

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from _____ to _____

Commission file number: 001-34502

FUTURE FINTECH GRO
(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of
incorporation or organization)

**23F, China Development Bank
Tower, No. 2, Gaoxin 1st Road,
Xi'an, PRC
710075**

(Address of principal executive offices including zip code)

86-29-8187-8277

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated

Smaller r

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

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

Class

Common Stock, \$0.001 par value per share

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FUTURE FINTECH GROUP INC. CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

CURRENT ASSETS

Cash and cash equivalents

Accounts receivable, net of allowance of \$3,081,437 as of March 31, 2018 and December 31, 2017, respectively

Other receivables

Inventories

Advances to suppliers and other current assets

TOTAL CURRENT ASSETS

PROPERTY, PLANT AND EQUIPMENT, NET

LAND USE RIGHT, NET

LONG TERM ASSETS

DEPOSITS

TOTAL ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts payable

Accrued expenses

Income tax payable

Advances from customers

Short-term bank loans

TOTAL CURRENT LIABILITIES

NON-CURRENT LIABILITIES

Long-term debt

Obligations under capital leases
TOTAL NON-CURRENT LIABILITIES
TOTAL LIABILITIES
EQUITY
Future FinTech Group Inc., Stockholders' equity
Series B Preferred stock, \$0.001 par value; 10,000,000 shares authorized; None issued and outstanding as of March 31, 2018
Common stock, \$0.001 par value; 60,000,000 shares authorized and 6,943,325 shares issued and outstanding as of March 31, 2018
issued and outstanding as of December 31, 2017, respectively
Additional paid-in capital
Retained earnings
Accumulated other comprehensive loss
Total Future FinTech Group Inc. stockholders' equity
Non-controlling interests
TOTAL EQUITY
TOTAL LIABILITIES AND EQUITY

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

**FUTURE FINTECH GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)**

Revenue
Cost of goods sold
Gross profit
Operating Expenses
General and administrative expenses
Selling expenses
Total operating expenses
Loss from operations
Other income (expenses)

Interest income
Subsidy income
Interest expenses
Consulting fee related to capital lease
Total other expenses

Loss from Continuing Operations before Income Tax

Income tax provision

Loss from Continuing Operations before Minority Interest

Less: Net loss (income) attributable to non-controlling interests

Loss from Continuing Operations

Discontinued Operations (Note 11)

Loss from discontinued operations

NET LOSS ATTRIBUTABLE TO FUTURE FINTECH GROUP INC. STOCKHOLDERS

Other comprehensive income (loss)

Foreign currency translation adjustment

Comprehensive loss

Comprehensive expense attributable to non-controlling interests

COMPREHENSIVE LOSS ATTRIBUTABLE TO FUTURE FINTECH GROUP INC. STOCKHOLDERS

Loss per share:

Basic loss per share from continued operations

Basic loss per share from discontinued operations

Basic loss per share from net income

Diluted Loss per share:

Diluted loss per share from continued operations

Diluted loss per share from discontinued operations

Diluted loss per share from net income

Weighted average number of shares outstanding

Basic

Diluted

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

(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss

Adjustments to reconcile net income to net cash provided by operating activities

Minority interest

Depreciation and amortization

Deferred income tax assets

Provisions provided for bad debt expenses

Changes in operating assets and liabilities

Accounts receivable

Other receivable

Advances to suppliers and other current assets

Inventories

Accounts payable

Accrued expenses

Income tax payable

Advances from customers

Net cash used in operating activities

CASH FLOWS FROM INVESTING ACTIVITIES

Additions to property, plant and equipment

Prepayment for other assets

Prepayments for deposit on equipment

Net cash used in investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Issue of common stock

Repayment from related party loan

Proceeds (repayments) long term debt

Net cash provided by financing activities

Effect of change in exchange rate

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS

Cash and cash equivalents, beginning of period

Cash and cash equivalents, end of period

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest

Cash paid for income taxes

SUPPLEMENTARY DISCLOSURE OF SIGNIFICANT NON-CASH TRANSACTION

Transferred from other assets to property, plant and equipment and construction in process

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

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FUTURE FINTECH GROUP INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of management, the unaudited financial statements have been prepared on the same basis as the financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of March 31, 2018 and the results of operations and cash flows for the periods ended March 31, 2018 and 2017. The financial data and other information disclosed in these notes to the interim financial statements related to these periods are unaudited. The results for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for any subsequent periods or for the entire year ending December 31, 2018. The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC’s rules and regulations. These unaudited financial statements should be read in conjunction with our audited financial statements and notes thereto for the year ended December 31, 2017 as included in our Annual Report on Form 10-K.

2. Business Description and Significant Accounting Policies

The principal activities of Future FinTech Group Inc. (together with our direct or indirect subsidiaries, “we,” “us,” “our” or “the Company”) consist of production and sales of fruit juice concentrates, fruit juice beverages and other fruit-related products in the People’s Republic of China (“PRC”, or “China”), and overseas markets; the design, development, testing, deployment and maintenance of a blockchain-based Globally Shared Shopping Mall and other related software systems ; the operation of a supply chain, logistics and trading business for fruit juice products, foods and other consumer and agricultural products; bulk agricultural products spot trading business and financial technology businesses, including software development and information services for the financial leasing and project finance industries

(4) Hedetang Agricultural Plantations (Yidu) Co., Ltd., formerly known as Hedetang Fruit Juice Beverages (Yidu) Co., Ltd., was established on March 13, 2012. Its scope of business includes the planting, acquisition and sales of vegetables, fruits, flowers, farm products; fresh fruit picking; research, training and promotion of planting and breeding technology.

(5) SkyPeople (Suizhong) Fruit and Vegetable Products Co., Ltd. was established on April 26, 2012. Its scope of business includes the initial processing, quick-freezing and sales of agricultural products and related by-products.

(6) Hedetang Farm Products Trading Market (Mei County) Co., Ltd., formerly known as SkyPeople Juice Group (Mei County) Kiwi Fruit and Farm Products Trading Market Co., Ltd. (“Kiwi Fruit & Farm Products”) was established on April 19, 2013. Its scope of business includes preliminary processing of agricultural and subsidiary products, establishment of trading markets for agriculture products, and similar activities.

(7) Shaanxi Guo Wei Mei Kiwi Deep Processing Co., Ltd. was established on April 19, 2013. Its scope of business includes producing kiwi fruit juice, kiwi puree, cider beverages, and similar products.

(8) Xi’an Hedetang Fruit Juice Beverages Co., Ltd. (“Xi’an Hedetang”) was established on March 31, 2014. Its scope of business includes the production and sales of fruit juice beverages. On August 10, 2017, it changed its name to Xi’an Hedetang Nutritious Food Research Institute Co., Ltd.

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(9) Xi’an Cornucopia International Co., Ltd. (“Cornucopia”) was established on July 2, 2014. Its scope of business includes the retail and wholesale of pre-packaged food.

(10) Shaanxi Fruitee Fun Co., Ltd. (“Fruitee Fun”) was established on July 3, 2014. Its scope of business includes retail and wholesale of pre-packaged food. Shaanxi Fruitee Fun Co., Ltd. (also known as Shaanxi Guoweiduomei Beverage Co., Limited) changed its name to Hedetang Foods Industry (Xi’an) Co., Ltd. (“Foods Industry Xi’an”) on July 5, 2016. On June 6, 2017, it again changed its name to HedeJiachuan Foods (Xi’an) Co. Ltd.

(11) Hedetang Holding Group Co., Ltd., formerly known as Hedetang Holding Co., Ltd., (“Hedetang Holding”) was established on July 21, 2014. Its scope of business includes corporate investment consulting, corporate management consulting, corporate image design and corporate marketing planning. On June 14, 2017, it changed its name to HedeJiachuan Holding Group Co. Ltd.

(12) The Company acquired Huludao Wonder Co. Ltd. (“Huludao”) on September 10, 2008. Its scope of business mainly includes the manufacture and sale of concentrated fruit juice and fruit juice beverages.

(13) The Company acquired Yingkou Trusty Fruits Co., Ltd. (“Yingkou”) on November 25, 2009. Its scope of business mainly includes the manufacture of concentrated fruit juice.

(14) Hedetang Foods Industry (Jingyang) Co., Ltd. (“Foods Industry Jingyang”) was established on September 7, 2016. Its scope of business includes processing, storage and sales of farm products, fruits, tea and snacks; as well as research and promotion of processing technology of organic agriculture, fruit industry and agricultural products.

(15) Hedejiachuan Foods (Yichang) Co. Ltd (“Hedejiachuan Yichang”), formerly known as Hedetang Farm Products Trading Market (Yidu) Co., Ltd., and Hedetang Foods Industry (Yichang) Co., Ltd, was established on March 23, 2016. Its scope of business includes construction, operation, and property management of a farm products trading market; e-commerce services for farm products; and construction and operation management of an e-commerce information platform.

(16) Xi’an Hedetang E-Commerce Co., Ltd. was established on April 21, 2016. Its scope of business includes online sales of pre-packaged foods and bulk foods.

(17) The Company acquired Hedetang Foods (China) Co., Ltd. (“Hedetang Foods China”) on May 18, 2016 through the acquisition of DigiPay FinTech Limited (formerly known as Belking Foods Holdings Group Co., Ltd., the 100% indirect shareholder of Hedetang Foods China, on the same date. The scope of business of Hedetang Foods China includes wholesale and retail of food and beverages; import and export trade of fruit, vegetables, and dried fruit; packaging; logistics and distribution; online sales; and business management consulting services.

(18) Hedetang Agricultural Plantations (Mei County) Co., Ltd. was established on September 2, 2016. Its scope of business includes the planting, acquisition and sales of vegetables, fruits, flowers, Chinese herbal medicine, and farm products; fresh fruit picking; research, training and promotion of planting and breeding technology, development and training for E-commerce and online sales of agricultural and sideline products. On September 6, 2017, it changed its name to Shaanxi China Agricultural Silk Road Farm Products Trading Center Co., Ltd.

(19) Hedetang Foods Industry (Zhouzhi) Co., Ltd. (“Foods Industry Zhouzhi”) was established on November 29, 2016. Its scope of business includes production, processing and sales of kiwifruit wine, juice, puree and beverages; storage and sales of fresh fruits; and import and export of a variety of products and technology.

