,740,289                              |
| Less: Billings  | (10,712,733)                              | (13,700,014)                           |
| Costs and estimated earnings in excess of billings on uncompleted contracts | <u>250,828</u>                            | <u>1,249,187</u>                       |

(ii) Billings in excess of costs and estimated earnings on uncompleted contracts

|  | <b>September 30, 2018<br/>(Unaudited)</b> | <b>December 31, 2017<br/>(Audited)</b> |
|--|---|--|
| Billings   | \$ 46,840,333                             | \$ 41,543,554                          |
| Less: Costs  | (28,276,841)                              | (23,980,880)                           |
| Estimated earnings   | (13,213,327)                              | (11,822,609)                           |
| Billing in excess of costs and estimated earnings on uncompleted contracts | <u>5,350,165</u>                          | <u>5,740,065</u>                       |

(iii) Overall

|  | <b>September 30, 2018<br/>(Unaudited)</b> | <b>December 31, 2017<br/>(Audited)</b> |
|--|---|--|
| Billings   | \$ 57,553,066                             | \$ 55,243,568                          |
| Less: Costs  | (34,463,102)                              | (32,189,792)                           |
| Estimated earnings   | (17,990,627)                              | (18,562,898)                           |
| Billing in excess of costs and estimated earnings on uncompleted contracts | <u>5,099,337</u>                          | <u>4,490,878</u>                       |

**19. OTHER PAYABLES**

|  | <b>September 30, 2018<br/>(Unaudited)</b> | <b>December 31, 2017<br/>(Audited)</b> |
|--|---|--|
| Due to third parties                               | \$ 8,459,454                              | \$ 11,133,656                          |
| Straight note payable                              | 29,867,999                                | 29,367,999                             |
| Promissory notes issued to third parties           | 10,826,560                                | 11,089,779                             |
| Due to local government                            | 87,222                                    | 91,827                                 |
|  | <u>49,241,235</u>                         | <u>51,683,261</u>                      |
| Less: Amount classified as non-current liabilities |   |  |
| Promissory notes issued to third parties           | (10,826,560)                              | (11,089,779)                           |
| Amount classified as current liabilities           | <u>38,414,675</u>                         | <u>40,593,482</u>                      |

Due to third parties are unsecured, interest free and have no fixed terms of repayment.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**20. BORROWINGS**

There are no provisions in the Company's bank borrowings and long term debts that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par.

*Short term bank loan*

| Name of lender                                    | Interest rate | Term                                     | September 30, 2018<br>(Unaudited) | December 31, 2017<br>(Audited) |
|---|---------------|--|-----------------------------------|--------------------------------|
| China Development Bank<br>Beijing City, the P.R.C | 5.2835%       | November 29, 2017 -<br>November 28, 2018 | \$ 4,361,098                      | \$ 3,060,913                   |
| China Development Bank<br>Beijing City, the P.R.C | 5.2835%       | December 14, 2017 -<br>December 13, 2018 | \$                                | \$ 1,530,455                   |
| Add: current portion of long term<br>bank loan    |               |  | \$ 145,370                        | \$ 76,522                      |
|   |               |  | <u>\$ 4,506,468</u>               | <u>\$ 4,667,890</u>            |

*Long term bank loan*

| Name of lender                                     | Interest rate | Term                                     | September 30, 2018<br>(Unaudited) | December 31, 2017<br>(Audited) |
|--|---------------|--|-----------------------------------|--------------------------------|
| China Development Bank<br>Beijing City, the P.R.C. | 5.39%         | December 16, 2016 -<br>December 15, 2026 | \$ 5,814,799                      | \$ 6,121,824                   |
| Less: current portion of long term<br>bank loan    |               |  | \$ (145,370)                      | \$ (76,522)                    |
|  |               |  | <u>\$ 5,669,429</u>               | <u>\$ 6,045,302</u>            |

On November 30, 2017 and December 14, 2017, the Company obtained two 1-year short term loans of RMB20 million (approximately \$3.18million) and RMB10 million (approximately \$1.59million) respectively from China Development Bank for the period from November 29, 2017 to November 28, 2018 and December 14, 2017 to December 13, 2018 respectively, bearing fixed interest at 5.2835% per annum. Both loans were guaranteed by Xining City SME Guarantee Corporation.

On December 16, 2016, the Company obtained a 10-year long term loan of RMB40million (approximately \$6.05million) from China Development Bank for the period from December 16, 2016 to December 15, 2026, bearing an annual interest rate at 110% of the benchmark rate of PBOC on the date of the loan agreement and will be adjusted in line with any adjustment of the benchmark rate which is 5.39% (12.31.2017: 5.39%). The loan was guaranteed by Mr. Zhao Yilin and Ms. Song Haixian, Mr. Zhao Yilin's wife. The loan was also secured by land use right with net carrying amount of \$399,363 as of September 30, 2018 (12.31.2017: 429,982) and a batch of plant, machinery and equipment with net carrying amount of \$5,700,609 (12.31.2017: 5,954,915). According to the loan agreement, 2 partial payments of RMB500,000 each, totaling of RMB1,000,000 (approximately \$145,370) were scheduled to be repaid by December 15, 2018 and May 20, 2019 respectively.

The above note agreements contained regular provisions requiring timely repayment of principals and accrued interests, payment of default interest in the event of default, and without specific financial covenants. Management of the Company believes the Company is in material compliance with the terms of the loan agreements.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**21. NEGOTIABLE PROMISSORY NOTES**

On August 29, 2015, TRW issued negotiable promissory notes to three fund companies and one individual for \$3,450,000 and the company acted as guarantor for repayment. As of October 1, 2016, the Company entered assignment agreement with TRW to take up liabilities of negotiable promissory notes.

|                             | <b>September 30, 2018<br/>(Unaudited)</b>  | <b>December 31, 2017<br/>(Audited)</b> |
|-----------------------------|--|--|
| Negotiable promissory notes | <u>\$ 977,155</u>  | <u>\$ 977,155</u>                      |
| Principal amount:           | \$722,167 (12.31.2017: \$722,167)  |  |
| Interest payable:           | \$254,988 (12.31.2017: \$254,988)  |  |
| Interest rate:              | 2.5% (12.31.2017: 2.50% %) per month on principal amount. Interest shall be calculated on the basis of a 30/360 day count convention   |  |
| Default interest rate       | 15% per month on principal amount. Interest shall be calculated on the basis of a 30/360 day count convention  |  |
| Interest payment            | Accrued interest on the principal amount shall be paid by cash in arrears on each interest payment date  |  |
| Issue date:                 | August 29, 2015 and October 12, 2015   |  |
| Repayment date:             | Repaid in full within 283 calendar days from the issue of notes  |  |
| Conversion option:          | Notes holders can exercise at any time from and including the day falling 60 calendar days from the date of the notes, upon the note holders giving not less than 5 business day prior written notices to TRW and the Company, the principal amount shall be converted to shares of the Company. The TRW may at their own discretion choose to settle such conversion option with newly issue shares or existing shares, at their sole discretion. In the event a dividend, share split or consolidation or spin-off (each a "Corporate Event") from the Company, the conversion price shall be adjusted to provide the same economic value to the notes holders as if such Corporate Event did not occur. |  |
| Security:                   | Corporate guarantee by the Company   |  |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**22. CONVERTIBLE NOTE PAYABLES**

On August 29, 2014, the Company completed the closing of a private placement financing transaction with an accredited investor, which purchased a 10.5% Convertible Note (the "Note 1") in the aggregate principal amount of up to \$33,300,000. The Company received the total advance of \$11,632,450. The Company shall offer investor a discount equal to 25% of the amount of the principal advanced by the investor.

Interest on the note shall accrue on the outstanding principal balance of this Note from August 29, 2014. Interest shall be payable quarterly on the last day of each of March, June, September and December commencing September 30, 2014 provided, however, that note holder may elect to require the Company to issue to the note holder a promissory note in lieu of cash in satisfaction of any interest due and payable at such time. Any interest payment note shall be subject to the same terms as the note. The note has a maturity date of February 28, 2020.

The note is convertible, at the discretion of the note holder, into shares of the Company's common stock (i) at any time following an Event of Default, or (ii) for a period of thirty (30) calendar days following October 31, 2015 and each anniversary thereof, at an initial conversion price per share of \$1.00, (price prior to reversed split) subject to adjustment for stock splits, reverse stock splits, stock dividends and other similar transactions and subject to the terms of the note. As long as the note is outstanding, the investor shall have a right of first refusal, exercisable for thirty (30) calendar days after notice to the note holder, to purchase securities proposed to be offered and sold by the Company.

The Company and the note holder entered into a restructuring agreement regarding the settlement of the Note 1. Both parties have agreed to restructure the indebtedness represented by Note 1 as follows: (a) SIAF issues 5,196,333 shares of its common stock and transfer 400,000 shares of TRW to the note holder; and (b) SIAF executes a new promissory note in the principal amount of \$15,589,000 to the note holder to be paid in installments over a period of time. However, both parties remain open to negotiate an all-cash settlement of the Note 1.

As a result, the amount outstanding under Note 1 was reclassified as other payables – straight note payable of \$29,367,999 (see Note 19).

On October 20, 2017, the Company issued another Convertible Note (the "Note 2") with a principal amount of \$4,000,000 due on February 28, 2018. The note holder had the option to convert all or any part of the outstanding note into the common stock of the Company (the "Primary Optional Conversion") or TRW (the "Secondary Optional Conversion") at any time for a period of eight months from the note's maturity date. The conversion price for Primary Optional Conversion is lesser of \$1.5 per share or at 65% of the market share price of the Company. While the conversion price for Secondary Optional Conversion is \$3.41 per share subject to equitable adjustment for stock split, stock dividend or right offerings.

Under the agreement, the Company shall pay the note holder 120,000 common shares of SIAF or 32,000 common shares of TRW as an origination fee. The note bears a flat interest payment which shall be settled by 200,000 common shares of SIAF or 55,000 common shares of TRW. As of September 30, 2018, no settlement for both origination fee and interest payment. The supplemental agreement to the Bond Subscription Agreement with the Subscriber to extend the Bond Issue by a year to December 31, 2018 was signed. All other terms and conditions of the Bond Subscription Agreement and the Conditions continue in full force and effect.

|   | <b>September 30, 2018</b> | <b>December 31, 2017</b> |
|---|---------------------------|--------------------------|
|   | (Unaudited)               | (Audited)                |
| Convertible note due December 31, 2018  | \$ 3,894,978              | \$ 3,894,978             |
| Less: classified as current liabilities | <u>(3,894,978)</u>        | <u>(3,894,978)</u>       |
| Non-current liabilities                 | <u><u>\$ -</u></u>        | <u><u>\$ -</u></u>       |

The fair value of the conversion option was approximately \$211,320, the Company discounted the note and created a derivative liability, which will be evaluated annually and adjusted for any change in value. For the year ended December 31, 2017, the Company recognized the amortization of the discount of approximately \$106,297.

The Company estimated the fair value of the derivative liabilities using the Binomial Option Pricing Model and the following key assumptions during the nine months ended September 30, 2018 and the year ended December 31, 2017

|                       | <b>September 30, 2018</b> |
|-----------------------|---------------------------|
| Expected dividends    | -                         |
| Expected term (years) | 0.34                      |
| Volatility            | 52.09% - 54.32%           |
| Risk-free rate        | 1.65% - 1.9%              |

The following table sets forth, by level within the fair value hierarchy, the Company's financial liabilities that were accounted for at fair value as of September 30, 2018 and December 31, 2017.

| <b>LIABILITIES:</b>                             | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---|----------------|----------------|----------------|--------------|
|   | \$             | \$             | \$             | \$           |
| Derivative liabilities as of September 30, 2018 | -              | -              | 2,100          | 2,100        |
| Derivative liabilities as of December 31, 2017  | -              | -              | 2,100          | 2,100        |

The following table represents the change in the fair value of the derivative liabilities during the nine months ended September 30, 2018

|  |          |
|--|----------|
| Fair value of derivative liabilities as of December 31, 2017 | \$ 2,100 |
|--|----------|

Change in fair value of derivative liabilities

Fair value of derivative liabilities as of September 30, 2018

\$ 2,100

The above note agreement contained regular provisions requiring timely repayment of principals and accrued interests, payment of default interest in the event of default, default and optional conversion and without specific financial covenants. Management of the Company believes the Company is in material compliance with the terms of the convertible note agreement.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**23. SHAREHOLDERS' EQUITY**

The Group's share capital as of September 30, 2018 and December 31, 2017 shown on the consolidated balance sheet represents the aggregate nominal value of the share capital of the Company as of that date.

On March 22, 2010, the Company designated 100 shares of Series A preferred stock at a par value per share of \$0.001. As of the same date, 100 shares of Series A preferred stock were issued at \$1 per share for cash in the amount of \$100.

The Series A preferred stock:

- (i) does not pay a dividend;
- (ii) votes together with the shares of Common Stock of the Corporation as a single class and, regardless of the number of shares of Series A Preferred Stock outstanding and as long as at least one of such shares of Series A Preferred Stock is outstanding, shall represent eighty percent (80%) of all votes entitled to be voted at any annual or special meeting of shareholders of the Corporation or action by written consent of shareholders. Each outstanding share of the Series A Preferred Stock shall represent its proportionate share of the 80%, which is allocated to the outstanding shares of Series A Preferred Stock; and
- (ii) ranks senior to common stockholders, holders of Series B convertible preferred stockholders and any other stockholders on liquidation.

The Company has designated 100 shares of Series A preferred stock with 100 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**23. SHAREHOLDERS' EQUITY (CONTINUED)**

The Series B convertible preferred stock:

On March 22, 2010, the Company designated 7,000,000 shares of Series B convertible preferred stock at a par value per share of \$0.001. The Series B convertible preferred stock is redeemable; the stockholders are not entitled to receive any dividend and voting rights but rank senior over common stockholders on liquidation, and can convert to common stock on a one for one basis at any time. On June 26, 2010, 7,000,000 shares of common stock were surrendered for cancellation and the Company issued 7,000,000 shares of Series B convertible preferred stock at \$9.90 per share. Pursuant to share exchange agreement made as of December 22, 2012, between the Company and a stockholder, Capital Adventure Inc., a holder of 3,000,000 shares of common shares, with the consent of Board of Directors, to exchange for 3,000,000 shares of Series B convertible preferred stock on a one-for-one basis. As of December 23, 2012, 3,000,000 shares of Series B convertible preferred stock were issued to Capital Adventure Inc., for the exchange of its holding of 3,000,000 shares of common stocks. As of December 31, 2012, 3,000,000 shares of common stocks were still not returned to the Company. On March 27, 2013, 3,000,000 Series B convertible preferred stock were cancelled. On December 17, 2014, the Company approved an amendment to certificate designation in respect of Series B preferred stock. Pursuant to the above new amendment, each holder of Series B preferred stock shall have the rights, at any time or from time to time, to convert each 9.9 shares of Series B preferred to one fully paid and non-assessable share of common stock of par value \$0.001 per share. On June 15, 2015, Series B preferred stockholder exercised at the above conversion ratio to convert 7,000,000 shares of Series B preferred stock to 707,070 shares of common stock.

There were 0 shares of Series B convertible preferred stock issued and outstanding as of September 30, 2017 and December 31, 2016, respectively.

The Series F Non-Convertible Preferred Stock:

- (i) is not redeemable subject to (iv);
- (ii) except for (iv), with respect to dividend rights, rights on liquidation, winding up and dissolution, rank junior and subordinate to (a) all classes of Common Stock, (b) all other classes of Preferred Stock and (c) any class or series of capital securities of the Company.
- (iii) shall not entitled to receive any further dividend; and
- (iv) on May 30, 2014, the holders of shares of Series F Non-Convertible Preferred Stock with coupon shall be entitled to a coupon payment directly from the Company at the redemption rate of \$3.40 per share. Upon redemption, the Holder shall no longer own any shares of Series F with coupon that have been redeemed, and all such redeemed shares shall disappear and no longer exist on the books and records of the Company; redeemed shares of Series F which no longer exist upon redemption shall thereafter be counted toward the authorized but unissued "blank check" preferred stock of the Company.

