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# FORM 10-Q

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

**Filed: August 09, 2016 (period: June 30, 2016)**

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

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2016

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** | **33-1219070** |
|---|---|
| (State of Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |

| **Room 3801, Block A, China Shine Plaza**<br>**No. 9 Lin He Xi Road**<br>**Tianhe District, Guangzhou City, P.R.C.** | **510610** |
|---|---|
| (Address of Principal Executive Offices) | (Zip Code) |

**(860) 20 22057860**
(Registrant's Telephone Number, Including Area Code)

Copies to:
Sichenzia Ross Friedman Ference LLP
61 Broadway, 32nd Floor
New York, NY10006
Attn: Marc J. 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 | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |

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 June 30, 2016, there were 21,465,322 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 REPORT

FOR THE SIX MONTHS ENDED JUNE 30, 2016

INDEX TO QUARTERLY FINANCIAL REPORT





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**14/F., San Toi Building, 137-139 Connaught Road Central, Hong Kong.**
**Tel : (852) 2581 7500**
**Fax : (852) 2581 7588**

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

INDEPENDENT ACCOUNTANT'S REPORT

We have reviewed the consolidated balance sheets of Sino Agro Food, Inc. and subsidiaries as of June 30, 2016 and December 31, 2015, the related consolidated statements of income and other comprehensive income for the three-month ended June 30, 2016 and 2015, and the six-month periods ended June 30, 2016 and 2015, and cash flows for the six-month periods ended June 30, 2016 and 2015. This interim financial information is the responsibility of the company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

s/ECOVIS ECOVIS David Yeung Hong Kong
ECOVIS David Yeung Hong Kong

Hong Kong
August 9, 2016



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

| | Note | June 30, 2016 (Unaudited) | December 31, 2015 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | $ 3,320,287 | $ 7,229,197 |
| Inventories | 6 | 65,672,097 | 62,848,707 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 19 | 1,306,885 | 1,306,885 |
| Deposits and prepayments | 7 | 95,499,629 | 83,811,929 |
| Accounts receivable, net of allowance for doubtful accounts | 8 | 128,587,659 | 135,674,418 |
| Other receivables | 9 | 73,375,022 | 59,780,587 |
| **Total current assets** | | 367,761,579 | 350,651,723 |
| **Plant and equipment** | | | |
| Plant and equipment, net of accumulated depreciation | 10 | 107,201,631 | 104,259,079 |
| Construction in progress | 11 | 98,983,538 | 72,788,769 |
| Land use rights, net of accumulated amortization | 12 | 56,618,491 | 58,485,675 |
| **Total plant and equipment** | | 262,803,660 | 235,533,523 |
| **Other assets** | | | |
| Goodwill | 13 | 724,940 | 724,940 |
| Proprietary technologies, net of accumulated amortization | 14 | 10,448,565 | 10,784,358 |
| Investment in unconsolidated equity investee | 15 | 150,806 | - |
| Long term investment | 16 | 754,034 | 769,941 |
| Temporary deposits paid to entities for investments in Sino joint venture companies | 17 | 41,109,708 | 41,109,708 |
| **Total other assets** | | 53,188,053 | 53,388,947 |
| **Total assets** | | $ 683,753,292 | $ 639,574,193 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued expenses | | $ 15,219,495 | $ 9,345,559 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 19 | 7.731,837 | 8,700,706 |
| Due to a director | | 711,715 | 211,247 |
| Other payables | 20 | 6,927,260 | 4,792,579 |
| Borrowings - Short term bank loan | 21 | 4,389,365 | 4,466,040 |
| Negotiable promissory notes | 22 | 879,321 | 865,968 |
| | | 35,858,993 | 28,382,099 |
| **Non-current liabilities** | | | |
| Other payables | 20 | 4,797,332 | 4,797,332 |
| Borrowings - Long term debts | 21 | 1,039,680 | 1,554,902 |
| Convertible note payables | 23 | 28,289,106 | 34,904,739 |
| | | 34,126,118 | 41,256,973 |
| **Commitments and contingencies** | 27 | - | - |
| **Stockholders' equity** | | | |
| Preferred stock: $0.001 par value (10,000,000 shares authorized, 100 and 100 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively) | | | |
| Series A preferred stock: $0.001 par value (100 shares designated, 100 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively) | 24 | $ - | $ - |
| Series B convertible preferred stock: $0.001 par value (10,000,000 shares designated, 0 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively) | 24 | - | - |
| Series F Non-convertible preferred stock: $0.001 par value (1,000,000 shares designated, 0 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively) | 24 | - | - |
| Common stock: $0.001 par value (22,727,273 shares authorized, 21,465,322 and 20,133,757 shares issued as of June 30, 2016 and December 31, 2015, respectively) | 24 | 21,465 | 20,134 |
| Additional paid - in capital | | 150,844,732 | 142,882,173 |
| Retained earnings | | 367,019,614 | 339,616,638 |
| Accumulated other comprehensive income | | (1,018,494) | 1,427,638 |
| Treasury stock | 24 | (1,250,000) | (1,250,000) |
| **Total Sino Agro Food, Inc. and subsidiaries stockholders' equity** | | 515,617,317 | 482,696,583 |
| Non - controlling interest | | 98,150,864 | 87,238,538 |
| **Total stockholders' equity** | | 613,768,181 | 569,935,121 |
| **Total liabilities and stockholders' equity** | | $ 683,753,292 | $ 639,574,193 |


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



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

| | Note | Three months ended June 30, 2016 (Unaudited) | Three months ended June 30, 2015 (Unaudited) | Six months ended June 30, 2016 (Unaudited) | Six months ended June 30, 2015 (Unaudited) |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| - Sale of goods | | $ 105,009,247 | $ 82,020,302 | $ 163,796,250 | $ 167,592,845 |
| - Consulting and service income from development contracts | | 18,945,280 | 8,343,423 | 31,644,377 | 37,713,262 |
| - Commission and management fee | | 327,728 | 490,003 | 734,682 | 1,024,071 |
| | 3 | 124,282,255 | 90,853,728 | 196,195,309 | 206,330,178 |
| **Cost of goods sold** | 3 | (80,901,589) | (62,208,398) | (124,448,353) | (125,498,386) |
| **Cost of services** | 3 | (13,416,468) | (6,708,419) | (22,927,340) | (23,316,430) |
| **Gross profit** | | 29,964,198 | 21,936,911 | 48,819,616 | 57,515,362 |
| **General and administrative expenses** | | (3,579,954) | (5,392,206) | (8,148,687) | (9,958,113) |
| **Net income from operations** | | 26,384,244 | 16,544,705 | 40,670,929 | 47,557,249 |
| **Other income (expenses)** | | | | | |
| **Government grant** | | - | 58,661 | 312,468 | 141,841 |
| **Other income** | | 96,058 | 89,821 | 210,929 | 152,467 |
| **Interest expense** | | (953,701) | (1,326,472) | (2,142,477) | (2,110,078) |
| **Net income (expenses)** | | (857,643) | (1,177,990) | (1,619,080) | (1,815,770) |
| **Net income (expenses) before income taxes** | | 25,526,601 | 15,366,715 | 39,051,849 | 45,741,479 |
| **Provision for income taxes** | 4 | - | - | - | - |
| **Net income** | | 25,526,601 | 15,366,715 | 39,051,849 | 45,741,479 |
| **Less: Net (income) loss attributable to the non - controlling interest** | | (6,730,309) | (6,056,513) | (11,648,873) | (12,676,436) |
| **Net income from continuing operations attributable to the Sino Agro Food, Inc. and subsidiaries** | | 18,796,292 | 9,310,202 | 27,402,976 | 33,065,043 |
| **Other comprehensive income (loss) Foreign currency translation gain (loss)** | | (3,957,978) | 817,766 | (3,182,679) | 788,405 |
| **Comprehensive income** | | 14,838,314 | 10,127,968 | 24,220,297 | 33,853,448 |
| **Less: other comprehensive (income) loss attributable to the non - controlling interest** | | 862,201 | (152,564) | 736,547 | (139,308) |
| **Comprehensive income attributable to the Sino Agro Food, Inc. and subsidiaries** | | $ 15,700,515 | $ 9,975,404 | $ 24,956,844 | $ 33,714,140 |
| **Earnings per share attributable to Sino Agro Food, Inc. and subsidiaries common stockholders:** | | | | | |
| **Basic** | 29 | $ 0.90 | $ 0.51 | $ 1.34 | $ 1.87 |
| **Diluted** | 29 | $ 0.82 | $ 0.51 | $ 1.24 | $ 1.87 |
| **Weighted average number of shares outstanding:** | | | | | |
| **Basic** | | 20,779,009 | 18,140,209 | 20,410,024 | 17,714,995 |
| **Diluted** | | 23,636,494 | 18,140,209 | 23,267,509 | 17,714,995 |



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

| | Six months ended June 30, 2016 (Unaudited) | Six months ended June 30, 2015 (Unaudited) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income for the period | $ 39,051,849 | $ 45,741,479 |
| Adjustments to reconcile net income for the year to net cash from operations: | | |
| Depreciation | 2,263,929 | 1,606,873 |
| Amortization | 976,936 | 1,095,000 |
| Common stock issued for services and employee compensation | 363,181 | 1,760,066 |
| Other amortized cost | 2,097,742 | 1,605,232 |
| Changes in operating assets and liabilities: | | |
| Increase in inventories | (2,823,390) | (4,206,724) |
| Increase in cost and estimated earnings in excess of billings on uncompleted contacts | - | (1,306,885) |
| Increase in deposits and prepaid expenses | (5,110,253) | (2,870,991) |
| Increase in due to a director | 500,468 | 18,348,071 |
| Increase (decrease) in accounts payable and accrued expenses | 5,873,936 | (2,506,843) |
| Increase in other payables | 2,134,681 | 7,676,735 |
| Decrease (increase) in accounts receivable | 7,086,759 | (1,949,372) |
| Decrease in billings in excess of costs and estimated earnings on uncompleted contracts | (968,869) | (3,427,685) |
| Increase in other receivables | (13,594,435) | (15,730,841) |
| **Net cash provided by operating activities** | 37,852,534 | 45,834,115 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (6,045,190) | (3,913,897) |
| Investment in unconsolidated equity investee | (150,806) | - |
| Payment for construction in progress | (29,031,614) | (33,275,507) |
| **Net cash used in investing activities** | (35,227,610) | (37,189,404) |
| **Cash flows from financing activities** | | |
| Convertible note payable repaid through director's account | (7,676,760) | - |
| Series F Non-convertible preferred stock redemption | - | 3,146,063 |
| Long term debts repaid | (512,360) | - |
| **Net cash used in financing activities** | (8,189,120) | (3,146,063) |
| | | |
| Effects on exchange rate changes on cash | 1,655,286 | 623,572 |
| (Decrease) increase in cash and cash equivalents | (3,908,910) | 6,122,220 |
| Cash and cash equivalents, beginning of period | 7,229,197 | 3,031,447 |
| Cash and cash equivalents, end of period | $ 3,320,287 | $ 9,153,234 |
| | | |
| Supplementary disclosures of cash flow information: | | |
| Cash paid for interest | $ 135,107 | $ 504,846 |
| Cash paid for income taxes | $ - | $ - |
| Non - cash transactions | | |
| Series B convertible preferred stock converted into common stock | $ - | $ 7,000 |
| Common stock issued for services and employee compensation | $ 7,963,889 | $ 726,362 |
| Common stock issued to decimal stockholders for rounding up shares holding | $ - | $ 2,772,281 |
| Common stock issued to secure debts loan | $ - | $ 5,996,665 |
| Transfer to plant and equipment from construction in progress | $ 1,443,313 | $ 1,594,864 |
| Transfer to plant and equipment from deposits and prepayments | $ - | $ 9,323 |
| Proceeds from convertible bond payables applied to investing and financing activities | $ - | $ 17,823,400 |

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



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**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, F-8 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%. This remains the case as of the date of this report (the " **Report**").

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.



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## 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 presently owns a 75% equity interest in JFD, representing majority of voting rights and controls its board of directors.

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. Up to March 31, 2016, total investment in HJMC was $4,420,665.

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%. As of March 31, 2016, MEIJI and SJAP total investment in HSA were $857,808 and 629,344, respectively.

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 March 31, 2016, the Company invested $77,664 in SAFS.

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 of result, SJAP decreased its equity interest from 100% to 85% and QQI owned a 14% equity interest. As of December 31, 2015, the SJAP's total investment in QZH was $4,645,487. 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.

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 $150,806.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 FISCAL YEAR

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



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**2.2 REPORTING ENTITIES**

| Name of subsidiaries | Place of incorporation | Percentage of interest | Principal activities |
|---|---|---|---|
| Capital Award Inc. ("CA") | Belize | 100% (12.31.2015: 100%) directly | Fishery development and holder of A-Power Technology master license. |
| Capital Stage Inc. ("CS") | Belize | 100% (12.31.2015: 100%) indirectly | Dormant |
| Capital Hero Inc. ("CH") | Belize | 100% (12.31.2015: 100%) indirectly | Dormant |
| Sino Agro Food Sweden AB ("SAFS") | Sweden | 100% (12.31.2015: 100%) directly | Dormant |
| Tri-way Industries Limited ("TRW") | Hong Kong, P.R.C. | 100% (12.31.2015: 100%) directly | Investment holding, holder of enzyme technology master license for manufacturing of livestock feed and bio-organic fertilizer and has not commenced its planned business of fish farm operations. |
| Macau Eiji Company Limited ("MEIJI") | Macau, P.R.C. | 100% (12.31.2015: 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% (12.31.2015: 100%) directly | Investment holding |
| Jiang Men City Heng Sheng Tai Agriculture Development Co. Ltd ("JHST") | P.R.C. | 75% (12.31.2015: 75%) indirectly | HylocereusUndatus Plantation ("HU Plantation"). |
| Jiang Men City A Power Fishery Development Co., Limited ("JFD") | P.R.C. | 75% (12.31.2015: 75%) indirectly | Fish cultivation |
| Jiang Men City Hang Mei Cattle Farm Development Co., Limited ("JHMC") | P.R.C. | 75% (12.31.2015: 75%) indirectly | Beef cattle cultivation |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA") | P.R.C. | 76% (12.31.2015: 76%) indirectly | Manufacturing of organic fertilizer, livestock feed, and beef cattle and sheep cultivation, and plantation of crops and pastures |

| Name of variable interest entity | Place of incorporation | Percentage of interest | Principal activities |
|---|---|---|---|
| Qinghai Sanjiang A Power Agriculture Co., Ltd ("SJAP") | P.R.C. | 45% (12.31.2015: 45%) indirectly | Manufacturing of organic fertilizer, livestock feed, and beef cattle and plantation of crops and pastures |
| Qinghai Zhong He Meat Products Co., Ltd ("QZH") | P.R.C. | *86% (12.31.2015:86%) indirectly | Cattle slaughter |

| Name of unconsolidated equity investee | Place of incorporation | Percentage of interest | Principal activities |
|---|---|---|---|
| Guangzhou Horan Taita Information Technology Co., Limited | P.R.C. | 30% (12.31.2015: Nil%) indirectly | Software development |

* This represents stockholding percentage of total equity.

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% (2015: 100%) on profit or loss after deduction 6% interest to QQI and enjoyed 100% (2015: 100%) voting rights of QZH's board and stockholders meetings.



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

### 2.3 BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (" **US GAAP** ").

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.

### 2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company, its subsidiaries CA, 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.

SIAF, CA, CS, CH, TRW, MEIJI, JHST, JFD, JHMC, HSA, APWAM, SAFS, SJAP and QZH 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.



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

### 2.8 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.

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.

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 consulting and services under development contracts 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 recognize 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, the Company 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 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 include 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 profit ability 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 loss was identified.

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

The Company provides various management services to its customers in the P.R.C. based on a negotiated fixed-price contract. The clients usually pay the fees when the services contract is signed and services are rendered. The Company recognizes these services-based revenues from contracts when (i) management services are rendered; (ii) clients recognize the completion of services; and (iii) collectability is reasonably assured. Fees received in advance are recorded as deferred revenue under current liabilities.



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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 $8,392, $1,260, $14,284 and $9,952 for the three months and the six months ended June 30, 2016 and 2015, respectively.

### 2.11 ADVERTISING

Advertising costs are included in general and administrative expenses, which totaled $665,952, $712,614, $1,332,210 and $1,421,458 for the three months ended and the six months ended June 30, 2016 and 2015, respectively.

### 2.12 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are included in general and administrative expenses, which totaled $0, $549,020, $0 and $549,020 for the three months ended and the six months ended June 30, 2016 and 2015, 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 $(1,018,494) as of June 30, 2016 and $1,427,638 as of December 31, 2015. The balance sheet amounts with the exception of equity as of June 30, 2016 and December 31, 2015 were translated using an exchange rate of RMB 6.63 to $1.00 and RMB 6.49 to $1.00, respectively. The average translation rates applied to the statements of income and other comprehensive income and of cash flows for the six months ended June 30, 2016 and 2015 were RMB 6.53 to $1.00 and RMB 6.13 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 for sale of goods and commission income and six months for consulting and service income from development contracts. 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 June 30, 2016 and December 31, 2015 are $0.



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## 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 - 20 years |
| Mature seeds and herbage cultivation | 20 years |
| Furniture and equipment | 2.5 - 10 years |
| Motor vehicles | 5 - 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% equity 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.



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## 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 25 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.



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**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 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 related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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.



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

### 2.28 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.

### 2.29 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 June 30, 2016 and December 31, 2015 amounted to $3,220,620 and $7,022,695, 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 & E) whose business individually represented the following percentages of the Company's total revenue for the year indicated:

| | Three month ended June 30, 2016 | Three months ended June 30, 2015 | Six month ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| Customer A | 18.45% | - | 19.39.39% | -% |
| Customer B | 13.99% | 11.45% | 13.24% | 10.49% |
| Customer C | 13.97% | 9.18% | 12.64% | 14.42% |
| Customer D | 11.61% | 15.20% | 8.11% | 18.25% |
| Customer E | 8.61% | - | -% | 11.00% |
| Customer F | - | 14.65% | -% | - |
| Customer G | - | 14.52% | 8.06% | - |
| Customer H | - | - | -% | 12.13% |
| | 66.63% | 65.00% | 61.44% | 66.29% |

| | | Percentage of revenue | Amount |
|---|---|---|---|
| Customer A | Fishery Development and Organic Fertilizer and Bread Grass Divisions | 19.39% | $ 38,050,425 |
| Customer B | Fishery Development Division | 13.24% | $ 25,981,877 |
| Customer C | Fishery Development Division | 12.64% | $ 24,806,201 |

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:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Customer A | 14.34% | - |
| Customer B | 13.70% | 10.12% |
| Customer C | 8.81% | 13.71% |
| Customer D | 6.99% | 11.31% |
| Customer E | 6.19% | 9.31% |
| Customer F | -% | 8.45% |
| | 50.03% | 52.90% |

As of June 30, 2016 amounts due from customers A and B are $18,443,674 and $17,612,139, 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.



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

### 2.30 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 June 30, 2016 and December 31, 2015, the Company determined no impairment losses were necessary.

### 2.31 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 June 30, 2016 and 2015, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries’ common stockholders amount to $0.90 and $0.51 respectively. For the three months ended June 30, 2016 and 2015, diluted earnings per share attributable to Sino Agro Food, Inc. and its subsidiaries’ common stockholders amounted to $0.82 and $0.51, respectively.

For the six months ended June 30, 2016 and 2015, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries’ common stockholders amount to $1.34 and $1.87 respectively. For the six months ended June 30, 2016 and 2015, diluted earnings per share attributable to Sino Agro Food, Inc. and its subsidiaries’ common stockholders amounted to $1.24 and $1.87, respectively.

### 2.32 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.

### 2.33 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.

### 2.34 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.



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

**2.35 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 June 30, 2016 or December 31, 2015, 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 six months ended June 30, 2016 or 2015.

**2.36 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 January 2015, FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2015-01 to have material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis.* The new consolidation standard changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. Early adoption is allowed, including early adoption in an interim period. A reporting entity may apply a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or may apply the amendments retrospectively. The adoption of ASU 2015-02 did not have a material impact on the Company's consolidated financial statements.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, which simplifies presentation of debt issuance costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU No. 2015-03 will be effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The adoption of ASU 2015-03 did not have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. The adoption of ASU 2015-17 did not have a material impact on the Company's consolidated financial statements.



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

### 2.36 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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 will be 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.

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.