(20) Future FinTech (HongKong) Limited (“Fintech HK”), formerly known as Future World Trading (Hong Kong) and SkyPeople International Trading (HK) Limited, was first established on July 27, 2016. It mainly engages in the import and export of food products.

(21) GlobalKey Supply Chain Limited, formerly known as Shaanxi Quangoutong E-commerce Inc., was acquired on May 27, 2017. Its main business scope includes computer hardware and software development and sales, electronic products and communication equipment, computer network

engineering design, business information consultation, online sales and online marketing, and investment management.

(22) Shaanxi Heying Trading Co. Ltd was established on December 17, 2009. Its main business scope includes the sales of pre-packaged food and bulk food; import and export of goods and technology; food technology research and development; business management and consulting, and corporate planning services.

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(23) Zhonglian Hengxin Assets Management Co., Ltd. (“Zhonglian Hengxin”) was established in Xi’an. Its main business scope includes asset management (except for financial, securities, futures and other restricted items); asset acquisition, asset disposal and asset operation (except for financial, securities, futures and other restricted items); planning and advisory for corporate restructure and merger and acquisition; equity and real estate investment (no public offerings, restricted to investment through assets of the company itself); financial business process outsourcing entrusted by financial institutions; financial information technology outsourcing entrusted by financial institutions; financial knowledge process outsourcing. Businesses that require approval by government agencies shall only operate within the scope of such approval.

(24) Shenzhen Hedetang Industrial Co., Ltd. (Shenzhen Hedetang) was established on September 29, 2017. Its main business scope includes industrial projects (specific items to be declared separately); domestic trade; import and export businesses.

(25) DigiPay FinTech Limited (DigiPay FinTech), formerly known as Belking Foods Holdings Group Co., Ltd., was established on May 3, 2016.

(26) GlobalKey Holdings Limited (“GlobalKey Holdings”), formerly known as Hedejiachuan (HK) Holdings Limited, and SkyPeople Foods International Holdings (HK) Limited and later Hedetang Holdings (Asia-Pacific) Limited, was established on January 13, 2012. It was established mainly to engage in the import and export of food products.

(27) DCON DigiPay Limited (“DCON DigiPay”) was established on February 5, 2018 in Tokyo, Japan. Its main business scope includes design, development, and marketing of computer software, asset management consulting, business consulting.

(28) Future Digital FinTech (Xi’an) Ltd. (“FinTech (Xi’an)”) was established on February 29, 2018 in Xi’an. Its main business scope includes software development and marketing, information consulting service, financial information technology development. This company will focus its business as an accelerator for blockchain projects and plans to provide basic supports including technical support, whitepaper edit, solution design and project related to financial management for its clients; it’s business will also include the training and cultivating technicians for blockchain projects, providing consultation regarding to cryptocurrency exchanges and tokens listing matters, as well as marketing related services.

(29) GlobalKey SharedMall Limited (“GlobalKey SharedMall”) was established on March 6, 2018 in Cayman. Its main business includes on line trading platform for fresh fruits and juice.

(30) FTEX, Inc. (“FTEX”) was established on March 15, 2018 in the State of California. It currently does not have business operations.

Principles of Consolidation

Our consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated financial statements are prepared in accordance with U.S. GAAP. This basis differs from that used in the statutory accounts of SkyPeople (China), Hedetang Food (China), Hedetang Holding, Huludao Wonder, Xi’an Cornucopia, Xi’an Hedetang Juice Beverages, Yingkou, Shaanxi Qiyiwangguo, Hedetang E-commerce, SkyPeople Suizhong, Agricultural Plantation Mei Counting, Food Industry Yidu, Food Industry Jingyang, Guo Wei Mei, Agriculture Plantation Yidu, Trading Market Yidu, Trading Market Mei County and Hedetang Plantations, which were prepared in accordance with the accounting principles and relevant financial regulations applicable to enterprises in the PRC. All necessary adjustments have been made to present the financial statements in accordance with U.S. GAAP.

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Uses of estimates in the preparation of financial statements

The Company’s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and this requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenue and expenses during the reporting period. The significant areas requiring the use of management estimates include, but not limited to, the allowance for doubtful accounts receivable, estimated useful life and residual value of property, plant and equipment, provision for staff benefit, recognition and measurement of deferred income taxes and valuation allowance for deferred tax assets. Although these estimates are based on management’s knowledge of current events and actions management may undertake in the future, actual results may ultimately differ from those estimates.

Shipping and Handling Costs

Shipping and handling amounts billed to customers in related sales transactions are included in sales revenues and shipping expenses incurred by the Company are reported as a component of selling expenses. The shipping and handling expenses of \$8,614 and \$131,980 for the three months ended March 31, 2018 and 2017, respectively, are reported in the Condensed Consolidated Statements of Comprehensive Income (Expense) as a component of selling expenses.

Earnings (loss) per share

The Company adopted ASC Topic 215, *Statement of Shareholder Equity*. Basic Earnings Per Share (“EPS”) are computed by dividing net income available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS give effect to all dilutive potential common shares outstanding during a period. In computing diluted EPS, the average price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options and warrants.

Recent Accounting Pronouncements

February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220), “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”*. ASU 2018-02 was issued to allow the reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effect resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. The Tax Cuts and Jobs Act, among other things, reduced the corporate tax rate from 35% to 21%, which required the re-evaluation of any deferred tax assets or liabilities at the lowered tax rate which potentially could leave disproportionate tax effects in accumulated other comprehensive income. ASU 2018-02 allows for the election to reclassify these stranded tax effects to retained earnings. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financial statements have not yet been issued. Adoption of ASU 2018--2 did not have any other material effect on the results of operations, financial position or cash flows of the Company.

There were no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2018 compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 that are of significance or potential significance to us.

3. Inventories

Inventories by major categories are summarized as follows:

Raw materials and packaging

Finished goods

Inventories

4. Related Party Transaction

Sales to related parties

The Company's did not have any sales to related parties for the three months ended March 31, 2018 and March 31, 2017, respectively. The accounts receivable balances for such transactions were \$0 as of March 31, 2018 and December 31, 2017, respectively.

Long-term Loan – Related Party

There were no short-term loans to a related party as of each of March 31, 2018 and 2017.

5. Concentrations

(1) Concentration of customers

Sales to our five largest customers accounted for approximately 100% and 33% of our net sales during the three months ended March 31, 2018 and 2017, respectively. One single customer represented over 87% of total sales for the three months ended March 31, 2018, and there was no single customer representing over 10% of total sales for the three months ended March 31, 2017.

(2) Concentration of suppliers

Two suppliers accounted for 1% and 74% of our purchases for the three months ended March 31, 2018 and 2017, respectively. There was no supplier that accounted for over 10% of our purchases for the three months ended March 31, 2018, and our top supplier accounted for 74% of our purchases for the three months ended March 31, 2017.

6. Issuance of common stock and warrants

On January 5, 2018, the Company issued 880,580 shares of its common stock to Reits (Beijing) Technology Co. Ltd., a limited liability company incorporated in China ("Reits") pursuant to the Technology Development Service Contract (the "Agreement") signed on December 18, 2017, by Reits and GlobalKey Supply Chain Ltd. ("GlobalKey"), a limited liability company incorporated in China and a wholly owned subsidiary of the Company.

Under the Agreement, Reits shall provide services to GlobalKey relating to the design, development, testing, deployment and maintenance of a blockchain-based Globally Shared Shopping Mall and other software systems (the "System"). Following the completion and delivery of the System by Reits, (i) GlobalKey shall provide the hardware and network requirements for the trial deployment of the System, (ii) Reits shall provide training of GlobalKey's staff in the use and operation of the System, and (iii) for a period of one year from the System delivery date and for no additional charge, Reits shall provide ongoing System maintenance and technical support (the "Free Maintenance Period"). Following the

completion of the Free Maintenance Period, GlobalKey may elect to engage Reits for ongoing maintenance and technical support. Under the Agreement, GlobalKey shall pay Reits aggregate consideration of RMB 13,000,000 (\$2,067,397), of which RMB 9,100,000 (\$1,447,178) may be paid in shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), at a per share price equal to the average of the Common Stock's closing prices over the 5 trading days prior to the date of the Agreement, or \$1.554 per share (the "Share Payment"). The exchange rate between US\$ and RMB for the payment is 1:6.65. The Share Payment was made within 15 business days of the date of the Agreement, and the remaining Agreement consideration shall be paid by GlobalKey in accordance with the schedule described in the Agreement. The Company has paid RMB 876,663 (\$139,416) in cash to Reits in the first quarter of 2018.

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The Agreement also contains customary representations and warranties regarding the intellectual property developed pursuant to the Agreement and covenants regarding the parties' cooperation.

On April 12, 2017, the Company entered into the Purchase Agreement with certain purchasers (the "Purchasers"), pursuant to which the Company offered and sold to the Purchasers, in a registered direct offering, an aggregate of 862,097 shares (the "Shares") of common stock, par value \$0.001 per share ("Common Stock"). The Shares were sold to the Purchasers at a negotiated purchase price of \$3.10 per share, for aggregate gross proceeds to the Company of \$2,672,500, before deducting fees to the placement agent and other offering expenses payable by the Company. In a concurrent private placement, the Company also agreed to issue to each of the Purchasers a warrant to purchase one (1) share of the Company's Common Stock for each share purchased under the Purchase Agreement, pursuant to that certain Common Stock Purchase Warrant, by and between the Company and each Purchaser (each, a "Warrant", and collectively, the "Warrants"). The Warrants are exercisable beginning on the six month anniversary of the date of issuance at an initial exercise price of \$5.20 per share and will expire on the five and a half year anniversary of the date of issuance.

On January 5, 2018, the Company issued 30,000 shares of the Company's common stock to a certain warrant holder for the exercise of Warrants.

On February 28, 2017, the Company issued an option to purchase 62,500 shares of the Company's common stock with an exercise price equal to the fair market value of the Company's Common Stock (as defined under the 2011 Stock Incentive Plan in conformity with Regulation 409A of the Internal Revenue Code of 1986, as amended) at the date of grant to three of the Company's employees pursuant to the 2011 Stock Incentive Plan, which was approved by the Company's shareholders at annual stockholders meeting on August 18, 2011. These options vested immediately on the grant date with a fair market value of \$223,375 based on the fair value of \$3.57 per share, which was determined by using the Black Scholes option pricing model. The Company recognized stock-based compensation expense of \$223,375 in the first quarter of fiscal 2017 under the 2011 Stock Incentive Plan. On January 5, 2018, the Company issued 62,500 shares of the Company's common stock to three of its employees for the exercise of such stock options.

