

China Green Agriculture, Inc. Provides Details on Land Purchase and Gufeng Acquisition

PR Newswire

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XI'AN, China, Sept. 13 /PRNewswire-Asia-FirstCall/ -- China Green Agriculture, Inc. (NYSE: **CGA**) ("China Green Agriculture", "the Company" or "we"), a leading producer and distributor of humic acid ("HA") based compound fertilizer, blended fertilizer, organic compound fertilizer and mixed organic- inorganic compound fertilizer through its wholly owned subsidiaries, Shaanxi TechTeam Jinong Humic Acid Product Co., Ltd. and Beijing Gufeng Chemical Products Co., Ltd., today issued the following statement:

Over the past few weeks, a number of bloggers believed to be short sellers or affiliated with short sellers have posted incorrect and defamatory reports on the Company. While it is not our policy to address every false rumor and accusation, we believe it is in the interest of the Company and its shareholders to fully respond to these issues.

Certain questions have been raised regarding two strategic acquisitions the Company has made. Both acquisitions, the acquisition of an 88-acre site for the Company's R&D Center on September 25, 2009 and the acquisition of a fertilizer company based in Beijing on July 2, 2010, are key components of the Company's continued growth strategy. The R&D Center is in the process of being built: The Company has completed 100 sunlight greenhouses and is in the process of building 12 "intelligent" greenhouses. The Gufeng acquisition is expected to contribute \$10.6 million in earnings for its fiscal year ending June 30, 2011. Below is a discussion of the purchase price and rationale for these two acquisitions.

Land Purchase

As previously reported in the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (the "SEC") on November 12, 2009 for the fiscal quarter ended September 30, 2009, the Company, through its indirectly wholly-owned subsidiary, Xi'an Hu County Yuxing Agriculture Technology Development Co., Ltd., on September 25, 2009, purchased a land use right for approximately 88 acres of land located at Hu County, Xi'an. The land use right certificate was issued by the People's Government and Land & Resources Bureau of Hu County.

The total purchase price was RMB73,184,894.78 (or approximately \$10.8 million). (For the purposes of this press release, unless otherwise indicated, \$1=RMB6.7815, using the exchange rate as of June 30, 2010.)

In purchasing this 88-acre parcel of land, there were three parts to the transaction:

1. Payment to the previous owner for giving up its current land use rights, or Land Transfer Fee
2. Payment to the government for land use rights
3. Appraisal and Survey Fees

1. Payment to Previous Owner

In China, since 1988, there are three ways to obtain land use rights: Land Allocation, Land Grant and Land Transfer. Land Allocation and Land Grant are transactions in which one party is the government while Land Transfer does not involve the government directly. The Company purchased the land use right through Land Transfer.

The Company paid the seller, a state-owned entity RMB54,834,840.71 (approximately \$8.1 million) in order to secure the transfer of the land use right as the Land Transfer Fee.

2. Payment to Government

In addition to the Land Transfer Fee paid to the seller, the Company also needed to obtain the approval from the government. The Land Granting Fee was fee paid to obtain the government's approval for the transfer of the land use rights. The Land Compensation Fee is a fee assessed to compensate the government in the event that a company closes its business in the future and the government needs to step in to return the land to its prior type of use. This is also a standard fee payable in similar land purchases.

The Company also had to pay a Deed Tax and a Registration Fee. Such fees are also standard government charges.

A listing of the fees paid to the government is provided below:

Type of Fee	Amount in RMB	Amount in US Dollar
Land Granting Fee	5,201,605.29	767,029
Land Compensation Fee	12,149,554.00	1,791,573
Deed Tax	520,534.78	76,758
Registration Fee	408,360.00	60,217

3. Appraisal and Survey Fees:

Type of Fee	Amount in RMB	Amount in US Dollar
Survey Fee	40,000.00	5,898
Appraisal Fee	30,000.00	4,424

The Company hired an appraisal firm to appraise and survey the exact dimensions of the property. The appraisal firm is a certified Beijing-based appraisal firm, ranked as among the top 20 appraisal firm in Beijing by measure of revenues and number of appraisers according to the Beijing Accountant Association. Its clients include agencies of the Provincial and State Governments of China and the largest banks and other publicly and privately held institutions in China. The appraisal valued the property at RMB76,292,800 (approximately \$11.2 million) in 2009. This was more than the RMB73,184,894.78 (approximately \$10.8 million) we paid.

Tao Li, Chairman, President and CEO of China Green stated, "As the largest shareholder of China Green Agriculture, I am very pleased we were able to secure this land for our new R&D center."