On August 22, 2012, the Company's Board of Directors declared that the Company's stockholders were entitled to receive one share of restricted Series F Non-convertible Preferred Stock for every 100 shares of Common Stock owned by the stockholders as of September 28, 2012, with lesser or greater amounts being rounded up to the nearest 100 shares of Common Stock for purpose of the computing the dividend. The holders of record of shares of Series F Non-Convertible Preferred Stock shall be entitled to a coupon payment directly from the Company at the redemption rate of \$3.40 per share and be payable on May 30, 2014. However, the Company was unable to issue the Series F Non-convertible Preferred Stock as originally contemplated. Consequently, The Company's transfer agent was instructed to note in its record date rather than actual issue the Preferred F shares. On June 14, 2014, the Company announced the delay in payment of the coupon until May 30, 2015. The company reserved the excess over the nominal amount of the Series F Non-convertible Preferred Stock of \$3,124,737 as Series F Non-convertible Preferred Stock redemption payable. As of May 30, 2015, payment on the F series shares has been made, and respective shares cancelled, accordingly.

As a result, total issued and outstanding of Series F Non-Convertible Preferred Stock as of September 30, 2018 and December 31, 2017 are 0 shares and grand total issued and outstanding preferred stock as of September 30, 2018 and December 31, 2017 are 100 shares.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**23. SHAREHOLDERS' EQUITY (CONTINUED)**

Common Stock:

On November 10, 2014, the Company approved an amendment to the Corporation's Articles of Incorporation to effectuate a reverse stock split (the "Reverse Split") of the Corporation's common stock, par value \$0.001 per share (the "Common Stock") affecting both the authorized and issued and outstanding number of such shares by a ratio of 9.9 for 1. The Reverse Split became effective in the State of Nevada on December 16, 2014. Subsequent to the December 31, 2014, the Board of directors and the holders of a majority of the voting power of our stockholders of the company have approved an amendment to articles of incorporation to increase its authorized shares of Common Stock from 17,171,716 to 22,727,272.

The Board of directors and the holders of a majority of the voting power of our stockholders of the company have approved an amendment to articles of incorporation to increase its authorized shares of Common Stock from 22,727,272 to 27,000,000 and the amendment was filed on December 28, 2016.

During the year ended December 31, 2017, the Company (i) issued 1,167,502 shares of employees and directors at fair value of \$1.00 to \$3.45 per share for \$1,452,984 for employee compensation; (ii) issued 500,800 shares of common stock valued to professionals at fair value of \$1 per share for \$500,800 for service compensation; (iii) issued 4,074,979 shares of common stock ranging from \$1.40 to \$5.15 amounting to \$12,054,045 as collateral to secure trade and loan facilities, and the shares issued by the Company were valued at the trading price of the stock on the date the shares were issued; and (iv) 892,735 shares of common stock issued for \$0 as top up securities for debts loans.

The Board of directors and the holders of a majority of the voting power of our stockholders of the company have approved an amendment to articles of incorporation to increase its authorized shares of Common Stock from 27,000,000 to 50,000,000 and the amendment was filed on August 24, 2017 with an effective date of August 25, 2017.

During the nine months ended September 30, 2018, the Company (i) issued 535,598 shares of common stock valued to employees and directors at ranging from \$1 to \$1.56 per share for \$576,170 for employee compensation; (ii) issued 16,032,263 shares of common stock valued to professionals and contractors ranging from \$ 0.55 to \$1.00 per share for 9,725,196 for service compensation; and (iii) issued 1,479,593 shares of common stock valued at \$ 0.50 per share for 739,797 for settlement of debts.

The Company has 47,410,329 and 29,362,875 shares of common stock issued and outstanding as of September 30, 2018 and December 31, 2017 respectively.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**24. OBLIGATION UNDER OPERATING LEASES**

The Company leases (i) 2,178 square feet of agriculture space used for offices for a monthly rent of \$906 in Enping City, Guangdong Province, P.R.C., its lease expiring on March 31, 2019; and (ii) 5,081 square feet of office space in Guangzhou City, Guangdong Province, P.R.C. for a monthly rent of \$12,430, its lease expiring on July 8, 2018. The lease was renewed on July 9, 2018 for a 2,695 square feet of office space for a monthly rent of \$6,806 expired on July 8, 2020.

Lease expenses were \$21,304 and \$42,790, \$102,851 and \$126,569 for the three months ended and the nine months ended September 30, 2018 and 2017, respectively.

The future minimum lease payments as of September 30, 2018, are as follows:

|               |                   |
|---------------|-------------------|
| Within 1 year | \$ 82,362         |
| 2 to 5 years  | 57,994            |
| Over 5 years  | -                 |
|               | <u>\$ 140,356</u> |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**25. STOCK BASED COMPENSATION**

On June 30, 2017, the Company issued employees total of 117,000 shares of common stock valued at fair value of \$3.45 per share for services rendered to the Company. The fair values of the common stock issued were determined by using the trading price of the Company's common stock on the date of issuance of \$3.45 per share. On December 31, 2017, the Company issued employees total of 500,800 shares of common stock valued at fair value of \$1 per share for services rendered to the Company. The fair values of the common stock issued were determined by using the trading price of the Company's common stock on the date of issuance of \$3.45 per share. On December 31, 2017, the Company issued employees total of 1,050,502 shares of common stock valued at fair value of \$1 per share for services rendered to the Company. The fair values of the common stock issued were determined by using the trading price of the Company's common stock on the date of issuance of \$1 per share.

The Company calculated stock-based compensation of \$2,952,327 and \$4,386,463 and recognized \$546,496, \$100,912, \$1,896,986 and \$4,083,725 for the three months and the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, the deferred compensation balance for staff was \$1,055,341 and were to be amortized over 6 months beginning on Oct 1, 2018, respectively.

**26. CONTINGENCIES**

As of September 30, 2018 and December 31, 2017, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated balance sheets, consolidated statements of income and other comprehensive income or consolidated statements of cash flows.

On September 19, 2015, the Company entered into a trade facility agreement with two independent third parties. Pursuant to the agreement, the Company provides collateral in the form of Company's common shares to a PRC based lender (the "Lender") and the Lender agrees to provide a revolving trade facility loan up to \$20,000,000 to a PRC based borrower. The arrangement was commenced on February 15, 2016 and will be expired on February 15, 2019.

As of September 30, 2018, the Company has issued aggregate 4,809,979 (12.31.2017: 4,809,979) common shares as collateral.

**27. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances as disclosed elsewhere in these consolidated financial statements, during the three months ended September 30, 2018 and 2017, the Company had the following significant related party transactions:-

| <b>Name of related party</b>  | <b>Nature of transactions</b>   |
|---|---|
| Mr. Solomon Yip<br>Kun Lee,<br>Chairman                                     | Included in due to a director, due to Mr. Solomon Yip Kun Lee is \$0 and \$107,074 as of September 30, 2018 and December 31, 2017, respectively. The amounts are unsecured, interest free and have no fixed terms of repayment.   |
| Tri-way Industries<br>Limited, ("TRW")<br>Unconsolidated<br>equity investee | Included in interest in unconsolidated equity investee, due from Tri-way Industries Limited is \$60,092,201 and \$58,572,766 as of September 30, 2018 and December 31, 2017, respectively. The amounts are unsecured, interest free and have no fixed terms of repayment. |
|   | Included in accounts receivable, due from Tri-way Industries Limited is \$59,710,606 and \$49,065,385 as of September 30, 2018 and December 31, 2017, respectively. The amounts are unsecured, interest free and have no fixed terms of repayment.                        |

The Company has consulting and service income from development contracts of 6,502,373 and \$2,978,371, \$10,036,762 and \$16,167,636 from Tri-way Industries Limited for the three months and the nine months ended September 30, 2018 and 2017, respectively.

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**28. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution of securities by including other potential common stock, including convertible preferred stock, stock options and warrants, in the weighted average number of common shares outstanding for the year, if dilutive. The numerators and denominators used in the computations of basic and dilutive earnings per share are presented in the following table:

|   | <b>Three months ended<br/>September 30, 2018</b> | <b>Three months ended<br/>September 30, 2017</b> |
|---|--|--|
| <b>BASIC</b>  |  |  |
| Numerator for basic earnings per share attributable to the Company's common stockholders: |  |  |
| Net income used in computing basic earnings per share                                     | \$ 3,465,562                                     | \$ 3,450,848                                     |
| Basic earnings per share  | \$ 0.09  | \$ 0.14  |
| Basic weighted average shares outstanding   | <u>36,650,450</u>                                | <u>24,231,617</u>                                |
| <b>DILUTED</b>  |  |  |
| Net income used in computing basic earnings per share                                     | \$ 3,465,562                                     | \$ 3,450,848                                     |
| Convertible note interest   | -  | 526,543  |
| Net income used in computing diluted earnings per share                                   | <u>3,465,562</u>                                 | <u>3,977,391</u>                                 |
| Diluted earnings per share  | <u>0.09</u>                                      | <u>0.15</u>                                      |
| Basic weighted average shares outstanding   | 36,650,450                                       | 24,231,617                                       |
| Add:  |  |  |
| weight average of common stock convertible from convertible note payables                 | -  | 2,126,141  |
| Diluted weighted average shares outstanding   | <u>36,650,450</u>                                | <u>26,357,758</u>                                |

**SINO AGRO FOOD, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**31. EARNINGS PER SHARE (CONTINUED)**

|   | <u>Nine months ended<br/>September 30, 2018</u> | <u>Nine months ended<br/>September 30, 2017</u> |
|---|---|---|
| <b>BASIC</b>  |   |   |
| Numerator for basic earnings per share attributable to the Company's common stockholders: |   |   |
| Net income used in computing basic earnings per share                                     | \$ 9,435,949                                    | \$ 12,524,713                                   |
| Basic earnings per share  | <u>\$ 0.27</u>                                  | <u>\$ 0.62</u>                                  |
| Basic weighted average shares outstanding   | <u>35,381,345</u>                               | <u>20,309,014</u>                               |
|   | <u>Nine months ended<br/>September 30, 2018</u> | <u>Nine months ended<br/>September 30, 2017</u> |
| <b>DILUTED</b>  |   |   |
| Numerator for basic earnings per share attributable to the Company's common stockholders: |   |   |
| Net income used in computing basic earnings per share                                     | \$ 9,435,949                                    | \$ 12,524,713                                   |
| Convertible note interest   | -   | 1,579,630                                       |
| Net income used in computing diluted earnings per share                                   | <u>\$ 9,435,949</u>                             | <u>\$ 14,104,343</u>                            |
| Diluted earnings per share  | <u>\$ 0.27</u>                                  | <u>\$ 0.63</u>                                  |
| Basic weighted average shares outstanding   | 35,381,345                                      | 20,309,014                                      |
| Add:  |   |   |
| weight average of common stock convertible from convertible note payables                 | -   | 2,187,382                                       |
| Diluted weighted average shares outstanding   | <u>35,381,345</u>                               | <u>22,496,396</u>                               |

For the nine months ended September 30, 2017, full dilution effect of convertible note of \$22,038,798 was taken into account for calculation of the diluted earnings per share because convertible note holder can exercise the right to exercise to convert to common stock by giving 1 month notice after October 1, 2015 under terms of convertible note agreement.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q (the "Form 10-Q") contains "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Forward-looking statements can be identified by the use of forward-looking terminology, such as "estimates," "projects," "plans," "believes," "expects," "anticipates," "intends," or the negative thereof or other variations thereon, or by discussions of strategy that involve risks and uncertainties. These statements reflect management's current beliefs and are based on information now available to it. Accordingly, these statements are subject to certain risks, uncertainties and contingencies that could cause the Company's actual results, performance or achievements in 2018 and beyond to differ materially from those expressed in, or implied by, such statements. Such statements, include, but are not limited to, statements contained in this Form 10-Q relating to the Company's business, financial performance, business strategy, recently announced transactions and capital outlook. Important factors that could cause actual results to differ materially from those in the forward-looking statements include: a continued decline in general economic conditions nationally and internationally; decreased demand for our products and services; market acceptance of our products; the impact of any litigation or infringement actions brought against us; competition from other providers and products; the inability to raise capital to fund continuing operations; changes in government regulation; the ability to complete customer transactions, and other factors relating to our industry, our operations and results of operations and any businesses that may be acquired by us. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned. Readers of this Form 10-Q should not place undue reliance on any forward-looking statements. Except as required by federal securities laws, the Company undertakes no obligation to update or revise these forward-looking statements to reflect new events or uncertainties.

You should read the following discussion and analysis of the financial condition and results of operations of the Company together with the financial statements and the related notes presented in Item 1 of this Form 10-Q.

### **Description and interpretation and clarification of business category on the consolidated results of the operations**

The Company's strategy is to manage and operate its businesses under five (5) business divisions or units on a standalone basis, namely:

|                                    |                  |
|------------------------------------|------------------|
| Beef & Organic Fertilizer Division | (SJAP and HSA)   |
| Plantation Division                | (JHST)           |
| Cattle Farm Division               | (MEIJI and JHMC) |
| Corporate & Others Division        | (SIAF)           |
| Fishery Division                   | (CA)             |

A summary of each business division is described below:

- **Beef and Organic Fertilizer Division** refers to:
  - (i) The operations of SJAP in manufacturing and sales of organic fertilizer, bulk livestock feed, concentrated livestock feed, and the sales of live cattle. The financial statements of these two companies (SJAP and HSA) are consolidated into our wholly owned subsidiary, A Power Agro Agriculture Development (Macau) Limited ("APWAM"), as one entity. SJAP is a variable interest entity over which we exercise significant control.
  - (ii) The operations of Hunan Shenghua A Power Agriculture Co. Ltd. ("HSA") in manufacturing and sales of organic fertilizer.
- **Plantation Division** refers to the operations of Jiangmen City Heng Sheng Tai Agriculture Development Co. Ltd. ("JHST") in the HU Plantation business where dragon fruit flowers (dried and fresh) and immortal vegetables are sold to wholesale and retail markets. JHST's financial statements are consolidated into the financial statements of Macau EIJI Company Ltd. ("MEIJI") as one entity.
- **Cattle Farm Division** refers to the operations of Cattle Farm 1 under Jiangmen City Hang Mei Cattle Farm Development Co. Ltd ("JHMC") where cattle are sold live to third party livestock wholesalers who sell them mainly to Guangzhou and Beijing livestock wholesale markets. The financial statements of JHMC are consolidated into MEIJI as one entity along with MEIJI's operation in the consulting and service for development of other cattle farms (e.g., Cattle Farm 2) or related projects.
- **Corporate & Others Division** refers to the business operations of Capital Award Inc. and Sino Agro Food, Inc., including import/export business and consulting and service operations provided to projects that are not included in the above categories, and not limited to corporate affairs.
- **Fishery Division** refers to the operations of Capital Award Inc. ("Capital Award" or "CA") covering its engineering, technology and consulting service management of fishery farms and seafood sales operations and marketing, where Capital Award generates revenues from providing engineering consulting services as turnkey contractors to owners and developers of fishery projects that are being designed and engineered into turnkey contracts by Capital Award in China using its A Power Module Technology Systems ("APM").

## CONSOLIDATED RESULTS OF OPERATIONS

### Part A. Unaudited Income Statements of Consolidated Results of Operations for three months ended September 30, 2018 compared to the three months ended September 30, 2017.