As of March 31, 2018, there were no shares of stock available for awards under the 2011 Stock Incentive Plan.

On February 6, 2018, the Company issued 600,000 shares of its common stock to Peng Youwang (“Peng”), a Chinese citizen, according to a DCON Digital Assets Transfer Agreement (the “Agreement”) that DigiPay FinTech Limited (“DigiPay”), a subsidiary of the Company, entered into on January 23, 2018.

Under the terms of the Agreement, Peng transferred to DigiPay a 60% ownership interest in certain digital assets of DCON, a blockchain platform for cryptocurrency conversion, payment and other services (“DCON”), including but not limited to its business plan and white papers, business models, software, codes, architectures, codes, software, applications, technologies, patents, copyrights, trade secrets, customer lists, business points, trading platforms, digital rights, authentication systems, agreements and contracts, intellectual property, token and the DCON communities established on Nova Realm City (the “Transfer Assets”) for an aggregate purchase price of \$9,600,000 (the “Purchase Price”). The Company will pay the Purchase Price by issuing to Peng 1,200,000 shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”), equaling a per share sale price of \$8.00 (the “Share Payment”). Half of the shares of Common Stock subject to the Share Payment were within 30 days of the date of the Agreement, and the remaining Shares Payment shares were issued within 90 days of the date of the Agreement. The shares of Common Stock to be issued by the Company pursuant to the Share Payment under the Agreement shall be sold and issued pursuant to the exemption from registration provided by Regulation S promulgated under the Securities Act of 1933, as amended.

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The Agreement also contains customary representations and warranties regarding the Transfer Assets and the ownership thereof, and covenants regarding the parties’ cooperation. DigiPay and Peng further agreed to establish a Japanese operating company for the Transfer Assets, of which DigiPay will hold a 60% ownership interest and Peng’s designee will hold a 40% ownership interest.

On March 29, 2017, the Company issued 250,000 shares of the Company’s unrestricted common stock to six of the Company’s employees pursuant to our 2015 Omnibus Equity Plan, which was approved by the Company’s shareholders at the annual stockholders meeting on November 19, 2015. The Company recorded an expense of \$250 in the first quarter of fiscal 2017 under the 2015 Omnibus Equity Plan, reflecting a par value of \$0.001 per share of the Company’s common stock.

The Company’s the 2015 Omnibus Equity Plan permits the grant of incentive stock options (“ISOs”), nonqualified stock options (“NQSOs”), stock appreciation rights (“SARs”), restricted stock, unrestricted stock and restricted stock units (“RSUs”) to its employees of up to 250,000 shares of Common Stock.

7. Other Receivables

As of March 31, 2018, the balance of other receivables was \$36,749,171, which mainly consisted of a deposit of approximately \$31.81 million for the purchase of a kiwi orchard in Mei County.

In April 2016, the Company signed a letter of intent with Mei County Kiwifruits Investment and Development Corporation to purchase 833.5 mu (approximately 137.3 acres) of kiwifruits orchard in Mei County. The purchase price will be determined by a third-party valuation company appointed by both parties. As of the date of this report, the valuation has not been completed. The Company paid RMB 200 million (approximately \$31.81 million) as a deposit (the "Deposit") in the second quarter of 2016. The purchase is subject to government approval, approval by the Company's Board of Directors and a definitive agreement negotiated and signed by the parties. As Mei County is in the process of governmental personnel change, the approval was delayed. Pursuant to the letter of intent, the Deposit shall be returned to the Company within 10 working days upon the request of the Company if the kiwifruits orchard cannot be transferred to the Company according to the schedule. The Company expects to complete the purchase process in the second quarter of 2018. As the transaction is not completed, the Company recorded this deposit as other receivables in its balance sheet.

8. Deposits

As of March 31, 2018, the balance of deposits was \$68.91 million, which mainly consisted of a balance of approximately \$27.34 million for the leasing fee for the kiwifruits orchard in Mei County and a balance of approximately \$17.50 million for the leasing fee for the orange orchard in Yidu city.

On August 3, 2016, Shaanxi Guoweimei Kiwi Deep Processing Company, an indirectly wholly-owned subsidiary of the Company, signed a lease agreement for 20,000 mu (approximately 3,292 acres) of a kiwifruits orchard located in Mei County, Shaanxi Province, with the Di'ErPo Committee of Jinqi Village, Mei County, Shaanxi for a term of 30 years, from August 5, 2016 to August 4, 2046. The annual leasing fee is RMB 1,250 (approximately \$199) per mu, and payment of 10 years' of leasing fees shall be made on each of September 25, 2016, 2026 and 2036. The Company made a payment of RMB 250 million (approximately \$39.76 million) for the first 10 years' leasing fees on August 15, 2016, which is recorded as deposit in the Company's balance sheet. The Company has amortized \$982,210 as expenses during the first quarter of fiscal year 2018.

On August 15, 2016, Hedetang Agricultural Plantations (Yidu) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, signed a lease agreement for 8,000 mu (approximately 1,317 acres) of an orange orchard located in the city of Yidu, Hubei Province, with the Yidu Sichang Farmers Association, Hubei Province, for a term of 20 years, from September 22, 2016 to September 21, 2036. The annual leasing fee is RMB 2,000 (approximately \$318) per mu, and payment of 10 years' of leasing fees shall be made on each of September 25, 2016 and 2026. The Company made a payment of RMB 160 million (approximately \$25.44 million) for the first 10 years' of leasing fees on September 20, 2016, which is recorded as deposits in the Company's balance sheet. The Company has amortized \$628,614 as expenses during the first quarter of fiscal year 2018.

9. Discontinued Operation

The Company's Huludao Wonder operation, a subsidiary which produces concentrated apple juice, suffered continued operating losses in the three fiscal years prior to 2016 and its cash flow was minimal for these three years. In December 2016, the Company established a winding-down plan to close this operation. Based on the restructuring plan and in accordance with EITF 03-13, the Company presented the operating results from Huludao Wonder as a discontinued operation, as the Company believed that no continued cash flow would be generated by the disposed component (Huludao Wonder) and that the Company would have no significant continuing involvement in the operation of the discontinued component. Management of the Company initiated a plan to sell the property located in Huludao in December 2016, and ceased the depreciation of the property in accordance with SFAS No. 144. In fiscal year 2017 and 2016, the Company recorded an impairment loss of \$11.3 million and \$2.4 million, respectively with respect to the concentrated fruit juice production equipment in Huludao Wonder. In accordance with the restructuring plan, the Company intends to transfer the concentrated fruit juice production equipment in Huludao Wonder to another subsidiary and to sell the land and facilities upon favorable circumstances. As the Company does not expect to sell the assets of Huludao Wonder in the near future, the assets were not recorded as assets held for sale as of March 31, 2018. The book value of the land usage right was \$4,617,449 and the book value of the building was \$884,680 as of March 31, 2018. The Company believes that the assets' book value was lower than its fair value at such time, less the anticipated cost to sell such assets.

As of March 31, 2018, there was an outstanding bank loan of \$6.12 million owed by Huludao Wonder to a lending bank. Huludao Wonder has disputed the interest rate on this loan with the bank, and stopped payment of interest on this loan during 2016. The bank sued Huludao Wonder and asked Huludao Wonder to pay back the loan principal and the outstanding interest. As of the date of this report, the Company has not yet reached an agreement with the bank. The Company expects to pay back the outstanding principal and interest of this loan after the Huludao Wonder assets are sold.

During the process of winding down the Company's operation in Huludao Wonder, the Company incurred general and administrative expenses of approximately \$49,571 and \$48,685 during the first quarter of 2018 and 2017, respectively.

Loss from discontinued operations for the three months ended March 31, 2018 and 2017 was as follows:

REVENUES

COST OF SALES

GROSS PROFIT

OPERATING EXPENSES:

General and administrative
Selling expenses
Total
OTHER INCOME (EXPENSE)
Interest expense
Interest income
Total
Loss from discontinued operations before income tax
Income tax provision

LOSS FROM DISCONTINUED OPERATIONS

The loss from discontinued operations was \$49,571 and \$48,685 for the first quarter of 2018 and 2017, respectively. The Company does not provide a separate cash flow statement for the discontinued operation. The loss from discontinued operations was deemed as cash outflow from operating activities of the discontinued operation. The Company believes there will not be any future significant cash flows from the discontinued operation, as the outstanding accounts receivable and accounts payable are immaterial to the Company's financial position and liquidity.

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10. Segment Reporting

The Company operates in five segments: concentrated apple juice and apple aroma, concentrated kiwifruit juice and kiwifruit puree, concentrated pear juice, fruit juice beverages, and others. Our concentrated apple juice and apple aroma is primarily produced by the Company's Jingyang factory and concentrated pear juice is primarily produced by the Company's Jingyang factory. The Company uses the same production line to manufacture concentrated apple juice and concentrated pear juice. In addition, both Shaanxi Province, where the factory of Jingyang factory is located, and Liaoning Province, where the factory of Huludao Wonder is located, are rich in fresh apple and pear supplies. Concentrated kiwifruit juice and kiwifruit puree is primarily produced by the Company's Qiyiwangguo factory, and fruit juice beverages are primarily produced by the Company's Qiyiwangguo factory. The Company's other products include fructose, concentrated turnjujube juice, and other by products, such as kiwifruit seeds.

Concentrated fruit juice is used as a basic ingredient for manufacturing juice drinks and as an additive to fruit wine and fruit jam, cosmetics and medicines. The Company sells its concentrated fruit juice to domestic customers and exported directly or via distributors. The Company believes that its main export markets are the North America, Europe, Russia, South Korea and the Middle East. The Company sells its Hedetang branded bottled fruit beverages domestically primarily to supermarkets in the PRC. The Company sells its fresh fruit and vegetables to supermarkets and whole sellers in the PRC.

Some of these product segments might never individually meet the quantitative thresholds for determining reportable segments and we determine the reportable segments based on the discrete financial information provided to the chief operating decision maker. The chief operating decision maker evaluates the results of each segment in assessing performance and allocating resources among the segments. Since there is an overlap of services provided and products manufactured between different subsidiaries of the Company, the Company does not allocate operating expenses and assets based on the product segments. Therefore, operating expenses and assets information by segment are not presented. Segment profit represents the gross profit of each reportable segment.