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**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.

| | For the three months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and Others Division (5) | Total |
| Revenue | $ 48,154,472 | $ 5,502,259 | $ 43,880,876 | $ 7,079,763 | $ 19,664,885 | $ 124,282,255 |
| Net income (loss) | $ 11,823,978 | $ 1,550,172 | $ 5,387,193 | $ 714,750 | $ (679,801) | $ 18,796,292 |
| Total assets | $ 157,197,464 | $ 50,725,055 | $ 335,772,525 | $ 41,281,206 | $ 98,777,042 | $ 683,753,292 |

| | For the three months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and Others Division (5) | Total |
| Revenue | $ 27,976,873 | $ 4,193,013 | $ 41,427,182 | $ 9,497,684 | $ 7,758,976 | $ 90,853,728 |
| Net income (loss) | $ 5,735,532 | $ 1,537,297 | $ 4,732,684 | $ 620,338 | $ (3,315,649) | $ 9,310,202 |
| Total assets | $ 131,773,709 | $ 55,812,249 | $ 299,867,901 | $ 33,714,325 | $ 84,384,397 | $ 605,552,581 |

| | For the six months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and Others Division (5) | Total |
| Revenue | $ 77,418,513 | $ 5,502,259 | $ 75,306,596 | $ 11,896,647 | $ 26,071,294 | $ 196,195,309 |
| Net income (loss) | $ 18,346,079 | $ 1,132,208 | $ 10,155,689 | $ 1,061,419 | $ (3,292,419) | $ 27,402,976 |
| Total assets | $ 157,197,464 | $ 50,725,055 | $ 335,772,525 | $ 41,281,206 | $ 98,777,042 | $ 683,753,292 |

| | For the six months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and Others Division (5) | Total |
| Revenue | $ 81,313,647 | $ 4,193,013 | $ 81,803,771 | $ 17,787,670 | $ 21,232,077 | $ 206,330,178 |
| Net income (loss) | $ 23,099,982 | $ 949,281 | $ 10,391,789 | $ 974,518 | $ (2,350,527) | $ 33,065,043 |
| Total assets | $ 131,773,709 | $ 55,812,249 | $ 299,867,901 | $ 33,714,325 | $ 84,384,397 | $ 605,552,581 |



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**3. SEGMENT INFORMATION (CONTINUED)**

Note

(1) Operated by Capital Award, Inc. (“CA”) and Jiang Men City A Power Fishery Development Co., Limited (“JFD”).

(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”).

(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 (publ) (“SAFS”).



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SINO AGRO FOOD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (CONTINUED)

Further analysis of revenue:-

| | For the three months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 28,881,464 | $ - | $ - | $ - | $ - | $ 28,881,464 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited("JHST") | - | 5,502,259 | - | - | - | 5,502,259 |
| Human Shenghua A Power Agriculture Co., Limited("HSA") | - | - | 5,200,220 | - | - | 5,200,220 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 12.774,901 | - | - | 12,774,901 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 25,905,755 | - | - | 25,905,755 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 7,079,763 | - | 7,079,763 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 19,664,885 | 19,664,885 |
| Consulting and service income for development contracts | | | | | | |
| Capital Award, Inc. ("CA") | 18,945,280 | - | - | - | - | 18,945,280 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | - | - |
| Commission and management fee | | | | | | |
| Capital Award, Inc. ("CA") | 327,728 | - | - | - | - | 327,728 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | - | - | - |
| | $ 48,154,472 | $ 5,502,259 | $ 43,880,876 | $ 7,079,763 | $ 19,664,885 | $124,282,255 |



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SINO AGRO FOOD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of revenue (Continued):-

| | For the three months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 19,143,447 | $ - | $ - | $ - | $ - | $ 19,143,447 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited("JHST") | - | 4,193,013 | - | - | - | 4,193,013 |
| Human Shenghua A Power Agriculture Co., Limited("HSA") | - | - | 4,908,734 | - | - | 4,908,734 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 19,786,896 | - | - | 19,786,896 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 16,731,552 | - | - | 16,731,552 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 9,497,684 | - | 9,497,684 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 7,758,976 | 7,758,976 |
| Consulting and service income for development contracts | | | | | | |
| Capital Award, Inc. ("CA") | 8,343,423 | - | - | - | - | 8,343,423 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | - | - |
| Commission and management fee | | | | | | |
| Capital Award, Inc. ("CA") | 490,003 | - | - | - | - | 490,003 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | - | - | - |
| | $ 27,976,873 | $ 4,193,013 | $ 41,427,182 | $ 9,497,684 | $ 7,758,976 | $ 90,853,728 |



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SINO AGRO FOOD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of revenue:-

| | For the six months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 45,019,454 | $ - | $ - | $ - | $ - | $ 45,019,454 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited("JHST") | - | 5,502,259 | - | - | - | 5,502,259 |
| Human Shenghua A Power Agriculture Co., Limited("HSA") | - | - | 10,313,770 | - | - | 10,313,770 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 21,430,449 | - | - | 21,430,449 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 43,562,377 | - | - | 43,562,377 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 11,896,647 | - | 11,896,647 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 26,071,294 | 26,071,294 |
| Consulting and service income for development contracts | | | | | | |
| Capital Award, Inc. ("CA") | 31,664,377 | - | - | - | - | 31,664,377 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | - | - |
| Commission and management fee | | | | | | |
| Capital Award, Inc. ("CA") | 734,682 | - | - | - | - | 734,682 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | - | - | - |
| | $ 77,418,513 | $ 5,502,259 | $ 75,306,596 | $ 11,896,647 | $ 26,071,294 | $196,195,309 |



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**SINO AGRO FOOD, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. SEGMENT INFORMATION (CONTINUED)**

Further analysis of revenue (Continued):-

| | For the six months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 46,362,288 | $ - | $ - | $ - | $ - | $ 46,362,288 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited("JHST") | - | 4,193,013 | - | - | - | 4,193,013 |
| Human Shenghua A Power Agriculture Co., Limited("HSA") | - | - | 9,091,174 | - | - | 9,091,174 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 43,825,169 | - | - | 43,825,169 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 28,887,428 | - | - | 28,887,428 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 17,787,670 | - | 17,787,670 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 17,446,103 | 17,446,103 |
| Consulting and service income for development contracts | | | | | | |
| Capital Award, Inc. ("CA") | 33,927,288 | - | - | - | - | 33,927,288 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 3,785,974 | 3,785,974 |
| Commission and management fee | | | | | | |
| Capital Award, Inc. ("CA") | 490,003 | - | - | - | - | 490,003 |
| Macau Eiji Company Limited ("MEIJI") | 534,068 | - | - | - | - | 534,068 |
| | $ 81,313,647 | $ 4,193,013 | $ 81,803,771 | $ 17,787,670 | $ 21,232,077 | $206,330,178 |



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**3. SEGMENT INFORMATION (CONTINUED)**

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

COST OF GOODS SOLD

| | For the three months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 22,812,060 | $ - | $ - | $ - | $ - | $ 22,812,060 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | - | 2,654,717 | - | - | - | 2,654,717 |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA") | - | - | 3,152,363 | - | - | 3,152,363 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 8,890,553 | - | - | 8,890,553 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 19,300,064 | - | - | 19,300,064 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 6,682,424 | - | 6,682,424 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 17,409,408 | 17,409,408 |
| | $ 22,812,060 | $ 2,654,717 | $ 31,342,980 | $ 6,682,424 | $ 17,409,408 | $ 80,901,589 |

COST OF SERVICES

| | For the three months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Consulting and service income for development contracts | | | | | | |
| Capital Award, Inc. ("CA") | $ 13,416,468 | $ - | $ - | $ - | $ - | $ 13,416,468 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | - | - | - |
| | $ 13,416,468 | $ - | $ - | $ - | $ - | $ 13,416,468 |



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**3. SEGMENT INFORMATION (CONTINUED)**

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

COST OF GOODS SOLD

| | For the three months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 14,657,975 | $ - | $ - | $ - | $ - | $ 14,657,975 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | - | 1,144,755 | - | - | - | 1,144,755 |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA") | - | - | 2,841,873 | - | - | 2,841,873 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 15,284,738 | - | - | 15,284,738 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 12,244,885 | - | - | 12,244,885 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 9,137,304 | - | 9,137,304 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 6,896,868 | 6,896,868 |
| | $ 14,657,975 | $ 1,144,755 | $ 30,371,496 | $ 9,137,304 | $ 6,896,868 | $ 62,208,398 |

COST OF SERVICES

| | For the three months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Consulting and service income for development contracts | | | | | | |
| Capital Award, Inc. ("CA") | $ 6,708,419 | $ - | $ - | $ - | $ - | $ 6,708,419 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | - | - | - |
| | $ 6,708,419 | $ - | $ - | $ - | $ - | $ 6,708,419 |



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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

| | For the six months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 35,109,739 | $ - | $ - | $ - | $ - | $ 35,109,739 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | - | 2,654,717 | | - | - | 2,654,717 |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA") | - | | 6,309,822 | - | - | 6,309,822 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 14,169,177 | - | - | 14,169,177 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 32,055,852 | - | - | 32,055,852 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 11,272,835 | - | 11,272,835 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 22,876,211 | 22,876,211 |
| | $ 35,109,739 | $ 2,654,717 | $ 52,534,851 | $ 11,272,835 | $ 22,876,811 | $ 124,448,353 |

COST OF SERVICES

| | For the six months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Consulting and service income for development contracts | | | | | | |
| Capital Award, Inc. ("CA") | $ 22,927,340 | $ - | $ - | $ - | $ - | $ 22,927,340 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | - | - | - |
| | $ 22,927,340 | $ - | $ - | $ - | $ - | $ 22,927,340 |



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**SINO AGRO FOOD, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015**

**3. SEGMENT INFORMATION (CONTINUED)**

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

COST OF GOODS SOLD

| | For the six months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Sale of goods | | | | | | |
| Capital Award, Inc. ("CA") | $ 34,759,972 | $ - | $ - | $ - | $ - | $ 34,759,972 |
| Jiang Men City Heng Sheng Tai Agriculture Development Co., Limited ("JHST") | - | 1,144,755 | - | - | - | 1,144,755 |
| Hunan Shenghua A Power Agriculture Co., Limited ("HSA") | - | - | 5,232,471 | - | - | 5,232,471 |
| Qinghai Sanjiang A Power Agriculture Co., Limited ("SJAP") | - | - | 31,848,569 | - | - | 31,848,569 |
| Qinghai Zhong He Meat Products Co., Limited ("QZH") | - | - | 20,416,253 | - | - | 20,416,253 |
| Macau Eiji Company Limited ("MEIJI") | - | - | - | 17,125,423 | - | 17,125,423 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 14,970,943 | 14,970,943 |
| | $ 34,759,972 | $ 1,144,755 | $ 57,497,293 | $ 17,125,423 | $ 14,970,943 | $ 125,498,386 |

COST OF SERVICES

| | For the six months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fishery Development Division (1) | HU Plantation Division (2) | Organic Fertilizer and Bread Grass Division (3) | Cattle Farm Development Division (4) | Corporate and others (5) | Total |
| Name of entity | | | | | | |
| Consulting and service income for development contracts | | | | | | |
| | | | | | | |
| Capital Award, Inc. ("CA") | $ 21,911,617 | $ - | $ - | $ - | $ - | $ 21,911,617 |
| Sino Agro Food, Inc. ("SIAF") | - | - | - | - | 1,404,813 | 1,404,813 |
| | $ 21,911,617 | $ - | $ - | $ - | $ 1,404,813 | $ 23,316,430 |



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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.

The Company appointed US tax professionals to assist in filing income tax returns for the years ended December 31, 2015, 2014 and 2013 in compliance with US Treasury Internal Revenue Code and we had already filed our 2014 and 2013 Tax returns with the Internal Revenue Service (" **IRS**") of USA Government.

As of June 30, 2016, the Company reviewed its tax position with the assistance US tax professionals and believed that there would be no taxes and no penalties assessed by the IRS in the United States of America.

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, JFD, HSA, SJAP and QZH since they are exempt from EIT for the six months ended June 30, 2016 and 2015 as they are within the agriculture, dairy and fishery sectors.

Belize

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

Hong Kong

No Hong Kong profits tax has been provided in the consolidated financial statements of TRW, since these entities did not earn any assessable profits arising in Hong Kong for the six months ended June 30, 2016, and 2015.

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 six months ended June 30, 2016 and 2015.

Sweden

No Sweden Corporate income tax has been provided in the consolidated financial statements of SAFS since SAFS did not earn any profits for the six months ended June 30, 2016 and 2015.

No deferred tax assets and liabilities are of June 30, 2016 and December 31, 2015 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:

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| SIAF | $ - | $ - | $ - | $ - |
| SAFS | - | - | - | - |
| TRW | - | - | - | - |
| MEIJI and APWAM | - | - | - | - |
| JHST, JFD, JHMC, SJAP, QZH and HSA | - | - | - | - |
| | $ - | $ - | $ | $ - |

The Company did not recognize any interest or penalties related to unrecognized tax benefits in the six months ended June 30, 2016 and 2015. The


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Company had no uncertain positions that would necessitate recording of tax related liability. The Company is subject to examination by the respective tax authorities.



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## 5. CASH AND CASH EQUIVALENTS

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Cash and bank balances | $ 3,320,287 | $ 7,229,197 |

## 6. INVENTORIES

As of June 30, 2016, inventories are as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Sleepy cods, prawns, eels and marble goby | $ 8,441,993 | $ 4,053,458 |
| Beef and mutton | 135,696 | 14,593,458 |
| Bread grass | 4,832,611 | 1,207,260 |
| Beef cattle | 12,619,418 | 5,026,404 |
| Organic fertilizer | 14,797,299 | 10,815,983 |
| Forage for cattle and consumable | 12,191,803 | 10,328,365 |
| Raw materials for bread grass and organic fertilizer | 11,331,154 | 15,440,348 |
| Immature seeds | 1,322,123 | 1,383,431 |
| | $ 65,672,097 | $ 62,848,707 |

## 7. DEPOSITS AND PREPAYMENTS

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Deposits for | | |
| - purchases of equipment | $ 6,975,629 | $ 4,963,245 |
| - acquisition of land use rights | 3,373,110 | 3,373,110 |
| - inventories purchases | 18,440,747 | 19,948,867 |
| - aquaculture contracts | 2,261,538 | 4,340,741 |
| - consulting service providers and others | 8,632,259 | 9,197,796 |
| - construction in progress | 22,354,658 | 20,243,172 |
| - issue of shares as collateral | 11,281,100 | 11,281,100 |
| Prepayments - debts discounts and others | 14,216,699 | 9,919,126 |
| Shares issued for employee compensation and overseas professional and bond interest | 7,963,889 | 544,772 |
| | $ 95,499,629 | $ 83,811,929 |

## 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 June 30, 2016 and December 31, 2015. Bad debts written off for the three months and the six months ended June 30, 2016, and 2015 are $0.

Aging analysis of accounts receivable is as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| 0 - 30 days | $ 66,669,797 | $ 49,190,282 |
| 31 - 90 days | 30,918,910 | 29,280,990 |
| 91 - 120 days | 15,064,480 | 19,838,792 |
| over 120 days and less than 1 year | 15,934,472 | 37,364,354 |
| over 1 year | - | - |
| | $ 128,587,659 | $ 135,674,418 |



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## 9. OTHER RECEIVABLES

| | | June 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Advanced to employees | $ | 532,148 | $ | 169,369 |
| Advanced to suppliers | | 13,977,318 | | 8,052,235 |
| Advanced to customers | | 28,003,006 | | 20,696,433 |
| Advanced to developers | | 28,000,000 | | 28,000,000 |
| Advanced to convertible bond holder | | 2,862,550 | | 2,862,550 |
| | $ | 73,375,022 | $ | 59,780,587 |

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

The Company entered friendly loan agreements with suppliers, customers and developers to assist them to procure project loans.

## 10. PLANT AND EQUIPMENT

| | | June 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Plant and machinery | $ | 6,481,690 | $ | 5,889,915 |
| Structure and leasehold improvements | | 90,612,871 | | 90,612,871 |
| Mature seeds and herbage cultivation | | 18,737,643 | | 14,122,937 |
| Furniture and equipment | | 704,153 | | 704,153 |
| Motor vehicles | | 790,434 | | 790,434 |
| | | 117,326,791 | | 112,120,310 |
| | | | | |
| Less: Accumulated depreciation | | (10,125,160) | | (7,861,231) |
| Net carrying amount | $ | 107,201,631 | $ | 104,259,079 |

Depreciation expense was $995,317, $804,535, $2,263,929 and $1,606,873 for the three months ended and the six months ended June 30, 2016 and 2015, respectively.

## 11. CONSTRUCTION IN PROGRESS

| | | June 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Construction in progress | | | | |
| - Office, warehouse and organic fertilizer plant in HSA | $ | 32,139,090 | $ | 26,158,968 |
| - Oven room, road for production of dried flowers | | 3,016,136 | | 3,079,766 |
| - Organic fertilizer and bread grass production plant and office building | | 19,340,652 | | 11,746,949 |
| - Rangeland for beef cattle and office building | | 31,620,384 | | 26,463,249 |
| - Fish pond | | 12,867,276 | | 5,339,837 |
| | $ | 98,983,538 | $ | 72,788,769 |

## 12. LAND USE RIGHTS

Private ownership of agricultural land is not permitted in the P.R.C. Instead, the Company has leased seven lots of land. The cost of the first lot of land use rights acquired in 2007 in Guangdong Province, the P.R.C. was $6,408,289 and consists of 180.23 acres with the lease expiring in 2067. The cost of the second lot of land use rights acquired in 2008 in Guangdong Province, the P.R.C. was $764,128, which consists of 31.84 acres with the lease expiring in 2068. The cost of the third lot of land use rights acquired in 2011 was $12,040,571, which consists of 79.48 acres in Guangdong Province, the P.R.C. with the lease expires in 2037. The cost of the fourth lot of land use rights acquired in 2011 was $35,405,750 which consisted of 287.21 acres in the Hunan Province, the P.R.C. and the leases expire in 2051, 2054 and 2071. The cost of the fifth lot of land use rights acquired in 2012 was $528,240 which consisted of 21.09 acres in Qinghai Province, the P.R.C. and the lease expires in 2051. The cost of the sixth lot of land use rights acquired in 2013 was $489,904 which consisted of 6.27 acres in Guangdong Province, the P.R.C. and the lease expires in 2023. The cost of the seventh lot of land use rights acquired in 2014 was $4,453,665 which consisted of 33.28 acres in Guangdong Province, the P.R.C. and the lease expires in 2044.



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## 12. LAND USE RIGHTS (CONTINUED)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Cost | $ 64,785,941 | $ 65,961,071 |
| Less: Accumulated amortization | (8,167,450) | (7,475,396) |
| Net carrying amount | $ 56,618,491 | $ 58,485,675 |

| | Expiry date | Description | Amount |
|---|---|---|---|
| Balance @1.1.2015 | | | $ 69,428,143 |
| Exchange difference | | | (3,467,072) |
| Balance @12.31.2015 | | | 65,961,071 |
| Exchange difference | | | (1,175,130) |
| Balance @6.30.2016 | | | $ 64,785,941 |

Land use rights are amortized on the straight-line basis over their respective lease periods. The lease period of agriculture land is 30 to 60 years. Amortization of land use rights was $241,952, $461,711, $692,054 and $797,551 for the three months and the six months ended June 30, 2016 and 2015, 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.

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Goodwill from acquisition | $ 724,940 | $ 724,940 |
| Less: Accumulated impairment losses | - | - |
| Net carrying amount | $ 724,940 | $ 724,940 |

## 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 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 $2,270,968 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.

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Cost | $ 13,720,616 | $ 13,771,527 |
| Less: Accumulated amortization | (3,272,051) | (2,987,169) |
| Net carrying amount | $ 10,448,565 | $ 10,784,358 |

Amortization of proprietary technologies was $119,168, $119,168, $284,882 and $297,449 for the three months and the six months ended June 30, 2016 and 2015, respectively. No impairments of proprietary technologies have been identified for the three months and the six months ended June 30, 2016 and 2015.

## 15. INVESTMENT IN UNCONSOLIDATED EQUITY INVESTEE

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 $150,806.

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Investment at cost | $ 150,806 | $ - |
| Share of post acquisition profits | - | - |
| | $ 150,806 | $ - |


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## 16. LONG TERM INVESTMENT

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Investment in Huangyuan County Rural Credit Union | $ 754,034 | $ 769,941 |
| Less: Accumulated impairment losses | - | - |
| | $ 754,034 | $ 769,941 |

## 17. TEMPORARY DEPOSITS PAID TO ENTITIES FOR EQUITY INVESTMENTS IN FUTURE SINO JOINT VENTURE COMPANIES

| Intended unincorporated Investee | Projects Engaged | | June 30, 2016 | December 31, 2015 |
|---|---|---|---|---|
| A | Trade center | * | $ 4,086,941 | $ 4,086,941 |
| A | Seafood center | * | 1,032,914 | 1,032,914 |
| B | Fish Farm 2 GaoQiqiang Aquaculture | * | 6,000,000 | 6,000,000 |
| C | Prawn farm 1 | * | 14,554,578 | 14,554,578 |
| D | Prawn farm 2 | * | 9,877,218 | 9,877,218 |
| E | Cattle farm 2 | * | 5,558,057 | 5,558,057 |
| | | | $ 41,109,708 | $ 41,109,708 |

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 June 30, 2016, the percentages of equity stakes of A (trade and seafood centers), B ( fish farm 2 GaoQiqiang Aquaculture Farm ), C (prawn farm 1), D (pawn farm 2) and E (cattle farm 2) are 31%, 23%, 56%, 29% 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.

## 18. 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 June 30, 2016, the Company has invested $2,251,359 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.



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**18. 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 June 30, 2016, 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 result, the Company has consolidated SJAP as a VIE.

The reasons for the SJAP qualified as a VIE 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 June 30, 2016, 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 result, the Company has consolidated QZH as a VIE.

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 of 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. As of June 30, 2016, the SJAP's total investment in QZH was $4,645,487.

- 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.