#### *A (1) Income Statements*

| In \$   | Three months ended<br>September 30, 2018 | Three months ended<br>September 30, 2017 | Difference          | Note |
|---|--|--|---------------------|------|
| <b>Continuing operations</b>  |  |  |                     |      |
| Revenue   | 38,750,017                               | 48,392,933                               | (9,642,916)         | 1    |
| Sale of goods   | 32,247,645                               | 45,414,562                               | (13,166,917)        |      |
| Consulting, services, commission and management fee   | 6,502,372                                | 2,978,371                                | 3,524,001           |      |
| <b>Cost of goods sold and services</b>  | <b>32,555,243</b>                        | <b>2,234,070</b>                         | <b>30,321,173</b>   | 2    |
| Sale of goods   | 27,086,184                               | 39,612,509                               | (12,526,325)        |      |
| Consulting, services, commission and management fee   | 5,469,059                                | 2,234,070                                | 3,234,989           |      |
| <b>Gross Profit</b>   | <b>6,194,774</b>                         | <b>6,546,354</b>                         | <b>(351,580)</b>    | 3    |
| Sale of goods   | 5,161,461                                | 744,301                                  | 4,417,160           |      |
| Consulting, services, commission and management fee   | 1,033,313                                | 5,802,053                                | (4,768,740)         |      |
| Net income (expenses)   | 1,487,309                                | 1,052,544                                | 434,765             |      |
| General and administrative expenses   | (3,991,962)                              | (3,254,065)                              | (737,897)           | 4    |
| <b>Net income (expenses) before income tax</b>  | <b>3,690,121</b>                         | <b>4,344,833</b>                         | <b>(654,712)</b>    |      |
| <b>Income before interest, taxation, depreciation &amp; amortization</b>                          | <b>7,120,467</b>                         | <b>7,887,693</b>                         | <b>(767,226)</b>    |      |
| Depreciation and amortization (D&A)   | 3,022,618                                | 3,211,264                                | (188,646)           |      |
| <b>Income before interest and taxation</b>  | <b>4,097,849</b>                         | <b>4,676,429</b>                         | <b>(578,580)</b>    |      |
| Net Interest  | 407,728                                  | 331,596                                  | 76,132              |      |
| Tax   | -  | -  | -                   |      |
| <b>Net income</b>   | <b>3,690,121</b>                         | <b>4,344,833</b>                         | <b>(654,712)</b>    |      |
| Less: Net (income) loss attributable to Non - controlling interest                                | (224,559)                                | (893,985)                                | 669,426             | 5    |
| <b>Net income attributable to SIAF Inc. and subsidiaries</b>                                      | <b>3,465,562</b>                         | <b>3,450,848</b>                         | <b>14,714</b>       |      |
| Other comprehensive income (loss) Foreign currency translation gain (loss)                        | (13,737,567)                             | 569,938                                  | (14,307,505)        |      |
| <b>Comprehensive income</b>   | <b>(10,272,005)</b>                      | <b>4,020,786</b>                         | <b>(14,292,791)</b> |      |
| Less: other comprehensive (income) loss attributed to the non-controlling interest                | 2,837,539                                | (983,217)                                | 3,820,756           |      |
| <b>Comprehensive income attributed to Sino Agro Food, Inc and subsidiaries</b>                    | <b>(7,434,466)</b>                       | <b>3,037,569</b>                         | <b>(10,472,035)</b> |      |
| <b>Weighted average number of shares outstanding</b>  |  |  |                     |      |
| - Basic   | 36,650,450                               | 24,231,617                               | 12,418,833          |      |
| - Diluted   | 36,650,450                               | 26,357,758                               | 10,292,692          |      |
| Earnings per share attributable to the Sino Agro Food, Inc. and subsidiaries common stockholders: |  |  |                     |      |
| Basic   | 0.09                                     | 0.14                                     | (0.05)              | 6    |
| Diluted   | 0.09                                     | 0.15                                     | (0.06)              |      |

**Note (1, 2 & 3) Sales, cost of sales and gross profit information and analysis:**

- The Company's revenues were generated from (1) Sale of Goods and (2) Consulting and Services provided in project and business developments covering engineering, construction, supervision, training, management and technology etc.

The table below shows the segmented sales, gross profit, and corresponding cost of sales for the three months ended September 30, 2018 (Q3 2018) compared to the three months ended September 30, 2017 (Q3 2017).

|              | In US\$   | Sales of goods    |                   | Cost of Goods sold |                   | Sales of Goods' Gross profit |                  |
|--------------|---|-------------------|-------------------|--------------------|-------------------|------------------------------|------------------|
|              |   | 2018Q3            | 2017Q3            | 2018Q3             | 2017Q3            | 2018Q3                       | 2017Q3           |
| <b>SJAP</b>  | Sales of live cattle                                    | 1,510,411         | 1,988,257         | 1,219,239          | 1,898,480         | 291,172                      | 89,777           |
|              | Sales of feedstock                                      |                   |                   |                    |                   | -                            | -                |
|              | Bulk Livestock feed                                     | 207,979           | 991,871           | 95,742             | 456,382           | 112,237                      | 535,489          |
|              | Concentrate livestock feed                              | 1,570,407         | 2,715,027         | 871,424            | 1,537,340         | 698,983                      | 1,177,687        |
|              | Sales of fertilizer                                     | 254,056           | 587,034           | 168,994            | 397,188           | 85,062                       | 189,846          |
|              | <b>SJAP Total</b>                                       | <b>3,542,853</b>  | <b>6,282,189</b>  | <b>2,355,398</b>   | <b>4,289,390</b>  | <b>1,187,455</b>             | <b>1,992,799</b> |
|              | * QZH's (Slaughter & Deboning operation)                |                   |                   |                    | 53,780            | -                            | 71,880           |
|              | ** QZH's (Deboning operation)                           |                   |                   |                    | -                 | -                            | -                |
|              | on cattle & Lamb locally supplied                       |                   | 1,204,236         |                    | 1,081,470         | -                            | 122,766          |
|              | on imported beef and mutton                             |                   | 11,901,696        |                    | 11,573,026        | -                            | 328,670          |
|              | Sales of live cattle                                    |                   |                   |                    | -                 | -                            | -                |
|              | <b>QZH Total</b>  |                   | <b>13,105,932</b> |                    | <b>12,654,496</b> | -                            | <b>451,436</b>   |
| <b>HSA</b>   | Sales of Organic fertilizer                             | 798,630           | 928,982           | 766,897            | 803,411           | 31,733                       | 125,571          |
|              | Sales of Organic Mixed Fertilizer                       | 1,591,558         | 740,702           | 763,954            | 425,440           | 827,604                      | 315,262          |
|              | <b>HSA Total</b>  | <b>2,390,188</b>  | <b>1,669,684</b>  | <b>1,530,851</b>   | <b>1,228,851</b>  | <b>859,337</b>               | <b>440,833</b>   |
|              | <b>SJAP's &amp; HSA/Organic fertilizer total</b>        | <b>5,933,041</b>  | <b>21,057,805</b> | <b>3,886,249</b>   | <b>18,172,737</b> | <b>2,046,792</b>             | <b>2,885,068</b> |
| <b>JHST</b>  | Sales of Fresh HU Flowers                               | -                 | 22,399            |                    | 20,419,63         | -                            | 1,980            |
|              | Sales of Dried HU Flowers                               | 106,698           | 628,063           | 93,795             | 604,913           | 12,903                       | 23,150           |
|              | Sales of Dried Immortal vegetables                      | -                 |                   | -                  | -                 | -                            | -                |
|              | Sales of Vegetable products                             | 881,331           | 836,003           | 722,187            | 623,362           | 159,144                      | 212,641          |
|              | <b>JHST/Plantation Total</b>                            | <b>988,029</b>    | <b>1,486,465</b>  | <b>815,982</b>     | <b>1,248,695</b>  | <b>172,047</b>               | <b>237,771</b>   |
| <b>MEIJI</b> | Sale of Live cattle (Aromatic)                          | 8,028,333         | 7,281,156         | 6,674,769          | 6,319,872         | 1,353,564                    | 961,284          |
|              | <b>MEIJI / Cattle farm Total</b>                        | <b>8,028,333</b>  | <b>7,281,156</b>  | <b>6,674,769</b>   | <b>6,319,872</b>  | <b>1,353,564</b>             | <b>961,284</b>   |
| <b>SIAF</b>  | Sales of goods through trading/import/export activities |                   |                   |                    |                   | -                            | -                |
|              | on seafood  | 9,286,201         | 7,467,142         | 8,188,572          | 6,651,655         | 1,097,629                    | 815,487          |
|              | on imported beef and mutton                             | 8,012,041         | 8,121,994         | 7,520,612          | 7,219,550         | 491,429                      | 902,444          |
|              | <b>SIAF/ Others &amp; Corporate total</b>               | <b>17,298,242</b> | <b>15,589,136</b> | <b>15,709,184</b>  | <b>13,871,205</b> | <b>1,589,058</b>             | <b>1,717,931</b> |
|              | <b>Group Total</b>                                      | <b>32,247,645</b> | <b>45,414,562</b> | <b>27,086,184</b>  | <b>39,612,509</b> | <b>5,161,461</b>             | <b>5,802,054</b> |
|              | <b>Decrease of Q3 2018 to Q3 2017 in \$</b>             | <b>13,166,917</b> |                   |                    | <b>12,526,325</b> |                              | <b>-640,593</b>  |
|              | <b>Decreases of Q3 2018 to Q3 2017 in %</b>             |                   | <b>-29%</b>       |                    | <b>-32%</b>       |                              | <b>-11%</b>      |

## Overall comparison of Q3 2018 to Q3 2017

The Company's revenues generated from the sale of goods were \$45,414,562 for the quarter ended September 30, 2017 compared to \$32,247,645 for the same period ended September 30, 2018, reflecting a decrease of 29%, or \$13,166,918.

The Company's cost of goods sold was \$27,086,184 for the quarter ended September 30, 2018 compared to \$39,612,509 for the same period ended September 30, 2017, reflecting a decrease of 32%, or \$12,526,325.

Gross profits of the Company generated from goods sold were \$5,802,053 for the quarter period ended September 30, 2018 compared to \$5,161,464 for the same period ended September 30, 2017, reflecting a decrease of 11%, or \$640,590.

The Company's revenues generated from Consulting and Service fees were \$6,502,372 for the quarter ended September 30 2018 compared to \$2,978,371 for the same period ended September 30, 2017 reflecting an increase of 118% or \$3,524,001

The Company's cost of service & consulting fees were \$5,469,059 for the quarter ended September 30, 2018 compared to \$2,234,070 for the same period ended September 30, 2017 reflecting an increase of \$3,234,989.

The Company's gross profit generated from service & consulting fee was \$1,033,313 for the quarter ended September 30, 2018 compares to \$744,301 for the same period ended September 30, 2017 reflecting an increase of \$289,012.

The overall lower performance is primarily due to (i) the decreases in SJAP's live cattle, fertilizer and feed sector's performances, and (ii) the discontinued operation of QZH. All other divisions (in HSA, JHST, MEIJI and Corporate) are holding well with minor increases in each division.

### Details of each segment are being described below:

#### • 1. (i) Beef and Organic Fertilizer Division refers to operation of SJAP and QZH

| In US\$     |  | Sales of goods   |                   | Cost of Goods sold |                   | Sales of Goods' Gross profit |                  |      |
|-------------|--|------------------|-------------------|--------------------|-------------------|------------------------------|------------------|------|
|             |  | 2018Q3           | 2017Q3            | 2018Q3             | 2017Q3            | 2018Q3                       | 2017Q3           |      |
| <b>SJAP</b> | Sales of live cattle                             | 1,510,411        | 1,988,257         | 1,219,239          | 1,898,480         | 291,172                      | 89,777           |      |
|             | % of increase / decrease                         |                  |                   |                    |                   |                              |                  |      |
|             | Decrease in \$                                   | (477,846)        |                   | -24%               |                   | 201,395                      | 224%             |      |
|             | Sales of feedstock                               |                  |                   |                    |                   |                              |                  |      |
|             | Bulk Livestock feed                              | 207,979          | 991,871           | 95,742             | 456,382           | 112,237                      | 535,489          |      |
|             | Concentrate livestock feed                       | 1,570,407        | 2,715,027         | 871,424            | 1,537,340         | 698,983                      | 1,177,687        |      |
|             | % of increase / decrease                         |                  |                   |                    |                   |                              |                  |      |
|             | Decrease in \$                                   | (1,144,620)      |                   | -42%               |                   | (478,704)                    | -41%             |      |
|             | Sales of fertilizer                              | 254,056          | 587,034           | 168,994            | 397,188           | 85,062                       | 189,846          |      |
|             | <b>SJAP Total</b>                                | <b>3,542,853</b> | <b>6,282,189</b>  | <b>2,355,399</b>   | <b>4,289,390</b>  | <b>1,187,454</b>             | <b>1,992,799</b> |      |
| <b>QZH</b>  | <b>(Dis-continued operation)</b>                 |                  |                   |                    |                   |                              |                  |      |
|             | * QZH's (Slaughter & Deboning operation)         |                  |                   |                    |                   |                              |                  |      |
|             | ** QZH's (Deboning operation)                    |                  |                   |                    |                   |                              |                  |      |
|             | on cattle & Lamb locally supplied                | 1,204,236        |                   | 1,081,470          |                   | -                            | 122,766          |      |
|             | on imported beef and mutton                      | 11,901,696       |                   | 11,573,026         |                   | -                            | 328,670          |      |
|             | % of increase / decrease                         |                  |                   |                    |                   |                              |                  |      |
|             | decreases in \$                                  | (11,901,696)     |                   | -100%              |                   | (328,670)                    | -100%            |      |
|             | Sales of live cattle                             |                  |                   |                    |                   |                              |                  |      |
|             | <b>QZH Total</b>                                 | <b>-</b>         | <b>13,105,932</b> | <b>-</b>           | <b>12,654,496</b> | <b>-</b>                     | <b>451,436</b>   |      |
|             | <b>SJAP total</b>                                | <b>3,542,853</b> | <b>19,388,121</b> | <b>2,355,399</b>   | <b>16,943,886</b> | <b>1,187,454</b>             | <b>2,444,235</b> |      |
|             | % of increase / decrease                         |                  |                   |                    |                   |                              |                  |      |
|             | decreases in \$                                  | (15,845,268)     |                   | -82%               | (14,588,488)      | -86%                         | (1,256,781)      | -51% |
| <b>HSA</b>  | Sales of Organic fertilizer                      | 798,630          | 928,982           | 766,897            | 803,411           | 31,733                       | 125,571          |      |
|             | Sales of Organic Mixed Fertilizer                | 1,591,558        | 740,702           | 763,954            | 425,440           | 827,604                      | 315,262          |      |
|             | <b>HSA Total</b>                                 | <b>2,390,188</b> | <b>1,669,684</b>  | <b>1,530,851</b>   | <b>1,228,851</b>  | <b>859,337</b>               | <b>440,833</b>   |      |
|             | % of increase                                    |                  |                   |                    |                   |                              |                  |      |
|             | Increases in \$                                  | 720,504          |                   | 43%                |                   |                              |                  |      |
|             | <b>SJAP's &amp; HSA/Organic fertilizer total</b> | <b>5,933,041</b> | <b>21,057,805</b> | <b>3,886,250</b>   | <b>18,172,737</b> | <b>2,046,791</b>             | <b>2,885,068</b> |      |

As illustrated in the table above, when comparing Q3 2018 against the same period in 2017, the losses in revenue (negative variance of \$16 million, or -82%) and gross profit (negative variance of 0.22 million, or -9%) were primarily due to the continued depressed cattle market. During the quarter, SJAP only sold cattle grown in its own farm without any sales from its cooperative farmers, reflecting poor results in the sales revenue and gross profit of concentrated livestock feed as well, which had decreased by \$1.14 million (a decrease of -42%) and \$0.48 million (a decrease of 41%), respectively.