For the three months ended March 31, 2018 (in thousands, unaudited):

	Concentrated apple juice and apple aroma	Concentrated kiwifruit juice and kiwifruit puree
Reportable segment revenue	\$ 46	\$ 111
Inter-segment loss	-	-
Revenue from external customers	46	111
Segment gross profit	<u>\$ 5</u>	<u>\$ 10</u>

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For the three months ended March 31, 2017 (in thousands, unaudited):

	Concentrated apple juice and apple aroma	Concentrated kiwifruit juice and kiwifruit puree
Reportable segment revenue	\$ 1,238	\$ 205
Inter-segment loss	(219)	(10)
Revenue from external customers	1,019	195
Segment gross profit	<u>\$ 29</u>	<u>\$ 45</u>

The following table reconciles reportable segment profit to the Company's condensed consolidated loss before income tax provision for the three months ended March 31, 2018 and 2017:

Segment profit
Unallocated amounts:
Operating expenses
Other income
Loss before tax provision

11. Commitments And Contingencies

Litigation

In April 2015, China Cinda Asset Management Co., Ltd. Shaanxi Branch (“Cinda Shaanxi Branch”) filed two enforcement proceedings with Xi’an Intermediate People’s Court (the “Court”) against the Company for alleged defaults pursuant to guarantees by the Company to its suppliers for a total amount of RMB 39,596,250 or approximately \$6.0 million.

In September 2014, two long term suppliers of pear, mulberry, and kiwi fruits to the Company requested that the Company provide guarantees for their loans with Cinda Shaanxi Branch. Considering the long term business relationship and to ensure the timely supply of raw materials, the Company agreed to provide guarantees upon the value of the raw materials supplied to the Company. Because Cinda Shaanxi Branch is not a bank authorized to provide loans, it eventually provided financing to the two suppliers through the purchase of accounts receivables of the two suppliers with the Company. In July, 2014, the parties entered into two agreements – an Accounts Receivables Purchase and Debt Restructure Agreement, and Guarantee Agreements for Accounts Receivables Purchase and Debt Restructure. Pursuant to the agreements, Cinda Shaanxi Branch agreed to provide a RMB 100 million credit line on a rolling basis to the two suppliers and the Company agreed to pay its accounts payables to the two suppliers directly to Cinda Shaanxi Branch and provided guarantees for the two suppliers. In April 2015, Cinda Shaanxi Branch stopped providing financing to the two suppliers and the two suppliers were unable to continue the supply of raw materials to the Company. Consequently, the Company stopped making any payment to Cinda Shaanxi Branch.

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The Company has responded to the Court and taken the position that the financings under the agreements are essentially the loans from Cinda Shaanxi Branch to the two suppliers, and because Cinda Shaanxi Branch does not have permits to make loans in China, the agreements are invalid, void and had no legal effect from the beginning. Therefore, the Company has no obligation to repay the debts owed by the two suppliers to Cinda Shaanxi Branch.

Upon the Court’s suggestion, parties agreed to a settlement discussion in April 2017. As a part of the settlement discussion, on April 18, 2017, the Company withdrew its non-enforcement request with the Court without prejudice. Both parties are still in the process of settlement negotiations. If the parties cannot reach a settlement agreement, the Company has the right to refile the non-enforcement request with the Court. As the Company may still be liable for this loan, the Company recorded expenses and liability of \$6.0 million as the result of these two enforcement proceedings in the first quarter of 2018.

Between October, 2013 and January, 2014, Xuzhou Jinkai Feng Glass Co. Ltd. (“JKF”) supplied glass bottles to SkyPeople China. SkyPeople China believed that the glass bottles supplied by JKF had quality issues and did not pay for the bottles delivered. In November, 2016, JKF filed a lawsuit against SkyPeople China with Xuzhou Tongshan District People’s Court. On July 27, 2017, SkyPeople China

received judgment from Xuzhou Tongshan District People’s Court that SkyPeople China must pay JKF RMB 365,292 (approximately \$55,040) for the glass bottles. SkyPeople China currently is in discussions with JKF on the payment terms and final amount in connection with the enforcement of the judgment.

In April 2015, SkyPeople China entered into a loan agreement with Shaanxi Fangtian Decoration Co. Ltd. (“Fangtian”). Pursuant to the loan agreement, SkyPeople China borrowed RMB 3.5 million (approximately \$527,355) from Fangtian. SkyPeople China has not repaid the loan and Fangtian filed a lawsuit with Xi’an Yanta District People’s Court (“Yanta District Court”). On August 10, 2017, Yanta District Court ruled against SkyPeople China and determined that SkyPeople China must repay the loan of RMB 3.5 million plus interest RMB of 402,500 (approximately \$588,000). SkyPeople China currently is in discussions with Fangtian on the payment terms and the final amount.

Shaanxi Hengtong Development Co. Ltd. (“Hengtong”) is a coal supplier to SkyPeople China’s Jingyang Branch (“SkyPeople Jingyang”). In November, 2016, Hengtong filed a lawsuit against SkyPeople Jingyang for unpaid coal deliveries and interest for a total amount of RMB 3,133,916 (approximately \$482,141). On March 13, 2017, SkyPeople Jingyang received judgment from Jingyang County People’s Court ordering SkyPeople Jingyang to repay RMB 1.78 million (approximately \$268,788) to Hengtong. SkyPeople Jingyang appealed the judgement to Xianyang Intermediate People’s Court, and on August 29, 2017, Xiangyang Intermediate Court affirmed the lower court’s decision. SkyPeople Jingyang currently is in discussions with Hengtong on payment terms and the final amount.

In September 2016, the Suizhong Branch of Huludao Banking Co. Ltd. (“Suizhong Branch”) filed a lawsuit with Huludao Intermediate People’s Court (the “Huludao Court”) against the Company’s indirectly wholly-owned subsidiary Huludao Wonder Fruit Co., Ltd. (“Wonder Fruit”) and requested that Wonder Fruit repay a RMB 40 million (approximately \$6.35 million) bank loan, plus interest. The loan became due on its maturity date of December 9, 2016. On December 19, 2016, the Huludao Court accepted the case. The Company has been disputing the interest rate of the loan with Suizhong Branch, and has not repaid the loan to date. Wonder Fruit believes that the interest charged by Suizhong Branch is 100% higher than the base rate set by People’s Bank of China and is not in consistent with the China People’s Bank’s base interest and floating rate. The Huludao Court has seized land use rights, buildings and equipment of Wonder Fruit that were pledged as guarantee for the loan and has organized two auction sales for these assets in January and February of 2018, but both auction sales have been unsuccessful in finding a buyer. Wonder Fruit is currently in discussions with the Suizhong Branch on repayment of the bank loan and a reduction of the interest due thereon.

On June 29, 2015, SkyPeople China entered into a loan agreement with Beijing Bank. Pursuant to the loan agreement, SkyPeople China borrowed RMB 30 million (approximately \$4.59 million) from Beijing Bank. Hongke Xue, Yongke Xue and Xiujun Wang provided guarantees for the loan and Shaanxi Boai Medical Technology Development Co., Ltd. (“Shaanxi Boai”) provided certain real estate property as a pledge for the loan. SkyPeople China did not repay the loan on time and Beijing Bank filed an enforcement request with Xi’an Intermediate People’s Court in June 2017. The Xi’an Intermediate

People's Court has seized real estate properties pledged by Shaanxi Boai and Xiujun Wang. In April, 2018, Xi'an Intermediate Court organized two auction sale for real estate property pledged by Shaanxi Boai but they were not successful. In April, 2018, the Xi'an Intermediate People's Court organized two more auction sales for the pledged office space but they were not successful.. SkyPeople China currently is in discussions with Beijing Bank on the payment terms and the final amount.

On March 8, 2016, SkyPeople China entered into a loan agreement with Ningxia Bank. Pursuant to the loan agreement, SkyPeople China borrowed RMB 25 million (approximately \$3.83 million) from Ningxia Bank. Hongke Xue, Yongke Xue, Lake Chen, Shaanxi Boai Medical Technology Development Co., Ltd. and Shaanxi Qiyiwangguo provided guarantees for the loan. SkyPeople China also pledged 37 equipment and its trademarks to Ningxia Bank for the loan. SkyPeople China has not repaid the loan and Ningxia Bank filed enforcement action with Xi'an Intermediate people's court in August 2017. The Court has frozen the assets of SkyPeople China that were pledged as guarantee for the loan from being transferred to any third-party, but the freeze does not limit or affect the use of these properties by SkyPeople China for its business. SkyPeople China currently is in discussions with Ningxia Bank on the payment terms and the final amount.

On December 23, 2015, SkyPeople China entered into two loan agreements with China Construction Bank. Pursuant to the loan agreements, SkyPeople China borrowed RMB 13.90 million (approximately \$2.13 million), and RMB 30 million (approximately \$4.59 million) from China Construction Bank, respectively. Shaanxi Boai Medical Technology Development Co., Ltd. ("Boai"), Mr. Hongke Xue, Mr. Yongke Xue, Mrs. Xiujun Wang and Yingkou Trusty Fruits Co., Ltd. ("Yingkou") provided pledges for the loans. SkyPeople China has not repaid the loans and China Construction Bank filed an enforcement action with Xi'an Intermediate People's Court in March 2017. The Court has seized and sold by auction certain park space and land use rights pledged by Xiujun Wang and Boai for approximately RMB 25,000,000. The Court also seized certain land use rights pledged by Yingkou Trusty Fruits Co., Ltd., but the auction sale for those rights was not successful. SkyPeople China currently is in discussions with China Construction Bank on the payment terms and the final amount.

On May 9, 2016, SkyPeople China entered into loan agreements with China Construction Bank. Pursuant to the loan agreements, SkyPeople China borrowed RMB 22.9 million (approximately \$3.50 million) from China Construction Bank. Shaan xi Province Credit Reassurance Company ("Credit Reassurance Company") provided a guarantee to China Construction Bank for the loan, Mr. Hongke Xue and Mr. Yongke Xue provided their guarantees, and SkyPeople China provided an office space that it owned to Credit Reassurance Company as a pledge. SkyPeople China has not repaid the loan and Credit Reassurance Company repaid the loan for SkyPeople China. In June 2017, Credit Reassurance filed an enforcement action request with Xi'an Intermediate People's Court in June 2017. In December 2017, the Xi'an Intermediate People's Court seized the office space of SkyPeople China for auction sale in February 2018 but the sale was not successful. SkyPeople China currently is in discussions with Credit Reassurance Company on the payment terms and the final amount.