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## 19. CONSTRUCTION CONTRACT

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Costs | $ 6,487,032 | $ 6,487,032 |
| Estimated earnings | 10,995,534 | 10,995,534 |
| Less: Billings | (16,175,681) | (16,175,681) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 1,306,885 | $ 1,306,885 |

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Billings | $ 177,525,551 | $ 146,830,043 |
| Less: Costs | (108,020,199) | (85,092,860) |
| Estimated earnings | (61,773,515) | (53,036,477) |
| Billing in excess of costs and estimated earnings on uncompleted contracts | $ 7,731,837 | $ 8,700,706 |

(iii) Overall

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Billings | $ 193,701,232 | $ 163,005,724 |
| Less: Costs | (114,507,231) | (91,579,892) |
| Estimated earnings | (72,769,049) | (64,032,011) |
| Billing in excess of costs and estimated earnings on uncompleted contracts | $ 6,424,952 | $ 7,393,821 |

## 20. OTHER PAYABLES

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Due to third parties | $ 3,980,766 | $ 312,782 |
| Due to debts loan | 4,797,332 | 4,797,332 |
| Promissory notes issued to third parties | 2,200,000 | 2,200,000 |
| Due to local government | 746,494 | 2,279,797 |
| | $ 11,724,592 | $ 9,589,911 |
| Less: Amount classified as non-current liabilities | | |
| Due to debts loan | (4,797,332) | (4,797,332) |
| Amount classified as current liabilities | $ 6,927,260 | $ 4,792,579 |

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

The Company issued 753,304 shares of common stock ranging from $6.96 to $8.91 as collateral to secure debts loan of $4,797,332 from third party. The shares issued by the Company were valued at the trading price of the stock on the date the shares were issued.



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## 21. 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 loans*

| Name of lender | Interest rate | Term | June 30, 2016 | December 31, 2015 |
|---|---|---|---|---|
| Agricultural Development Bank of China | 6.4% | January 3, 2014 - December 17, 2018 | $ 619,195^* | $ 616,333^* |
| Huangyuan County Branch, | | | | |
| Xining City, Qinghai Province, the P.R.C. | | | | |
| Agricultural Development Bank of China | 4.785% | October 28, 2015 - October 27, 2016 | 3,770,170^* | 3,849,707^* |
| Huangyuan County Branch, | | | | |
| Xining City, Qinghai Province, the P.R.C. | | | | |
| | | | $ 4,389,365 | $ 4,466,040 |

*Long term debts*

| Name of lender | Interest rate | Term | June 31, 2016 | December 31, 2015 |
|---|---|---|---|---|
| GanGuo Village Committee | 12.22% | June 2012 - June 2017 | $ - | $ 169,387 |
| Bo Huang Town | | | | |
| Huangyuan County, | | | | |
| Xining City, Qinghai Province, the P.R.C. | | | | |
| | | | | |
| Agricultural Development Bank of China | 6.4% | January 3, 2014 - December 17, 2018 | 1,658,875^*# | 2,001,848^*# |
| Huangyuan County Branch, | | | | |
| Xining City, Qinghai Province, the P.R.C. | | | | |
| Less: The current portion reclassified as short term debts | | | (619,195) | (616,333) |
| | | | $ 1,039,680 | $ 1,554,902 |

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.

^ personal and corporate guaranteed by third parties.
* secured by land use rights with net carrying amount of $442,476 (12.31.2015: $471,048).
# repayable $619,195 and $769,182 in 2017 and 2018, respectively.



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## 22. NEGOTIABLE PROMISSORY NOTES

In August and October 2015, TRW issued negotiable promissory notes to fund companies and individuals for $3,854,550 and the company acted as guarantor for repayment. During the six months ended June 30, 2016, no promissory notes were repaid and negotiated into shares of the Company.

| | June30, 2016 | December 31, 2015 |
|---|---|---|
| Negotiable promissory notes | $ 879,321 | $ 865,968 |

| | |
|---|---|
| Issuer: | Tri-way Industries Limited ("TRW") |
| Principal amount: | $814,500 |
| Interest payable: | $58,144 |
| Interest rate: | 2.50% - 2.6% 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. To the maximum, the above notes can be negotiated for 104,642 shares of Common Stock. |
| Security: | Corporate guarantee by the Company. |



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## 23. 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**") 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, 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.

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| 10.50% convertible note of maturity date February 28, 2020 | $ 28,289,106 | $ 34,904,739 |

The Company calculated the fair value of the convertible note and the beneficial conversion feature utilizing the Discounted Cash Flows model at the date of the issuance of convertible note. The relative fair values were allocated to the liability and equity components of the debt. Accordingly, a discount was created on the debt and this discount will be amortized to interest expense over the life of the debt. Debt premium of $244,964, $3,891 $489,929 and $276,013 was amortized for the three months and the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, there was $24,989,906 (December 31, 2015: $32,666,666) principal outstanding and accrued interest in the amount of $3,299,200 (December 31, 2015: 2,238,073) that was owed under the terms of the convertible note.

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.

The Company calculated professional service compensation of $1,500,000 in respect of convertible note issue, and recognized $0, $375,000, $0 and $750,000 for the three months and the six months ended June 30, 2016 and 2015. As of June 30, 2016 and December 31, 2015, the deferred compensation balance was $0.



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**24. SHAREHOLDERS' EQUITY**

The Group's share capital as of June 30, 2016 and December 31, 2015 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 June 30, 2016 and December 31, 2015, respectively.

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 June 30, 2016 and December 31, 2015, respectively.



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

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 June 30, 2016 and December 31, 2015 are 0 shares and grand total issued and outstanding preferred stock as of June 30, 2016 and December 31, 2015 are 100 shares, respectively.
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 22,727,273.

During the year ended December 31, 2015, the Company issued (i) 100,000 shares of common stock for $868,000 at $8.68 per share to settle debts due to third parties. The Company executed several agreements with third parties to raise debts loan by issuance of the Company's common stock. The shares issued by the Company were valued at the trading price of the stock on the date the shares were issued. Any excess of the fair value of the shares over the carrying cost of the debt has been reported as a gain on the extinguishment of debts of 132,000, $270,586 and $1,318,947 has been credited to consolidated statements of income as other income for the years ended December 31, 2015, 2014 and 2013, respectively; (ii) 753,304 shares of common stock ranging from $6.96 to $8.91 as collateral to secure debts loan of $4,797,332, and the shares issued by the Company were valued at the trading price of the stock on the date the shares were issued; (iii) 1,135,000 shares of common stock ranging from $8.75 to $12.50 as collateral to secure trade finance facility amounting to the extent of $11,281,100, and the shares issued by the Company were valued at the trading price of the stock on the date the shares were issued and such shares returned to treasury stock after the contract period of three years (iv) 153,392 shares at $11.13 per share and 75,002 shares at $14.20 per share were issued for reverse split adjustments; (v) 47,787 shares of common stock valued to employees and directors at fair value of $15.20 per share for $726,315 for employee compensation; 7,000,000 shares of Series B preferred stock were converted into 707,070 shares under terms of issue; and (vi) cancelled 514 shares for $10.97 per share for reverse splits adjustments.

During the six months ended June 30, 2016, the Company issued (i) 1,198,778 shares of common stock valued to employees and directors at fair value of $5.98 per share for $7,169,823 for employee compensation; and (ii) 132,787 shares of common stock valued to professionals at fair value of $5.98 per share for $794,066 for service compensation.

The Company has 21,465,322 and 20,133,757 shares of common stock issued as of June 30, 2016 and December 31, 2015, respectively.



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## 25. OBLIGATION UNDER OPERATING LEASES

The Company leases (i) 2,178 square feet of agriculture space used for offices for a monthly rent of $634 in Enping City, Guangdong Province, P.R.C., its lease expiring on March 31, 2017; (ii) 5,081 square feet of office space in Guangzhou City, Guangdong Province, P.R.C. for a monthly rent of $12,733, its lease expiring on July 8, 2018; (iii) 1,555 square feet of staff quarters in Linli District, Hunan Province, P.R.C. for a monthly rent of $163, its lease expiring on May 1, 2016; and (iv) 430 square feet of shared office in Stockholm, Sweden, for a monthly rent of $11,800, its lease expiring on December 31, 2020.

Lease expense was $75,991, $40,771, $116,528 and $81,182 for the three months and the six months ended June 30, 2016 and 2015, respectively.

The future minimum lease payments as of June 30, 2016, are as follows:

| | | |
|---|---|---|
| Year ending December 31, 2016 | $ | 78,409 |
| Thereafter | | 225,268 |
| | $ | 303,677 |

## 26. STOCK BASED COMPENSATION

On May 6, 2015, the Company issued directors and employees a total of 47,787 shares of common stock valued at fair value of $15.20 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 $15.20 per share.

The Company calculated stock based compensation of 3,486,428 and recognized $3,123,247 for the year ended December 31, 2015. As of December 31, 2015, the deferred compensation balance for staff was $363,181 and the deferred compensation balance of $363,181 was to be amortized over 6 months beginning on January 1, 2016.

On May 10, 2016, the Company issued directors and employees a total of 1,198,778 shares of common stock valued at fair value of $5.98 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 $5.98 per share. On the same date , the Company issued professionals a total of 132,787 shares of common stock valued at fair value of $5.98 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 $5.98 per share.

The Company calculated stock based compensation of $8,325,940 for the six months ended June 30, 2015.

The Company recognized $181,590, $880,033, $363,181 and $1,760,066 for the three months and the six months ended June 30, 2016 and 2015, respectively. As of June 30, 2016, the deferred compensation balance for staff was $7,962,759 and the deferred compensation balances of $7,962,759 were to be amortized over 12 months respectively beginning on July 1, 2016.

## 27. CONTINGENCIES

As of June 30, 2016 and December 31, 2015, 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, and consolidated statements of cash flows.

In December 31, 2015 the Company entered into loan and pledge agreement with a Shanghai, P.R.C. based lender (the "lender") The lender has various trading facilities and has agreed to allow the Company or its nominee to use parts of trading facilities up to an amount of $20 million (31.12.2015: $20million) to be used in tranches and revolved up to a period of three years, and as of June 30, 2016 of which $0 (31.12.2015: $7,478,375) was utilized. The trade finance agreement 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 trade finance agreement.

## 28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances as disclosed elsewhere in these consolidated financial statements, during the six months ended June 30, 2016 and 2015, the Company had the following significant related party transactions:-

| Name of related party | Nature of transactions |
|---|---|
| Mr. Solomon Yip Kun Lee, Chairman | Included in due to a director, due to Mr. Solomon Yip Kun Lee is $711,715 and $211,247 as of June 30, 2016 and December 31, 2015, respectively. The amounts are unsecured, interest free and have no fixed terms of repayment. |



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## 29. 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:

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 |
|---|---|---|
| **BASIC** | | |
| Numerator for basic earnings per share attributable to the Company's common stockholders: | | |
| Net income used in computing basic earnings per share | $ 18,796,292 | $ 9,310,202 |
| Basic earnings per share | $ 0.90 | $ 0.51 |
| Basic weighted average shares outstanding | 20,779,009 | 18,140,209 |

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 |
|---|---|---|
| **DILUTED** | | |
| Numerator for basic earnings per share attributable to the Company's common stockholders: | | |
| Net income used in computing basic earnings per share | $ 18,796,292 | $ 9,310,202 |
| Convertible note interest | 649,841 | - |
| Net income used in computing diluted earnings per share | $ 19,446,133 | $ 9,310,202 |
| Diluted earnings per share | $ 0.82 | $ 0.51 |
| Basic weighted average shares outstanding | 20,779,009 | 18,140,209 |
| Add: weight average of common stock convertible from convertible note payables | 2,857,485 | - |
| Diluted weighted average shares outstanding | 23,636,494 | 18,140,209 |

For the three months ended June 30, 2016, full dilution effect of convertible note of $28,289,106 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.

For the three months ended June 30, 2015, full dilution effect of convertible note of $16,286,754 was not taken into account for calculation of the diluted earnings per share because convertible note holder is restricted the right to exercise to convert to common stock before October 1, 2015 under terms of convertible note agreement.



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

| | | Six months ended June 30, 2016 | | Six months ended June 30, 2015 |
|---|---|---|---|---|
| **BASIC** | | | | |
| Numerator for basic earnings per share attributable to the Company's common stockholders: | | | | |
| Net income used in computing basic earnings per share | $ | 27,402,976 | $ | 33,065,043 |
| Basic earnings per share | $ | 1.34 | $ | 1,87 |
| Basic weighted average shares outstanding | | 20,410,024 | | 17,714,995 |

| | | Six months ended June 30, 2016 | | Six months ended June 30, 2015 |
|---|---|---|---|---|
| **DILUTED** | | | | |
| Numerator for basic earnings per share attributable to the Company's common stockholders: | | | | |
| Net income used in computing basic earnings per share | $ | 27,402,976 | $ | 33,065,043 |
| Convertible note interest | | 1,551,056 | | - |
| Net income used in computing diluted earnings per share | $ | 28,954,032 | $ | 33,065,043 |
| Diluted earnings per share | $ | 1.24 | $ | 1.87 |
| Basic weighted average shares outstanding | | 20,410,024 | | 17,714,995 |
| Add: weight average of common stock converted from convertible note payables | | 2,857,485 | | - |
| Diluted weighted average shares outstanding | | 23,267,509 | | 17,714,995 |

For the six months ended June 30, 2016, full dilution effect of convertible note of $28,289,106 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.

For the six months ended June 30, 2015, full dilution effect of convertible note of $34,870,297 was not taken into account for calculation of the diluted earnings per share because convertible note holder is restricted the right to exercise to convert to common stock before October 1, 2015 under terms of convertible note agreement.



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## 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 2015 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 | (Marked 1. (i) SJAP &, QZH and (ii) HSA) |
| Plantation Division | (Marked 2. JHST) |
| Fishery Division | (Marked 3. A. CA Engineer & Technology and 3.B. Seafood sales) |
| Cattle Farm Division | (Marked 4. MEIJI and JHMC) |
| Corporate & Others Division | (Marked 5. SIAF) |

A summary of each business division is provided below:

- **1. Beef Division** refers to the operations of SJAP in manufacturing and sales of organic fertilizer, bulk livestock feed, concentrated livestock feed, and the sale of live cattle, which includes: (a) cattle that are not being slaughtered in our own slaughter house operated by Qinghai Zhong He Meat Products Co., Limited ("**QZH**") that are sold live to third party livestock wholesalers; (b) cattle that are sold to QZH and slaughtered and deboned and packed by QZH; and (c) the sales of meats deboned and packed by QZH that are sold to various meat distributors, wholesalers and super market chains and to our own retail butcher stores. QZH is a wholly owned subsidiary of our partially owned subsidiary Qinghai Sanjiang A Power Agriculture Co., Ltd. (" **SJAP**"). As such, the financial statements of these two companies (SJAP and QZH) are consolidated into our wholly owned subsidiary, A Power Agro Agriculture Development (Macau) Limited ("**APWAM**"), as one entity. SJAP and QZH are both variable interest entities over which we exercise significant control.



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- **2. Beef and Organic Fertilizer Division** refers to the operations of Hunan Shenghua A Power Agriculture Co. Ltd. ("**HSA**") consisting of manufacturing and sales of organic fertilizer**.**

- **3. 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**.**

- **4. 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 a turnkey contractor 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**") as follows:

**(A). Engineering and Technology Services** via Consulting and Service Contracts ("**CSC's**") for the development, construction, and supply of plant and equipment, and management of fishery (and prawn or shrimp) farms and related business operations.

**(B). Seafood Sales from CA's projected farms**

Capital Award generates the following sales revenues from:

(1). Sales to JFD ("**Fish Farm 1**" or "**FF1**"), which is a Sino Foreign Joint Venture Company ("**SFJVC**"), and sales derived from seafood sold by JFD (currently, only the JFD subsidiary is an SFJVC), being consolidated into our wholly owned Hong Kong subsidiary Tri-way Industries Ltd. ("**TRW**") as one entity.

FF1 generates sales from its production within (a) its indoor APM farm with 16 APM production units and (b) its open dam farms producing fish and prawns from 310 Mu (52 acres) of land leased from Zhongshan A Power Prawn Culture Farms Development Co. Ltd. ("**ZSAPP**," "**Prawn Farm 2**" or "**PF2**").

(2). Sales to and sales derived from seafood from the unincorporated companies, including Enping City A Power Prawn Culture Development Co. Ltd. ("**EBAPCD**," "**Prawn Farm 1**" or "**PF1**") and ZSAPP, are accounted for independently as follows:

CA and PF1: (a) CA purchases prawns and/or fish fingerling and feed stocks from third party suppliers and resells them to PF1 at variable small or no profit margins and (b) CA purchases matured prawns and fish from PF1 and sells them to third parties (wholesale markets).

PF1 generates sales from its production of (a) its indoor APM farm with 4 APM production units in 2014 and 16 APM production units from Q3 2015, onward, and (b) its open dam farms producing fish and prawns from a 290 Mu (or 48 acres) of land leased from PF2.

CA and PF2: (a) CA earns commissions from the sale of prawn fingerlings that are sold by PF2 to third parties. In this respect, PF2 produces its own prawn fingerlings as compared to CA's purchasing them from PF2 and reselling them to PF1 or FF1, as described above, and (b) CA purchases matured prawns and fish from PF2 and sells to third parties (wholesale markets).



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PF2 has 6 indoor APM production units producing mainly prawn fingerling and open dam farms situated on about 400 Mu (about 66 acres) producing prawns and fish.

- **5. 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**.**

- **6. 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 that are not included in the above categories, and not limited to corporate affairs.



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*__MD & A OF CONSOLIDATED RESULTS OF OPERATIONS__*

**__Part A. Unaudited Income Statements of Consolidated Results of Operations for the three months ended June 30, 2016 compared to the three months ended June 30, 2015.__**

***A (1) Income Statements (Unaudited)***

| **In $** | **Three months ended June 30,2016** | **Three months ended June 30,2015** | **Difference** | **Note** |
|---|---|---|---|---|
| **Revenue** | **124,282,255** | **90,853,728** | **33,428,527** | 1 |
| Consulting, services, commission and management fee | 19,273,008 | 8,833,426 | 10,439,582 | |
| Sale of goods | 105,009,247 | 82,020,302 | 22,988,945 | |
| **Cost of goods sold and services** | **94,318,057** | **68,916,817** | **25,401,240** | 2 |
| Consulting, services, commission and management fee | 13,416,468 | 6,708,419 | 6,708,049 | |
| Sale of goods | 80,901,589 | 62,208,398 | 18,693,191 | |
| **Gross Profit** | **29,964,198** | **21,936,911** | **8,027,287** | 3 |
| Consulting, services, commission and management fee | 5,856,540 | 2,125,007 | 3,731,533 | |
| Sale of goods | 24,107,658 | 19,811,904 | 4,295,754 | |
| **Other income (expenses)** | (857,643) | (1,177,990) | 320,347 | |
| **General and administrative expenses** | (3,579,954) | (5,392,206) | 1,812,252 | 4 |
| **Net income** | 25,526,601 | 15,366,715 | 10,159,886 | |
| | | | | |
| **EBITDA** | **29,721,167** | **18,078,601** | **11,642,566** | |
| Depreciation and amortization (D&A) | (3,240,865) | (1,385,414) | (1,855,451) | 5 |
| **EBIT** | **26,480,302** | **16,693,187** | **9,787,115** | |
| Net Interest | (953,701) | (1,326,472) | 372,771 | |
| Tax | - | - | - | |
| Net Income | 25,526,601 | 15,366,715 | 10,159,886 | |
| Non - controlling interest | (6,730,309) | (6,056,513) | (673,796) | 7 |
| **Net income to SIAF Inc. and subsidiaries** | **18,796,292** | **9,310,202** | **9,486,090** | |
| Weighted average number of shares outstanding | | | | |
| - Basic | 20,880,019 | 18,140,209 | 2,739,810 | |
| - Diluted | 23,636,494 | 18,140,209 | 5,496,285 | |
| **Earnings Per Share (EPS)** | | | | 8 |
| - Basic | 0.90 | 0.51 | 0.39 | |
| - Diluted | 0.82 | 0.51 | 0.31 | |



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**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, managements and technology etc.**

**The table below shows the segmental sales, gross profit and corresponding cost of sales for the three months ended June 30, 2016 (Q2 2016) compared to the three months ended June 30, 2015 (Q2 2015).**