As stated in the Form 10-Q for Q2 2018, after the reorganization of SJAP's segment operations (i.e., derecognition of QZH in late December 2017), its current segment operations during this quarter show that its operations decreased in both sales revenues and gross profit compared to same period in 2017. However, even under the current depressed environment of the local cattle industry, SJAP has demonstrated that it is self-sustainable, having maintained an operating profit of RMB1.36 million as recorded in SJAPs stand-alone financial report.

Management of SJAP is not expecting a quick result to its revitalization plan of developing the Huang Yuen City Center into a Trade Center of the cattle and beef industry. However, longer term SJAP plans to capitalize on the annual sales of four million head of local cattle and sheep using SJAP's existing commercially zoned land bank of about 55 acres plus an additional 68 acres that the local government intends to dedicate to SJAP for the development project. However, the government's policies currently are not favorable toward the Property Development industry, the local cattle industry, Financial Investment Institutions etc. and the policies in revamping the local Public listed Companies leading to the attitude of "Wait and See" taken by the institutions that SJAP has been approaching in the past months to invest in the development project. As such, SJAP is managing its current businesses steadily with the aim to sustain it through depressed market times until the economic conditions of the country will improve, allowing operations to improve gradually.

**The table below shows the itemized sales of goods and related cost of sales in quantity and unit price for the quarter ended September 30, 2018 compared to the same period ended September 30, 2017 of the beef and organic fertilizer divisions.**

| Description of items                       |              | 2018Q3       | 2017Q3       | Difference     |       |
|--|--------------|--------------|--------------|----------------|-------|
| <b>Cattle Operation</b>                    |              |              |              |                |       |
| <b>Production and Sales of live cattle</b> | <b>Heads</b> | <b>610</b>   | <b>853</b>   | <b>(243)</b>   | A.4.1 |
| Average Unit sales price                   | US\$/head    | 2,476        | 2,331        | 145            |       |
| Unit cost prices                           | US\$/head    | 1,999        | 2,226        | (227)          |       |
| <b>Production and sales of feedstock</b>   |              |              |              |                |       |
| <b>Bulk Livestock feed</b>                 | <b>MT</b>    | <b>1,228</b> | <b>5,627</b> | <b>(4,399)</b> | A.4.2 |
| Average Unit sales price                   | US\$/MT      | 169          | 176          | (7)            |       |
| Unit cost prices                           | US\$/MT      | 78           | 81           | (3)            |       |
| <b>Concentrated livestock feed</b>         | <b>MT</b>    | <b>4,626</b> | <b>6,330</b> | <b>(1,704)</b> | A.4.3 |
| Average Unit sales price                   | US\$/MT      | 339          | 429          | (89)           |       |
| Unit cost prices                           | US\$/MT      | 188          | 243          | (54)           |       |
| <b>Production and sales of fertilizer</b>  | <b>MT</b>    | <b>2,019</b> | <b>3,420</b> | <b>(1,401)</b> | A.4.4 |
| Average Unit sales price                   | US\$/MT      | 126          | 172          | (46)           |       |
| Unit cost prices                           | US\$/MT      | 84           | 116          | (32)           |       |

\* QZH (Slaughter & De-boning operation)

| <b>Slaughter operation</b>                  |              |              |  |  |        |
|---|--------------|--------------|--|--|--------|
| Slaughter of cattle                         | <b>Heads</b> |              |  |  | A.4.5  |
| Service fee                                 | US\$/Head    |              |  |  |        |
| Sales of associated products                | Pieces       |              |  |  |        |
| Average Unit sales price                    | US\$/Piece   |              |  |  |        |
| Unit cost prices                            | US\$/Piece   |              |  |  |        |
| <b>De-boning &amp; Packaging activities</b> |              |              |  |  | A.4.6. |
| <b>From Cattle supplied locally</b>         |              |              |  |  |        |
| De-boned Meats                              | <b>MT</b>    | <b>361</b>   |  |  |        |
| Average Unit sales price                    | US\$/MT      | 3,336        |  |  |        |
| Unit cost prices                            | US\$/MT      | 2,996        |  |  |        |
| <b>From imported beef</b>                   | <b>MT</b>    | <b>1,653</b> |  |  |        |
| Average Unit sales price                    | US\$/MT      | 7,200        |  |  |        |
| Unit cost prices                            | US\$/MT      | 7,001        |  |  |        |

The live cattle prices have not changed much during the quarter, thus the lower unit price/head was primarily due to smaller sized cattle being sold and the overall situation of the local live cattle industry remaining depressed. This also affected the sales of SJAP's livestock feed, creating greater inventories with fewer sales occurring.

The decrease in the sales of bulk and concentrated stock feed was 4,399 MT in bulk feed from 5,627 MT in Q3 2017 to 1,228 MT in Q3 2018, and 1,704 MT in concentrated feed from 5,627 MT in Q3 2017 to 1,228 MT in Q3 2018, again for the same reasons as mentioned above. The drop in unit sale prices of fertilizer and feed is due to (i) the depreciation in RMB and (ii) the market conditions that caused the necessity to offer lower unit prices.

**1. (ii). The operations of HSA in manufacturing and sales of organic fertilizer itemizing unit sales, costs and quantity of sales:**

|             | In US\$   | Sales of goods   |                  | Cost of good sold |                  | Gross Profit   |                |
|-------------|---|------------------|------------------|-------------------|------------------|----------------|----------------|
|             |   | 2018Q3           | 2017Q3           | 2018Q3            | 2017Q3           | 2018Q3         | 2017Q3         |
| <b>HS.A</b> | Sales of Organic fertilizer                                 | 798,630          | 928,982          | 766,897           | 803,411          | 31,733         | 125,571        |
|             | Sales of Organic Mixed Fertilizer                           | 1,591,558        | 740,702          | 763,954           | 425,440          | 827,604        | 315,262        |
|             | <b>HS.A Total</b>   | <b>2,390,188</b> | <b>1,669,684</b> | <b>1,530,851</b>  | <b>1,228,851</b> | <b>859,337</b> | <b>440,833</b> |
|             | % of increase or decrease (-)                               |                  | 43%              |                   |                  | 95%            |                |
|             |   |                  |                  |                   |                  |                |                |
|             |   |                  |                  | 2018Q3            | 2017Q3           | difference     |                |
| <b>HSA</b>  | <b>Fertilizer and Cattle operation</b>                      | <b>MT</b>        | <b>MT</b>        | <b>3,457</b>      | <b>3,717</b>     | <b>3,457</b>   | <b>6,082</b>   |
|             | <b>Organic Fertilizer</b>                                   |                  |                  |                   |                  | <b>-43%</b>    | <b>-2,625</b>  |
|             | % of increase or decrease (-)                               |                  |                  |                   |                  |                |                |
|             | Average Unit sales price                                    | 236              | 251              | 231               | 153              |                | -92            |
|             | Unit cost prices  | 191              | 203              | 222               | 132              |                | 90             |
|             | <b>Organic Mixed Fertilizer</b>                             | <b>3,985</b>     | <b>3,690</b>     | <b>3,985</b>      | <b>1,796</b>     |                | <b>2,189</b>   |
|             | % of increase or decrease (-)                               |                  |                  |                   |                  | <b>122%</b>    |                |
|             | Average Unit sales price                                    | 400              | 426              | 399               | 412              |                | -13            |
|             | Unit cost prices  | 228              | 243              | 192               | 237              |                | -45            |
|             | <b>Retailing packed fertilizer (For super market sales)</b> |                  | MT               |                   |                  |                | -              |
|             | % of increase or decrease (-)                               |                  |                  |                   |                  |                |                |
|             | Average Unit sales price                                    |                  | US\$/MT          |                   |                  |                | -              |
|             | Unit cost prices  |                  | US\$/MT          |                   |                  |                | -              |

Revenue from our HSA business segment increased by \$0.75 million, or 45%, from \$1.7 million for Q3 2017 to \$2.4 million for Q3 2018. Gross profit from HSA increased by \$0.42 million, or 95%, from \$.44 million for Q3 2017 to \$.86 million for Q3 2018.

During Q3 2018, the HSA's sales of Organic and Mixed Organic Fertilizer were back to normal levels compared to sales during the same period in 2017 after retrofitting its production plants. There were slight drops in unit selling prices due primarily to the depreciation of RMB translating into lower unit prices in the US\$ equivalent.

HSA will maintain its direction to keep its capital expenditure as low as possible and to lease out some of its assets that are currently unproductive until such time as it will have generated enough cash flow to afford further capital expenditure. In this respect, during this quarter HSA leased out its Cattle buildings and related facilities to a third party for a period of one year at US\$300,000/year (or equivalent to about RMB2,000,000/year). This may be considered a low return on investment, but there are cost of savings (e.g., cost of maintenance and general administrations, etc.) to compensate for the shortfall in return of investment. Subsequent to the end of the third quarter, in October, 2018 HSA also leased out 10 acres of land situated at the front entrance of its property for annual rental of \$80,000 at tenure of 24 months. This land was originally intended to develop and build a Trading Complex for trading local commodities of the local traders for annual rent of \$80,000 for a term of 24 months.

- **Plantation Division** refers to the operations of Jiangmen City Heng Sheng Tai Agriculture Development Co. Ltd. (“JHST”). JHST is engaged in the HU Plantation business where dragon fruit flowers (dried and fresh), cash vegetable crops and immortal vegetables are sold to wholesale and retail markets. JHST’s financial statements are consolidated into the financial statements of MEIJI as one entity.

|                               | Sales of goods |                  | Cost of sales  |                  | Gross profit   |                |
|-------------------------------|----------------|------------------|----------------|------------------|----------------|----------------|
|                               | 2018 Q3        | 2017 Q3          | 2018 Q3        | 2017 Q3          | 2018 Q3        | 2017 Q3        |
| Sales of fresh HU flowers     | -              | 22,399           |                | 20,419.63        | -              | 1,980          |
| Sales of dried HU flowers     | 106,698        | 628,063          | 93,795         | 604,913          | 12,903         | 23,150         |
| Sales of immortal vegetables  | -              | -                | -              | -                | -              | -              |
| Sales of cash crop vegetables | 881,331        | 836,003          | 722,187        | 623,362          | 159,144        | 212,641        |
| <b>Total sales revenues</b>   | <b>988,029</b> | <b>1,486,465</b> | <b>815,982</b> | <b>1,248,695</b> | <b>172,047</b> | <b>237,771</b> |

| Description of items     | 2018 Q3   |       | 2017 Q3   |       |
|--------------------------|-----------|-------|-----------|-------|
|                          | MT        | 23    | US\$ / MT | 125   |
| Dried HU flowers         | MT        | 23    | US\$ / MT | 125   |
| Average unit sales price | US\$ / MT | 5,639 | US\$ / MT | 5,025 |
| Unit cost price          | US\$ / MT | 4,078 | US\$ / MT | 4,839 |
| Vegetable crops          | MT        | 870   | US\$ / MT | 766   |
| Average unit sales price | US\$ / MT | 1,013 | US\$ / MT | 1,077 |
| Unit cost price          | US\$ / MT | 830   | US\$ / MT | 803   |

Revenue from our plantation division decreased by \$0.50 million, (or 34%), from \$1.5 million for Q3 2017 to \$1.0 million for Q3 2018. The decrease was primarily due to lower prices both in fresh flowers by \$0.05/piece and dried flowers by \$6,574/MT primarily due to the poorer quality of flowers, in turn due to root diseases caused by excessive rain of past years.

As was noted in our Form 10-Q for Q2 2018, JHST is experimenting with many different crops and other biological plant products aiming at the development of more stable crops and/or products that will eventually help the Company to develop the plantation into a much larger economical scale of operation free from effects caused by the vagaries of weather in Guangdong Province.

To date, our experimental crop of passion fruits harvested during the quarter had good reception with reasonable and stable prices averaging over RMB20/kg (or approximately US\$3/kg). These results are encouraging; we are working on improving the yield per acre targeting to start commercial production in spring 2019 with about 100 acres. At the same time we have successfully attracted the interest of a health-products purveyor to market our Immortal vegetable plants ("IVP") under their brand label via their e-commerce platform with shipments covering all of China. In this respect, we are redesigning and repackaging our IVPs with the aim to have this sales program launched with commercial harvests beginning from spring 2019.

There were good crops of passion fruit ready and targeted for harvest in Q4 2018, but unfortunately that extremely heavy storm in October 2018 damaged all 25 acres of passion fruit and flooding spoiled part of the cash vegetable crops (about 100 acres) that will diminish JHST's income in Q4 2018. At the same time the said storm damaged the staff quarters (of about 2,000 m<sup>2</sup>) in the plantation that were constructed in temporary building materials (instead of bricks) such that most workers of the plantation are now residing in Aqua-farm 1 next to the plantation until such time as the staff quarters will have been repaired. At the same time the storm also damaged the fruit trees planted on over approximately 150 acres in the plantation that will not affect JHST's 2018/2019 revenues and incomes, but will take some time before recovery.

- **Cattle Farm Division** refers to the operations of Cattle Farm 1 under Jiangmen City Hang Mei Cattle Farm Development Co. Ltd ("JHMC") where cattle are sold live to third party livestock wholesalers who are selling them mainly in Guangzhou and Beijing livestock wholesale markets. The financial statements of JHMC are consolidated into MEIJU as one entity along with MEIJU's operation in the consulting and service for development of other cattle farms, such as Cattle Farm 2, or related projects.

|              | In US\$                          | Sales of goods   |                  | Cost of Goods sold |                  | Sales of Goods' Gross profit | 2018Q3         | 2017Q3 |
|--------------|----------------------------------|------------------|------------------|--------------------|------------------|------------------------------|----------------|--------|
|              |                                  | 2018Q3           | 2017Q3           | 2018Q3             | 2017Q3           |                              |                |        |
| <b>MEIJI</b> |                                  |                  |                  |                    |                  |                              |                |        |
| <b>(CF1)</b> | Sale of Live cattle (Aromatic)   | 8,028,333        | 7,281,156        | 6,674,769          | 6,319,872        | 1,353,565                    | 961,284        |        |
|              | <b>MEIJI / Cattle farm Total</b> | <b>8,028,333</b> | <b>7,281,156</b> | <b>6,674,769</b>   | <b>6,319,872</b> | <b>1,353,565</b>             | <b>961,284</b> |        |
|              | Increases / (decrease) in \$     | 747,177          |                  |                    |                  | 392,281                      |                |        |
|              | % of increase or (decrease)      |                  | 10%              |                    |                  |                              | 41%            |        |

|              |  | 2018 Q3   |       | 2017 Q3 |      |
|--------------|--|-----------|-------|---------|------|
|              |  | Heads     | 3,778 | 4,731   | 314  |
| <b>MEIJI</b> | <b>Production and sale of Live cattle (Aromatic)</b> | US\$/head | 2,125 | 1,539   | -648 |
| <b>CF1</b>   | Average Unit sales price                             | US\$/head | 1,767 | 1,336   | -729 |
|              | Unit cost prices                                     |           |       |         |      |

Cattle Farm 1 revenue increased sales by \$747,177, (or 10%), from Q3 2017's \$7,281,156 to Q3 2018's \$8,028,333 while gross profit increased by \$392,281 (or 41%) from \$961,284 in Q3 2017 to Q3 2018's \$1,353,565, reflecting the fact that the prices of the local "Yellow Cattle" are rising slightly (from RMB68/kg to RMB 73/Kg of live weight) and that larger cattle were sold in 2018.

In addition, revenue and gross profit for Q3 2018 would have been greater were they not restrained by 357 head of cattle being kept in a quarantine station missing the sales in the quarter and increasing the cost of sales of the quarter. This will be readjusted in the subsequent quarter.