In August 2017, Cinda Capital Financing Co. Ltd. ("Cinda") filed a lawsuit with Beijing 2nd Intermediate People's Court (the "Beijing Intermediate Court") against the Company's indirectly wholly-owned subsidiaries Shaanxi Guoweimei Kiwi Deep Processing Company, Ltd. ("Guoweimei") and Hedetang

Farm Products Trading Market (Mei County) Co., Ltd. (“Trading Market Mei County Co”, and together with Guoweimei, “Leasees”) requested that Leasees repay RMB 50 million (approximately \$7.65 million) in capital lease fees, plus interest. Cinda has purchased or paid for refrigerant warehouse and trading hall to the suppliers and vendors and agreed to lease them to the Leasees for a leasing fee of RMB 50 million in December, 2016. The capital leasing fee became due on its maturity date of June 2017, with certain land use rights of Leasees in Mei County and equity of Guoweimei as a pledge. The Company has disputed that the land use rights for the refrigerant warehouse and trading hall were never sold to or transferred to Cinda, therefore it is loan agreement and not capital lease agreement among the parties. Leasees have taken the position that Cinda is not a bank and does not have government permits required to make loans in China, and the agreements including pledge agreement were invalid, void and without legal effect from the beginning. Therefore, the Company only has the obligations to repay principal but not the interest. In November 2017, Beijing Intermediate Court ruled in favor of Cinda and the Leasees have appealed the case to Beijing Supreme Court. Beijing Supreme Court has not scheduled hearings yet. As the Company may still be liable for this loan, the Company recorded expenses and liability of \$7.66 million as the result of the enforcement proceeding in the third quarter of 2017.

In August, 2017, Cinda Capital Financing Co. Ltd. (“Cinda”) filed another lawsuit at Beijing Intermediate Court against the Company’s indirectly wholly-owned subsidiaries Guoweimei and SkyPeople China for repayment of leasing fee of RMB 84,970,959 (approximately \$13 million) plus interest. In January 2014, Guoweimei and SkyPeople China (the “Equipment Leasees”) signed an Equipment Financial Lease Purchase Agreement with Cinda and an equipment supplier pursuant to which Cinda would provide funds to purchase equipment and the Equipment Leasees would lease the equipment from Cinda. Guoweimei pledged certain land use rights in Mei County to Cinda and Xi’an Hedetang and Hedetang Holding pledged their equities in Guoweimei to Cinda to secure the repayment. Mr. Hongke Xue also provided a personal guarantee for the payment of the leasing fee. Beijing Intermediate Court had two hearings of the case and on March 21, 2018, and it ruled in favor of Cinda to the effect that SkyPople China and Guoweimei shall pay leasing fees due in the amount of 20,994,048 (approximately \$3.3 million), as well as leasing fees not yet due in the amount of RMB 63,975,910 (approximately \$10 million), plus attorney’s fee and expenses. Beijing Intermediate Court also ruled that Mr. Hongke Xue is jointly liable for the debt as the guarantor, and that Cinda has priority rights to the pledged land use rights in Mei County and the pledged equities of Guoweimei as well as the ownership of the leasing properties until the leasing fees are paid. SkyPeople China has appealed the decision to the Beijing Supreme Court.

In September, 2017, Andrew Chien, a former consultant of SkyPeople China, brought a lawsuit against the Company and Mr. Hongke Xue in the District Court of Connecticut. The complaint was not properly served and the Company learned of the litigation in December 2017. In the complaint, Mr. Chien has made several claims, most of which attempt to hold the Company liable under novel legal theories that relate back to an alleged breach of a consulting agreement between SkyPeople China and Chien from August, 2006. Mr. Chien claimed for approximately \$257,000 damages and interest plus 2% of the Company’s then-outstanding shares. Mr. Chien has unsuccessfully attempted to sue the Company on the

breach of the same consulting agreement several times in the courts of Connecticut and New York and these cases have been dismissed in the past. The Company has filed a motion to dismiss (“MTD”) and all proceedings are stayed pending determination of the MTD. The Company will vigorously defend this lawsuit and expects to obtain early dismissal of Mr. Chien’s claims.

In the past couple years, to expand our production and diversify our products and businesses, our subsidiaries in China borrowed loans from certain banks for our new construction projects. Because the business environment for manufacture industries and financing for non-stated owned companies in China have deteriorated, banks started to collect loans before their maturity dates for their own capital security consideration which has interrupted our business plan. In June 2017, one of the banks that we had loan with made the early payment request and applied for the enforcement action with local court which caused chain reactions for other banks that we had loan with and they all declared their loans due and applied for enforcement actions. Because the run on us by the banks at the same time, our subsidiaries can’t repay all the loans in a short period of time. Our subsidiaries have been in discussion with the banks to find solutions for the outstanding loans. The enforcement actions made by the banks are the usual practices used by the banks which don’t cause actual impact to our daily business operation. After the discussion and negotiation with the banks, we will cooperate with each party to solve the loan issues.

12. Acquisition of A Business

On January 23, 2018, DigiPay FinTech Limited (“DigiPay”), a limited liability company incorporated in British Virgin Islands and a wholly-owned subsidiary of the Company, and Peng Youwang (“Peng”), a Chinese citizen, entered into a DCON Digital Assets Transfer Agreement (the “Agreement”).

Under the terms of the Agreement, Peng transferred to DigiPay a 60% ownership interest in certain digital assets of DCON, a blockchain platform for cryptocurrency conversion, payment and other services (“DCON”), including but not limited to its business plan and white papers, business models, software, codes, architectures, codes, software, applications, technologies, patents, copyrights, trade secrets, customer lists, business points, trading platforms, digital rights, authentication systems, agreements and contracts, intellectual property, token and the DCON communities established on Nova Realm City (the “Transfer Assets”) for an aggregate purchase price of \$9,600,000 (the “Purchase Price”). The Company will pay the Purchase Price by issuing to Peng 1,200,000 shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”), equaling a per share sale price of \$8.00 (the “Share Payment”). Half of the shares of Common Stock subject to the Share Payment were issued within 30 days of the date of the Agreement, and the remaining Shares Payment shares were issued within 90 days of the date of the Agreement. The shares of Common Stock to be issued by the Company pursuant to the Share Payment under the Agreement shall be sold and issued pursuant to the exemption from registration provided by Regulation S promulgated under the Securities Act of 1933, as amended.

The Agreement also contains customary representations and warranties regarding the Transfer Assets and the ownership thereof, and covenants regarding the parties’ cooperation. DigiPay and Peng further agreed to establish a Japanese operating company for the Transfer Assets, of which DigiPay will hold a 60% ownership interest and Peng’s designee will hold a 40% ownership interest.

On February 6, 2018, the Company issued 600,000 shares of its common stock to Mr. Peng and his designee according to the Agreement. On May 3, 2018, the Company issued the remaining 600,000 shares of its common stock to Mr. Peng and his designee according to the Agreement.

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13. Subsequent Events

On April 6, 2018, the Company issued an aggregate 7,111,599 shares of the Company's common stock pursuant to series of Creditor's Rights Transfer Agreements between a wholly owned subsidiary of the Company, Hedetang Foods (China) Co., Ltd. and sellers of such creditor's rights, which was entered on November 2, 2017 and approved by the shareholders at a Special Meeting of shareholders held on March 13, 2018.

On April 6, 2018, the Company issued an aggregate 11,362,159 shares of the Company's common stock pursuant to a Share Purchase Agreement between the Company and a certain investor, which was entered on November 2, 2017 and approved by the shareholders at a Special Meeting of shareholders held on March 13, 2018.

On April 25, 2018, the Company's board of directors (the "Board") received a resignation letter from Mr. Guolin Wang, a member of the Board and a member of the Board's Compensation and Audit Committees. Mr. Wang indicated that his resignation was due to personal reasons. On May 6, 2018, the board of directors (the "Board") of the Company appointed Mr. Yiliang Li as a member of the Board and a member of the Compensation Committee and the Audit Committee of the Board, effective immediately, to fill the vacancies created by the resignation of Mr. Guolin Wang.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q.

DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

The following discussion and analysis of the condensed consolidated financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes in Item 1 above and with the audited consolidated financial statements and notes, and with the information under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from the results described in or implied by these

forward-looking statements as a result of various factors, including those discussed in this report and under the heading “Risk Factors” in our most recent Annual Report on Form 10-K.

Overview of Our Business

We are engaged in the production and sales of fruit juice concentrates (including fruit purees, concentrated fruit purees and concentrated fruit juices), fruit beverages (including fruit juice beverages and fruit cider beverages), and other fruit related products (including organic and non-organic fresh fruits) and the sales of the IB-LIVE series of products online and offline in and outside of the PRC. Our fruit juice concentrates, which include apple, pear and kiwifruit concentrates, are sold to domestic customers and exported directly or via distributors. We sell our Hedetang branded bottled fruit beverages domestically primarily to supermarkets in the PRC. For the three months ended March 31, 2018, sales of our fruit concentrates, fruit beverages, fresh fruits and other fruit related products represented 31%, 58% and 11% of our revenue, respectively, compared to 72%, 28% and 0% respectively, for the same period of 2017.

In addition to our domestic sales, we also export our products. We sell our products either through distributors with good credit or to end users directly. Our main export markets are Asia, North America, Europe, Russia and the Middle East. We sell our other fruit related products to domestic customers.

Currently we produce five flavors of fruit beverages in 236 ml glass bottles, 258 ml glass bottles, 280 ml glass bottles, 418 ml glass and 500 ml glass bottles, 888 ml glass bottles, 1.21 L glass bottles and BIB (bag in box) packages, including kiwifruit juice, mulberry juice, peach juice, pomegranate juice and fruit and vegetable juice. We also produce two flavors of lactobacillus fruit beverages in 268 ml glass bottles, including lactobacillus kiwifruit juice and lactobacillus mulberry juice, as well as three beverages with rich dietary fiber in 330 ml glass bottles, including kumquat and grapefruit juice, kiwifruit juice and mulberry juice. We currently sell our fruit beverages to over 100 distributors and more than 20,000 retail stores in approximately 20 provinces. Our products are sold through distributors in stores such as Hualian Supermarket in Beijing, RT-Mart in Shenyang, WOWO in Chengdu, the Quanjia convenient store chain, Vanguard in Xi’an, Carrefour in Chongqing and Shenyang and Lianhua Supermarket in Shanghai.