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| | In US$ | Sales of goods 2016Q2 | Sales of goods 2015Q2 | Cost of Goods sold 2016Q2 | Cost of Goods sold 2015Q2 | Gross profit on sales of goods 2016Q2 | Gross profit on sales of goods 2015Q2 |
|---|---|---|---|---|---|---|---|
| **SJAP** | Sales of live cattle | 6,005,534 | 15,271,116 | 5,225,264 | 12,738,272 | 780,270 | 2,532,844 |
| | Sales of feedstock | | | | | | |
| | Bulk Livestock feed | 1,685,456 | 1,425,186 | 759,491 | 667,795 | 925,965 | 757,391 |
| | Concentrate livestock feed | 4,288,985 | 2,509,650 | 2,371,690 | 1,502,015 | 1,917,295 | 1,007,635 |
| | Sales of fertilizer | 794,926 | 580,944 | 534,108 | 376,656 | 260,818 | 204,288 |
| | **SJAP Total** | **12,774,901** | **19,786,896** | **8,890,553** | **15,284,738** | **3,884,348** | **4,502,158** |
| | * QZH's (Slaughter & Deboning operation) | - | 309,777 | - | 127,066 | | 182,711 |
| | ** QZH's (Deboning operation) | | | | | | - |
| | on cattle & Lamb locally supplied | 2,977,247 | 3,161,031 | 2,307,105 | 2,602,976 | 670,142 | 558,055 |
| | on imported beef and mutton | 22,928,508 | 13,260,745 | 16,992,959 | 9,514,843 | 5,935,549 | 3,745,902 |
| | Sales of live cattle | - | | - | | | - |
| | **QZH Total** | **25,905,755** | **16,731,553** | **19,300,064** | **12,244,885** | **6,605,691** | **4,486,668** |
| **HSA** | Sales of Organic fertilizer | 1,022,864 | 881,367 | 770,534 | 677,914 | 252,330 | 203,453 |
| | Sales of Organic Mixed Fertilizer | 4,177,356 | 4,027,366 | 2,381,829 | 2,163,959 | 1,795,527 | 1,863,407 |
| | **HSA Total** | **5,200,220** | **4,908,733** | **3,152,363** | **2,841,873** | **2,047,857** | **2,066,860** |
| | **SJAP's & HS.A./Organic fertilizer total** | **43,880,876** | **41,427,182** | **31,342,980** | **30,371,496** | **12,537,896** | **11,055,686** |
| **JHST** | Sales of Fresh HU Flowers | 489,025 | 452,206 | 185,548 | 106,658 | 303,477 | 345,548 |
| | Sales of Dried HU Flowers | 2,052,397 | 2,217,401 | 698,720 | 522,949 | 1,353,677 | 1,694,452 |
| | Sales of Dried Immortal vegetables | 1,701,847 | 1,523,406 | 801,259 | 515,148 | 900,588 | 1,008,258 |
| | Sales of Vegetable products | 1,258,990 | - | 969,190 | - | 289,800 | - |
| | **JHST/Plantation Total** | **5,502,259** | **4,193,013** | **2,654,717** | **1,144,755** | **2,847,542** | **3,048,258** |
| **CA** | Sales of | | | | | | |
| | Fish (Sleepy cods) | 440,925 | 2,531,210 | 360,757 | 2,000,962 | 80,168 | 530,248 |
| | Eels | 4,869,079 | 6,050,679 | 3,811,820 | 3,962,228 | 1,057,259 | 2,088,451 |
| | Prawns | 9,312,956 | 9,556,473 | 7,537,720 | 7,909,260 | 1,775,236 | 1,647,213 |
| | Mixed fishes | 14,258,504 | 1,005,085 | 11,101,763 | 785,525 | 3,156,741 | 219,560 |
| | **CA/ Fishery total** | **28,881,464** | **19,143,447** | **22,812,060** | **14,657,975** | **6,069,404** | **4,485,472** |
| **MEIJI** | | | | | | | |
| | Sale of Live cattle (Aromatic) | 7,079,763 | 9,497,684 | 6,682,424 | 9,137,304 | 397,339 | 360,380 |
| | **MEIJI / Cattle farm Total** | **7,079,763** | **9,497,684** | **6,682,424** | **9,137,304** | **397,339** | **360,380** |
| **SIAF** | | | | | | | |
| | Sales of goods through trading/import/export activities | | | | | | |
| | on seafood | 5,233,846 | 3,418,903 | 4,581,818 | 3,039,025 | 652,028 | 379,878 |
| | on imported beef and mutton | 14,431,039 | 4,340,073 | 12,827,590 | 3,857,843 | 1,603,449 | 482,230 |
| | **SIAF/ Others & Corporate total** | **19,664,885** | **7,758,976** | **17,409,408** | **6,896,868** | **2,255,477** | **862,108** |
| **Group Total** | | **105,009,247** | **82,020,302** | **80,901,589** | **62,208,398** | **24,107,658** | **19,811,904** |
| **Increases of Q2 2016 to Q2 2015 in $** | | **22,988,945** | | | | **4,295,754** | |
| **Increases of Q2 2016 to Q2 2015 in %** | | **28%** | | | | **22%** | |



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**Overall comparison of Q2 2015 to Q2 2016**

Revenues from the sale of goods increased by 28% to $105,009,247 for the quarterly period ended June 30, 2016, compared to $82,020,302 for the same period ended June 30, 2015. This represents an increase of $22,988,945.

Cost of goods sold amounted to $80,901,589 for the quarterly period ended June 30, 2016, compared to $62,208,398 for the same period ended June 30, 2015.

Gross profit increased by 20% to $24,107,658 for the quarterly period ended June 30, 2016, compared to $19,811,904 for the same period ended June 30, 2015. This represents an increase of $4,295,754.

The overall improvements are primarily due to improved sales performance within the following segments (in order of magnitude): Seafood & Meat Imports, increase of seafood harvest volumes, value added processing of imported beef, vegetable produce and increased organic fertilizer sales volumes.

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

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



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| | In US$ | Sales of goods | | Cost of Goods sold | | Sales of Goods' Gross profit | |
|---|---|---|---|---|---|---|---|
| | | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 |
| | | **6,005,534** | | | | | |
| **SJAP** | Sales of live cattle | 6,005,534 | 15,271,116 | 5,225,264 | 12,738,272 | 780,270 | 2,532,844 |
| | % of increase | -61% | | | | -69% | |
| | Increases in $ | -9,265,582 | | | | -1,752,574 | |
| | Sales of feedstock | 1,685,456 | | | | | |
| | Bulk Livestock feed | 1,685,456 | 1,425,186 | 759,491 | 667,795 | 925,965 | 757,391 |
| | Concentrate livestock feed | 4,288,985 | 2,509,650 | 2,371,690 | 1,502,015 | 1,917,295 | 1,007,635 |
| | % of increase | 71% | | | | 90% | |
| | Increases in $ | 1,779,335 | | | | 909,660 | |
| | Sales of fertilizer | 794,926 | 580,944 | 534,108 | 376,656 | 260,818 | 204,288 |
| | **SJAP Total** | **12,774,902** | **19,786,896** | **8,890,553** | **15,284,738** | **3,884,349** | **4,502,158** |
| | * QZH's (Slaughter & Deboning operation) | - | 309,777 | - | 127,066 | | 182,711 |
| | ** QZH's (Deboning operation) | | | | | | - |
| | on cattle & Lamb locally supplied | 2,977,247 | 3,161,031 | 2,307,105 | 2,602,976 | 670,142 | 558,055 |
| | on imported beef and mutton | 22,928,508 | 13,260,745 | - | 9,514,843 | 22,928,508 | 3,745,902 |
| | % of increase | 73% | | | | 512% | |
| | Increases in $ | 9,667,763 | | | | 19,182,606 | |
| | Sales of live cattle | - | | - | | | - |
| | **QZH Total** | **25,905,755** | **16,421,776** | **2,307,105** | **12,117,819** | **23,598,650** | **4,303,957** |
| | | | | | | | |
| | **SJAP and QZH total** | **38,680,657** | **36,208,672** | **11,197,658** | **27,402,557** | **27,482,999** | **8,806,115** |
| | % of increase | **7%** | | | | **212%** | |
| | Increases in $ | **2,471,985** | | | | **18,676,884** | |
| | | | | | | | |
| **HSA** | Sales of Organic fertilizer | 1,022,864 | 881,367 | 770,534 | 677,914 | 252,330 | 203,453 |
| | Sales of Organic Mixed Fertilizer | 4,177,356 | 4,027,366 | 2,381,829 | 2,163,959 | 1,795,527 | 1,863,407 |
| | **HSA Total** | **5,200,220** | **4,908,733** | **3,152,363** | **2,841,873** | **2,047,857** | **2,066,860** |
| | | | | | | | |
| | **SJAP's & HS.A./Organic fertilizer total** | **43,880,877** | **41,117,405** | **14,350,021** | **30,244,430** | **29,530,855** | **10,872,975** |

**The table below shows the itemized sales of goods and related cost of sales in quantity and unit price for the quarterly period ended June 30, 2016 compared to the same period ended June 30, 2015 of the beef and organic fertilizer divisions.**



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| Description of items | | 2016Q2 | 2015Q2 | Difference |
|---|---|---|---|---|
| **Cattle Operation** | | | | |
| **Production and Sales of live cattle** | **Heads** | **2,382** | **5,038** | **-2,656** |
| Average Unit sales price | US$/head | 2,521 | 3,031 | -510 |
| Unit cost prices | US$/head | 2,194 | 2,528 | -334 |
| **Production and sales of feedstock** | | | | |
| **Bulk Livestock feed** | **MT** | **9,330** | **8,095** | **1,235** |
| Average Unit sales price | US$/MT | 181 | 176 | 5 |
| Unit cost prices | US$/MT | 81 | 82 | -1 |
| **Concentrated livestock feed** | **MT** | **9,560** | **5,728** | **3,832** |
| Average Unit sales price | US$/MT | 449 | 438 | 11 |
| Unit cost prices | US$/MT | 248 | 262 | -14 |
| **Production and sales of fertilizer** | **MT** | **4,180** | **3,192** | **988** |
| Average Unit sales price | US$/MT | 190 | 182 | 8 |
| Unit cost prices | US$/MT | 128 | 118 | 10 |
| *** QZH (Slaughter & De-boning operation)** | | | | |
| **Slaughter operation** | | | | |
| Slaughter of cattle | **Heads** | | **692** | -692 |
| Service fee | US$/Head | | 82 | - |
| Sales of associated products | Pieces | | **692** | -692 |
| Average Unit sales price | US$/Piece | | 366 | -366 |
| Unit cost prices | US$/Piece | | 184 | -184 |
| **De-boning & Packaging activities** | | | | |
| **From Cattle supplied locally** | | | | |
| De-boned Meats | **MT** | **358** | **307** | **51** |
| Average Unit sales price | US$/MT | 8,316 | 10,297 | -1,981 |
| Unit cost prices | US$/MT | 6,444 | 8,479 | -2,035 |
| **From imported beef** | **MT** | **2,585** | **1,515** | **1,070** |
| Average Unit sales price | US$/MT | 8,870 | 8,753 | 117 |
| Unit cost prices | US$/MT | 6,574 | 6,280 | 294 |
| **From imported lamb** | **MT** | | **-** | |
| Average of sales price | US$/MT | | - | |
| Average of cost prices | US$/MT | | - | |
| **Production and Sales of live cattle** | **Heads** | | | |
| Average Unit sales price | US$/head | | | |
| Unit cost prices | US$/head | | | |

Encapsulating the comparison between Q2 Y-O-Y 2015 to 2016 as illustrated in the above table, the decrease in live cattle sales of 61% to $9.26 million and gross profit by 69% to 0.8 million were markedly offset by the following Y-O-Y increases within this segment during Q2 2016:

Sales revenue and gross profit of concentrated live stock feed increased by $1.78 million (an increase of 71%) and $0.9 million (an increase of 90%), respectively, primarily due to the improved market recognition and acceptance of the products by regional farmers.

- Sales revenue and gross profit of deboning and packaging imported beef meats increased by $9.67 million (an increase of 73%) and 2.19 million (an increase of 58%), respectively, primarily due to the drop in prices for the higher quality and better graded imported beef meats attracting more sales.

The overall results of SJAP (inclusive QZH) in Q2 2016 culminated in an increase in sales revenue by $2.47 million (or 7%) and gross profit by $1.68 million (or 19%) compared to the same period in 2015.



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The reasons for the decrease of the live cattle sale is primarily due to the lower live cattle sales prices (averaging at RMB 28/Kg for Q2 2016 compared to Q2 2015's RMB31 / Kg), whereas our contracted cost with local farmers is averaging at RMB25/Kg throughout 2015 and 2016. In addition, the average weight per head sold for Q2 2016 was 580kg, whereas average weight for Q2 2015 was at 650kg. Helping to offset these lower margins, though, were 1200 head of cattle raised and sold in-house that had been produced at lower cost.

The 358 MT of locally processed and packaged meats with various general cuts were "Halal" certified meats sold regionally, whereas most of the imported meats were deboned meats of various higher priced cuts with some of them being packaged into smaller packs sold to other major cities. Steady growth is anticipated in this sector, and the Company is developing its marketing plan to capitalize on this growth, including enhancing its e-commerce outreach within this product line. We did not slaughter any cattle this quarter due to low prices of locally produced meats, however, we are expecting to do so between the latter part of Q3 throughout the end of the year to fulfill a number of orders on Hahal certified meats.

- **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 goods sold | | Sales of goods gross profit | |
|---|---|---|---|---|---|---|---|
| | | **2016Q2** | **2015Q2** | **2016 Q2** | **2015 Q2** | **2016 Q2** | **2015 Q2** |
| **HS.A** | Sales of Organic fertilizer | 1,022,864 | 881,367 | 770,534 | 677,914 | 252,330 | 203,454 |
| | Sales of Organic Mixed Fertilizer | 4,177,356 | 4,027,366 | 2,381,829 | 2,163,959 | 1,795,527 | 1,863,406 |
| | **HS.A Total** | **5,200,220** | **4,908,733** | **3,152,363** | **2,841,873** | **2,047,857** | **2,066,860** |

| | | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 | Difference |
|---|---|---|---|---|---|---|
| **HSA** | **Fertilizer and Cattle operation** | | | | | **-** |
| | **Organic Fertilizer** | | **MT** | **3,907** | **3,266** | **641** |
| | Average Unit sales price | | US$/MT | 262 | 270 | -8 |
| | Unit cost prices | | US$/MT | 197 | 208 | -11 |
| | **Organic Mixed Fertilizer** | | **MT** | **9,990** | **8,366** | **1,624** |
| | Average Unit sales price | | US$/MT | 418 | 481 | -63 |
| | Unit cost prices | | US$/MT | 238 | 259 | -21 |
| | **Retailing packed fertilizer (For super marlet sales)** | | MT | | | **-** |
| | Average Unit sales price | | US$/MT | | | - |
| | Unit cost prices | | US$/MT | | | - |

HSA operations have continued to perform in-line compared with previous results during the same period in 2015.

HSA is planning to start stocking cattle from the end of Q3 2016 following its harvest of livestock feed, which will result in a gradual increase in gross profit margin of its fertilizer derived from cost savings on its raw material.

**Plantation Division** refers to the operations of 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.



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| In US$ | | Sales of goods | | Cost of Goods sold | | Sales of Goods' Gross profit | |
|---|---|---|---|---|---|---|---|
| | | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 |
| JHST | Sales of Fresh HU Flowers | 489,025 | 452,206 | 185,548.53 | 106,658 | 303,477 | 345,548 |
| | Sales of Dried HU Flowers | 2,052,397 | 2,217,401 | 698,720 | 522,949 | 1,353,677 | 1,694,452 |
| | Sales of Dried Immortal vegetables | 1,701,847 | 1,523,406 | 801,259 | 515,148 | 900,588 | 1,008,258 |
| | Sales of Other Value added products | 1,258,990 | - | 969,190 | - | 289,800 | - |
| | Increases in $ | 1,258,990 | | | | 289,800 | |
| | % of increases | | | | | | |
| | **JHST/Plantation Total** | **5,502,259** | **4,193,013** | **2,654,717** | **1,144,755** | **2,847,542** | **3,048,258** |

| Description of items | | 2016Q2 | 2015 Q2 | Differences |
|---|---|---|---|---|
| **Fresh HU Flowers** | **Pieces** | **2,877,500** | **2,500,000** | **377,500** |
| Average Unit sales price | US$/piece | 0.17 | 0.18 | -0.01 |
| Unit cost prices | US$/piece | 0.06 | 0.04 | 0.02 |
| **Dried HU Flowers** | **MT** | **138.0** | **152** | **-14** |
| Average Unit sales price | US$/MT | 14,872 | 14,588 | 284 |
| Unit cost prices | US$/MT | 5,063 | 3,440 | 1,623 |
| **Dried Immortal vegetables** | **MT** | **23** | **17** | **6** |
| Average Unit sales price | US$/MT | 73,993 | 89,612 | -15,619 |
| Unit cost prices | US$/MT | 34,837 | 30,303 | 4,534 |
| **Vegetable products** | **MT** | **1,625.0** | | |
| Average Unit sales price | US$/MT | 775 | | |
| Unit cost prices | US$/MT | 596 | | |

*The wet-season prohibited JHST the opportunity to buy from other regional growers and to produce more flowers from its own farm for drying, however it did sell more other fresh vegetable (cash crops) to add an additional sales revenue and gross profit of $1.26 million and $0.29 million, respectively in Q2 2016 compared to Q2 1015.*
*Since weather conditions this year are shaping up to be similar to the inclement conditions in 2015, it's anticipated that the lack of improvement will likely result in numbers similar to 2015 at JHST.*

- **3.B. Fishery Division** refers to the engineering, technology and consulting service management of fishery farms and seafood sales operations and marketing operations of Capital Award generating revenue from providing engineering consulting services to owners and developers of aquaculture projects utilizing its APM technology and management systems, as follows:

  **(A) Engineering and Technology Services;** via Consulting and Service Contracts ("**CSC's**") for the development, construction, and supply of plant and equipment, and management of aquaculture farms and related business operations. (Further details provided below).

  **(B) Seafood Sales from CA's project farms**

  Capital Award generates sales revenues from the following:

  (1) Sales to JFD (or Fish Farm 1 or FF1), which is an SFJVC, and sales derived from seafood supplied from JFD (currently, only the JFD subsidiary is a SFJVC), the financial statements of which are consolidated into TRW as one entity.

  FF1 generates sales from its production of (a) its indoor APM farm with 16 APM production units and (b) its open dam farms producing fish and prawns from a 310 Mu (or 52 acres) of land leased from PF2.

  (2) Sales to and sales derived from seafood from the unincorporated companies, covering EBAPCD (or Prawn Farm 1 or PF1) and ZSAPP (or Prawn Farm 2 or PF2) are accounted for independently, as follows:



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CA and EBAPCD (PF1): (a) CA purchases prawn and/or fish fingerling and feed stocks from third party suppliers and resells to PF1 at variable small or at no profit margin and (b) CA purchases matured prawns and fish from PF1 and sells them to third parties (wholesale markets).

PF1 generates sales from its production of (a) its indoor APM farm with 4 APM production units (started in 2014) and 16 APM production units (started from Q3 2015, onward) and (b) its open dam farms producing fish and prawns from its 290 Mu (or 48 acre) land-lease from PF2.

CA and ZSAPP (PF2): (a) CA earns commissions from the sale of prawn fingerlings that are sold by PF2 to third parties. Also, PF2 resells its prawn fingerlings to PF1 or FF1, as described above, and (b) CA purchases matured prawns and fish from PF2 and sells to third parties (wholesale markets).

PF2 has 4 indoor APM production nurseries producing prawn fingerling and open dam farms situated on about 375 Mu (about 66 acres) producing prawns and fish.

| | In US$ | Sales of goods | | Cost of Goods sold | | Gross profit | |
|---|---|---|---|---|---|---|---|
| | | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 |
| **CA** | Sales of | | | | | | |
| | Fish (Sleepy cods) | 440,925 | 2,531,210 | 360,757 | 2,000,962 | 80,168 | 530,248 |
| | GP Margin | | | | | 18% | 21% |
| | Eels | 4,869,079 | 6,050,679 | 3,811,820 | 3,962,228 | 1,057,259 | 2,088,451 |
| | GP Margin | | | | | 22% | 35% |
| | Prawns | 9,312,956 | 9,556,473 | 7,537,720 | 7,909,260 | 1,775,236 | 1,647,213 |
| | GP Margin | | | | | 19% | 17% |
| | Mixed fishes | 14,258,504 | 1,005,085 | 11,101,763 | 785,525 | 3,156,741 | 219,560 |
| | $ increases | 13,253,419 | | | | 2,937,181 | |
| | % of increases | 1319% | | | | 1338% | |
| | GP Margin | | | | | 22% | 22% |
| | **CA/ Fishery total** | **28,881,464** | **19,143,447** | **22,812,060** | **14,657,975** | **6,069,404** | **4,485,472** |
| | $ increases | **9,738,017** | | | | **1,583,932** | |
| | % of increases | **51%** | | | | **35%** | |
| | GP Margin | | | | | 21% | 16% |



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| | Description of items | | 2016Q2 | 2015Q2 | Difference |
|---|---|---|---|---|---|
| CA | **Production and sale (Inclusive contrated farms) of live** | | | | |
| | **Fish (Sleepy cods)** | **MT** | **26** | **176** | **-150** |
| | Average Unit sales price | US$/MT | 16,959 | 14,398 | 2,561 |
| | Unit cost prices | US$/MT | 13,875 | 11,382 | 2,493 |
| | **Eels** | **MT** | **222** | **291** | **-69** |
| | Average Unit sales price | US$/MT | 21,933 | 20,793 | 1,140 |
| | Unit cost prices | US$/MT | 17,170 | 13,616 | 3,554 |
| | **Prawns** | **MT** | **710** | **735** | **-25** |
| | Average Unit sales price | US$/MT | 13,117 | 13,002 | 115 |
| | Unit cost prices | US$/MT | 10,617 | 10,761 | -144 |
| | **Mixed fishes** | **MT** | **3,765** | **339** | |
| | % of increase | | 1011% | | |
| | MT of increases | | 3,426 | | |
| | Average Unit sales price | US$/MT | 3,787 | 2,965 | |
| | % of increase | | 28% | | |
| | MT of increases | | 822 | | |
| | Unit cost prices | US$/MT | 2,949 | 2,317 | |

Revenue from fishery increased by $9, 7 million, or 51%, from $19.1 million for the quarter period ended June 30, 2015 compared to $28.9 million for the same period ended June 30, 2016. The increase in fishery was primarily due to the increase in sales of mixed fish species (from $1.0 million in Q2 2015 to $14.3 million in Q2 2016)

Cost of goods sold from fishery operations increased by $8.1 million or 56%, from $14.7 million for the quarter period ended June 30, 2015 compared to $22.8 million for the same period ended June 30, 2016. The increase in cost of goods from fishery operations was primarily due to the corresponding increase in sales.