- **Corporate & Others Division** refers to the business operations of Sino Agro Food, Inc., including import/export business and consulting and service operations provided to projects not included in the above categories, and not limited to corporate affairs.

|             | In US\$   | Sales of goods    |                   | Cost of Goods sold |                   | Sales of Goods' Gross profit | 2018Q3           | 2017Q3 |
|-------------|---|-------------------|-------------------|--------------------|-------------------|------------------------------|------------------|--------|
|             |   | 2018Q3            | 2017Q3            | 2018Q3             | 2017Q3            |                              |                  |        |
| <b>SIAF</b> |   |                   |                   |                    |                   |                              |                  |        |
|             | Sales of goods through trading/import/export activities |                   |                   |                    |                   |                              |                  |        |
|             | on seafood  | 9,286,201         | 7,467,142         | 8,188,572          | 6,651,655         | 1,097,629                    | 815,487          |        |
|             | Increases / (decrease) in \$                            | 1,819,059         |                   |                    |                   | 282,141.75                   |                  |        |
|             | % of increases / (decrease)                             | 24%               |                   |                    |                   | 35%                          |                  |        |
|             | on imported beef and mutton                             | 8,012,041         | 8,121,994         | 7,520,612          | 7,219,550         | 491,429                      | 902,444          |        |
|             | Increases / (decrease) in \$                            | -109,953          |                   |                    |                   | (411,015)                    |                  |        |
|             | % of increases / (decrease)                             | -1%               |                   |                    |                   | -46%                         |                  |        |
|             | <b>SIAF / Others &amp; Corporate total</b>              | <b>17,298,242</b> | <b>15,589,136</b> | <b>15,709,184</b>  | <b>13,871,205</b> | <b>1,589,058</b>             | <b>1,717,931</b> |        |
|             | Increases / (decrease) in \$                            | 1,709,106         |                   |                    |                   | (128,873)                    |                  |        |
|             | % of increases / (decrease)                             | 11%               |                   |                    |                   | -8%                          |                  |        |

|             | Description of items                         | 2018Q3  |        | 2017Q3 |         | Difference |
|-------------|--|---------|--------|--------|---------|------------|
|             |  | 2018Q3  | 2017Q3 | 2018Q3 | 2017Q3  |            |
| <b>SIAF</b> |  |         |        |        |         |            |
|             | <b>Seafood trading from imports</b>          |         |        |        |         |            |
|             | Mixed seafoods                               | MT      | 524    | 400    | 124     |            |
|             | Average of sales price                       | US\$/MT | 17,722 | 18,668 | (946)   |            |
|             | Average of cost prices                       | US\$/MT | 15,627 | 16,629 | (1,002) |            |
|             | <b>Beef &amp; Lambs trading from imports</b> | MT      | 460    | 417    | 44      |            |
|             | Average of sales price                       | US\$/MT | 17,417 | 19,501 | -2,084  |            |
|             | Average of cost prices                       | US\$/MT | 16,349 | 17,334 | -985    |            |

Revenue from the Corporate Division increased by \$1.7 million or (24%) from Q3 2017's \$15.6 million to Q3 2018's \$17.3 million. The increase was primarily due to our decision to trade in selective products that could maintain certain profit margins developed with selected clients.

Gross profit from the corporate sector decreased by \$0.13million or (8%) from \$1.72 million for Q3 2017 to \$1.59 million for Q3 2018. The decrease was marginal and will improve as we increase the imports of higher quality products sourced from an increasing number of reputable suppliers.

In this respect, the Company is confident that this segment will continue to improve as disposable income of China's middle class continues to grow.

- **5.A. Engineering technology consulting and services:**

**Notes to Table A (1) Note (1.1, 2.1 and 3.1)**

**Table A.5 below shows the revenue, cost of services and gross profit generated from consulting, services, commission and management fee for three months ended September 30, 2017 and September 30, 2017.**

**Revenues (consulting, service, commission and management fee):**

|   |    | 2018Q3           | 2017Q3           | Difference       | Description of work               |
|---|----|------------------|------------------|------------------|-----------------------------------|
| <b>Sales Revenues (Consulting and Services)</b> | CA | 6,502,372        | 2,978,371        | 3,524,001        | Working in progress of PF(2), NPF |
| <b>Group Total Revenues</b>                     |    | <b>6,502,372</b> | <b>2,978,371</b> | <b>3,524,001</b> |                                   |
| <b>Cost of sales</b>                            | CA | 5,469,059        | 2,234,070        | 3,234,989        |                                   |
| <b>Group Total Cost of sales</b>                |    | <b>5,469,059</b> | <b>2,234,070</b> | <b>3,234,989</b> |                                   |
| <b>Gross Profit</b>                             | CA | 1,033,313        | 744,301          | 289,012          |                                   |
| <b>Group Total Gross Profit</b>                 |    | <b>1,033,313</b> | <b>744,301</b>   | <b>289,012</b>   |                                   |
| <b>% of increase or (decrease)</b>              |    |                  |                  |                  |                                   |
| Group revenues                                  |    |                  | 118%             |                  |                                   |
| Group gross profits                             |    |                  | 39%              |                  |                                   |

Revenues increased by \$3,524,001 (or 118%) from \$2,978,371 for Q3 2017 to \$6,502,372 for Q3 2018. Cost of services for consulting, service, commission and management fees increased by \$3,234,989 (or 145%) from \$2,234,070 for Q3 2017 to \$5,469,059 for Q3 2018. Gross profit increased by \$289,012 (or 39%) from \$744,301 for Q3 2017 to \$1,033,314 for Q3 2018.

The increase in revenue/cost of sales was primarily due to the needs of capital expenditure spent in Aqua-farm 4 by Tri-way Industries Limited to reorganize its production by finishing part of the construction & retrofitting work in its indoor APM farms and on about 20 acres of ODRAS farms.

**Note (4) to Table A 1 General and Administrative Expenses and Interest Expenses**

General and administrative and interest expenses (including depreciation and amortization) increased by \$737,898 or 23% from \$3,254,065 for Q3 2018 to \$3,991,963 for Q3 2018. The increase was primarily due to increase in office and corporate expenses of \$607,217 from \$972,218 for Q3 2017 to \$1,579,435 for Q3 2018.

| Category   | 2018 Q3          | 2017 Q3          | Difference     |
|--|------------------|------------------|----------------|
|  |                  |                  | \$             |
| Office and corporate expenses                    | 1,579,435        | 972,218          | 607,217        |
| Wages and salaries                               | 380,383          | 540,493          | (160,111)      |
| Traveling and related lodging                    | 5,602            | 7,769            | (2,167)        |
| Motor vehicles expenses and local transportation | 5,731            | 23,142           | (17,410)       |
| Entertainments and meals                         | 7,309            | 27,901           | (20,592)       |
| Others and miscellaneous                         | 521,708          | 586,271          | (64,563)       |
| Depreciation and amortization                    | 1,491,795        | 1,096,271        | 395,523        |
| Sub-total  | 3,991,963        | 3,254,065        | 737,898        |
| Interest expenses                                | 407,728          | 331,596          | 76,132         |
| <b>Total</b>                                     | <b>4,399,691</b> | <b>3,585,661</b> | <b>814,030</b> |

**Note (5) to Table A 1 Non-controlling interests**

Table (F) below shows the derivation of non-controlling interest

| Names of intermediate holdco. subsidiaries<br>Abbreviated names                     | Capital Award Inc. (Belize)<br>CA | Macau EIJI Company Ltd. (Macau)<br>(MEIJI)                                  |   |  | A Power Agro Agriculture Development (Macau) Ltd. (APWAM)      | Total  |
|---|-----------------------------------|---|---|--|--|--------|
| % of equity holding on below subsidiaries (in China)                                | n.a.                              | 75%   | 75%   | 26%  |  | 41.25% |
| Name of China subsidiaries<br>Abbreviated names                                     | None                              | Jiangmen City Heng Sheng Tai Agriculture Development Co. Ltd.(China) (JHST) | Jiangmen City Hang Mei Cattle Farm Development Co. Ltd.(China) (JHMC) | Hunan Shanghua A Power Agriculture Co. Ltd (China) (HSA) | Quinghai Sangjiang A Power Agriculture Co. Ltd. (China) (SJAP) |        |
| Net income of the P.R.C. subsidiaries for the period ended 30. September 2018 in \$ | \$ (1,497,826)                    | \$ 1,422,754  | \$ 1,239,469  | \$ (1,363,542)   |  |        |
| Equity % of non-controlling interest  |                                   | 25%   | 25%   | 24.0%  | 58.75%   |        |
| Non-controlling interest's shares of Net incomes in \$                              | \$ (374,457)                      | \$ 355,689  | \$ 297,473  | \$ (801,081)   | \$ (522,377)   |        |

The net income attributed to non-controlling interest is \$(522,377) shared by (JHST, JHMC, HSA, SJAP collectively) for Q1-3 2018 as shown in Table (F) above.

**Note (6) to Table A 1 Earnings per share (EPS)**

Earnings per share decreased by \$0.05(basic) and \$0.06 (diluted) per share from EPS of \$0.14 (basic) and \$0.15 (diluted) for Q3 2017 to EPS of \$0.09 (basic) and \$0.09 (diluted) for Q3 2018. The reason for the decrease is primarily due to the decrease of net income attributable to Sino Agro Food, Inc. and subsidiaries by \$17.8 million from \$3.45 million for Q3 2017 to \$3.47 million for Q3 2018.

**Part B: Unaudited Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017 (audited)**

|   | 30-Sep-18<br>(Unaudited) | December 31, 2017<br>(Audited) | Changes +-         | Note     |
|---|--------------------------|--------------------------------|--------------------|----------|
| <b>ASSETS</b>   |                          |                                |                    |          |
| <b>Current assets</b>   |                          |                                |                    |          |
| Cash and cash equivalents   | \$ 417,373               | \$ 560,043                     | (142,670)          | B        |
| Inventories   | 56,409,897               | 52,628,947                     | 3,780,950          | 9        |
| Costs and estimated earnings in excess of billings on uncompleted contracts         | 250,828                  | 1,249,187                      | (998,359)          |          |
| Deposits and prepayments  | 56,588,099               | 70,459,650                     | (13,871,551)       | 10       |
| Accounts receivable, net of allowance for doubtful accounts                         | 94,884,040               | 82,971,418                     | 11,912,622         | 11       |
| Other receivables   | 26,241,744               | 20,680,478                     | 5,561,266          |          |
| <b>Total current assets</b>   | <b>234,791,981</b>       | <b>228,549,723</b>             | <b>6,242,258</b>   |          |
| <b>Plant and equipment</b>  |                          |                                |                    |          |
| Plant and equipment, net of accumulated depreciation                                | 233,357,869              | 246,857,797                    | (13,499,928)       | 12       |
| Construction in progress  | 13,561,210               | 6,178,308                      | 7,382,902          | 13       |
| Land use rights, net of accumulated amortization                                    | 54,153,816               | 54,838,031                     | (684,215)          | 14       |
| <b>Total plant and equipment</b>  | <b>301,072,895</b>       | <b>307,874,136</b>             | <b>(6,801,241)</b> |          |
| <b>Other assets</b>   |                          |                                |                    |          |
| Goodwill  | 724,940                  | 724,940                        | -                  |          |
| Proprietary technologies, net of accumulated amortization                           | 9,080,565                | 9,588,605                      | (508,040)          |          |
| Interests in unconsolidated equity investees  | 202,786,870              | 193,267,696                    | 9,519,174          |          |
| Temporary deposits paid to entities for investments in Sino joint venture companies | 34,916,517               | 34,917,222                     | (705)              |          |
| <b>Total other assets</b>   | <b>247,508,892</b>       | <b>238,498,463</b>             | <b>9,010,429</b>   |          |
| <b>Total assets</b>   | <b>\$ 783,373,768</b>    | <b>\$ 774,922,322</b>          | <b>8,451,446</b>   | <b>0</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                          |                                |                    |          |
| <b>Current liabilities</b>  |                          |                                |                    |          |
| Accounts payable and accrued expenses   | \$ 8,515,417             | \$ 4,243,496                   | 4,271,921          | 15       |
| Billings in excess of costs and estimated earnings on uncompleted contracts         | 5,350,165                | 5,740,065                      | (389,900)          |          |
| Due to a director   | -                        | 107,074                        | (107,074)          |          |
| Other payables  | 38,414,675               | 40,593,482                     | (2,178,807)        |          |
| Borrowings - Short term bank loan   | 4,506,468                | 4,667,890                      | (161,422)          |          |
| Negotiable promissory notes   | 977,155                  | 977,155                        | -                  |          |
| Derivative liability  | 2,100                    | 2,100                          | -                  |          |
| Convertible note payable  | 3,894,978                | 3,894,978                      | -                  |          |
| Income tax payable  | 343                      | 377                            | (34)               |          |
|   | <b>61,661,301</b>        | <b>60,226,617</b>              | <b>1,434,684</b>   |          |
| <b>Non-current liabilities</b>  |                          |                                |                    |          |
| Other payables  | 10,826,560               | 11,089,779                     | (263,219)          | 16       |
| Borrowings - Long term bank loan  | 5,669,429                | 6,045,302                      | (375,873)          |          |
|   | <b>16,495,989</b>        | <b>17,135,081</b>              | <b>(639,092)</b>   |          |
| <b>Commitments and contingencies</b>  |                          |                                |                    |          |
| <b>Stockholders' equity</b>   |                          |                                |                    |          |
| Common stock  | 47,410                   | 29,363                         | 18,047             |          |
| Additional paid - in capital  | 180,766,757              | 169,743,640                    | 11,023,117         |          |
| Retained earnings   | 450,924,455              | 441,488,507                    | 9,435,948          |          |
| Accumulated other comprehensive income  | (7,965,574)              | 2,346,174                      | (10,311,748)       |          |
| Treasury stock  | (1,250,000)              | (1,250,000)                    | -                  |          |
| <b>Total Sino Agro Food, Inc. and subsidiaries stockholders' equity</b>             | <b>622,523,048</b>       | <b>612,357,684</b>             | <b>10,165,364</b>  |          |
| Non - controlling interest  | 82,693,430               | 85,202,940                     | (2,509,510)        |          |
| <b>Total stockholders' equity</b>   | <b>705,216,478</b>       | <b>697,560,624</b>             | <b>7,655,854</b>   |          |
| <b>Total liabilities and stockholders' equity</b>                                   | <b>\$ 783,373,768</b>    | <b>\$ 774,922,322</b>          | <b>8,451,446</b>   |          |

**Note B. Cash and Cash Equivalents**

The change in cash and cash equivalents of \$(142,670) was derived from cash and cash equivalents of \$417,373 and \$560,043 as of September 30, 2018 and December 31, 2017, respectively.