Our business is highly seasonal and can be greatly affected by weather because of the seasonal nature in the growing and harvesting of fruits and vegetables. Our core products are apple, pear and kiwifruit juice concentrates, which are produced from July or August to April of the following year. The squeezing season for (i) apples is from August to January or February; (ii) pears is from July or August until April of next year; and (iii) kiwifruit is from September through December. Typically, a substantial portion of our revenues is earned during our first and fourth quarters. Unlike fruit juice concentrates, which can only be produced during the squeezing season, our fruit beverages are made out of fruit juice concentrates and can be produced and sold in all seasons.

Fresh fruits are the primary raw materials needed for the production of our products. Our raw materials mainly consist of apples, pears and kiwifruits. Other raw materials used in our business include pectic enzyme, amylase, auxiliary power fuels and other power sources such as coal, electricity and water.

We purchase raw materials from local markets and fruit growers that deliver directly to our plants. We have implemented a fruit-purchasing program in areas surrounding our factories. In addition, we organize purchasing centers in rich fruit production areas, helping farmers deliver fruit to our purchasing agents easily and in a timely manner. We are then able to deliver the fruit directly to our factory for production. We have assisted local farmers in their development of kiwifruit fields to help ensure a high quality product throughout the production channel. Our raw material supply chain is highly fragmented and raw fruit prices are highly volatile in China. Fruit concentrate and fruit juice beverage companies generally do not enter into purchasing agreements with raw fruit suppliers. In addition to raw materials, we purchase various ingredients and packaging materials such as sweeteners, glass and plastic bottles, cans and packing barrels. We generally purchase our materials or supplies from multiple suppliers. We are not dependent on any one supplier or group of suppliers.

Shaanxi and Liaoning Provinces, where our manufacturing facilities are located, are large fruit producing provinces. We own and operate four manufacturing facilities in the PRC, all of which are strategically located near fruit growing centers so that we can better preserve the freshness of the fruits and lower our transportation costs. To take advantage of economies of scale and to enhance our production efficiency, generally, each of our manufacturing facilities has a focus on products made from one particular fruit according to the proximity of such manufacturing to the sources of supply for that fruit. Our kiwifruit processing facilities are located in Zhouzhi County of Shaanxi Province, which has the largest planting area of apples and kiwifruit in the PRC. Our pear processing facilities are located in Shaanxi Province, which is the main pear-producing province in the PRC.

Our apple processing facilities are located in Liaoning Province, a region that abounds with high acidity apples. As we use the same production line for concentrated apple juice and concentrated pear juice and both Shaanxi Province and Liaoning Province are rich in fresh apple and pear production, our Liaoning facilities also produced concentrated apple juice and our Shaanxi Province facilities also produced concentrated apple juice based on customer need. According to the data provided by the Chinese Customs, the amount of exported concentrated apple juice from China continued to drop in the past few years. As most of our concentrated apple juice was sold directly or indirectly to the international market, our two facilities in Liaoning stopped operations in the past two years.

Our Huludao Wonder operation, a subsidiary which produces concentrated apple juice, suffered continued operating losses in the three fiscal years prior to 2016 and the cash flow was minimal for these three years. In December 2016, the Company established a winding-down plan to close this operation. Based on the restructuring plan and in accordance with EITF 03-13, the Company presented the operation results from Huludao Wonder as a discontinued operation, as the Company believed that no continued cash flow would be generated by the disposed component (Huludao Wonder) and that the Company would have no significant continuing involvement in the operation of the discontinued component. Management of the Company initiated a plan to sell the property located in Huludao in December 2016 and ceased the depreciation of the property in accordance with SFAS No. 144. In fiscal year 2017 and

2016, the Company's recorded an impairment loss of \$11.76 million and \$2.4 million with respect to the concentrated fruit juice production equipment in Huludao Wonder, respectively. In accordance with the restructuring plan, the Company would transfer the concentrated fruit juice production equipment in Huludao Wonder to another of our subsidiaries and sell the land and facilities upon favorable circumstances. As the Company does not expect to sale the assets of Huludao Wonder in the near future, the assets are not recorded as assets held for sale as of March 31, 2018. In the first quarter of 2018, this discontinued operation reported a loss of \$49,571. Our Yingkou factory in Liaoning also did not produce any concentrated apple juice in the past two years. We believe that these regions provide adequate supply of raw materials for our production needs in the foreseeable future.

On September 20, 2017, GlobalKey Supply Chain Ltd. ("GlobalKey Supply Chain"), a limited liability company incorporated in China and a wholly owned subsidiary of the Company, Xi'an Hedetang Nutritious Food Research Co. Ltd., and a 73.42% owned subsidiary of the Company ("Nutritious Food"), entered into a License Agreement of Sales Agent and Platform of IB-LIVE (the "Agreement") with Shaanxi Entai Bio-Technology Co. Ltd, a limited liability company incorporated in China ("Shaanxi Entai").

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Under the Agreement, Shaanxi Entai appointed Nutritious Food as its sole global agent of Shaanxi Entai's IB-LIVE series of products, a new generation of nutritious and healthy products for improving male sexual health. Pursuant to the terms of the Agreement, GlobalKey Supply Chain shall be the sole global general distributor and operating platform of the IB-LIVE products, and shall be responsible for actual product marketing and promotion, the identification and development of sales channels, and similar business activities in relation to its worldwide sale of IB-LIVE products to distributors. During the term of the Agreement, GlobalKey Supply Chain must meet certain monthly sales targets, which such completion will be evaluated on a quarterly basis. The failure to meet at least 70% of the sales volume of such targets will authorize Shaanxi Entai to reduce the authorized areas of GlobalKey Supply Chain's distribution or terminate the license with GlobalKey Supply Chain. In the event that GlobalKey Supply Chain fails to take scheduled deliveries of the IB-LIVE products for two consecutive months, GlobalKey Supply Chain will be deemed to have waived its sales management rights under the Agreement. Nutritious Food and GlobalKey Supply Chain shall pay deposits to Shaanxi Entai in the amounts of RMB5,000,000 and RMB 10,000,000, respectively (approximately \$759,414 and \$1,518,818, respectively) within the first year of the Agreement as a security deposit. We expect to pay the deposits in September 2018.

On January 19, 2018, the Company filed a definitive Schedule 14A (the "Proxy") to solicit shareholders' proxies for a special meeting of the Company's shareholders in connection with proposals to (i) spin-off the Company's wholly-owned subsidiaries, SkyPeople BVI and Digital Online, through a pro rata distribution of the ordinary shares of each of SkyPeople BVI and Digital Online to holders of the Company's common stock at the close of business on January 22, 2018, the record date (the "Spin Offs"); (ii) to approve an amendment to the Company's Second Amended and Restated Articles of Incorporation, which would increase the amount of authorized shares of common stock, par value \$0.001 per share, of

the Company from 8,333,333 to 60,000,000; (iii) to adopt and approve the Future FinTech Group Inc. 2017 Omnibus Equity Plan; (iv) to approve the issuance of an aggregate 7,111,599 shares of the Company's common stock pursuant to certain Creditor's Rights Transfer Agreements between a wholly owned subsidiary of the Company and sellers of such creditor's rights; and (v) to approve the issuance of an aggregate 11,362,159 shares of the Company's common stock pursuant to a Share Purchase Agreement between the Company and a certain investor. On March 13, 2018, the Company held the Special Meeting of Shareholders and the above proposals were approved by the shareholders of the Company. The Company anticipates completing the Spin Offs in the third quarter of 2018.

Following the completion of the Spin Offs, the main business operations of Future FinTech will be focused on (i) the online sales of fruit juice products and beverages, and consumer and health-related products, through GlobalKey Supply Chain Limited (formerly known as Shaanxi Quangoutong E-Commerce Inc.) ("GlobalKey Supply Chain"); (ii) the design, development, testing, deployment and maintenance of a blockchain-based Globally Shared Shopping Mall and other related software systems (iii) the operation of a supply chain, logistics and trading business for fruit juice products, foods and other consumer and agricultural products through Hedetang Farm Products Trading Market (Mei County) Co., Ltd.; (iv) bulk agricultural products spot trading business and financial technology businesses, including software development and information services for the financial leasing and project finance industries through intelligent investment advisory and blockchain technology; (v) related asset and equity investment management; and (vi) the development and operation of a blockchain platform for cryptocurrency conversion, payment and other services ("DCON"). The Company will use blockchain technology to develop its use in different business segments, including online sales and internet distribution businesses. The Company will also use the application blockchain technology in agricultural products trading, to facilitate financial payments and transactions, and intend to use both blockchain and artificial intelligence technologies to create new opportunities. The Company anticipates generating revenues from our finance leasing business, the acquisition and disposal of financial assets and the application of block-chain technology for online sales of products.

Capital Projects

Investment/Service Agreement with Yidu Municipal People's Government

On October 29, 2012, SkyPeople (China) entered into an investment/service agreement (the "Investment Agreement") with Yidu Municipal People's Government in Hubei Province of China.

Under the Investment Agreement, the parties agreed to invest and establish an orange comprehensive deep processing zone in Yidu.

The Company is responsible for the establishment, construction and financing of the project with a total investment of RMB 300 million (approximately \$48 million), in fixed assets and the purchase of land use rights, while the Yidu government agreed to provide a parcel of land for the project that is

approximately 280 mu (approximately 46 acres) in size located at Gaobazhou Town of Yidu for a fee payable by the Company. The consideration for transferring the land use right for the project land shall be RMB 0.3 million per mu.

The main scope of the Yidu project includes the establishment of:

1. one modern orange distribution and sales center (the “distribution center”);
2. one orange comprehensive utilization deep processing zone (the “deep processing zone”), including:
 - a) one 45 ton/hour concentrated orange juice and byproduct deep processing production line;
 - b) one juice drink bottling production line with a capacity to produce 6,000 glass-bottle drinks per hour;
 - c) one storage freezer facility with a capacity to store 20,000 tons of concentrated orange juice; and
 - d) general purpose facilities within the zone, office space, general research and development facilities, service area
3. one research and development center for orange varietal improvement and engineering technology (the “R&D center”)
4. one standardized orange plantation (the “orange plantation”).