Gross profit from fishery operations increased by $1.6 million or 35%, from $4.48 million for the quarter period ended June 30, 2015, compared to $6.06 million for the same period ended June 30, 2016. The primary reason for the increase in gross profit is mainly due to the increase of sales prices and quantity of the sales of mixed fish species reflecting market recognition of the better quality and higher food safety standards of aquaculture product grown under our RAS (open dams) or APM (in door farms) systems. (Overall, mixed fish sale volume increased by 3,426 MT (or 1011%) while sales unit prices increased by $822 / MT or (28%).)



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- **4. Cattle Farm Division** refers to the operations of Cattle Farm 1 under JHMC where cattle are sold live to third party livestock wholesalers who resell them mainly in 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, such as Cattle Farm 2, or related projects.

| In US$ | | Sales of goods | | Cost of Goods sold | | Sales of Goods' Gross profit | |
|---|---|---|---|---|---|---|---|
| | | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 |
| **MEIJI** | | | | | | | |
| | Sale of Live cattle (Aromatic) | 7,079,763 | 9,497,684 | 6,682,424 | 9,137,304 | 397,339 | 360,380 |
| | **MEIJI / Cattle farm Total** | **7,079,763** | **9,497,684** | **6,682,424** | **9,137,304** | **397,339** | **360,380** |

| | Description of items | | 2016Q2 | 2015Q2 | Difference |
|---|---|---|---|---|---|
| **MEIJI** | **Production and sale of Live cattle (Aromatic)** | **Heads** | **4,237** | **3,243** | **994** |
| | Average Unit sales price | US$/head | 1,671 | 2,929 | -1,258 |
| | Unit cost prices | US$/head | 1,577 | 2,918 | -1,341 |

Revenue from the cattle farm decreased by $2.4 million (or 25%) from $9.5 million for the quarter period ended June 30, 2015 compared to $7.1 million for the same period ended June 30, 2016. This drop had been anticipated primarily due to a drop in market spot prices resulting in lower sales revenue in spite of an increase in sales volume.



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- **5. 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 | |
|---|---|---|---|---|---|---|
| | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 | 2016Q2 | 2015Q2 |
| **SIAF** | | | | | | |
| Sales of goods through trading/import/export activities | | | | | | |
| on seafood | 5,233,846 | 3,418,903 | 4,581,818 | 3,039,025 | 652,028 | 379,878 |
| Increases in $ | 1,814,943 | | | | 272,150 | |
| % of increases | 53% | | | | 72% | |
| GP Margin | | | | | 19% | 11% |
| on imported beef and mutton | 14,431,039 | 4,340,073 | 12,827,590 | 3,857,843 | 1,603,449 | 482,230 |
| Increases in $ | 10,090,966 | | | | 1,121,219 | |
| % of increases | 233% | | | | 233% | |
| GP Margin | | | | | 11% | 4% |
| **SIAF/ Others & Corporate total** | **19,664,885** | **7,758,976** | **17,409,408** | **6,896,868** | **2,255,477** | **862,108** |
| Increases in $ | 11,905,909 | | | | 1,393,369 | |
| % of increases | 153% | | | | 162% | |

| | Description of items | | 2016Q2 | 2015Q2 | Difference |
|---|---|---|---|---|---|
| **SIAF** | **Seafood trading from imports** | | | | |
| | Mixed seafoods | **MT** | **192** | **186** | **6** |
| | Average of sales price | **US$/MT** | 27,260 | 18,381 | 8,879 |
| | Average of cost prices | US$/MT | 23,864 | 16,339 | 7,525 |
| | **Beef & Lambs trading from imports** | MT | **1,326** | **304** | **1,022** |
| | Average of sales price | US$/MT | 10,883 | 14,277 | -3,394 |
| | Average of cost prices | US$/MT | 9,674 | 12,690 | -3,016 |

Revenue from the corporate division increased by $11.9 million (or 153%) from $7.76 million for Q2 2015 to $19.66 million for Q2 2016. The increase was primarily due to:

(i) the increase in seafood sales revenue by $1.8 million (or 53%) was primarily due to more crayfish and other higher value seafood being imported and sold at higher averaged unit prices (of $27,260 / MT in Q2 2016) compared to ($18,381/MT in Q2 1015) and

(ii) the increase of sales in imported beef by $10.1 million (or 233%) primarily due to the Trade Facilities being established for the Shanghai Distribution Centre ("SDC") allowing more beef meats being imported and sold by SDC.

Correspondingly, the increases in gross profits as illustrated in the above Table were primarily due to the same reasons.

The Company remains optimistic that the dampening effect from imported meats on local cattle production that appears to be weakening will provide for an environment of steady rising prices permitting an increase in local beef production. In addition, the SDC will continue focusing on its high-grade beef imports marketing program that currently finds it as an exclusive reseller of some of Australia's more prominent Wagu and grain-fed Angus suppliers.



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

***<u>Notes to Table A (1) Note (1.1, 2.1 and 3.1)</u>***

***Table (A.5) below shows the revenue, cost of services and gross profit generated from Consulting, services, commission and management fees for the same period ended June 30, 2016 and 2015.***

**Service revenues (Consulting and Services)**

| | **2016Q2** | **2015Q2** | **Difference** | **Description of work** |
|---|---|---|---|---|
| CA | 19,273,008 | 8,833,426 | 10,439,582 | Working in progress of PF(2) and PF(3) in Zhongshen New Prawn Project |
| **Revenues** | **19,273,008** | **8,833,426** | **10,439,582** | |
| Increases in $ | 10,439,582 | | | |
| % of increases | 118% | | | |
| CA | 13,416,468 | 6,708,419 | 6,708,049 | |
| **Cost of Consulting and Services** | **13,416,468** | **6,708,419** | **6,708,049** | |
| CA | 5,856,540 | 2,125,007 | 3,731,533 | |
| **Gross Profit** | **5,856,540** | **2,125,007** | **3,731,533** | |
| Increases in $ | 3,731,533 | | | |
| % of increases | 176% | | | |

**<u>Revenues (consulting, service, commission and management fee):</u>**

Revenues increased by $10.4 million (or 118%) from $8.8 million for Q2 2015 to $19.2 million for Q2 2016. The increase was primarily due to the increase of work in progress at PF(3) of the Zhongshan new prawn farm project, providing over $16.5 million (or 86%) of the total service revenue of CA..

**<u>Gross profit (consulting, service, commission and management fee)</u>**

Gross profit of consulting, service, commission and management fee increased by $3.7 million (or 176%) from $2.1 million for Q2 2015 to $5.8 million for Q2 2016.

In light of efforts underway to secure debt financing for the working capital plans for Triway, aka Aquaculture Carve-out Project, (anticipating closing on the loan within Q3 / early Q4), securing the loan will accelerate both its development and higher service revenues for CA. Alternatively, if the loan cannot be secured, Triway will continue to develop organically via its internally generated cash-flow, providing CA with current level streams of service revenue until such time as other funding sources become available. Further information on Carve-out exercises currently underway by the Company can be found under the heading, "Carve-out Exercise Projects," later in this report.



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| Name of the developments | Location of development | Designed capacity per year | Land area or Built up area | Commencement date of development | % of completion as of 3-31-2016 | Notes |
|---|---|---|---|---|---|---|
| Fish Farm (1) | Enping City | 1,200 MT | 13,200 m2 | July 2010 | Fully operational | With 16 APMs |
| Prawn Farm (1) | Enping City | 2014=400MT<br>2015=1000 MT | 23,100 m2 | March. 2013 | Fully operational<br>Hydroponic farm | With 14 APMs<br>Construction tentaively starts Q4 2016 |
| Fish Farm (2) "The Fish & Eel Farm | Xin Hui District, Jiang Men. | 2014=800 MT | 165,000 m2 | 1 January 15, 2012 | Operational | No plan for Other phases of development at the moment |
| Prawn Farm (2) The Hatchery & Nursery & Grow-out prawn farm | San Jiao Town, Zhong San City, | 2015=1B fingerling<br>2016=2B fingerling<br>2015=200MT<br>2016=400MT<br>1 | 247,500 m2 | May 2012 | 70% | Operational with WIP to be continued till year end of 2017 |
| Cattle Farm (1) | LiangXi Town, Enping City | 165,013 m2 | 1,500 Head | April 2011 | Fully operational | |
| Cattle Farm (2) | LiangXi Town, Enping City | 230,300 m2 | 2,500 head | February 2012 | Fully operational | |
| WHX Restaurants etc. | Guangzhou City | 5,500 seatings in total | | June 2012 | Work in progress | Restaurant 7 & 8's work has been completed. |
| NaWei wholesale Center | Guangzhou City | | 5,000 m2 | July 2012 | Completed | Operational. |
| | Shanghai City | | 3,000 m2 | Sept. 2014 | Completed | In operation.. |
| New Zhongshan Prawn Project (PF3 & PF4) | Zhongshan City | Phase (1)S(1)= 10,000 MT<br>Phase (2) = 60,000 MT | 2.5 million m2 | Nov. 2013 | Minimal | 90% Building (1) & (2) work in progress completed with WIP on water dams constructed on 30,000 m2 block.. |



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Note(4)toTableA1OtherIncome

Table (Note4.1):Gain/Loss on extinguishment of debts (or Debt Settlement) representing recent sales of unregistered securities and the issuance of Shares for Q22016

| Date | Shares issued/Bought back | Market Price when issuance | Par value | Additional paid in capital | Consideration value | Income from issuance of shares | Note |
|---|---|---|---|---|---|---|---|
| **As of April 1, 2016** | **20,133,757** | | | | | | |
| 5/10/2016 | 256,811.00 | 5.98 | 256.81 | 1,536,603.19 | 1,536,860.00 | - | Entitlement and incentive bonus payments in shares issued to Staffs & managements |
| 5/10/2016 | 941,967.00 | 5.98 | 941.97 | 5,632,021.03 | 5,632,963.00 | - | Entitlement & incentive bonus payments in shares issued to Directors & executives |
| 5/10/2016 | 132,787.00 | 5.98 | 132.79 | 793,933.47 | 794,066.26 | | Entitlement & bonus payments in shares issued to by In house consutants and advisors |
| **As at 30.06.2016** | **21,465,322.00** | | **1,331.57** | **7,962,557.70** | **7,963,889.26** | **-** | |

The Company entered into several agreements with third parties to settle debts by issuance of the Company's common stock. The shares issued by the Company were valued at the trading price of the stock on the date the shares were issued. For the three months ended June 30,2016 the Company has not issued any shares for debt settlement during the quarter.

During the last three years we have issued unregistered securities to Chinese persons none of them residents of the United States. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering. The sales of these securities were, except as set forth below, deemed to be exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(a)(2), thereof, and/orRule506 of Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering. The recipients of securities in each transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the certificates issued in such transactions. All purchasers of our securities were accredited or sophisticated persons and had adequate access through employment, business or other relationships to information about us.

We relied upon Regulation S of the Securities Act of 1933, as amended, for the above issuances, none of which was made to US citizens or residents. We believe that Regulation S was available because:

- None of these issuances involved underwriters, underwriting discounts or commissions;
- We placed Regulation S required restrictive legends on all certificates issued;
- No offers or sales of stock under the Regulation S offering were made to persons in the United States; and
- No direct selling efforts of the Regulation S offering were made in the United States.

The other income for the three months ended June 30, 2016amounted to $(857,643) with a difference of $96,058 to Q2 2015 and derived from the combination of (1) Gain on extinguishment of debt $0 (Note 4), Government Grant $0 and other income $0 less interest expenses of $953,701. Whereas, the other income for the three months ended June 30, 2015 amounted to $(1,177,990) and derived from the combination of (1) Gain on extinguishment of debt $0 (Note 4), Government Grant $58,661 and other income $89,821 less interest expenses of $1,326,472.

Gain (loss) of extinguishment of debts

Any deficit (excess) of the fair value of the shares over the carrying cost of the debt has been reported as a gain (loss) on the extinguishment of debt of $0 and $0 has been credited (charged) to operations for the three months ended June 30, 2016 and 2015, respectively.



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**Note (5) to Table A 1 General and Administrative Expenses and Interest Expenses**

General and administrative and interest expenses (including depreciation and amortization) decreased by $2,185,023 or 33% from $6,718,678 for Q2 2015 to $4,533,655 for Q2 2016. The decrease was primarily due to decrease in Office and corporate expenses of $1,653,911 from $2,843,444 for Q2 2015 to $1,189,533 for Q2 2016.

| Category | 2016 Q2 | 2015 Q2 | Difference $ |
|---|---|---|---|
| Office and corporate expenses | 1,189,533 | 2,843,444 | (1,653,911) |
| Wages and salaries | 486,072 | 537,257 | (51,185) |
| Traveling and related lodging | 10,940 | 15,196 | -4256 |
| Motor vehicles expenses and local transportation | 30,371 | 54,162 | (23,791) |
| Entertainments and meals | 32,744 | 66,264 | (33,520) |
| Others and miscellaneous | 896,195 | 993,271 | (97,076) |
| Depreciation and amortization | 934,099 | 882,612 | 51,487 |
| Sub-total | 3,579,954 | 5,392,206 | (1,812,252) |
| Interest expenses | 953,701 | 1,326,472 | (372,771) |
| Total | 4,533,655 | 6,718,678 | (2,185,023) |

Depreciation and amortization decreased by $9,848 or 1% to $1,375,566 for Q2 2016 from $1,385,414 for Q2 2015. The decrease was primarily due to the increase of depreciation by $190,782 to $995,317 for Q2 2016 from depreciation of $804,535 for Q2 2015, and whereas the decrease of amortization by $200,630 to $380,249 for Q2 2016 from amortization of $580,879 for Q2 2015.

In this respect, total depreciation and amortization amounted to $1,375,566 for Q2 2016, out of which amount, $934,099 was reported under general and administration expenses and $441,467 was reported under cost of goods sold, and whereas total depreciation and amortization was at $1,385,414 for Q2 2015 and out of which amount $882,612 was reported under General and Administration expenses and $502,802 was reported under cost of goods sold.



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**Note (7) to Table A 1 Non-controlling interests**

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

| Names of intermediate holdco. subsidiaries | Capital Award Inc. (Belize) | Macau EIJI Company Ltd. (Macau) | | | A Power Agro Agriculture Development (Macau) Ltd. | | Triway Industries Ltd.(HK) | Total |
|---|---|---|---|---|---|---|---|---|
| Abbreviated names | **CA** | **(MEIJI)** | | | **(APWAM)** | | **(TRW)** | |
| % of equity holding on below subsidiaries (in China) | n.a. | 75% | 75% | 26% | 45% | | 75% | |
| Name of China subsidiaries | None | Jiangmen City Heng Sheng Tai Agriculture Development Co. Ltd. (China) | Jiangmen City Hang Mei Cattle Farm Development Co. Ltd. (China) | | Quinghai Sangjiang A Power Agrivulture Co. Ltd. (China) | Qing Hai Zhonghe Meat product Co.Ltd (China) | Jiangmen City A Power Fishery Development Co. Ltd. (China) | |
| Abbreviated names | | **(JHST)** | **(JHMC)** | **(HSA)** | **(SJAP)** | **(QZH)** | **(JFD)** | |
| | | | | Hunan Shanghua A Power Agriculture Co. Ltd (China | 50% | | | |
| Net income of the P.R.C. subsidiaries for the period ended 30. June 2016 in $ | | $ 2,066,896 | $ 529,453 | $ 1,264,684 | $ 3,294,040 | $ 6,541,588 | $ 1,472,407 | |
| Equity % of non-controlling interest | | 25% | 25% | 24.0% | 55% | 55% | 25% | |
| Non-controlling interest's shares of Net incomes in $ | | $ 516,724 | $ 132,363 | $ 303,524 | $ 1,811,722 | $ 3,597,873 | $ 368,102 | $ **6,730,309** |

The Net Income attributed to non-controlling interest is $6,730,309 shared by (JHST, JHMC, HSA, SJAP and JFD collectively) for Q2 2016 as shown in Table (F) above.

**Note (8) to Table A 1 Earnings per shares (EPS)**

Earnings per share increased by $0.39 (basic) and $0.31 (diluted) per share from EPS of $0.51 (basic) and $0.51 (diluted) for Q2 2015 to EPS of $0.90 (basic) and $0.82 (diluted) for Q2 2016. The reasons underlying the increase ~~is~~ was primarily due to:

* Increase of net income to the group by $9,486,090.
* Increase of 1,331,565 shares in fully diluted shares primarily shares issued as collateral to secure two loans in Q2 2015 that will be retired upon their return when the loans are repaid at maturity (in the event of default, the collateralized shares will remain fully issued and outstanding shares, as currently reported).



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**Part B. MD & A on Unaudited Consolidated Balance Sheet of Continued Operations for the six months ended 30 June 2016 (Q2 2016) compared to the twelve months ended 31 December 2015 (fiscal year 2015)**

| Consolidated Balance sheets | June 30,2016 $ | December 31, 2015 $ | Changes +- $ | Note |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 3,320,287 | 7,229,197 | -3,908,910 | B |
| Inventories | 65,672,097 | 62,848,707 | 2,823,390 | 9 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 1,306,885 | 1,306,885 | - | |
| Deposits and prepaid expenses | 95,499,629 | 83,811,929 | 11,687,700 | 10 |
| Accounts receivable | 128,587,659 | 135,674,418 | -7,086,759 | 11 |
| Other receivables | 73,375,022 | 59,780,587 | 13,594,435 | |
| **Total current assets** | **367,761,579** | **350,651,723** | **17,109,856** | |
| **Property and equipment** | | | - | |
| Property and equipment, net of accumulated depreciation | 107,201,631 | 104,259,079 | 2,942,552 | 12 |
| Construction in progress | 98,983,538 | 72,788,769 | 26,194,769 | 13 |
| Land use rights, net of accumulated amortization | 56,618,491 | 58,485,675 | -1,867,184 | 14 |
| **Total property and equipment** | **262,803,660** | **235,533,523** | **27,270,137** | |
| **Other assets** | | | - | |
| Goodwill | 724,940 | 724,940 | - | |
| Investment in unincorporated equity investee | 150,806 | 769,941 | -619,135 | |
| Long term investment | 754,034 | | | |
| Proprietary technologies, net of accumulated amortization | 10,448,565 | 10,784,358 | -335,793 | 15 |
| Temporary deposit paid to entities for investments in future Sino Joint Venture companies | 41,109,708 | 41,109,708 | - | |
| **Total other assets** | **53,188,053** | **53,388,947** | **-200,894** | |
| **Total assets** | **683,753,292** | **639,574,193** | **44,179,099** | |
| **Current liabilities** | | | | 16 |
| Accounts payable and accrued expenses | 15,219,495 | 9,345,559 | 5,873,936 | |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 7,731,837 | 8,700,706 | -968,869 | |
| Due to a director | 711,715 | 211,247 | 500,468 | |
| Other payables | 6,927,260 | 4,792,579 | 2,134,681 | |
| Borrowings-Short term bank loan | 4,389,365 | 4,466,040 | -76,675 | |
| Negotiable promissory notes | 879,321 | 865,968 | 13,353 | |
| **Total current liabilities** | **35,858,993** | **28,382,099** | **7,476,894** | |
| **Non-current liabilities** | | | | |
| Other payables | 4,797,332 | 4,797,332 | | |
| Long term debts | 1,039,680 | 1,554,902 | -515,222 | |
| Convertible note payable | 28,289,106 | 34,904,739 | -6,615,633 | 16D |
| **Total non-current liabilities** | **34,126,118** | **41,256,973** | **-7,130,855** | |
| **Stockholders' equity** | | | | |
| Common stock | 21,465 | 20,134 | 1,331 | |
| Additional paid-in capital | 150,844,732 | 142,882,173 | 7,962,559 | |
| Retained earnings | 367,019,614 | 339,616,638 | 27,402,976 | |
| Accumulated other comprehensive income | -1,018,494 | 1,427,638 | -2,446,132 | |
| Treasury stock | -1,250,000 | -1,250,000 | - | |
| **Total SIAF Inc. and subsidiaries' equity** | **515,617,317** | **482,696,583** | **32,920,734** | |
| Non-controlling interest | 98,150,864 | 87,238,538 | 10,912,326 | |
| **Total stockholders' equity** | **613,768,181** | **569,935,121** | **43,833,060** | |
| **Total liabilities and stockholders' equity** | **683,753,292** | **639,574,193** | **44,179,099** | |



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This Part B discusses and analyzes certain items (marked with notes) that we believe would assist stakeholders in obtaining a better understanding of the Company's results of operations and financial condition:

**Note (B) Cash and Cash Equivalents**

The change in cash and cash equivalent of $(3,908,910) is derived from cash and cash equivalents of $3,320,287 and $7,229,197 as at June 30, 2016 and December 31, 2015, respectively. Respectively, cash & cash equivalents typically settle into a normal range by mid-year following irregular spikes and drops due to seasonal impacts at the end of the year.