**Note (9) Breakdown of inventory**

|  | <b>September 30, 2018</b><br>(Unaudited) |
|--|--|
| Bread grass  | 817,220                                  |
| Beef cattle  | 12,670,022                               |
| Organic fertilizer                                   | 13,514,239                               |
| Forage for cattle and consumable                     | 7,180,751                                |
| Raw materials for bread grass and organic fertilizer | 19,744,531                               |
| Immature seeds                                       | 2,483,134                                |
|  | <u><u>\$ 56,409,897</u></u>              |

**Note (10) Breakdown of Deposits and Prepaid Expenses**

|   | <b>September 30, 2018</b><br>(Unaudited) |
|---|--|
| Deposits for  |  |
| - purchases of equipment  | \$ 1,204,333                             |
| - acquisition of land use rights  | 174,444                                  |
| - inventories purchases   | 16,498,565                               |
| - construction in progress  | 4,821,609                                |
| - issue of shares as collateral   | 25,761,658                               |
| Shares issued for employee compensation and overseas professional and bond interest | 1,055,341                                |
| Others  | 7,072,148                                |
|   | <u><u>\$ 56,588,098</u></u>              |

**Note (11): Breakdown of Accounts receivable:**

|   | <b>September 30, 2018</b>  |                  |                   |                    |   |                     |
|---|----------------------------|------------------|-------------------|--------------------|---|---------------------|
|   | <b>Accounts receivable</b> | <b>0-30 days</b> | <b>31-90 days</b> | <b>91-120 days</b> | <b>over 120 days and less than 1 year</b> | <b>over 1 years</b> |
| Consulting and Service totaling (CA)                      | \$ 59,710,606              | \$ 6,249,857     | \$ -              | \$ -               | \$ 10,171,204                             | \$ 43,289,545       |
| Sales of imported seafood (SIAF)                          | 20,349,957                 | -                | 17,662,160        | 2,687,797          | -   | -                   |
| Sales of Cattle and Beef Meats (from Enping Farm) (MEIJI) | 5,751,065                  | -                | 5,751,065         | -                  | -   | -                   |
| Sales of HU Flowers (Fresh & Dried) (JHST)                | 1,635,957                  | 371,361          | 607,186           | 280,643            | 376,767                                   |                     |
| Sales Fertilizer, Bulk Stock feed and Cattle by (SJAP)    | 4,909,582                  | 1,079,903        | 2,245,176         | 913,307            | 671,195                                   |                     |
| Sales Fertilizer from (HSA)                               | 2,526,873                  | 784,154          | 1,180,617         | 23,379             | 538,724                                   |                     |
| <b>Total</b>  | <b>94,884,040</b>          | <b>8,485,275</b> | <b>27,446,204</b> | <b>3,905,126</b>   | <b>11,757,890</b>                         | <b>43,289,545</b>   |

The bulk of the over 120-days accounts receivable under CA's consulting and service sector represents outstanding debt owed by Tri-way to the Company, which is expected to be settled within the foreseeable future.

**Information on trading terms and provision for diminution in value of accounts receivable:**

Our accounts receivable aging is less than 12 months old. Receivables from revenue derived from consulting and services billed for work completed are within our normal trading terms of 180 days and therefore no diminution in value is required, as the credit quality of the receivables is not in doubt. SIAF's receivables in consulting and services are mainly provided to WHX, WC1 and Shanghai wholesale centers collectively, and the extended credit terms for this quarter for more than 120 days to WHX and WC1 is primarily to allow them more time to accommodate their development of import sales in beef that requires much more working capital; this also applies to the higher credit terms on CA's sales of fish to WC1 and Shanghai WC.

**Sales of fertilizer and bulk livestock feed:** These comprise sales made to regional farmers contracted by us to grow crops and pastures using and purchasing our fertilizer. We in turn agree to buy their cattle that are fed with our bulk and concentrated cattle feed purchased from us. Under this arrangement, our accounts receivable are normally carried forward until such time they can be offset against our account payables due to these contracted farmers (that is, the amount owed for the amount of crops and pastures is ultimately offset against the amount of cattle that we have purchased from them, respectively). As these debtors are our contract farmers and operate a profitable and viable business with us and have a good track record we consider their credit quality is good and collection from them is not in doubt, thus no diminution in value is required.

**Information on concentration of credit risk of revenue:**

We have 4 major long-term customers (referring to Customer A, B, C and D mentioned in the Financial Statement of this report under Note), who have accounted for 55.04% of our consolidated revenues for Q3 2018 as shown in the table below:

|            | three months ended Sept. 30, 2018 |                             |
|------------|-----------------------------------|-----------------------------|
|            | % of total Revenue                | \$ Customer's Total Revenue |
| Customer A | 29.44%                            | 11,435,058                  |
| Customer B | 20.94%                            | 8,135,032                   |
| Customer C | 16.74%                            | 6,502,373                   |
| Customer D | 15.09%                            | 5,863,184                   |
|            | <hr/> <u>82.21%</u>               | <hr/> <u>31,935,647</u>     |

Customer A is ShangHai Virgo Trading co. Ltd, which is one of our major distributors of imported beef and seafood as well as our farmed seafood. We sold \$11.4 million of goods to Virgo during Q3 2018 representing 29.44% of our total revenue of \$38.75 million during the quarter.

Customer B is Cattle Wholesale represented by Mr. Zhen Runchi who buys our fattened cattle to sell them in the Guangdong and Beijing cattle markets and at the same time supplies us with young cattle. During Q3 2018, transactions through Mr. Zhen Runchi generated 20.94 % of our total consolidated revenue (equivalent to \$8,135,032 out of our total revenue of \$38,750,017).

Customer C is Tri-way Industries through our divestment when Tri-way (or "TRW") became our "Investment Associate." During Q3 2018, transactions through Tri-way Industries generated 20.94 % of our total consolidated revenue (equivalent to \$6,502,373 out of our total revenue of \$38,750,017).

Customer D is WSC 1, which is owned and operated by Guangzhou City A Power NaWei Trading Co. Ltd ("APNW"). APNW distributes seafood to other wholesalers in various cities in China. WSC 1 is ideally situated at the center of all interprovincial logistic services. At the same time, APNW has obtained all relevant Import Quotas and Permits as of September 30, 2014. As such, SIAF relies on APNW's import permits for its import and export trades to be carried out in China. Sales affected through WSC 1 contribute 15.09% of our total consolidated revenue (equivalent to \$5,863,184 out of our total revenue of \$38,750,017).

The Company had 4 major customers whose accounts receivable balance individually represented the following percentages of the Company's total accounts receivable during Q3 2018:

|            | <b>Sept. 30.2018</b>                   |                     | <b>Total</b>                |
|------------|--|---------------------|-----------------------------|
|            | <b>% of total Accounts receivables</b> | <b>amount in \$</b> | <b>Accounts receivables</b> |
| Customer A | 62.91%                                 | 62.91%              | 59,710,606                  |
| Customer B | 12.43%                                 | 12.43%              | 11,798,976                  |
| Customer C | 9.01%                                  | 9.01%               | 8,550,980                   |
| Customer D | 6.23%                                  | 6.23%               | 5,914,090                   |
|            | <hr/>                                  | <hr/>               | <hr/>                       |
|            | 90.58%                                 | 90.58%              | 85,974,652                  |

**Note (12)**

**Property and equipment, net of accumulation depreciation**

|                                      | <b>September 30, 2018</b> |
|--------------------------------------|---------------------------|
|                                      | <b>(Unaudited)</b>        |
| Plant and machinery                  | \$ 5,269,857              |
| Structure and leasehold improvements | 199,573,342               |
| Mature seeds and herbage cultivation | 52,767,958                |
| Furniture and equipment              | 694,717                   |
| Motor vehicles                       | 589,289                   |
|                                      | <hr/>                     |
| Less: Accumulated depreciation       | (25,537,293)              |
| Net carrying amount                  | \$ 233,357,870            |

**Note (13) Construction in progress**

|   | <b>September 30, 2018</b> |
|---|---------------------------|
|   | <b>(Unaudited)</b>        |
| Construction in progress                          |                           |
| - Rangeland for beef cattle and office building   | 12,422,745                |
| - Oven room, road for production of dried flowers | 1,138,465                 |
|   | <hr/>                     |

**Note (14) Land Use Rights, net of accumulated amortization:**

| Item                | Owner | Location  | Acres  | Date Acquired | Tenure | Expiry dates | Cost \$    | Monthly amortization \$ | 2018.09.30 Balance \$ | Nature of ownership                 | Nature of project                                     |
|---------------------|-------|---|--------|---------------|--------|--------------|------------|-------------------------|-----------------------|-------------------------------------|---|
| Hunan lot1          | HS.A  | Ouchi Village, Fenghuo Town, Linli County   | 31.92  | 4/5/2011      | 43     | 4/4/2054     | 242,703    | 470                     | 206,015               | Lease                               | Fertilizer production                                 |
| Hunan lot2          | HS.A  | Ouchi Village, Fenghuo Town, Linli County   | 247.05 | 7/1/2011      | 60     | 6/30/2071    | 36,666,141 | 50,925                  | 32,846,751            | Management Right                    | Pasture growing                                       |
| Hunan lot3          | HS.A  | Ouchi Village, Fenghuo Town, Linli County   | 8.24   | 5/24/2011     | 40     | 5/23/2051    | 378,489    | 789                     | 317,773               | Land Use Rights                     | Fertilizer production                                 |
| Guangdong lot 1     | JHST  | Yane Village, Liangxi Town, Enping City   | 8.23   | 8/10/2007     | 60     | 8/9/2067     | 1,064,501  | 1,478                   | 884,127               | Management Right                    | HU Plantation   |
| Guangdong lot 2     | JHST  | Nandu Village of Yane Village, Liangxi Town, Enping City                                | 27.78  | 3/14/2007     | 60     | 3/13/2067    | 1,037,273  | 1,441                   | 854,310               | Management Right                    | HU Plantation   |
| Guangdong lot 3     | JHST  | Nandu Village of Yane Village, Liangxi Town, Enping City                                | 60.72  | 3/14/2007     | 60     | 3/13/2067    | 2,267,363  | 3,149                   | 1,867,426             | Management Right                    | HU Plantation   |
| Guangdong lot 4     | JHST  | Nandu Village of Yane Village, Liangxi Town, Enping City                                | 54.68  | 9/12/2007     | 60     | 9/11/2067    | 2,041,949  | 2,836                   | 1,698,788             | Management Right                    | HU Plantation   |
| Guangdong lot 5     | JHST  | Jishilu Village of Dawan Village, Juntang Town, Enping City                             | 28.82  | 9/12/2007     | 60     | 9/11/2067    | 960,416    | 1,334                   | 799,013               | Management Right                    | HU Plantation   |
| Guangdong lot 6     | JHST  | Liankai Village of Niujiang Town, Enping City   | 31.84  | 1/1/2008      | 60     | 12/31/2068   | 821,445    | 1,141                   | 687,960               | Management Right                    | Fish Farm   |
| Guangdong lot 7     | JHST  | Nandu Village of Yane Village, Liangxi Town, Enping City                                | 41.18  | 1/1/2011      | 26     | 12/31/2037   | 5,716,764  | 18,323                  | 4,232,604             | Management Right                    | HU Plantation   |
| Guangdong lot 8     | JHST  | Shangchong Village of Yane Village, Liangxi Town, Enping City                           | 11.28  | 1/1/2011      | 26     | 12/31/2037   | 1,566,393  | 5,020                   | 1,159,734             | Management Right                    | HU Plantation   |
| Guangdong lot 9     | MEIJI | Xiaoban Village of Yane Village, Liangxi Town, Enping City                              | 41.18  | 4/1/2011      | 20     | 3/31/2031    | 5,082,136  | 21,176                  | 3,430,442             | Management Right                    | Cattle Farm   |
| Qinghai lot 1       | SJAP  | No. 498, Bei Da Road, Chengguan Town of Huangyuan County, Xining City, Qinghai Province | 21.09  | 11/1/2011     | 40     | 10/30/2051   | 527,234    | 1,098                   | 449,248               | Land Use Right & Building ownership | Cattle farm, fertilizer and livestock feed production |
| Guangdong lot 10    | JHST  | Niu Jiang Town, Liangxi Town, Enping City   | 6.27   | 3/4/2013      | 10     | 3/3/2023     | 489,904    | 4,083                   | 265,365               | Management Right                    | Processing factory                                    |
| Guangdong lot 11    | CA    | Da San Dui Wei, You Nan Village, Conghua District of Guangzhou City                     | 33.28  | 10/28/2014    | 30     | 10/27/2044   | 4,453,665  | 12,371                  | 4,008,299             | Management Right                    | Agriculture HU  |
| Exchange difference | JHST  | Land improvement cost incurred  |        | 12/1/2013     |        |              | 3,914,275  | 6,155                   | 3,631,167             | Management Right                    | Plantation  |
|                     |       |   |        |               |        |              | -1,573,648 |                         | -3,185,205            |                                     |   |
|                     |       |   | 654    |               |        |              | 65,657,005 | 131,789                 | 54,153,816            |                                     |   |

**Note (15) Current Liabilities:**

|  | Sept. 30, 2018           | Note |
|--|--------------------------|------|
| <b>Current liabilities</b>   |                          |      |
| Accounts payable and accruals  | 8,515,417                | 15A  |
| Billings in excess of cost and estimated earnings on uncompleted contracts | 5,350,165                |      |
| Other payables   | 38,414,675               | 15B  |
| Borrowings-Short term bank loan  | 4,506,468                |      |
| Negotiable promissory notes  | 977,155                  |      |
| Derivative liability   | 2,100                    |      |
| Convertible note payable   | 3,894,978                |      |
| Income tax payable   | 343                      |      |
|  | <b><u>61,661,301</u></b> |      |

**Note 15A: Accounts payables and accrued expenses clarification:**

Our current trading environment is limited to a number of suppliers who offer prolonged credit terms, which means that most purchases are paid for in cash or short credit terms (7 to 10 days); this grants us better bargaining ability to obtain cash discounts resulting in the low trade account payables balance of \$8.52 million, about 21.99% of total revenue of \$38.75 million.

**Note (15B): Analysis of Other Payables:**

As of September 30, 2018, other payables totaling \$41,129,945 was composed of the following:

Straight note payable of \$29,867,999 represents a 10.5% Convertible Note in the aggregate principal amount of up to \$33,300,000 issued on August 29, 2014. On July 18, 2017, the Company and the note holder entered into a restructuring agreement regarding the settlement of the Note as follows:

(i) 50% in cash settlement of \$15,589,000 to be paid in monthly installments.

(ii) The other 50% balance of \$15,589,000 to be settled by the issuance of 5,196,333 common shares of the Company and 400,000 shares of Tri-way Industries Limited.

As of the date of this report, the Company has paid \$3.59 million with \$11,999,000 remaining owed on the \$15,589,000 settlements.

Over the past years, other advances and deferred payments had been provided by other unrelated third parties, contractors, services providers, and agents fees etc. to our subsidiaries with some in the form of promissory notes or agreements at no fixed term of repayment and interest free; some at an interest rate calculated from 3% up to 8% over a 1/2 to 5 year term; and the remainder covered by conditions settled through verbal arrangements with the Company. These sums amount to \$11,419,945 unpaid and outstanding as of September 30, 2018 after the settlement of \$4,042,097 by the issuance of 6,641,689 shares at an average of \$0.55/share to debt holders during Q3 2018.

**Note (15C): Analysis of Convertible Notes payables:**

On October 20, 2017, the Company issued a Convertible Note (i.e. "**Note 2**") with a principal amount of \$4,000,000 due on February 28, 2018 and subsequently a US\$600,000 short term note (incorporated into "**Note 2**") also scheduled to mature in February 2018. The note holder originally had the option to convert all or any part of the outstanding note into the common stock of the Company (the "**Primary Optional Conversion**") or TRW (the "**Secondary Optional Conversion**") at any time for a period of eight months from the note's maturity date. The conversion price for Primary Optional Conversion is lesser of \$1.50 per share or at 65% of the market share price of the Company. The conversion price for Secondary Optional Conversion is \$3.41 per share subject to equitable adjustment for stock split, stock dividend or rights offerings.

Under the agreement, the Company shall pay the note holder 120,000 common shares of SIAF or 32,000 common shares of TRW as an origination fee. The note bears a flat interest payment which shall be settled by 200,000 common shares of SIAF or 55,000 common shares of TRW.

As of the date of this report, no settlement has occurred for either the origination fee or the interest payment, and as such the note holder and the Company agreed to settle pending the completion of a settlement agreement to revise the final settlement at a sum of US\$6 million covering both principal and interest payment to be paid in installments within the next 9 months on or before year end of 2019. The Company is expecting the final agreement to be executed as soon as possible.

#### **Note (16) Non-current liabilities**

Other payables of \$10,826,560: During Q3 2018, the Company issued promissory notes amounting to \$617,230 to unrelated third parties for advances granted by third parties collectively to the Company (and/or to its subsidiaries). During Q3 2018 we redeemed \$739,797 of Promissory Notes for advances granted by third parties in past fiscal years to be settled by the issuance of shares and/or cash leaving a balance of \$10,826,560 of promissory notes still due and outstanding as of September 30, 2018.