The total amount of RMB 300 million (approximately \$48 million) will mainly be used to establish the distribution center and the deep processing zone on the project land of approximately 280 mu. The Company and Yidu Municipal People’s Government agreed to discuss the investment amount and location for establishing the R&D center and the orange plantation in the future.

On November 23, 2015, the Company started the construction of the Yidu project. As the Chinese government recently tightened environment regulations, the Company is in the process of adapting the new standards and the project has been delayed. Since the Company’s current cash cannot support the future input of this project and there is no forecasted cash flow from this project, the Company recorded an impairment cost of \$16.80 million with respect to construction in progress and fixed assets of this project, and an impairment cost of \$0.62 million with respect to the orange plantation in the fourth quarter of fiscal year 2017.

Investment/Service Agreement with Mei County National Kiwi Fruit Wholesale Trading Center

On April 3, 2013, SkyPeople (China) entered into an Investment Agreement (the “Agreement”) with the Managing Committee of Mei County National Kiwi Fruit Wholesale Trading Center (the “Committee”). The Committee has been authorized by the People’s Government of Mei County to be responsible for the construction and administration of the Mei County National Kiwi Fruit Wholesale Trading Center (the “Trading Center”).

Under the Agreement, the parties agreed to invest and establish a kiwi fruit comprehensive deep processing zone and kiwi fruit and fruit-related materials trading zone in Yangjia Village, Changxing Town of Mei County with a total planned area of total planned area of 286 mu (approximately 47 acres) (the “Project”).

Pursuant to the Agreement, the Company is responsible for the construction and financing of the Project with a total investment of RMB 445.6 million (approximately \$71.9 million) in buildings and equipment, which also includes a fee for the land use rights for the Project land in the amount of RMB 0.3 million per mu. The Committee is responsible for financing and constructing the basic infrastructure surrounding the Project, such as the main water supply, main water drainage, natural gas, electricity, sewage, access roads to the Project, natural gas and communications networks. As the Company’s current cash flow is not enough to support the construction of this project, the project is temporary suspended (except for the Mei County National Kiwi Fruit Wholesale Trading Center which has started normal operations as mentioned in the next paragraph), and the Company will assume the construction once it has enough capital.

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As of the date of this report, Mei County National Kiwi Fruit Wholesale Trading Center has started normal operations. There are a number of enterprises operating in the trading center including 12 express delivery companies, 4 logistic companies, four on-line sales companies, two packing companies and three agriculture companies. In addition, all government departments that are relevant to the operations of the Mei County National Kiwi Fruit Wholesale Trading Center have moved into the trading center. Currently, Mei County National Kiwi Fruit Wholesale Trading Center is building a data platform for agricultural products in the western part of China, an agricultural business incubator, and an online-to-offline agricultural products trading center. To meet this requirement, the Company is upgrading its software and the project has been delayed. The Company expects to complete its investment in the trading center in the third quarter of 2018, and believes that it will generate income from the trading center through various means, such as rental income from cold storage and shops, and income from logistic services.

As part of the Mei County National Kiwi Fruit Wholesale Trading Center project, on April 19, 2013, we established Shaanxi Guoweimei Kiwi Deep Processing Co., Ltd. (“Guo Wei Mei”) to engage in the business of producing kiwi fruit juice, kiwi puree, cider beverages, and related products. The total estimated investment was RMB 294 million. As of the date of this report, the Company has finished the building of an R&D center and an office building with a total investment of RMB 76.2 million (approximately \$11.24 million), the Company has also purchased a fruit juice production line of RMB 129 million (approximately \$19.02 million). As the Chinese government recently tightened environmental regulations, the Company is in the process of adapting to the new standards and the project has been delayed and the construction was stopped since early 2017. Since the Company’s current cash cannot support the future input of this project and there is no forecasted cash flow from this project, the Company recorded an impairment cost of \$30.26 million with respect to construction in progress and fixed assets of this project.

Suizhong Project

On July 15, 2011, the Company entered into a Letter of Intent with the People's Government of Suizhong County, Liaoning Province, to establish a fruit and vegetable industry chain and further processing demonstration zone in Suizhong County, Liaoning Province (the "Suizhong Project").

The Suizhong Project was intended to include one or more of the following: the construction and operation of fruit juice production lines, a vegetable and fruit flash freeze facility, a refrigeration storage facility and warehouse, a world class food safety testing center, a fruit and vegetable modern supply chain and e-commerce platform, and a fruit and vegetable finished products processing center and exhibition center.

The Company has made partial payment to acquire land use rights from the local government, purchase equipment and build facilities. As of date of this report, the Company has finished construction of an office building, dormitory, refrigeration storage facility and warehouse. However, due to heavy competition in the concentrated apple juice business in China, our Huludao Wonder and Yingkou facilities in Liaoning have had no production in the past two years, and the construction work on Suizhong project is also currently suspended. Since the Company's current cash cannot support the future input of this project and there is no forecasted cash flow from this project, the Company recorded an impairment cost of \$25.06 million with respect to construction in progress and fixed assets of this project.

Letter of Intent for Purchase of Biological Assets

In April 2016, the Company signed a letter of intent with Mei County Kiwifruits Investment and Development Corporation to purchase 833.5 mu (approximately 137 acres) of kiwifruits orchard in Mei County. The purchase price will be determined by a third party valuation company appointed by both parties. As of the date of this report, the valuation has not been completed and the purchase price has not been settled. The Company paid RMB 200 million (approximately \$30 million) as a deposit in the second quarter of 2016. The purchase is subject to government approval, approval by the Company's Board of Directors and a definitive agreement negotiated and signed by the parties. Pursuant to the letter of intent, the Deposit shall be returned to the Company within 10 working days upon the request of the Company if the kiwifruits orchard cannot be transferred to the Company according to the schedule. The Company expects to complete the purchase process in the third quarter of 2018. This deposit is recorded as deposits in the company's balance sheet as of March 31, 2018.

Leasing of Orchard

On August 3, 2016, Shaanxi Guoweimei Kiwi Deep Processing Company, an indirectly wholly-owned subsidiary of the Company, signed a lease agreement for 20,000 mu (approximately 3,292 square acres) of a kiwifruits orchard located in Mei County, Shaanxi Province, with the Di'erpo Committee of Jinqi

Village, Mei County, Shaanxi for a term of 30 years, from August 5, 2016 to August 4, 2046. The annual leasing fee is RMB 1,250 (approximately \$189) per mu, and payment of 10 years' of leasing fees shall be made on each of September 25, 2016, 2026 and 2036. The Company made a payment of RMB 250 million (approximately \$37.4 million) for the first 10 years' leasing fees on August 15, 2016, which is recorded as deposits in the Company's balance sheet.

On August 15, 2016, Hedetang Agricultural Plantations (Yidu) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, signed a lease agreement for 8,000 mu (approximately 1,317 square acres) of an orange orchard located in city of Yidu, Hubei Province, with the Yidu Sichang Farmers Association, Hubei Province, for a term of 20 years, from September 22, 2016 to September 21, 2036. The annual leasing fee is RMB 2,000 (approximately \$306) per mu, and payment of 10 years' of leasing fees shall be made on each of September 25, 2016 and 2026. The Company made a payment of RMB 160 million (approximately \$24.0 million) for the first 10 years' of leasing fees on September 20, 2016, which is recorded as deposits in the Company's balance sheet.

Results of Operations

Comparison of Three Months ended March 31, 2018 and 2017:

Revenue

The following table presents our consolidated revenues for each of our main products for the three months ended March 31, 2018 and 2017, respectively (in thousands for the revenue):

Concentrated apple juice and apple aroma	\$
Concentrated kiwifruit juice and kiwifruit puree	
Concentrated pear juice	
Fruit juice beverages	
Others	
Total	\$

The decrease in gross revenue for the three months ended March 31, 2018 was primarily due to decreased sales in concentrated apple juice and apple aroma, concentrated kiwifruit juice and kiwifruit puree, concentrated pear juice and fruit juice beverages, which were partially offset by increased revenues from other business.

Sales from apple-related products decreased for the three months ended March 31, 2018, as the Company sold approximately 18.70 tons of concentrated apple juice versus 1,160 tons of concentrated apple juice in the same period of 2017. Most of our concentrated apple juice was sold directly or indirectly to the international market. Because of the negative trends during 2016 and 2017 in the international market and estimated lower margins in previous years, our Yingkou and Huludao Wonder factories did not

operate their concentrated apple juice production facilities in 2016, 2017 and year-to-date 2018, which, despite recent improvements in the international demand for apple-related products, caused a lower inventory of concentrated apple juice and required us to purchase supply from third-party manufacturers to meet the demand from our customers. In December 2016, the Company established a winding-down plan to close the Huludao Wonder operation, as it suffered continued operating losses in the three fiscal years prior to 2016 and the cash flow was minimal for these three years. Based on the restructuring plan and in accordance with EITF 03-13, the Company presented the operation results from Huludao Wonder as a discontinued operation, as the Company believed that no continued cash flow would be generated by the disposed component (Huludao Wonder) and that the Company would have no significant continuing involvement in the operation of the discontinued component. In fiscal years 2017 and 2016, the Company's recorded an impairment loss of \$11.3 million and \$2.4 million, respectively, with respect to the concentrated fruit juice production equipment and fixed assets in Huludao Wonder. If the international concentrated apple juice demand continues to improve in future, the Company may resume the operation of Yingkou factory in 2018.

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Sales from concentrated kiwifruit juice and kiwifruit puree decreased by 95% during the first quarter of 2018 as we sold 19.73 tons and 60.42 tons of kiwifruit juice and kiwifruit puree during the first quarter of 2018 and 2017, respectively, primarily as a result of the decreased amount of products sold in the first quarter of 2018 as compared to same period of 2017, which was a result of decreased in customers' demand.

Sales of concentrated pear juice decreased by 43% in the first quarter of 2018 as we sold 18.45 tons and 1,160 tons of concentrated pear juice during the first quarters of 2018 and 2017, respectively. The decrease of revenue generated from concentrated pear juice was mainly because of a decrease in the amount of products sold due to decreased customers' demand.