**Note (9) Break down on inventories**

| | June 30,2016 | Dec 31,2015 | **Difference** |
|---|---|---|---|
| | $ | $ | $ |
| Sleepy cods, prawns, eels and marble goble | 8,441,993 | 4,053,459 | 4,388,534 |
| Bread grass | 135,696 | 1,207,260 | (1,071,564) |
| Beef cattle | 4,832,611 | 5,026,404 | (193,793) |
| Organic fertilizer | 12,619,418 | 10,815,983 | 1,803,435 |
| Forage for cattle and consumable | 14,797,299 | 10,328,365 | 4,468,934 |
| Raw materials for bread grass and organic fertilizer | 12,191,803 | 15,440,348 | (3,248,545) |
| Beef and mutton | 11,331,154 | 14,593,458 | (3,262,304) |
| Immature seeds | 1,322,123 | 1,383,431 | (61,308) |
| | **65,672,097** | **62,848,707** | **2,823,390** |



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

| | June 30,2016 $ | Dec 31,2015 $ | **Difference** $ | **Note** |
|---|---|---|---|---|
| Deposits for | | | | |
| - purchases of equipment | 6,975,629 | $ 4,963,245 | 2,012,384 | |
| - acquisition of land use rights | 3,373,110 | 3,373,110 | 0 | 10.1 |
| - inventories purchases | 18,440,747 | 19,948,867 | (1,508,120) | |
| - aquaculture contracts | 2,261,538 | 4,340,741 | (2,079,203) | |
| - building materials | 8,632,259 | 9,197,796 | (565,537) | |
| - consulting service providers and others | 22,354,658 | 20,243,172 | 2,111,486 | |
| - construction in progress | 11,281,100 | 11,281,100 | 0 | |
| Prepayments - debts discounts and others | 14,216,699 | 9,919,126 | 4,297,573 | |
| Shares issued for employee compensation and overseas professional and bond interest | 7,963,889 | 544,772 | 7,419,117 | 10.2 |
| | **95,499,629** | **83,811,929** | **11,687,700** | |

**Note (10.1)**

**Note (10.1) Breakdown of Deposit for- acquisition of Land Use Right:**

As of June 30, 2016, we have $3,373,110 for a deposit paid for the acquisition of a Land Use Right derived from the following transactions:

- $3,182,180 (or RMB20,000,000) was full payment made on June 6, 2012 for Land Use Right by HSA comprising a block of land measuring 150 Mu (or 25 acres of prime agriculture land) located at Linli District of Hunan Province within 10 Km of HSA's complex. The process of application to register the said "Land Use Right" is in progress, and, as such, this payment is recorded as Deposit and Prepaid Expenses pending final authority approval on or before 31 December 2016, as the new local ordinances on agriculture land delayed the processing of our application.



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- $190,930 (or RMB1,200,000) was paid by SJAP as deposit for the acquisition of "Land Use Right" on a block of land measuring 15 Mu (or 2.475 acres) located at Huangyuan district next to SJAP's complex on October 15, 2012. The process of rezoning this piece of land to residential (at present, agriculture) continues, and once completed will be transferred from the Local Government (Huangyuan County) to SJAP to build new staff quarters.

**Note (10.2) Information of "Temporary deposit and pre-payments for investments in future assets and in future Sino Foreign Joint Venture companies**

| Under account of Subsidiary | Segment of | Project name | Estimated total Asset value | Estimated time of Acquisition | Current status of Project | Deposit & prepayments made as of September 30, 2014 | Land Bank or Built Up area |
|---|---|---|---|---|---|---|---|
| | | | $ | | | $ | m2 |
| SIAF | Corporate | Trade Center | 3.5 million | own development | 30% completed | 4,086,941 | 5,000 |
| | | | | | | | |
| | | Seafood Center | | | | 1,032,914 | |
| CA | Fishery | Fish Farm (1) | 26.22 Million | 2016 | 2 out 4 phases completed | 6,000,000 | 23,100 |
| | | Prawn Farm (1) | 20.93 Million | 2014 | in operation | 14,554,578 | 165,000 |
| | | Prawn Farm (2) | 29.18 Million | 2014 | Part operational Part work in progress | 9,877,218 | 120,000 developed 96,000 m2 undeveloped |
| | | | | | | | |
| MEIJI | Cattle | Cattle Farm (2) | 15.88 Million | 2014 | 95% completed | 5,558,057 | 230,300 |
| | | | | | | **41,109,708** | |



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Note (11) Breakdown of Accounts receivable:

| | June 30,2016 | | | | |
|---|---|---|---|---|---|
| | Accounts receivable $ | 0-30 days $ | 31-90 days $ | 91-120 days $ | over 120 days and less than 1 year $ |
| Consulting and Service totaling | | | | | |
| CA | 20,156,011 | 16,459,887 | 1,152,252 | - | 2,543,872 |
| Sales of Live Fish, eels and prawns (from Farms) (CA) | 28,811,777 | 16,794,878 | 5,575,831 | 6,441,068 | - |
| Sales of imported seafood (SIAF) | 10,206,516 | 7,770,568 | 2,435,948 | - | - |
| Sales of Cattle and Beef Meats (from Enping Farm) (MEIJI) | 7,629,100 | 5,026,038 | - | 2,603,062 | - |
| Sales of HU Flowers (Fresh & Dried) (JHST) | 5,420,110 | 4,637,835 | 782,275 | - | - |
| Sales Fertilizer, Bulk Stock feed and Cattle by (SJAP) | 20,764,506 | 4,136,089 | 6,499,486 | 2,796,500 | 7,332,431 |
| Sales Fertilizer from (HSA) | 9,951,326 | 1,707,671 | 3,472,296 | 1,743,991 | 3,027,368 |
| Sales of Beef (QZH) | 25,648,313 | 10,136,831 | 11,000,822 | 1,479,859 | 3,030,801 |
| **Total** | **128,587,659** | **66,669,797** | **30,918,910** | **15,064,480** | **15,934,472** |



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**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 receivable is not in doubt.

Fish Sales: Most farmed fish are sold to wholesalers at prevailing daily market prices and aging is within 90 days trading terms with a small portion at 180 days (for oversized fish, as the sale of oversized fish takes time to sell). We sold $ 29 million in live fish, eels and prawns (live seafood) to the wholesalers for the three months ended June 30, 2016 and as of June 30, 2016, accounts receivable of $0 was over 120 days. These debtors represent credit quality receivables as they are well established wholesalers, profitable and viable businesses with a good track record and therefore provision of diminution in value is not required as collection is not in doubt.

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 these arrangements, 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 pasture-grass is ultimately offset against the cattle that we purchase from them~~,~~). As these debtors are our contract farmers and operate profitable and viable businesses with us and have a good track record we consider their credit quality good and collection from them is not in doubt, thus no diminution in value is required.

**Information on Concentration of credit risk of account receivables:**

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 58.02% or more of our consolidated revenues for Q2 2016 as shown in the table below:

| | two months ended June 30, 2016 | | |
|---|---|---|---|
| | % of total Revenue | $ | Customer's Total Revenue |
| Customer A | 18.45% | | 22,924,066 |
| Customer B | 13.99% | | 17,383,413 |
| Customer C | 13.97% | | 17,367,698 |
| Customer D | 11.61% | | 14,431,039 |
| | | | |
| | **58.02%** | | **72,106,216** |

Customer A is one of our main agents, namely Mr . Xian Zhiming (Legal representative of "Zhongshan City A Power Agriculture Development Co. Limited,"(ZSAPAD), the SFJVC of the Zhongshan new prawn farm). In our account, ZSAPAD' s legal representative is the person responsible for its company affairs, such that we quote Customer A in the name of Xian Zhiming instead of ZSAPAD. As of June 30, 2016, all of its receivables to the Company are within trading terms of 60 to 90 days, though we have agreed to extend trading terms between 120 days to 180 days in the interim until such time as we shall have completed Triway's acquisition of PF3 and PF4.

Customer B is WangJianWha, owner of Guangzhou Wholesale market (Store 17) who distributes our live prawns to over 30 other wholesalers at the same Guangzhou Wholesale Fish Markets. The purpose of using one main wholesaler as our main distributor is to have just one person responsible for payments to us such that we shall not need to collect sales proceeds from 30 or more wholesalers. During Q2 2016, we sold to Mr .WangJianWha, 13.99% of our total consolidated revenue (equivalent to $17,383,413 out of our total revenue of $124,282,255) derived from the sales of CA' s live prawns under the segment of Fishery.

Customer C: is Shanghai Virgo Co. China ("Virgo"), which is the distribution center established by CA since May 2015 distributing seafood and beef meats. Virgo has many customers (i.e. exceeding 6 major agencies and 600 direct customers over the past year) with sales reaching US$1.5 million / month as of month of August 2016. At the same time, Virgo has now established its own import and export licenses in China and establishing its own direct wholesale outlets in Shanghai and Changsha cities, etc. that will help Virgo to consolidate its trading position in the market. The Company sold to Virgo 13.97% of our total consolidated revenue, equivalent to $17,367,698 out of our total revenue of $124,282,255.

Customer D is WSC 1, which is owned and operated by Guangzhou City A Power NaWei Trading Co. Ltd ("APNW"). CA was the consulting engineer responsible for the construction of WSC 1and development of its business operation via a Consulting and Service Contract granted by APNW. APNW is now one of our main wholesalers, and to whom we bill our sales of seafood (including live and frozen seafood). APNW distributes the 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 held all relevant Import Quotas and Permits since 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 11.61% of our total consolidated revenue, equivalent to $14,431,039 out of our total revenue of $124,282,255 derived, collectively.



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The Company had 4 major customers whose accounts receivable balance individually represented the following percentages of the Company's total accounts receivable during Q2 2016:

| | June . 30. 2016<br>% of total Accounts receivables | amount in $ | Total<br>Accounts receivables |
|---|---|---|---|
| Customer A | 14.34% | | 18,443,674 |
| Customer B | 13.70% | | 17,612,139 |
| Customer C | 8.81% | | 11,327,294 |
| Customer D | 6.99% | | 8,990,613 |
| | **43.84**% | | **56,373,719** |

**Note (12) Property and equipment, net of accumulation depreciation**

| | June 30, 2016<br>$ |
|---|---|
| Plant and machinery | 6,481,690 |
| Structure and leasehold improvements | 90,612,871 |
| Mature seeds and herbage cultivation | 18,737,643 |
| Furniture and equipment | 704,153 |
| Motor vehicles | 790,434 |
| | **117,326,791** |
| | |
| Less: Accumulated depreciation | -10,125,160 |
| **Net carrying amount** | **107,201,631** |

**Note (13) Construction in progress**

| | June 30, 2016<br>$ |
|---|---|
| **Construction in progress** | |
| - Oven room、road for production of dried flowers | 3,016,136 |
| - Office, warehouse and organic fertilizer plant in HAS | 32,139,090 |
| - Organic fertilizer and bread grass production plant and office building | 19,340,652 |
| - Rangeland for beef cattle and office building | 31,620,384 |
| - Fish pond | 12,867,276 |
| | |
| **TOTAL** | **98,983,538** |



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

| Item | Owner | Location | Acres | Date Acquired | Tenure | Expiry dates | Cost $ | Monthly amortization $ | 2016.06.30 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 | 213,071 | 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 | 33,610,629 | 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 | 329,601 | 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 | 906,304 | 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 | 875,920 | 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 | 1,914,662 | 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 | 1,741,329 | 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 | 819,022 | 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 | 705,073 | 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 | 4,507,448 | 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 | 1,235,041 | 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 | 3,748,075 | 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 | 465,724 | 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 | 326,603 | 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 | 4,193,868 | Management Right | Agriculture |
| | JHST | Land improvement cost incurred | | 12/1/2013 | | | 3,914,275 | 6,155 | 3,723,485 | | |
| Exchange difference | | | | | | | -2,444,712 | | -2,697,364 | | |


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| | | | | |
|---|---|---|---|---|
| | **654** | **64,785,941** | **131,789** | **56,618,491** |



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**Note (15) Other receivables**

| | June 30, 2016<br>$ | Note |
|---|---|---|
| Advanced to employees | 532,148 | 15.A |
| Advanced to suppliers | 13,977,318 | 15.B |
| Advanced to customers | 28,003,006 | |
| Advanced to developers | 28,000,000 | |
| Advanced to convertible bond holder | 2,862,550 | |
| | **73,375,022** | |

**Note 15.A & B: Breakdown of Advances to Suppliers at SJAP's operations:**

At SJAP it is a common practice to make cash advances to our cooperative growers (presently standing at 100 members) who are our suppliers, to carry them through respective growing periods (for cropping, pasturing or cattle growing purposes) before final harvests of produce or sale of their cattle. On average, it works out to less than $1,863 per member that, in management's opinion, is a normal season to season allotment deemed fair and equitable. In this respect, as said average increases it means that the average cooperative farmer is increasing his/her productivity (whether in the growing of crops or cattle), and in simple terms, it represents good progress indicating that SJAP's revenue is also increasing.

The sub-contractors and suppliers of the Zhongshan Projects are reputable entities that, in management's opinion, are trusted entities employing their funds into work on the Zhongshan Project.

**Note (16) Current Liabilities:**

| | **June 30, 2016** | **Note** |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable and accruals | 15,219,495 | 16.A |
| Billings in excess of cost and estimated earnings on uncompleted contracts | 7,731,837 | |
| Due to a director | 711,715 | |
| Other payables | 6,927,260 | 16 B |
| Borrowings-Short term bank loan | 4,389,365 | |
| Negotiable promissory notes | 879,321 | |
| | **35,858,993** | |

**Note 16A: Accounts payables and accrued expenses clarification:**

Our current trading environment is limited to a number of suppliers who offer prolonged credit terms, yet most purchases are paid for in cash or short credit terms (7 to 10 days), which allows for better bargaining ability to obtain cash discounts, thus resulting in lower trade account payables balances totaling $15,219,495, about 12.25% of total sales of $124 million for the reasons stated below:

**Our main Account Payables during Q2 2016 were generated from the following activities:**

1. We supply the following cost elements: our own staff, engineering and technology that enhanced our profit margins and reduced the overall cost of sales. Consulting and Services ("C&S"), since inception, has been the major contributor of income to date with cost of goods sold averaging 77%, and 71% for CA and SIAF, respectively, derived from C&S during Q2 2016.

2. Implementation, supervision, training and associated management work and most of the building sub-contractors worked at fixed costs; consequently, profit margins are contained providing ample opportunity for expanded credit terms. For contracts related to the construction of farms we use equipment, parts and components that were specially manufactured and made as per our own design and engineering by local manufacturers and suppliers (who carry a high amount of initial development costs and inventories for us based on the understanding that goods delivered are paid for within shorter trading terms making it affordable for them to carry such costs).

3. The cost of fish sales averaged 77% for Q2 2016, the bulk of the cost from the supplies of baby fingerlings and live bait as the main fish feed. The customary trading terms of Chinese suppliers is on a cash on delivery basis, yet suppliers who provide short credit terms presently is limited to no more than a select few and comprise a portion of current accounts payable



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4. The cost of SJAP's cattle sales was at 87% for Q2 2016, and at the Enping cattle farm at 94% for Q2 2016, wherein most of the cattle supplied to both entities comes from small primary producers who do not have the means to extend long-term credit and are paid either cash on delivery or under very short-term credit conditions.

5. At SJAP, the bulk of our fertilizer was sold to farmers who are growing pasture grass and crops for our operations. Fertilizer sales were kept as book entries that are offset with pasture grass and crops purchased from them. In the case of HSA, which is a developing stage company in fertilizer manufacturing, prolonged credit term facilities have not been established for its purchase of raw materials.

6. Bulk livestock feed are produced by regional cooperative growers under contract to us and they use our supply of fertilizer and seeds that represented the main cost components enhancing cost of sales, which average is at 45%for Q2 2016. Again, sale of fertilizer is held on credit against crops and pasture grass purchased from them, as well as bulk livestock feed sold to them for cattle rearing, and reconciled once cattle are purchased from them.

**Note (16.B): Series F Non-convertible preferred stock**

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. During Q1 2013, the transfer agent of the Company recorded 924,180 shares of Series F Non-Convertible preferred stock on the account. However, the Company did not issue physical shares and only issued coupons to notify respective shareholders on that date. These 924,180 Series F shares, were based on numbers of shares of Common Stock as of September 28, 2012 of 91,931,287 shares, calculated at one share of Series F Non-Convertible preferred stock for every 100 shares of Common Stock with decimal number of shares being rounded up to one. Once payment of $3.40 per share is made the F shares will be voided and will be cancelled in full. As of May 30, 2015 payment on the F-series shares has been made, and respective shares cancelled, accordingly.

**Note (16C): Analysis of Other Payables:**

As of June 30 2016, other payables totaling $11,724,592 composed of the following:

During the six months ended June 30, 2016, the Company issued Promissory notes amounting to $2,200,000 to unrelated third parties for advances granted by third parties, collectively, to the Company (and/or to its subsidiaries) that are personally guaranteed by a director, repayable within two (2) years, interest free. Promissory notes could be repaid either by cash or in shares of the Company or in combination, thereof. If shares settle debt amounts, the respective share conversion rate will be determined by both parties at the time of settlement. During Q2 2016 we redeemed $0 of Promissory Notes for advances granted by third parties in fiscal year 2012 as well as in early months of 2014 leaving a balance of $1,100,000 from those Promissory Notes still due and outstanding as of June 30, 2016.

A grant of $764,494 was received from the Chinese government to SJAP for the development of a certain project; however if SJAP will not be able to complete the project, it will have to repay the grant to the Government. As of June 30 2016, work remains in progress on the project~~,~~ and the grant is recorded as other payables.

During the six months ended June 30, 2016, other advances provided through verbal agreements with other unrelated third parties, collectively, to our subsidiaries with no fixed term of repayment, interest free, amount to $3,980,766 unpaid and outstanding as of June 30, 2016.



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**Part C. Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015 (presented in summarized Charts below):**

**Revenue:**

Revenues decreased by $10,134,869 (or 5%) to $196,195,309 for the six months ended June 30, 2016 from $206,330,178 for the six months ended June 30, 2015. The decrease was primarily due to the decrease of revenue generated from our fishery, organic fertilizer, and corporate and others operations and the maturity of on-going divisional businesses improving their revenues.

The following chart illustrates the changes by category from the six months ended June 30, 2016 to June 30, 2015.

***Revenue***

| **Category** | **2016 Q1- Q2** $ | **2015 Q1- Q2** $ | **Difference** $ |
|---|---|---|---|
| Fishery | 77,418,513 | 81,313,647 | (3,895,134) |
| Plantation | 5,502,259 | 4,193,013 | 1,309,246 |
| Beef | 52,299,576 | 61,473,980 | (9,174,404) |
| Organic fertilizer | 23,007,020 | 20,329,791 | 2,677,229 |
| Cattle farm | 11,896,647 | 17,787,670 | (5,891,023) |
| Corporate and others | 26,071,294 | 21,232,077 | 4,839,217 |
| **Total** | **196,195,309** | **206,330,178** | **(10,134,869)** |

**Cost of Goods Sold and Services:**

Cost of goods sold and services decreased by $1,439,123 (or 1%) to $147,375,693 for the six months ended June 30, 2016 from $148,814,816 for the six months ended June 30, 2015. The decrease was primarily due to the Company decrease in fishery, plantation, beef, organic fertilizer, cattle farm and corporate and others operations for six months ended June 30, 2016 as compared for the six months ended June 30, 2015.

The following chart illustrates the changes by category from the six months ended June 30, 2016 to June 30, 2015.

| **Category** | **2016 Q1- Q2** $ | **2015 Q1- Q2** $ | **Difference** $ |
|---|---|---|---|
| Fishery | 58,037,079 | 56,671,589 | 1,365,490 |
| Plantation | 2,654,717 | 1,144,755 | 1,509,962 |
| Beef | 39,377,707 | 46,034,126 | (6,656,419) |
| Organic fertilizer | 13,157,144 | 11,463,167 | 1,693,977 |
| Cattle farm | 11,272,835 | 17,125,423 | (5,852,588) |
| Corporate and others | 22,876,211 | 16,375,756 | 6,500,455 |
| Total | **147,375,693** | **148,814,816** | **(1,439,123)** |



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**Gross Profit**

Gross profit decreased by $8,695,746 (or 15%) to $48,819,616 for the six months ended June 30, 2016 from $57,515,362 for the six months ended June 30, 2015. The decrease was primarily due to the corresponding decrease in operation revenues.