**Part C. Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017 (presented in summarized Charts below):**

**Revenue:**

Revenues decreased by \$60,256,521 or 36% to \$106,476,004 for the nine months ended September 30, 2018 from \$166,732,526 for the nine months ended September 30, 2017. The decrease was primarily due to the decrease of revenue generated from our fishery, beef, organic fertilizer, cattle farm, corporate and others operations for reasons explained in earlier sections.

The following chart illustrates the changes by category from the nine months ended September 30, 2018 to September 30, 2017

| Category             | 2018<br>Q1-Q3<br>\$ | 2017<br>Q1-Q3<br>\$ | Difference<br>\$ |
|----------------------|---------------------|---------------------|------------------|
| Fishery              | 10,036,762          | 16,167,636          | (6,130,874)      |
| Plantation           | 3,082,503           | 3,565,220           | (482,717)        |
| Beef                 | 5,011,148           | 47,241,793          | (42,230,645)     |
| Organic fertilizer   | 17,316,788          | 19,893,518          | (2,576,730)      |
| Cattle farm          | 19,100,254          | 23,094,392          | (3,994,138)      |
| Corporate and others | 51,928,549          | 56,769,967          | (4,841,418)      |
| Total                | 106,476,004         | 166,732,526         | (60,256,522)     |

**Cost**

Cost decreased by \$50,493,574 or 36% to \$88,754,262 for the nine months ended September 30, 2018 from \$139,247,836 for the nine months ended September 30, 2017. The decrease was primarily due to the reciprocal decrease in sales generated from the Company's fishery, plantation, beef, organic fertilizer, cattle farm and corporate and other operations for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017.

The following chart illustrates the changes by category from the nine months ended September 30, 2018 to September 30, 2017.

**Cost**

| Category             | 2018<br>Q1-Q3<br>\$ | 2017<br>Q1-Q3<br>\$ | Difference<br>\$ |
|----------------------|---------------------|---------------------|------------------|
| Fishery              | 8,133,799           | 11,016,962          | (2,883,163)      |
| Plantation           | 2,569,886           | 2,334,052           | 235,834          |
| Beef                 | 4,121,113           | 44,148,494          | (40,027,381)     |
| Organic fertilizer   | 10,650,092          | 11,689,897          | (1,039,805)      |
| Cattle farm          | 16,711,195          | 19,582,042          | (2,870,847)      |
| Corporate and others | 46,568,177          | 50,476,389          | (3,908,212)      |
| Total                | 88,754,262          | 139,247,836         | (50,493,574)     |

### ***Gross Profit***

Gross profit decreased by \$9,762,948 or 36% to \$17,721,742 for the nine months ended September 30, 2018 from \$27,484,690 for the nine months ended September 30, 2017. The decrease was primarily due to corresponding decreases in revenues generated by operations.

The following chart illustrates the changes by category from the nine months ended September 30, 2018 to September 30, 2017.

The gross profit by category is as follows:

### ***Gross Profit***

| Category             | 2018<br>Q1-Q3<br>\$ | 2017<br>Q1-Q3<br>\$ | Difference<br>\$ |
|----------------------|---------------------|---------------------|------------------|
| Fishery              | 1,902,963           | 5,150,674           | (3,247,711)      |
| Plantation           | 512,617             | 1,231,168           | (718,551)        |
| Beef                 | 890,035             | 3,093,299           | (2,203,264)      |
| Organic fertilizer   | 6,666,696           | 8,203,621           | (1,536,925)      |
| Cattle farm          | 2,389,059           | 3,512,350           | (1,123,291)      |
| Corporate and others | 5,360,372           | 6,293,578           | (933,206)        |
| Total                | 17,721,742          | 27,484,690          | (9,762,948)      |

### ***General and Administrative Expenses and Interest Expenses***

General and administrative expenses and interest expenses (including depreciation and amortization) decreased by \$3,628,623 or 22% to \$13,066,431 for the nine months ended September 30, 2018 from \$16,695,054 for the nine months ended September 30, 2017. The change was primarily due to a decrease in wages and salaries to \$1,481,441 for the nine months ended September 30, 2018 from \$5,041,093 for the nine months ended September 30, 2017.

| Category   | 2018 Q1-Q3        | 2017 Q1-Q3        | Difference<br>\$   |
|--|-------------------|-------------------|--------------------|
| Office and corporate expenses                    | 4,703,280         | 3,693,504         | 1,009,776          |
| Wages and salaries                               | 1,481,441         | 5,041,093         | (3,559,652)        |
| Traveling and related lodging                    | 17,183            | 38,721            | (21,538)           |
| Motor vehicles expenses and local transportation | 37,613            | 79,998            | (42,385)           |
| Entertainments and meals                         | 35,092            | 185,549           | (150,457)          |
| Others and miscellaneous                         | 1,279,843         | 2,258,306         | (978,462)          |
| Depreciation and amortization                    | 4,233,294         | 3,835,975         | 397,318            |
| Sub-total  | 11,787,746        | 15,133,146        | (3,345,400)        |
| Interest expenses                                | 1,278,685         | 1,561,908         | (283,223)          |
| Total  | <u>13,066,431</u> | <u>16,695,054</u> | <u>(3,628,623)</u> |

#### ***Depreciation and Amortization***

Depreciation and amortization increased by \$465,046 or 5% to \$9,483,053 for the nine months ended September 30, 2018 from \$9,018,007 for the nine months ended September 30, 2017. The increase was primarily due to the increase of depreciation by \$900,174 to \$7,877,928 for the nine months ended September 30, 2018 from depreciation of \$6,997,754 for the nine months ended September 30, 2017, and the decrease of amortization by \$415,128 to \$1,605,125 for nine months ended September 30, 2018 from amortization of \$2,020,253 for nine months ended September 30, 2017.

In this respect, total depreciation and amortization amounted to \$9,483,053 for the nine months ended September 30, 2018, out of which amount \$4,233,294 was reported under General and administration expenses and \$5,249,759 was reported under cost of goods sold; whereas total depreciation and amortization amounted to \$9,018,006 for the nine months ended September 30, 2017, out of which amount \$3,835,975 was reported under General and administration expenses and \$5,182,031 was reported under cost of goods sold;

#### ***Income Taxes***

The Company is incorporated in the State of Nevada, in the United States of America. The Company has no trading operations in United States of America and no US corporate tax has been provided for in the consolidated financial statements of the Company.

#### **Undistributed Earnings of Foreign Subsidiaries**

The Company intends to use the remaining accumulated and future earnings of foreign subsidiaries to expand operations outside the United States and accordingly, undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States and no provision for U.S. Federal and State income tax or applicable dividend distribution tax has been provided thereon.

The Company failed to file US tax returns for the years ended December 31, 2007 through December 31, 2012 in compliance with US Treasury Internal Revenue Service Code. The Company has reviewed its tax position with the assistance US tax professional and believes that there will be no taxes and no penalties assessed by the Internal Revenue Service in the United States of America. The Company has appointed US tax professional to assist in filing these income tax returns. In this respect we filed our Tax returns with the ISR USA Government on July, 2014.

No EIT has been provided in the financial statements of SIAF, CA, JHST, JHMC, JFD, HAS, QZH and SJAP since they are exempt from EIT for the nine months ended September 30, 2018 and 2017 as they are within the agriculture, dairy and fishery sectors.

CA, CS and CH are international business companies incorporated in Belize, and are exempt from corporate tax in Belize.

No Hong Kong profits tax has been provided in the consolidated financial statements, since TRW did not earn any assessable profits arising in Hong Kong for the nine months ended September 30, 2018 and 2017.

No Macau Corporate income tax has been provided in the consolidated financial statements, since APWAM and MEIJI did not earn any assessable profits for the nine months ended September 30, 2018 and 2017.

No Swedish Corporate income tax has been provided in the consolidated financial statements, since SAFS incurred a tax loss for the nine months ended September 30, 2018 and 2017.

No deferred tax assets and liabilities are of September 30, 2018 and December 31, 2017 since there was no difference between the financial statements carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the period in which the differences are expected to reverse.

#### **Off Balance Sheet Arrangements**

None.

#### **Liquidity and Capital Resources**

As of September 30 2018, unrestricted cash and cash equivalents amounted to \$417,373 (see notes to the consolidated financial statements), and our working capital as of September 30, 2018 was \$173,130,680.

As of September 30, 2018, our total long-term debts are as follows:

| <b>Contractual Obligations</b> | <b>Less than 1 year</b> | <b>1-3years</b> | <b>3-5 years</b> | <b>More than 5 years</b> | <b>Total</b> |
|--------------------------------|-------------------------|-----------------|------------------|--------------------------|--------------|
| Short Term Bank Loan           | 4,506,468               |                 |                  |                          | 4,506,468    |
| Negotiable promissory notes    | 977,155                 |                 |                  |                          | 977,155      |
| Long Term Debts                |                         | 5,669,429       |                  |                          | 5,669,429    |
| Promissory Notes               |                         | 10,826,560      |                  |                          | 10,826,560   |
| convertible note payables      | 3,894,978               |                 |                  |                          | 3,894,978    |

Cash provided by operating activities amounted to \$11,637,524 for Q1-3 2018. This compares with cash provided by operating activities totaling \$27,498,878 for Q1-3 2017. The decrease in cash flows provided by operating activities resulted primarily from the decrease in account receivable of \$(11,912,622) for Q1-3 2018 from \$17,756,843 for Q1-3 2017.

Cash used in investing activities totaled \$(6,832,839) for Q1-3 2018. This compares with cash used in investing activities totaling \$(21,625,928) for Q1-3 2017. The increase in cash flows used in investing activities resulted primarily from purchases of property and equipment and non-current assets held for sale of \$(3,500) for Q1-3 2018 compared to \$(14,552,588) for Q1-3 2017.

Cash used in financing activities totaled \$0 for Q1-3 2018. This compares with cash used in financing activities totaling \$(3,413,653) for Q1-3 2017. The increase in cash used in financing activities was primarily due to convertible notes repaid of \$0 during Q1-3 2018 from \$1,500,000 paid during Q1-3 2017.

#### **Sales of unregistered shares and equity changes**

During the quarter the company issued a total of 7,104,837 shares for total consideration of \$4,042,097 in settlements of other payables detailed as follows:

- Settlement for 4 professionals on consulting and service rendered fees for \$303,055 by the issuance of 551,010 shares at \$0.55/share.
- A total of 4,611,086 shares were issued to 5 building contractors and/or suppliers for the settled consideration of \$2,536,097.
- The payments to other unrelated third parties for \$739,797 by the issuance of 1,479,593 shares.
- The issuance of 463,148 shares to a total of 17 staffs/workers for \$463,148 for services rendered and owed during year 2016 to 2017.

#### **CRITICAL ACCOUNTING POLICIES**

##### **BASIS OF PRESENTATION**

The unaudited consolidated financial statements for the nine months ended September 30, 2018 are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

The unaudited quarterly financials for the nine months ended September 30, 2018 results are for the months and do not necessarily indicate the results for a full year. The information included in this interim report should be read in conjunction with the information included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2017.

##### **BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of SIAF, its subsidiaries Capital Award, CS, CH, TRW, MEIJI, JHST, JFD, JHMC, HSA, APWAM, SAFS and its variable interest entity SJAP and QZH. All material inter-company transactions and balances have been eliminated in consolidation. The results of companies acquired or disposed of during the year are included in the consolidated Financial Statements from the effective date of acquisition.

## BUSINESS COMBINATIONS

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

## NON - CONTROLLING INTEREST IN CONSOLIDATED FINANCIAL STATEMENTS

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

## USE OF ESTIMATES

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

## REVENUE RECOGNITION

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

Government grants are recognized upon (i) the Company has substantially accomplished what we must be done pursuant to the terms of the policies and terms of the grant that are established by the local government; and (ii) the Company receives notification from the local government that the Company has satisfied all of the requirements to receive the government grants; and or (iii) the amounts are received.

### Multiple-Element Arrangements

To qualify as a separate unit of accounting under ASC 605-25 “*Multiple Element Arrangements*”, the delivered item must have value to the customer on a standalone basis. The significant deliverables under the Company’s multiple-element arrangements are consulting and service under development contract, commission and management service.

Revenues from the Company’s fishery development services contract are performed under fixed-price contracts. Revenues under long-term contracts are accounted for under the percentage-of-completion method of accounting in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 605, *Revenue Recognition* (“ASC 605”). Under the percentage-of-completion method, the Company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognized that profit over the contract term. The percentage of costs incurred determines the amount of revenue to be recognized. Payment terms are generally defined by the installation contract and as a result may not match the timing of the costs incurred by the Company and the related recognition of revenue. Such differences are recorded as either costs or estimated earnings in excess of billings on uncompleted contracts or billings in excess of costs and estimated earnings on uncompleted contracts.

The Company determines a customer’s credit worthiness at the time an order is accepted. Sudden and unexpected changes in a customer’s financial condition could put recoverability at risk.

The percentage of completion method requires the ability to estimate several factors, including the ability of the customer to meet its obligations under the contract, including the payment of amounts when due. If the Company determines that collectability is not assured, we will defer revenue recognition and use methods of accounting for the contract such as the completed contract method until such time as the Company determines that collectability is reasonably assured or through the completion of the project.

For fixed-price contracts, the Company uses the ratio of costs incurred to date on the contract (excluding uninstalled direct materials) to management's estimate of the contract's total costs, to determine the percentage of completion on each contract. This method is used as management considers expended costs to be the best available measure of progression of these contracts. Contract costs included all direct material, subcontract and labor costs and those indirect costs related to contract performance, such as supplies, tool repairs and depreciation. The Company accounts for maintenance and repair services under the guidance of ASC 605 as the services provided relate to construction work. Contract costs incurred to date and expected total contract costs are continuously monitored during the term of the contract. Changes in job performance, job conditions, and estimated profitability arising from contract penalty, change orders and final contract settlements may result in revisions to the estimated profitability during the contract. These changes, which include contracts with estimated costs in excess of estimated revenues, are recognized as contract costs in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured. At the point the Company anticipates a loss on a contract, the Company estimates the ultimate loss through completion and recognizes that loss in the period in which the possible loss was identified.

The Company does not provide warranties to customers on a basis customary to the industry; however, the customers can claim warranty directly from product manufacturers for defects in equipment or products. Historically, the Company has experienced no warranty claims.

The Company's fishery development consultancy services revenues are recognized when the relevant services are rendered, and are subject to a Chinese business tax at a rate of 0% of the gross fishery development contract service income approved by the Chinese local government.

#### **COST OF GOODS SOLD AND SERVICES**

Cost of goods sold consists primarily of direct purchase cost of merchandise goods, and related levies. Cost of services consists primarily of direct cost and indirect cost incurred to date for development contracts and provision for anticipated losses on development contracts.

#### **SHIPPING AND HANDLING**

Shipping and handling costs related to cost of goods sold are included in general and administrative expenses, which totaled \$0, \$1,716, \$2,745 and \$17,861 for the three months and the nine months ended September 30, 2018 and 2017, respectively.

#### **ADVERTISING**

Advertising costs are included in general and administrative expenses, which totaled \$375,221, \$382,424, \$1,175,724 and \$1,386,186 for the three months ended and the nine months ended September 30, 2018 and 2017, respectively.

#### **RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses are included in general and administrative expenses, which totaled \$0, 449, 910, \$0 and \$449,910 for the three months ended and the nine months ended September 30, 2018 and 2017, respectively.

#### **CASH AND CASH EQUIVALENTS**

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

#### **ACCOUNTS RECEIVABLE**

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

The standard credit period of the Company's most of customers is three months. Any amount that has an extended settlement date of over one year is classified as a long term receivable. Management evaluates the collectability of the receivables at least quarterly. There were no bad debts written off for the nine months ended September 30, 2018 or September 30, 2017.