Sales from our fruit juice beverages decreased by 60% in the first quarter of 2018. The decline in revenues during the first quarter of 2018 was primarily due to a decrease in the in-store demand of our products as a result of heavy competition in the Chinese market as consumers increased their fruit juice beverage purchases through on-line home delivery of groceries instead of through the traditional in-store supermarkets in which we sell our products.

Sales from our other products were \$61,000 and \$0 in the first quarter of 2018 and 2017, respectively. The amount of sales of other products is expected to be unstable and is generally not indicative of our future sales of other products.

Gross Margin

The following table presents the consolidated gross profit of each of our main products and the consolidated gross profit margin, which is gross profit as a percentage of the related revenues, for the three months ended March 31, 2018 and 2017, respectively (in thousands for the gross profit):

Concentrated apple juice and apple aroma	\$
Concentrated kiwifruit juice and kiwifruit puree	
Concentrated pear juice	
Fruit juice beverages	
Others	
Total/Overall (for gross margin)	\$

The consolidated gross profit for the three months ended March 31, 2018 was \$0.07 million, a decrease of \$0.47 million, from \$0.054 million for the same period of 2017, primarily due to a decrease in sales and profit margin for all our segments, except other business.

The gross profit margin of concentrated apple juice segment for the first quarters of 2018 and 2017 were 11% and 3%, respectively. We did not have any inventory of concentrated apple juice during the first quarters of 2018 and 2017, and we had to purchase concentrated apple juice to satisfy our customers' demand, which caused lower margins. The increase in gross margin in the first quarter of 2018 was mainly due to an increase in the sales prices to our customers.

The gross profit margin of the concentrated kiwifruit juice and kiwifruit puree segment was 9% and 23% for the first quarters of 2018 and 2017, respectively, primarily due to a decrease in production during the first quarter of 2018, which resulted in a higher ratio of fixed expenses to the unit cost of our products.

The gross profit margin of the concentrated pear juice segment decreased to 6% for the first quarter of 2018, from 14% for the same period of 2017, primarily due to the higher costs of fixed cost allocation, primarily due to a decrease in production during the first quarter of 2018, which resulted in a higher ratio of fixed expenses to the unit cost of our products.

The gross profit margin of our fruit juice beverages segment decreased to 9% for the first quarter of 2018 from 20% for the same period of 2017. The decrease of gross margin of fruit juice beverages was primarily due to a decrease in production, which resulted in a higher ratio of fixed expenses to the unit cost of our products.

Operating Expenses

The following table presents our consolidated operating expenses and operating expenses as a percentage of revenue for the three months ended March 31, 2018 and 2017, respectively:

General and administrative

\$

Selling expenses

Total operating expenses

\$

Operating expenses decreased for the three months ended March 31, 2018 compared to the corresponding period in 2017.

General and administrative expenses decreased to \$2.7 million for the three months ended March 31, 2018, a decrease of \$0.2 as compared to the same period of 2017, which was mainly due to a decrease in depreciation cost of fixed assets in the first quarter of 2018 as compared to the same period of 2017. The Company recorded an impairment cost of \$54.7 million related with its fixed assets in 2017, which resulted in a lower depreciation expenses in the first quarter of 2018.

Selling expenses decreased for the three months ended March 31, 2018 as compared to the same period in 2017, mainly due to a decrease in shipping and handling expenses as a result of a decrease in the volume of sales.

Other Income (Expense), Net

Other expenses, net was \$452,598 for the three months ended March 31, 2018, an increase of \$594,989, as compared to other income of \$142,391 for the three months ended March 31, 2017, primarily due to an increase in interest expenses and other expenses.

Interest expense increased to \$445,594, representing an increase of \$414,798, during the three-month period ended March 31, 2018, as compared to interest expense of \$30,796 the same period of 2017. The increase was primarily due to interest penalties charged by banks during the first quarter of 2018 for the defaulted loans that the Company has not repaid on time.

Income Tax

We did not have tax provision for the three months ended March 31, 2018 as the company suffered a loss in the first quarter of 2018. Our consolidated income tax rates were negative 3% for the three months ended March 31, 2017.

Noncontrolling Interests

As of March 31, 2018, SkyPeople (China) held a 91.15% interest in Shaanxi Qiyiwangguo, and Hedetang Holding (HK) held a 73.42% interest in SkyPeople (China). TSD held a 26.36% interest in SkyPeople (China). Net income attributable to non-controlling interests increased mainly due to the increase in the net income generated from Shaanxi Qiyiwangguo and SkyPeople (China).

Liquidity and Capital Resources

As of March 31, 2018, we had cash, cash equivalents and restricted cash of \$3,531,302, a decrease of \$1,055,455, or 23.01%, from \$4,586,757 as of December 31, 2017. We expect that the projected cash flows from operations, anticipated cash receipts, cash on hand, and trade credit to provide sufficient capital to meet our projected operating cash requirements at least for the next 12 months, which does not take into account any potential expenditures related to the possible expansions of our current production capacity.

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Our working capital has historically been generated from our operating cash flows, advances from our customers and loans from bank facilities. Our working capital was negative \$56,918,354 as of March 31, 2018, a decrease of \$80,638,270, from working capital of \$23,719,916 as of March 31, 2017, mainly due to a decrease in current assets. During the first quarter of 2018, net cash used by our operating activities was \$487,226 as compared to \$477,793 during the same period of 2017. The decrease was primarily due to an increase in net loss of \$142,018 during the first quarter of 2018 as compared to the same period of 2017.

During the three months ended March 31, 2018, our investing activities used net cash of \$1,978 as compared to \$106,597 in the same period of 2017. We spent \$1,978 in additions to property, plant and equipment for the first quarter of 2018, and we did not have any additions to property, plant and equipment for the same period of 2017. We prepaid \$0.1 million for other assets in the first quarter of 2017.

During the three months ended March 31, 2018, our financing activities generated net cash inflow of \$0 as compared to net cash inflow of \$1,984,764 in the same period of 2017. We borrowed \$2,016,318 of long term debt in the first quarter of 2017.

Off-balance sheet arrangements

As of March 31, 2018, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, our principal executive officer and principal financial officer, respectively, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e)

under the Exchange Act, as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of March 31, 2018, our disclosure controls and procedures were effective as of such date as identified in our internal control over financial reporting below.

Changes to Internal Control over Financial Reporting

There has been no change to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceeding

As described in our Annual Report for the year ended December 31, 2017, we are party to a number of legal proceedings. Except as described below, there have been no material developments in those proceedings during the three months ended March 31, 2018.

On June 29, 2015, SkyPeople China entered into a loan agreement with Beijing Bank. Pursuant to the loan agreement, SkyPeople China borrowed RMB 30 million (approximately \$4.59 million) from Beijing Bank. Hongke Xue, Yongke Xue and Xiujun Wang provided guarantees for the loan and Shaanxi Boai Medical Technology Development Co., Ltd. ("Shaanxi Boai") provided certain real estate property as a pledge for the loan. SkyPeople China did not repay the loan on time and Beijing Bank filed an enforcement request with Xi'an Intermediate People's Court in June 2017. The Xi'an Intermediate People's Court has seized real estate properties pledged by Shaanxi Boai and Xiujun Wang. In April, 2018, Xi'an Intermediate Court organized two auction sale for real estate property pledged by Shaanxi Boai but they were not successful. SkyPeople China currently is in discussions with Beijing Bank on the payment terms and the final amount

On May 9, 2016, SkyPeople China entered into loan agreements with China Construction Bank. Pursuant to the loan agreements, SkyPeople China borrowed RMB 22.9 million (approximately \$3.50 million) from China Construction Bank. Shaanxi Province Credit Reassurance Company ("Credit Reassurance Company") provided a guarantee to China Construction Bank for the loan, Mr. Hongke Xue and Mr. Yongke Xue provided their guarantees, and SkyPeople China provided an office space that it owned to Credit Reassurance Company as a pledge. SkyPeople China has not repaid the loan and Credit Reassurance Company repaid the loan for SkyPeople China. In June 2017, Credit Reassurance filed an

enforcement action request with Xi'an Intermediate People's Court in June 2017. In December 2017, the Xi'an Intermediate People's Court seized the office space of SkyPeople China for auction sale in February 2018 but the sale was not successful. In April, 2018, the Xi'an Intermediate People's Court organized two more auction sales for the pledged office space but they were not successful. SkyPeople China currently is in discussions with Credit Reassurance Company on the payment terms and the final amount.

In August, 2017, Cinda Capital Financing Co. Ltd. ("Cinda") filed another lawsuit at Beijing Intermediate Court against the Company's indirectly wholly-owned subsidiaries Guoweimei and SkyPeople China for repayment of leasing fee of RMB 84,970,959 (approximately \$13 million) plus interest. In January 2014, Guoweimei and SkyPeople China (the "Equipment Leasees") signed an Equipment Financial Lease Purchase Agreement with Cinda and an equipment supplier pursuant to which Cinda would provide funds to purchase equipment and the Equipment Leasees would lease the equipment from Cinda. Guoweimei pledged certain land use rights in Mei County to Cinda and Xi'an Hedetang and Hedetang Holding pledged their equities in Guoweimei to Cinda to secure the repayment. Mr. Hongke Xue also provided a personal guarantee for the payment of the leasing fee. Beijing Intermediate Court had two hearings of the case and on March 21, 2018, and it ruled in favor of Cinda to the effect that SkyPople China and Guoweimei shall pay leasing fees due in the amount of 20,994,048 (approximately \$3.3 million), as well as leasing fees not yet due in the amount of RMB 63,975,910 (approximately \$10 million), plus attorney's fee and expenses. Beijing Intermediate Court also ruled that Mr. Hongke Xue is jointly liable for the debt as the guarantor, and that Cinda has priority rights to the pledged land use rights in Mei County and the pledged equities of Guoweimei as well as the ownership of the leasing properties until the leasing fees are paid. SkyPeople China has appealed the decision to the Beijing Supreme Court.

In addition to the above, from time to time we may be a party to various litigation proceedings arising in the ordinary course of our business, none of which, in the opinion of management, is likely to have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

No.	Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document*
101.SCH	XBRL Schema Document*
101.CAL	XBRL Calculation Linkbase Document*
101.DEF	XBRL Definition Linkbase Document*
101.LAB	XBRL Label Linkbase Document*
101.PRE	XBRL Presentation Linkbase Document*

* filed herewith

SIGNATURES

Pursuant to the requirements 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.