The following chart illustrates the changes by category from the six months ended June 30, 2016 to June 30, 2015. The gross profit by category is as follows:

| Category | 2016 Q1- Q2 $ | 2015 Q1- Q2 $ | Difference $ |
|---|---|---|---|
| Fishery | 19,381,434 | 24,642,058 | -5,260,624 |
| Plantation | 2,847,542 | 3,048,258 | -200,716 |
| Beef | 12,921,869 | 15,439,854 | -2,517,985 |
| Organic fertilizer | 9,849,876 | 8,866,624 | 983,252 |
| Cattle farm | 623,812 | 662,247 | -38,435 |
| Corporate and others | 3,195,083 | 4,856,321 | -1,661,238 |
| **Total** | **48,819,616** | **57,515,362** | **-8,695,746** |

**General and Administrative Expenses and Interest Expenses**

General and administrative expenses and interest expenses (including depreciation and amortization) decreased by $1,777,027 (or 15%) to $10,291,164 for the six months ended June 30, 2016 from $12,068,191 for the six months ended June 30, 2015. The decrease was primarily due to decrease in Office and corporate expenses paid for overseas professional services of $110,504 for the six months ended June 30, 2016 from $4,856,373 for the six months ended June 30, 2015.

| Category | 2016 Q1-Q2 $ | 2015 Q1-Q2 $ | Difference $ |
|---|---|---|---|
| Office and corporate expenses | 2,745,869 | 4,856,373 | (2,110,504) |
| Wages and salaries | 1,039,291 | 1,205,945 | (166,654) |
| Traveling and related lodging | 102,347 | 98,089 | 4,258 |
| Motor vehicles expenses and local transportation | 70,101 | 95,062 | (24,961) |
| Entertainments and meals | 562,492 | 116,577 | 445,915 |
| Others and miscellaneous | 1,842,774 | 1,723,101 | 119,673 |
| Depreciation and amortization | 1,785,813 | 1,862,966 | (77,153) |
| Sub-total | 8,148,687 | 9,958,113 | (1,809,426) |
| Interest expenses | 2,142,477 | 2,110,078 | 32,399 |
| **Total** | **10,291,164** | **12,068,191** | **(1,777,027)** |



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**Depreciation and Amortization**

Depreciation and amortization increased by $538,992 (or 20%) to $3,240,865 for the six months ended June 30, 2016 from $2,701,873 for the six months ended June 30, 2015. The increase was primarily due to the increase of depreciation by $657,056 to $2,263,929 for the six months ended June 30, 2016 from depreciation of $1,606,873 for the six months ended June 30, 2015, and the decrease of amortization by $118,064 to $976,936 for six months ended June 30, 2016 from amortization of $1,095,000 for the six months ended June 30, 2015.

In this respect, total depreciation and amortization amounted to $3,240,865 for the six months ended June 30, 2016, out of which amount $1,785,813 was booked under General and administration expenses and $1,455,052 was booked under cost of goods sold; whereas total depreciation and amortization was at $2,701,873 for the six months ended June 30, 2015 and out of which amount, $1,862,966 was booked under General and Administration expenses and $838,907 was booked under cost of goods sold.

***Income Taxes***

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 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 filed its tax returns with IRS for year 2011 to 2014 and shall complete its 2015 filing on or before 30 September 2016.

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 six months ended June 30, 2016 and 2015 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 six months ended June 30, 2016 and 2015.

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 six months ended June 30, 2016 and 2015.

No Sweden Corporate income tax has been provided in the consolidated financial statements, since SAFS incurred a tax loss for the six months ended June 30, 2015.

No deferred tax assets and liabilities are of June 30, 2016 and December 31, 2015 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.



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**Liquidity and Capital Resources**

As of June 30 2016, unrestricted cash and cash equivalents amounted to $ 3,320,787 (see notes to the consolidated financial statements), and our working capital as of June 30, 2016 was $332,581,781.

| Contractual Obligations | Less than 1 year | 1-3years | 3-5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Short Term Bank Loan | 3,770,170 | | | | 3,770,170 |
| Negotiable promissory notes | 1,725,000 | | | | 1,725,000 |
| Long Term Debts | 879,321 | 1,658,875 | | | 2,538,196 |
| Promissory Notes | 2,200,000 | | 28,289,106 | | 2,200,000 |

Cash provided by operating activities amounted to $37,852,534 for the six months ended June 30, 2016. This compares with cash provided by operating activities totaled $45,834,115 for the six months ended June 30, 2015. The decrease in cash flows from operations primarily resulted from the decrease of other payables of $2,134,681 for the six months ended June 30, 2016 from $7,676,735 for the six months ended June 30, 2015.

Cash used in investing activities totaled $(35,227610) for the six months ended June 30, 2016. This compares with cash used in investing activities totaling $(37,189,404) for the six months ended June 30, 2015. The increase in cash flows used in investing activities primarily resulted from payment for construction of $29,031,614 for the six months ended June 30, 2016 from $33,275,507 for the six months ended June 30, 2015.

Cash provided by financing activities totaled $(8,189,120) for the six months ended June 30, 2016. This compares with cash used in financing activities totaling $(3,146,063) for the six months ended June 30, 2015. The decrease cash provided by financing activities primarily resulted from the due to payment f or convertible note payable repaid through director's account of $(7,676,760).

**Acquisition of SFJVC's and further acquisition plan:**

An SFJVC agreement typically contains an option clause for further investment. Initially, the China Developer of project companies invite us to invest in their venture. If management feels compelled it carries out an in-depth study of the target company including legal due diligence, business plan, budget and projected financial information. The final decision is made through the resolution of the Company's Board of Directors. If the decision is made to proceed with an investment, there is first formed an SFJVC, within which in turn the Company acquires further equity interest. The acquisition price of such interest is determined in accordance to the book value of the SFJVC as of the acquisition date. Consideration generally consists in part of cash and in part of contract against trade debts owed by the China Developer due to Consulting & Services fees charged to the China Developer by the Company in accordance with the Consulting & Services agreement. Project companies' record development cost as construction in progress and treat the amount due to us as partial investment in new SFJVC.

The Company's expenditures as the consulting and service provider providing turnkey services to the China Developer for the development of the project include (i) administrative and operational expenses provided for and incurred in the project (charged and recorded under general and administrative operation expenses), billable to the China Developer, (ii) other development expenditures (inclusive of subcontractors' and sub-suppliers' cost plus mark-up) billable to the Developer, as well. Consulting & Services fees are exclusively billed to the 3rd party China Developer, and not to the future SFJVC companies.

In accordance with our contract, prior to the official formation of the SFJVC's the Company will pay an initial deposit and additional deposits as pre-payments to the developer (or owner) of the project as consideration toward future acquisition of the SFJVC upon its official formation.

The total consideration for each purchase of SFJVC is based on its book value at that time of official formation having injected all of the related project's development assets and liabilities into the SFJVC. As such, the required acquisition cost is funded partly by cash and partly by the set-off receivable due on the consulting and service fee.

We have no immediate plan to complete the acquisition of unincorporated entities except the fishery sector with the intension to complete Triway's acquisition of farms (i.e. PF1, PF2, PF3 & PF4, etc.) to initiate the said Carve-out exercise of Triway mentioned earlier in this report on or before year end 2016.



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***Part F. Proforma on records of historical performances reflecting the Company's "Free Cash Flow "derivation: (Inclusive of SIAF and subsidiaries in segments containing Non-GAAP derivation)***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| Sale of goods | 209 | 323 | 337 | 164 | 1,033 |
| Consulting income | 52 | 81 | 92 | 32 | 257 |
| | | | | | |
| Cost of goods sold | 139 | 231 | 261 | 124 | 755 |
| Cost of service | 21 | 44 | 57 | 23 | 145 |
| | | | | | |
| EBITDA | 98 | 119 | 101 | 44 | 362 |
| | | | | | |
| Depreciation & amortization | 3 | 5 | 5 | 3 | 16 |
| | | | | | |
| Net income attributable to SIAF & subsidiaries | 74 | 92 | 66 | 27 | 259 |
| | | | | | |
| Non - controlling interest | 20 | 22 | 25 | 12 | 78 |
| | | | | | |
| Net Incomes of the group | 94 | 114 | 91 | 39 | 401 |
| | | | | | |
| Total Assets | 357 | 513 | 640 | 680 | |
| | | | | | |
| Current assets | 147 | 282 | 350 | 368 | |
| | | | | | |
| Total liabilities | 38 | 72 | 70 | 72 | |
| | | | | | |
| Current liabilities | 31 | 52 | 28 | 35 | |
| | | | | | |
| Capital employed | 326 | 461 | 611 | 645 | - |
| | | | | | |
| Total stockholders equity | 319 | 441 | 569 | 608 | |
| Internal transaction adjustment | 0 | -0 | -0 | - | |
| Total stockholders equity (adjustment) | 319 | 440 | 569 | 608 | |
| | | | | | |
| ROCE | 49% | 59% | 49% | 38% | |
| | | | | | |
| **Total Capex** | **71** | **35** | **47** | **31** | **184** |
| 1. property and equipment | 22 | 21 | 43 | 5 | 91 |
| 2. construction in progress | 41 | 10 | 4 | 26 | 81 |
| 3. land use right | 4 | 4 | - | - | 8 |
| 4. proprietary technologies | 4 | - | - | - | 4 |
| | | | | | |
| | | | | | |
| **Ending balance** | **116** | **230** | **322** | **333** | |
| 1. cash and cash equivalents | 1 | 3 | 7 | 3 | |
| 2. inventories | 8 | 46 | 63 | 66 | |
| 3. deposits and prepaid expenses | 51 | 76 | 84 | 95 | |
| 4. account receivable | 82 | 105 | 136 | 129 | |
| 5. other receivables | 5 | 52 | 60 | 75 | |
| 6. account payables and accrued expenses | -11 | -22 | -9 | -15 | |
| 7. short term loan | -4 | -4 | -4 | -4 | |
| 8. other payables | -16 | -26 | -15 | -16 | |
| | | | | | |
| **Total increase of wc** | **5** | **114** | **92** | **11** | **275** |
| | | | | | |
| Total capex and increase of wc | 76 | 149 | 139 | 42 | 405 |
| | | | | | |
| Free Cash Flow (FCF) | 22 | -30 | -37 | 3 | -43 |
| | | | | | |
| Net Debt | -5 | -20 | -41 | -35 | |



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***E.2 on APWAM (holding company of SJAP.***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| Sale of goods | 62 | 102 | 144 | 65 | 373 |
| Cost of goods sold | 38 | 68 | 111 | 46 | 263 |
| EBITDA | 27 | 33 | 34 | 19 | 113 |
| Depreciation & amortization | - | 1 | 1.01 | 1.14 | 3 |
| Net income attributable to SIAF & subsidiaries | 12 | 14 | 15 | 8 | 49 |
| Non - controlling interest | 15 | 17 | 18 | 10 | 60 |
| Net Incomes of the group | 27 | 31 | 33 | 18 | 109 |
| Total Assets | 88 | 158 | 200 | 226 | |
| Current assets | 35 | 83 | 105 | 105 | |
| Total liabilities | 15 | 28 | 17 | 17 | |
| Current liabilities | 14 | 16 | 14 | 14 | |
| Capital employed | 74 | 142 | 186 | 212 | |
| Total stockholders equity | 73 | 130 | 183 | 209 | |
| Internal transaction adjustment | -32 | -58 | -78 | -86 | |
| Total stockholders equity (adjustment) | 41 | 72 | 105 | 123 | |
| ROCE | 47% | 46% | 49% | 39% | |
| **Total Capex** | **38** | **20** | **21** | **20** | **99** |
| 1. property and equipment | 12 | 6 | 31 | 5 | 54 |
| 2. construction in progress | 24 | 14 | -10 | 15 | 43 |
| 3. land use right | - | - | - | - | - |
| 4. proprietary technologies | 2 | - | - | - | 2 |
| **Ending balance** | **21** | **67** | **91** | **90** | |
| 1. cash and cash equivalents | 0.38 | 1 | 2 | 0 | |
| 2. inventories | 4 | 27 | 34 | 37 | |
| 3. deposits and prepaid expenses | 13 | 19 | 18 | 16 | |
| 4. account receivable | 16 | 34 | 48 | 47 | |
| 5. other receivables | 2 | 2 | 2 | 5 | |
| 6. account payables and accrued expenses | -5 | -4 | -5 | -6 | |
| 7. short term loan | -4 | -4 | -4 | -4 | |
| 8. other payables | -5 | -8 | -5 | -5 | |
| **Total increase of wc** | **3** | **46** | **24** | **-0** | **72** |
| Total capex and increase of wc | 41 | 66 | 45 | 20 | 171 |
| Free Cash Flow (FCF) | -14 | -33 | -10 | -1 | -58 |
| Net Debt | -5 | -7 | -6 | -5 | |



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***E.3.SIAF's Corporate Operational division***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| Sale of goods | 22 | 51 | 38 | 26 | 137 |
| Consulting income | 9 | 5 | 4 | - | 18 |
| | | | | | |
| Cost of goods sold | 19 | 45 | 33 | 23 | 120 |
| Cost of service | 3 | 5 | 1 | - | 9 |
| | | | | | |
| EBITDA | 6 | 6 | 0 | -2 | 10 |
| | | | | | |
| Depreciation & amortization | - | 0 | 0 | - | |
| | | | | | |
| Net income attributable to SIAF & subsidiaries | 6 | 6 | -5 | -2 | 5 |
| | | | | | |
| Non - controlling interest | - | - | - | - | |
| | | | | | |
| Net Incomes of the group | 6 | 6 | -5 | -2 | 5 |
| | | | | | |
| Total Assets | 19 | 43 | 95 | 100 | |
| | | | | | |
| Current assets | 10 | 39 | 76 | 85 | |
| | | | | | |
| Total liabilities | 8 | 13 | 39 | 42 | |
| | | | | | |
| Current liabilities | 6 | 10 | 1 | 6 | |
| | | | | | |
| Capital employed | 13 | 33 | 94 | 94 | |
| | | | | | |
| Total stockholders equity | 11 | 30 | 56 | 58 | |
| Internal transaction adjustment | 87 | 82 | 89 | 85 | |
| Total stockholders equity (adjustment) | 98 | 112 | 145 | 143 | |
| | | | | | |
| ROCE | 73% | 40% | 3% | -11% | |
| | | | | | |
| **Total Capex** | **2** | **1** | **4** | **3** | **10** |
| 1. property and equipment | - | - | - | - | - |
| 2. construction in progress | - | 1 | 4 | 3 | 8 |
| 3. land use right | - | - | - | - | - |
| 4. proprietary technologies | 2 | - | - | - | 2 |
| | | | | | |
| | | | | | |
| **Ending balance** | **4** | **29** | **76** | **79** | |
| 1. cash and cash equivalents | | 2 | - | 1 | |
| 2. inventories | - | - | 4 | - | |
| 3. deposits and prepaid expenses | 2 | 2 | 28 | 35 | |
| 4. account receivable | 8 | 9 | 9 | 10 | |
| 5. other receivables | 0 | 26 | 35 | 39 | |
| 6. account payables and accrued expenses | -1 | -3 | - | -2 | |
| 7. short term loan | - | - | - | - | |
| 8. other payables | -5 | -7 | -1 | -4 | |
| | | | | | |
| **Total increase of wc** | **4** | **25** | **47** | **3** | **79** |
| | | | | | |
| Total capex and increase of wc | 6 | 26 | 51 | 6 | 89 |
| | | | | | |
| Free Cash Flow (FCF) | 0 | -20 | -51 | -8 | -78 |
| | | | | | |
| Net Debt | - | -13 | -35 | -30 | |



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***E.4. CA (Fishery Development Division)***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| | | In rounded figures of $ million | | | |
| Sale of goods | 47 | 54 | 47 | 29 | 177 |
| Consulting income | 36 | 76 | 88 | 32 | 232 |
| | | | | | |
| Cost of goods sold | 33 | 31 | 35 | 22 | 121 |
| Cost of service | 13 | 39 | 56 | 23 | 131 |
| | | | | | |
| EBITDA | 37 | 55 | 43 | 18 | 153 |
| | | | | | |
| Depreciation & amortization | - | - | 0 | - | |
| | | | | | |
| Net income attributable to SIAF & subsidiaries | 37 | 55 | 43 | 16 | 151 |
| | | | | | |
| Non - controlling interest | - | - | - | - | |
| | | | | | |
| Net Incomes of the group | 37 | 55 | 43 | 16 | 151 |
| | | | | | |
| Total Assets | 81 | 111 | 123 | 134 | |
| | | | | | |
| Current assets | 54 | 79 | 85 | 100 | |
| | | | | | |
| Total liabilities | 7 | 20 | 10 | 10 | |
| | | | | | |
| Current liabilities | 4 | 20 | 10 | 13 | |
| | | | | | |
| Capital employed | 77 | 91 | 113 | 121 | |
| | | | | | |
| Total stockholders equity | 74 | 91 | 113 | 124 | |
| Internal transaction adjustment | 45 | 84 | 104 | 109 | |
| Total stockholders equity (adjustment) | 119 | 174 | 217 | 233 | |
| | | | | | |
| ROCE | 97% | 140% | 119% | | |
| | | | | | |
| **Total Capex** | **3** | **4** | **-** | **3** | **10** |
| 1. property and equipment | - | - | - | - | - |
| 2. construction in progress | 3 | - | - | 3 | 6 |
| 3. land use right | - | 4 | - | - | 4 |
| 4. proprietary technologies | - | - | - | - | - |
| | | | | | |
| **Ending balance** | **50** | **59** | **75** | **87** | |
| 1. cash and cash equivalents | - | - | - | - | |
| 2. inventories | - | - | - | 5 | |
| 3. deposits and prepaid expenses | 16 | 32 | 23 | 21 | |
| 4. account receivable | 36 | 28 | 44 | 49 | |
| 5. other receivables | 2 | 19 | 19 | 25 | |
| 6. account payables and accrued expenses | - | -11 | -1 | -5 | |
| 7. short term loan | - | - | - | - | |
| 8. other payables | -4 | -9 | -9 | -8 | |
| | | | | | |
| **Total increase of wc** | **-** | **9** | **16** | **12** | **37** |
| | | | | | |
| Total capex and increase of wc | 3 | 13 | 16 | 15 | 47 |
| | | | | | |
| Free Cash Flow (FCF) | 34 | 42 | 27 | 3 | 106 |
| | | | | | |
| Net Debt | - | - | - | - | |



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***E.5. Tri-way (the holding company of Fish Farm (1))***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| Sale of goods | 25 | 52 | 39 | 16 | 132 |
| Cost of goods sold | 19 | 41 | 33 | 13 | 106 |
| EBITDA | 6 | 10 | 6 | 3 | 26 |
| Depreciation & amortization | 0 | 1 | 0.79 | 0.40 | 2 |
| Net income attributable to SIAF & subsidiaries | 5 | 8 | 3 | 2 | 18 |
| Non - controlling interest | 1 | 2 | 2 | 1 | 6 |
| Net Incomes of the group | 6 | 10 | 5 | 3 | 24 |
| Total Assets | 21 | 21 | 24 | 26 | |
| Current assets | 6 | - | 13 | 12 | |
| Total liabilities | - | - | - | - | |
| Current liabilities | - | - | - | 1 | |
| Capital employed | 21 | 21 | 24 | 25 | |
| Total stockholders equity | 21 | 21 | 24 | 26 | |
| Internal transaction adjustment | -7 | 2 | 4 | 5 | |
| Total stockholders equity (adjustment) | 13 | 23 | 28 | 31 | |
| ROCE | 53% | 97% | 87% | 72% | |
| **Total Capex** | **2** | **1** | **2** | **-** | **5** |
| 1. property and equipment | - | 2 | 2 | - | 4 |
| 2. construction in progress | 2 | -1 | - | - | 1 |
| 3. land use right | - | - | - | - | - |
| 4. proprietary technologies | - | - | - | - | |
| **Ending balance** | **6** | **10** | **13** | **11** | |
| 1. cash and cash equivalents | - | - | 5 | 0 | |
| 2. inventories | 2 | 3 | 4 | 4 | |
| 3. deposits and prepaid expenses | 4 | 4 | 2 | 5 | |
| 4. account receivable | - | - | - | - | |
| 5. other receivables | - | 3 | 3 | 3 | |
| 6. account payables and accrued expenses | - | - | - | -1 | |
| 7. short term loan | - | - | - | - | |
| 8. other payables | - | - | - | - | |
| **Total increase of wc** | **-1** | **4** | **3** | **-2** | **4** |
| Total capex and increase of wc | 1 | 5 | 5 | -2 | 9 |
| Free Cash Flow (FCF) | 5 | 5 | 1 | 5 | 17 |
| Net Debt | - | - | | | |



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***E.6. MEIJI and Cattle Farm (Development and holding company of CF (1))***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| Sale of goods | 18 | 33 | 35 | 12 | 98 |
| Consulting income | 7 | - | | | 7 |
| | | | | | |
| Cost of goods sold | 13 | 31 | 33 | 11 | 88 |
| Cost of service | 5 | - | | | 5 |
| | | | | | |
| EBITDA | 5 | 2 | 3 | 1 | 11 |
| | | | | | |
| Depreciation & amortization | 0 | 0 | 0.59 | 0.33 | 2 |
| | | | | | |
| Net income attributable to SIAF & subsidiaries | 5 | 1 | 2 | 1 | 9 |
| | | | | | |
| Non - controlling interest | - | - | 0 | 0 | 1 |
| | | | | | |
| Net Incomes of the group | 5 | 1 | 2 | 1.0 | 9 |
| | | | | | |
| Total Assets | 34 | 42 | 39 | 42 | |
| | | | | | |
| Current assets | 11 | 17 | 18 | 17 | |
| | | | | | |
| Total liabilities | 2 | 5 | - | - | |
| | | | | | |
| Current liabilities | 1 | - | - | - | |
| | | | | | |
| Capital employed | 33 | 42 | 39 | 42 | |
| | | | | | |
| Total stockholders equity | 32 | 37 | 39 | 42 | |
| Internal transaction adjustment | -10 | -14 | -14 | -16 | |
| Total stockholders equity (adjustment) | 22 | 23 | 25 | 26 | |
| | | | | | |
| ROCE | 43% | 36% | 21% | 10% | |
| | | | | | |
| **Total Capex** | **-** | **-** | **2** | **-** | **2** |
| 1. property and equipment | - | - | 2 | - | 2 |
| 2. construction in progress | - | - | - | - | - |
| 3. land use right | - | - | - | - | - |
| 4. proprietary technologies | | | | | |
| | | | | | |
| **Ending balance** | **10** | **17** | **18** | **17** | |
| 1. cash and cash equivalents | 0.49 | - | - | - | |
| 2. inventories | 1 | 1 | 4 | 4 | |
| 3. deposits and prepaid expenses | 1 | 3 | 3 | 5 | |
| 4. account receivable | 9 | 13 | 11 | 8 | |
| 5. other receivables | - | - | - | - | |
| 6. account payables and accrued expenses | - | - | - | - | |
| 7. short term loan | - | - | - | - | |
| 8. other payables | -1 | - | - | - | |
| | | | | | |
| **Total increase of wc** | **2** | **7** | **1** | **-1** | **9** |
| | | | | | |
| Total capex and increase of wc | 2 | 7 | 3 | -1 | 11 |
| | | | | | |
| Free Cash Flow (FCF) | 3 | -5 | -0 | 2 | 0 |
| | | | | | |
| Net Debt | | | | | |