## INVENTORIES

Inventories are valued at the lower of cost (determined on a weighted average basis) and net realizable value. Costs incurred in bringing each product to its location and conditions are accounted for as follows:

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

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

## PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Such costs include the cost of replacing parts that are eligible for capitalization when the cost of replacing the parts is incurred. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each year.

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

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

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

## GOODWILL

Goodwill is an asset representing the fair economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is tested for impairment on an annual basis at the end of the company's fiscal year, or when impairment indicators arise. The Company uses a fair-value-based approach to test for impairment at the level of each reporting unit. The Company directly acquired MEIJI which is engaged in Hu Plantation. As a result of this acquisition, the Company recorded goodwill in the amount of \$724,940. This goodwill represents the fair value of the assets acquired in these acquisitions over the cost of the assets acquired.

## PROPRIETARY TECHNOLOGIES

The Company has determined that technological feasibility is established at the time a working model of products is completed. Master license of stock feed manufacturing technology was acquired and the costs of acquisition were capitalized as proprietary technologies when technological feasibility had been established. Proprietary technologies are intangible assets of finite lives. Proprietary technologies are amortized using the straight line method over their estimated lives of 25 years.

An aromatic cattle-feeding formula was acquired and the costs of acquisition are capitalized as proprietary technologies when technological feasibility has been established. Cost of acquisition on aromatic cattle-feeding formula is amortized using the straight-line method over its estimated life of 25 years.

The cost of sleep cod breeding technology license is capitalized as proprietary technologies when technological feasibility has been established. Cost of granting sleep cod breeding technology license is amortized using the straight-line method over its entitled life of 25 years.

Bacterial cellulose technology license and related trademark are capitalized as proprietary technologies when technological feasibility has been established. Cost of license and related trademark is amortized using the straight-line method over its estimated life of 20 years.

Management evaluates the recoverability of proprietary technologies on an annual basis of the end of the company's fiscal year, or when impairment indicators arise. As required by ASC Topic 350 "Intangible - Goodwill and Other", the Company uses a fair-value-based approach to test for impairment.

#### **CONSTRUCTION IN PROGRESS**

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

#### **LAND USE RIGHTS**

Land use rights represent acquisition of land use right rights of agriculture land from farmers and are amortized on the straight line basis over the respective lease periods. The lease period of agriculture land is in the range from 10 years to 60 years. Land use rights purchase prices were determined in accordance with the P.R.C Government's minimum lease payments of agriculture land and mutually agreed between the company and the vendors. No independent professional appraiser performed a valuation of land use rights at the balance sheet dates.

#### **CORPORATE JOINT VENTURE**

A corporation formed, owned, and operated by two or more businesses (ventures) as a separate and discrete business or project (venture) for their mutual benefit is considered to be a corporate joint venture. Investee entities, in which the company can exercise significant influence, but not control, are accounted for under the equity method of accounting. Under the equity method of accounting, the company's share of the earnings or losses of these companies is included in net income.

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

#### **VARIABLE INTEREST ENTITY**

An entity (investee) in which the investor has obtained less than a majority-owned interest, according to the Financial Accounting Standards Board (FASB). A variable interest entity (VIE) is subject to consolidation if a VIE is an entity meeting one of the following three criteria as elaborated in ASC Topic 810-10, *Consolidation*.

- (a) equity-at-risk is not sufficient to support the entity's activities
- (b) as a group, the equity-at-risk holders cannot control the entity; or
- (c) the economics do not coincide with the voting interest.

If a firm is the primary beneficiary of a VIE, the holdings must be disclosed on the balance sheet. The primary beneficiary is defined as the person or company with the majority of variable interests.

#### **TREASURY STOCK**

Treasury stock consists of a Company's own stock which has been issued, but is subsequently reacquired by the Company. Treasury stock does not reduce the number of shares issued but does reduce the number of shares outstanding. These shares are not eligible to receive cash dividends. Accounting for excesses and deficiencies on treasury stock transactions is governed by ASC 505-30-30.

State laws and federal agencies closely regulate transactions involving a company's own capital stock, so the purchase of outstanding shares and converting them into treasury shares must have a legitimate purpose. Some of the most common reasons for purchasing outstanding shares are as follows:

- (i) to meet additional stock needs for various reasons, including newly implemented stock option plans, the issuance stock for convertible bonds or convertible preferred stock, or a stock dividend;

- (ii) to eliminate the ownerships interests of a stockholder;
- (iii) to increase the market price of the stock that returns capital to shareholders; and
- (iv) to potentially increase earnings per share of the stock by decreasing the shares outstanding on the same earnings.

The cost method of accounting for treasury stock shares has been adopted by the Company. The purchase of outstanding shares is treated as a temporary reduction in shareholders' equity in view of the expectation to reissue the shares instead of retiring them. When the Company reissues the treasury shares, the temporary account is eliminated. The cost of treasury stock shares reacquired is charged to a contra account, in this case a contra equity account that reduces the stockholder equity balance.

## **INCOME TAXES**

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

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

Deferred income taxes are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also adjusted in the equity accounts. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. ASC 740 also prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. ASC 740 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. Any interest and penalties accrued related to unrecognized tax benefits will be recorded in tax expense.

## **POLITICAL AND BUSINESS RISK**

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

## **IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLE ASSETS**

In accordance with ASC 360, "Property, Plant and Equipment", long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company reviews the carrying amount of its long-lived assets, including intangibles, for impairment, at the end of each fiscal year. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is considered not recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. As of September 30, 2018 and December 31, 2017, the Company determined no impairment losses were necessary.

## **EARNINGS PER SHARE**

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

For the three months ended September 30, 2018 and 2017, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries' common stockholders amounted to \$0.09 and \$0.14, respectively. For the three months ended September 30, 2018 and 2017, diluted earnings per share attributable to Sino Agro Food, Inc. and its subsidiaries' common stockholders amounted to \$0.09 and \$0.15, respectively.

For the nine months ended September 30, 2018 and 2017, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries common stockholders amounted to \$0.27 and \$0.62, respectively. For the nine months ended September 30, 2018 and 2017, diluted earnings per share attributable to Sino Agro Food, Inc. and its subsidiaries' common stockholders amounted to \$0.27 and \$0.63, respectively.

#### **FOREIGN CURRENCY TRANSLATION**

The reporting currency of the Company is the U.S. dollar. The functional currency of the Company is the Chinese Renminbi (RMB). For those entities whose functional currency is other than the U.S. dollars, all assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date; shareholder equity is translated at historical rates and items in the statements of income and of cash flows are translated at the average rate for the period.

Because cash flows are translated based on the weighted average translation rate, amounts related to assets and liabilities reported in the statements of cash flows will not necessarily agree with changes in the corresponding balances in the balance sheets. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statements of equity.

#### ***For the nine months ended September 30, 2017***

Translation gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the statements of income and comprehensive income as incurred. The balance sheet amounts with the exception of equity as of September 30, 2017 and December 31, 2016 were translated at RMB6.64 to \$1.00 and RMB6.94 to \$1.00, respectively. The average translation rates applied to the consolidated statements of income and comprehensive income and of cash flows for the nine months ended September 30, 2017 and September 30, 2016 were RMB6.80 to \$1.00 and RMB6.58 to \$1.00, respectively.

#### ***For the nine months ended September 30, 2018***

Translation gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the statements of income and comprehensive income as incurred. The balance sheet amounts with the exception of equity as of September 30, 2018 and December 31, 2017 were translated at RMB6.88 to \$1.00 and RMB6.53 to \$1.00, respectively. The average translation rates applied to the consolidated statements of income and comprehensive income and of cash flows for the nine months ended September 30, 2018 and September 30, 2017 were RMB6.51 to \$1.00 and RMB6.80 to \$1.00, respectively.

#### **ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

#### **RETIREMENT BENEFIT COSTS**

P.R.C. state managed retirement benefit programs are defined contribution plans and the payments to the plans are charged as expenses when employees have rendered service entitling them to the contribution.

#### **STOCK-BASED COMPENSATION**

The Company adopts both ASC Topic 718, “Compensation - Stock Compensation” and ASC Topic 505-50, “Equity-Based Payments to Non-Employees” using the fair value method in which an entity issues its equity instruments to acquire goods and services from employees and non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with this accounting standard and the accounting standard regarding accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling goods or services, as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured. This accounting standard allows the “simplified” method to determine the term of employee options when other information is not available. Under ASC Topic 718 and ASC Topic 505-50, stock compensation expenses is measured at the grant date on the value of the option or restricted stock and is recognized as expenses, less expected forfeitures, over the requisite service period, which is generally the vesting period.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The carrying amounts of the Company's financial assets and liabilities, such as cash and accrued expenses, approximate their fair values because of the short maturity of these instruments. The Company does not have any assets or liabilities measured at fair value on a recurring or a non-recurring basis, consequently, the Company did not have any fair value adjustments for assets and liabilities measured at fair value as of September 30, 2018 or December 31, 2017, nor gains or losses are reported in the statements of income and comprehensive income that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date for the nine months ended September 30, 2018 or 2017.

## NEW ACCOUNTING PRONOUNCEMENTS

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

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. This guidance will be effective for us in the first quarter of 2019 on a modified retrospective basis and early adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08), which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. This guidance will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting* (ASU 2016-09) to simplify the accounting for share-based payment transactions, including the income tax consequences, an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This guidance became effective for us in the first quarter of 2017, and early adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory* (ASU 2016-16), which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory. This guidance will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. We currently anticipate adopting the new standard effective January 1, 2018, and do not expect the standard to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance will be effective for us in the first quarter of 2018 and early adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosure.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for us in the first quarter of 2018 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance will be effective for us in the first quarter of 2020 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not Applicable

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the “Evaluation”), under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures (“Disclosure Controls”) as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act. Based on this Evaluation, our CEO and CFO concluded that our Disclosure Controls were effective as of the end of the period covered by this report.

#### **Changes in Internal Control over Financial Reporting**

We have also evaluated our internal controls for financial reporting, and there has been no change in our internal control over financial reporting that occurred during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

#### **Limitations on the Effectiveness of Controls**

Our management, including our CEO and CFO, does not expect that our Disclosure Controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **Subsequent Events**

On October 5, 2018, Tri-way Industries limited (“TRW”), a Hong Kong company in which Sino Agro Food, Inc. (the “Company”) owns a minority interest, inadvertently issued a press release regarding a proposed distribution (the “Distribution”) of its shares to the Company’s shareholders (the “First Release”).

On January 13, 2016, securities representing beneficial interests in the shares of common stock on the Company, referred to as VPS Shares, began to be traded on the Oslo Børs’ Merkur Market (the “Oslo Market”) under the symbol “SIAF-ME.” The Company’s common stock trades on the OTC QX under the symbol “SIAF.” As required by the rules of the Oslo Market, on October 8, 2018, the Company issued an announcement through the Oslo Market (the “Second Release”) summarizing the contents of the First Release.

On October 30, 2018, the Company issued another announcement regarding the purported Distribution through the Oslo Market (the “Third Release”).

On November 7, 2018, having been made aware that the Distribution could not proceed as originally planned, TRW prepared a press release to be issued modifying its original plans regarding the Distribution and withdrew the related record date (the “Fourth Release”).

On November 7, 2018, the Company again issued an announcement through the Oslo Market, which referred to the Fourth Release as an attachment thereto (the “Fifth Release”). While TRW intended to issue the Fourth Release prior to the announcement of the Fifth Release, the Fourth Release was not in fact published until later on November 7, 2018.

## **References to the Tri-way dividend**

Tri-way Industries Limited (“TRW”) a Hong Kong based aquaculture company reports the details of its share dividend distribution to shareholders of its Investment Associate, Sino Agro Food, Inc. (“SIAF”), based on exercising its option to liquidate outstanding debt owed SIAF of USD 62,338,065, covering both a portion or all of accounts payable and other payables owed SIAF to date. TRW elected to exercise the option to distribute TRW common shares in lieu of paying a cash dividend, and/or a cash plus share dividend against the USD 62,338,065, the option of which had been granted by SIAF to TRW as part of its agreement with TRW to see its debt repaid in the best interest of both parties. Repayment of the USD 62,338,065 debt outstanding represents an 18.3% ownership distribution in TRW to owners/shareholders of SIAF.

The distribution of TRW shares to each shareholder of SIAF is predicated on two variables; namely, the total issued and outstanding shares of common stock of the Company as of record date (which will not be known for some time), and the number of shares of common stock of the Company individually held under each SIAF shareholder’s account in order to determine the ratio of shares of SIAF required to be owned in order to receive one (1) share of TRW as well as the total number of TRW shares to be received by each individual shareholder.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None

### **ITEM 1A. RISK FACTORS**

Not applicable

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the quarter the company issued a total of 7,104,837 shares for total consideration of \$4,042,097 in settlements of other payables detailed as follows:

- Settlement for 4 professionals on consulting and service rendered fees for \$303,055 by the issuance of 551,010 shares at \$0.55/share.
- A total of 4,611,086 shares were issued to 5 building contractors and/or suppliers for the settled consideration of \$2,536,097.
- The payments to other unrelated third parties for \$739,797 by the issuance of 1,479,593 shares.
- The issuance of 463,148 shares to a total of 17 staffs/workers for \$463,148 for services rendered and owed during year 2016 to 2017.

The shares were issued pursuant to the exemption from registration under the Securities Act provided by its Regulation S.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

| <b>Exhibit No .</b> | <b>Description of Exhibits</b>   |
|---------------------|--|
| <u>31.1</u>         | <a href="#">Section 302 Certification of Principal Executive Officer+</a>                                  |
| <u>31.2</u>         | <a href="#">Section 302 Certification of Principal Financial Officer+</a>                                  |
| <u>32.1</u>         | <a href="#">Section 906 Certification of Principal Executive Officer and Principal Financial Officer *</a> |
| 101.INS             | XBRL Instance Document +   |
| 101.SCH             | XBRL Taxonomy Extension Schema Document +  |
| 101.CAL             | XBRL Taxonomy Calculation Linkbase Document +  |
| 101.LAB             | XBRL Taxonomy Labels Linkbase Document +   |
| 101.PRE             | XBRL Taxonomy Presentation Linkbase Document +   |
| 101.DEF             | XBRL Definition Linkbase Document +  |

+ filed herewith

\* furnished herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

## SINO AGRO FOOD, INC.

November 14, 2018

By: /s/ LEE YIP KUN SOLOMON  
Lee Yip Kun Solomon  
Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

November 14, 2018

By: /s/ LEE YIP KUN SOLOMON  
Lee Yip Kun Solomon  
Chief Executive Officer, Director  
(Principal Executive Officer)

November 14, 2018

By: /s/ TAN POAY TEIK  
Tan Poay Teik  
Chief Officer, Marketing

November 14, 2018

By: /s/ CHEN BORHANN  
Chen Bor Hann  
Corporate Secretary

November 14, 2018

By: Daniel Ritchey  
Director

November 14, 2018

By: /s/ SOH LIM CHANG  
Soh Lim Chang  
Director

**Certification of the Principal Executive Officer**

I, LEE YIP KUN SOLOMON, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 of Sino Agro Food, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, 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;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2018

By: /s/ Lee Yip Kun Solomon  
 Name: Lee Yip Kun Solomon  
 Title: Chief Executive Officer  
 (Principal Executive Officer)

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**Certification of the Principal Financial Officer**

I, Solomon Lee, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 of Sino Agro Food, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, 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;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2018

By: /s/ Solomon Lee  
 Name: Solomon Lee  
 Title: Chief Executive Officer  
 (Principal Financial Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sino Agro Food, Inc. (the "Registrant") on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee Yip Kun Solomon, Principal Executive Officer and Principal Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 14, 2018

By: /s/ Lee Yip Kun Solomon  
Name: Lee Yip Kun Solomon  
Title: Chief Executive Officer

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