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***E.7. MEIJI and JHST plantation division***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| Sale of goods | 23 | 11 | 14 | 6 | 54 |
| Cost of goods sold | 10 | 4 | 4 | 3 | 21 |
| EBITDA | 11 | 6 | 9 | 2 | 28 |
| Depreciation & amortization | 1 | 1 | 1.15 | 0.56 | 4 |
| Net income attributable to SIAF & subsidiaries | 7 | 4 | 6 | 1.14 | 18 |
| Non - controlling interest | 3 | 1 | 2 | 0.38 | 6 |
| Net Incomes of the group | 10 | 5 | 8 | 1.52 | 24 |
| Total Assets | 37 | 39 | 45 | 40 | |
| Current assets | 19 | 24 | 21 | 18 | |
| Total liabilities | - | 1 | 1 | 1 | |
| Current liabilities | - | 1 | - | - | |
| Capital employed | 37 | 38 | 45 | 40 | |
| Total stockholders equity | 37 | 38 | 44 | 39 | |
| Internal transaction adjustment | -13 | -9 | -7 | - | |
| Total stockholders equity (adjustment) | 24 | 29 | 37 | 39 | |
| ROCE | 43% | 55% | 51% | 36% | |
| **Total Capex** | **10** | **1** | **5.1** | **-** | **16** |
| 1. property and equipment | 6 | 1 | 2.5 | - | 10 |
| 2. construction in progress | - | - | 2.6 | - | 3 |
| 3. land use right | 4 | - | - | - | 4 |
| 4. proprietary technologies | - | - | - | - | - |
| **Ending balance** | **19** | **23** | **21** | **18** | |
| 1. cash and cash equivalents | - | - | - | 1 | |
| 2. inventories | 1 | 1 | 1 | 1 | |
| 3. deposits and prepaid expenses | 9 | 11 | 6 | 9 | |
| 4. account receivable | 9 | 11 | 12 | 5 | |
| 5. other receivables | - | 1 | 1 | 1 | |
| 6. account payables and accrued expenses | - | - | - | - | |
| 7. short term loan | - | - | - | - | |
| 8. other payables | - | -1 | - | - | |
| **Total increase of wc** | **2** | **4** | **-2** | **-3** | **1** |
| Total capex and increase of wc | 12 | 5 | 3 | -3 | 17 |
| Free Cash Flow (FCF) | -1 | 1 | 6 | 5 | 12 |
| Net Debt | | | | | |



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***E.8. HSA (the Hunan fertilizer Operation)***

| | 2013 | 2014 | 2015 | 2016Q1-2 | Total |
|---|---|---|---|---|---|
| Sale of goods | 12 | 20 | 20 | 10 | 62 |
| Cost of goods sold | 7 | 11 | 12 | 6 | 36 |
| EBITDA | 4 | 7 | 7 | 3 | 21 |
| Depreciation & amortization | 1 | 1 | 1.48 | 0.84 | 5 |
| Net income attributable to SIAF & subsidiaries | 2 | 5 | 4 | 1.90 | 13 |
| Non - controlling interest | 1 | 1 | 1 | 0.60 | 4 |
| Net Incomes of the group | 3 | 6 | 5 | 2.50 | 16 |
| Total Assets | 76 | 99 | 115 | 114 | |
| Current assets | 11 | 30 | 32 | 30 | |
| Total liabilities | 6 | 5 | 4 | 2 | |
| Current liabilities | 6 | 5 | 4 | 1 | |
| Capital employed | 70 | 94 | 111 | 113 | |
| Total stockholders equity | 70 | 94 | 111 | 112 | |
| Internal transaction adjustment | -69 | -87 | -99 | -97 | |
| Total stockholders equity (adjustment) | 1 | 7 | 12 | 15 | |
| ROCE | 2% | 9% | 10% | 7% | |
| **Total Capex** | **16** | **8** | **13** | **5** | **42** |
| 1. property and equipment | 4 | 12 | 6 | - | 22 |
| 2. construction in progress | 12 | -4 | 7 | 5 | 20 |
| 3. land use right | - | - | | | - |
| 4. proprietary technologies | - | - | | | - |
| | | | | | |
| **Ending balance** | **5** | **25** | **29** | **29** | |
| 1. cash and cash equivalents | - | - | - | 0 | |
| 2. inventories | - | 14 | 15 | 15 | |
| 3. deposits and prepaid expenses | 6 | 5 | 5 | 4 | |
| 4. account receivable | 4 | 10 | 12 | 10 | |
| 5. other receivables | 1 | 1 | 1 | 1 | |
| 6. account payables and accrued expenses | -5 | -4 | -4 | -1 | |
| 7. short term loan | - | - | - | - | |
| 8. other payables | -1 | -1 | - | - | |
| **Total increase of wc** | **-6** | **20** | **4** | **0** | **18** |
| Total capex and increase of wc | 10 | 28 | 17 | 5 | 60 |
| Free Cash Flow (FCF) | -6 | -21 | -10 | -2 | -39 |
| Net Debt | | | | | |



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## Summary of Cashflow of each segments and the Group:

**6M 2016**

| 6M 2016 (USD M) | CA + TRW | SJAP | HSA | MEIJI | HU-plant | SIAF | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| Net income for the period | 18 | 18 | 3 | 1 | 2 | -2 | | 39.1 |
| **Reconciliation of net income to net cash from ops.** | | | | | | | | |
| Depreciation | 0.3 | 1.0 | 0.5 | 0.2 | 0.3 | - | | 2.3 |
| Amortization | 0.2 | - | 0.4 | 0.1 | 0.2 | - | | 1.0 |
| Common stock issued for services | | | | | | 0 | | 0.4 |
| Gain on extinguishment of debts | | | | | | | | - |
| Other amortized cost | | | | | | 2 | | 2.1 |
| **Cash flow from op. activities before change in WC** | **18** | **19** | **3** | **2** | **2** | **0** | **-** | **44.8** |
| Change in inventories | -5 | -3 | 0 | 0 | 0 | 4 | | -2.8 |
| Change in costs and estimated earnings in excess of billings on uncompleted contacts | | | | | | | | - |
| Change in deposits and prepaid expenses | -1 | 2 | 1 | -2 | -3 | -8 | 7 | -5.1 |
| Change in due to a director | | | | | | 0.50 | | 0.5 |
| Change in accounts payable and accrued expenses | 5 | 1 | -3 | 0 | 0 | 2 | | 5.9 |
| Change in other payables | -0.0 | -0.5 | - | - | - | 2.6 | | 2.1 |
| Change in accounts receivable | -5 | 1 | 2 | 3 | 7 | -1 | | 7.1 |
| Increase (decrease) in billings in excess of costs and estimated | -1 | | | | | | | -1.0 |
| Change in other receivables | -6 | -3 | 0 | 0 | 0 | -4 | | -13.6 |
| **Change in working capital** | **-13** | **-1** | **-0** | **1** | **4** | **-3** | **6.6** | **-6.9** |
| **Net cash provided by operating activities** | **5** | **17** | **3** | **3** | **6** | **-3** | **6.6** | **37.9** |
| | | | | | | | | |
| Purchases of plant and equipment | | -6 | | | | | | -6.0 |
| Investment in unconsolidated equity invetee | | -0.15 | | | | | | -0.2 |
| Payment for construction in progress | -3 | -13 | -7 | 0 | 0 | -3 | -3 | -29.0 |
| **Net cash used in investing activities** | **-3.1** | **-19.7** | **-6.5** | **-** | **-** | **-3.1** | **-2.8** | **-35.2** |
| | | | | | | | | |
| convettible note payable repaid through director account | | | | | | -7 | -1 | -7.7 |
| long term debts repaid | | -1 | | | | | 0 | -0.5 |
| short term debts repaid | | | | | | | | - |
| **Net cash from financing activities** | **-** | **-0.5** | **-** | **-** | **-** | **-6.6** | **-1.0** | **-8.2** |
| | | | | | | | | |
| Effects on exchange rate changes on cash | - | 1 | -1.3 | - | - | 0 | | - |
| **Change in cash and cash equivalents** | **2.0** | **-1.5** | **-4.6** | **2.6** | **5.8** | **-12.5** | **2.7** | **-5.6** |
| Cash and cash equivalents, beginning of period | 5 | 2 | 0 | 0 | 0 | 0 | | 7.2 |
| Cash and cash equivalents, end of period | 0.39 | 0.45 | 0.25 | 0.18 | 0.94 | 1.12 | | 3.3 |



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**Progress information on Carve-out exercises:**

**(A). Aquaculture project**

The Company continues to work closely with one of the largest banks in Southeast Asia on securing debt financing and assistance in underwriting an IPO exercise for the Triway Carve-out exercise for purposes of acquiring farm assets and rights to Fish Farm 1, Prawn Farms 1, 2, and 3, in addition to the development and acquisition of assets and rights to Prawn Farm 4 and subsequent related future farm developments, namely in completing all credit related documentation and due diligence, as well as establishing a pre-IPO plan necessary to begin attracting private placement investments in addition to the debt financing exercise.

The Company has been working diligently on these matters anticipating closing on the loan sometime within latter Q3 or early Q4 2016. The process of incorporating an IPO exercise into the mix requires additional time when compared to strictly seeking debt financing, yet a combined effort of the two works in both the Company's and Bank's favor toward securing and securitizing the money necessary to bring the carve-out to fruition.

As mentioned earlier in this report, securing the loan will accelerate both its development and higher service revenues for CA. Alternatively, if the loan cannot be secured, Triway will continue to develop organically via its internally generated cash-flow, providing CA with current level streams of service revenue until such time as other funding sources become available.

**(B). Beef & Cattle Project**

The Company is working on the Carve-out exercise and a listing on the Chinese National Exchange and Quotation Board (NEEQ) for SJAP with well regarded security firms, a CPA firm, and a China law firm with the following targets in mind:

(i) Completing the merger and acquisition of a Xining based cattle and beef company that is experienced in and has a strong and experienced team in value added processing that will benefit SJAP by saving much time and cost to develop its human resources needed for SJAP's next expansion in the value-added processing division.

(ii) Incorporating internal controls, undertaking an internal audit, and completing other related financial matters, inclusive of tax issues, in accordance with the Security Commission of China and the China Accounting Standards Board, on or before end of October 2016.

(iii) Completing company restructuring of SJAP into a share capital company, inclusive arrangements that will allow foreign participation of shareholders, etc. before end of November 2016. Completing related legal and prospectus work, etc. within the month of December 2016 for submission to NEEQ within Q1 2017.

On best effort basis, the Company will dedicate its resources aiming to achieve these targets as soon as plausible.



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**INFORMATION ON THE CONVERTIBLE NOTE PAYABLES WITH CLARIFICATION:**

As it was reported on page F39 of the Financial Report 10K 2015:

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**") 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.

Additional Clarification:

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, subject to adjustment for stock splits, reverse stock splits, stock dividends and other similar transactions and subject to the terms of the note (however, after the reversed split done in 2015 the said initial conversion price is $9.90 per share). 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.

**Amendment to the 10K 2015 report referring to the age of our CEO Solomon Lee:**

**As reported in 10K 2015 report:**

**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The Board of Directors elects our executive officers annually. A majority vote of the directors who are in office is required to fill vacancies. Each director shall be elected for the term of one year and until his successor is elected and qualified or until his earlier resignation or removal. Our directors and executive officers are as follows:

| Name | Age | Position |
|---|---|---|
| Lee Yip Kun Solomon | 73 | CEO and Chairman of the Board |
| Daniel Ritchey | 47 | Acting Chief Financial Officer and Director |
| Tan Poay Teik | 57 | Chief Marketing Officer and Director |
| Chen Bor Hann | 51 | Secretary and Director |
| Yap Koi Ming (George) | 63 | Independent Director |
| Nils Erik Sandberg | 75 | Independent Director |
| Lim Chang Soh (Anthony) | 52 | Independent Director |



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## CRITICAL ACCOUNTING POLICIES

### BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months ended June 30, 2016 have been prepared in accordance with generally accepted accounting principles in the United States of America ("**US GAAP**").

The unaudited quarterly financial statements for the three months ended June 30, 2016 results are for the period then ended 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, 2015.

### 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 entities 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.



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**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.



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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 $8,392, $1,260, $14,284 and $9,952 for the three months and the six months ended June 30, 2016 and 2015, respectively.

**ADVERTISING**

Advertising costs are included in general and administrative expenses, which totaled $665,952, $712,614, $1,332,210 and $1,421,458 for the three months ended and the six months ended June 30, 2016 and 2015, 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 on that institution.



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**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 six months ended June 30, 2016 or June 30, 2015.

**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.



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**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 sleepy cod breeding technology license is capitalized as proprietary technologies when technological feasibility has been established. Cost of granting sleepy 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.



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**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) The 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 interests.

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 ownership 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 Company has adopted the cost method of accounting for treasury stock shares. 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.



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**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 P.R.C. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the P.R.C., and 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.

**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 June 30, 2016 and 2015, the Company determined no impairment losses were necessary.



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**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 quarter ended June 30, 2016 and 2015, basic earnings per share attributable to Sino Agro Food, Inc. and subsidiaries common stockholders amount to $0.90 and $0.51, respectively. For the quarter ended June 30, 2016 and 2015, diluted earnings per share attributable to Sino Agro Food, Inc. and its subsidiaries' common stockholders amounted to $0.82 and $0.51, respectively.

**FOREIGN CURRENCY TRANSLATION**

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; 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 six months ended* June 30, 2016

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 June 30, 2016 and December 31, 2015 were translated at RMB6.63 to $1.00 and RMB6.49 to $1.00, respectively. The average translation rates applied to the consolidated statements of income and comprehensive income and of cash flows for the six months ended June 30, 2016 and June 30, 2015 were RMB6.53 to $1.00 and RMB6.13 to $1.00, respectively.

*For the six months ended* June 30, 2015

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 June 30, 2015 and December 31, 2014 were translated at RMB6.14 to $1.00 and RMB6.15 to $1.00, respectively. The average translation rates applied to the consolidated statements of income and comprehensive income and of cash flows for the three months ended June 30, 2015 and June 30, 2014 were RMB6.13 to $1.00 and RMB6.13 to $1.00, respectively



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**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:

**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 2013, the FASB issued guidance on disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income ("**AOCI**"). This new guidance requires entities to present (either on the face of the income statements or in the notes) the effects on the line items of the income statement for amounts reclassified out of AOCI. The new guidance will be effective for us beginning July 1, 2013. Other than requiring additional disclosures, there is no material impact on the consolidated financial statements upon adoption.



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In March 2013, the FASB issued guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent releases any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The new guidance will be effective for us beginning July 1, 2014. There is no material impact on the consolidated financial statements upon adoption.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists". These amendments provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward, except to the extent that a net operating loss carry forward, a similar tax loss, or a tax credit carry forward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 did not have a material impact on the Company's consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which provides a narrower definition of discontinued operations than under existing U.S. GAAP. ASU 2014-08 requires that only a disposal of a component of an entity, or a group of components of an entity, that represents a strategic shift that has, or will have, a major effect on the reporting entity's operations and financial results should be reported in the consolidated financial statements as discontinued operations. ASU 2014-08 also provides guidance on the consolidated financial statement presentations and disclosures of discontinued operations. The new guidance is effective prospectively for the Company to all new disposals of components and new classification as held for sale beginning April 1, 2015. The Company is evaluating the effects, if any, of the adoption of this guidance will have on the consolidated financial position, results of operations or cash flows.

In May 2014, the Financial Accounting Standards Board issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for us in the first quarter of 2017. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In June 2014, the FASB issued ASU 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation". The guidance eliminates the definition of a development stage entity thereby removing the incremental financial reporting requirements from U.S. GAAP for development stage entities, primarily presentation of inception to date financial information. The provisions of the amendments are effective for annual reporting periods beginning after December 15, 2014, and the interim periods therein. However, early adoption is permitted. Accordingly, the Company has adopted this standard as of July 31, 2014.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on our consolidated financial statements.



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In November 2014, FASB issued ASU No. 2014-17, *(Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force.)* The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The adoption of ASU 2014-17 did not have a material impact on the Company's consolidated financial statements.

In January 2015, FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2015-01 to have material impact on the Company's 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.

**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.



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

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes.

*Foreign Currency Risk*
Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese Renminbi (RMB) into foreign currencies and, if the RMB were to decline in value, reducing our revenue in U.S. dollar terms.

The Chinese government currently manages the exchange rate of the RMB. The value of our common stock is indirectly affected by the foreign exchange rate between the U.S. dollar and the RMB. Appreciation or depreciation in the value of the RMB relative to the U.S. dollar does affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

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 average translation rates applied to the consolidated statements of income and comprehensive income and of cash flows for the years ended December 31, 2012 through 2015 were RMB6.31, RMB6.19, RMB6.14, and RMB6.23, respectively.

*Depository Insurance Risk*
Cash and cash equivalents are held for working capital purposes and consist primarily of bank deposits. We do not enter into investments for trading or speculative purposes.

Banks and other financial institutions in the PRC do not provide insurance for funds held on deposit. A portion of our assets are in the form of cash deposited with banks in the PRC, and in the event of bank failure, we may not have access to, or may lose entirely, our funds on deposit. This exposure could result in our inability to immediately access funds to pay our suppliers, employees and/or other creditors.

## 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 June 30, 2016 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.



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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.

## 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 period covered by this quarterly report, we issued: (i) an aggregate of 389,598 shares of our common stock to certain Chinese persons who perform services on our behalf as bonus payments and other employee compensation (ii) 941,967 shares of our common stock to the members of our board of directors as compensation for their service as such. The shares were issued pursuant to the exemption from registration under the Securities Act provided by its Regulation S and Section 4(a)(2), respectively.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS

| Exhibit No. | Description of Exhibits |
|---|---|
| 31.1 | Section 302 Certification of Principal Executive Officer+ |
| 31.2 | Section 302 Certification of Principal Financial Officer+ |
| 32.1 | Section 906 Certification of Principal Executive Officer and Principal Financial Officer * |
| 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



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**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.**

| | |
|---|---|
| August 9, 2016 | By: /s/ LEE YIP KUN SOLOMON<br>Lee Yip Kun Solomon<br>Chief Executive Officer<br>(Principal Executive Officer) |
| August 9, 2016 | By: /s/ DANIEL RITCHEY<br>Daniel Ritchey<br>Chief Financial Officer<br>(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.

| | |
|---|---|
| August 9, 2016 | By: /s/ LEE YIP KUN SOLOMON<br>Lee Yip Kun Solomon<br>Chief Executive Officer, Director<br>(Principal Executive Officer) |
| August 9, 2016 | By: /s/ TAN POAY TEIK<br>Tan Poay Teik<br>Chief Officer, Marketing |
| August 9, 2016 | By: /s/ CHEN BORHANN<br>Chen Bor Hann<br>Corporate Secretary |
| August 9, 2016 | By: /s/ YAP KOI MING<br>Yap Koi Ming<br>Director |
| August 9, 2016 | By: /s/ NILS ERIK SANDBERG<br>Nils Erik Sandberg<br>Director |
| August 9, 2016 | By: /s/ DANIEL RITCHEY<br>Daniel Ritchey<br>Director |
| August 9, 2016 | By: /s/ SOH LIM CHANG<br>Soh Lim Chang<br>Director |



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**Exhibit 31.1**

**Certification of the Chief Executive Officer**
**Pursuant to §240.13a- 14 or §240. 15d- 14 of the Securities Exchange Act of 1934, as amended**

I, LEE YIP KUN SOLOMON, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 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: August 9, 2016

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

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**Exhibit 31.2**

**Certification of the Chief Financial Officer**
**Pursuant to §240.13a- 14 or §240. 15d- 14 of the Securities Exchange Act of 1934, as amended**

I, DANIEL RITCHEY, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 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: August 9, 2016

By: /s/ DANIEL RITCHEY
Name: Daniel Ritchey
Title: Chief Financial Officer
(Principal Financial Officer)

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**Exhibit 32.1**

**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 June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee Yip Kun Solomon, Principal Executive Officer, and I, Daniel Ritchey, Principal Financial Officer and Principal Accounting 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: August 9, 2016

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

Date: August 9, 2016

By: /s/ DANIEL RITCHEY
Name: Daniel Ritchey
Title: Chief Financial Officer and
(Principal Financial Officer)

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