Gufeng Acquisition

As previously reported on our Current Report on Form 8-K filed with the SEC on July 7, 2010, we acquired Beijing Gufeng Chemical Products Co., Ltd., ("Gufeng"), and its wholly-owned subsidiary, Beijing Tianjuyuan Fertilizer Co., Ltd. ("Tianjuyuan"), on July 2, 2010, by purchasing all of the outstanding equity interests of Gufeng. The total purchase price was \$31.8 million. This consisted of RMB60 million (approximately \$8.8 million) in cash plus an aggregate of 2,275,931 newly issued shares (the "Shares") of common stock of the Company, valued at the time of issuance of RMB156 million (approximately \$23 million), based on a per share price of \$10.10.

To protect our interest, 40% of the Shares were placed in escrow pending satisfaction of certain conditions such as "Make Good" targets of \$88.4 million in revenue and \$10.6 million in net profit for Gufeng for the fiscal year ended June 30, 2011. The purchase price divided by the "Make Good" earnings, equates to a P/E ratio of 3.00x.

In addition, our plan is to provide RMB100 million (approximately \$14.7 million) of working capital to Gufeng after the acquisition in order to facilitate its expansion helping to reach full utilization of production capacity, purchase more raw materials or enhance marketing activities. This is totally separate from the purchase price.

We had been looking for a compatible acquisition to fit into our long-term growth strategy for over two years. The major advantages of having acquired Gufeng are as follows:

1. Gufeng provides a complementary product line, which will enable us to sell both organic and compound fertilizer.
2. Gufeng has good production facilities that can enable us to meet our long-term goals.
3. Gufeng has a strong distribution network, which complements ours. We believe we should be able to sell our products to some of its customers and its products to some of our customers.

4. Gufeng has a strong management team with a deep understanding of fertilizer markets in China. This management team will complement our existing team.
5. Gufeng has its headquarters in Beijing and a geographic base in northern China. We are under penetrated in northern China, so this acquisition will strengthen our presence in that important market.

As noted above, we believe the Gufeng acquisition will be accretive to earnings in 2011 and will provide the basis for a stronger growth in coming years.

About China Green Agriculture, Inc.

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Safe Harbor Statement

This press release contains forward-looking statements concerning the Company's business, products and financial results. The Company's actual results may differ materially from those anticipated in the forward-looking statements depending on a number of risk factors including, but not limited to, the following: general economic and business conditions, development, shipment, market acceptance, additional competition from existing and new competitors, changes in technology, and various other factors beyond the Company's control. All forward-looking statements are expressly qualified in their entirety by this Safe Harbor Statement and the risk factors detailed in the Company's reports filed with the SEC. China Green Agriculture undertakes no duty to revise or update any forward-looking statements to reflect events or circumstances after the date of this release, except as required by applicable law or regulation.

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China Green Agriculture, Inc. Provides Details on PRC Tax and SAIC Filings

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Taxation

Corporate Income Tax ("CIT")

The Company's financial statements as filed with the Securities and Exchange Commission (the "SEC") correctly reflect the CIT payments made with the PRC State Administration of Taxation ("SAT").

When Jinong, our primary operating subsidiary in China was a PRC domestic company, it paid taxes to the local taxation bureau ("Di Shui Ju"). On August 8, 2007, Jinong became a wholly foreign owned enterprise, or WFOE and began to pay taxes to the State Administration of Taxation ("SAT" or "Guo Shui Ju"). As a result of that status, for all periods from and after that date, Jinong was required to pay CIT not to the local taxation bureau, but to Guo Shui Ju, the SAT. Consequently, those who checked the local tax records could not find CIT payments for 2008 or 2009 because those payments fell within the purview of a different taxing authority, the SAT.

From and after the time Jinong was converted to a WFOE in August 2007 it has been paying its CIT to the SAT. These payments to the SAT have totaled RMB35,507,293.82 (approximately \$5.2 million) for calendar 2008 and 2009. More specifically, Jinong paid RMB14,466,731.61 (approximately \$2.1 million) in March 2009 for the CIT incurred for calendar 2008. It paid RMB21,040,562.21 (approximately \$3.1 million) in March 2010 for the CIT incurred for calendar 2009.

According to the Statements of Cash Flows for fiscal year ended June 30, 2010 and 2009 as filed with the SEC on September 7, 2010, the income taxes paid in these corresponding periods were \$3,081,886 and \$2,112,985, respectively, which were mainly due to the operations from Jinong and are consistent to the actual payment we made to the SAT.

Value Added Tax ("VAT")

The Company's financial statements as filed with the SEC correctly reflect the VAT payments made with the SAT.

The Company has made VAT filings and has paid the required taxes reflected on those filings. While 2008 Taxation Notice#56 "Exemption of VAT for Organic Fertilizer Products" (released on April 29, 2008) gives organic fertilizer products exemption from paying VAT from June 1, 2008, that exemption was not self-effective. As clearly addressed in our press release in November 2009, the Company timely filed for the exemption and received its VAT exemption approval from the State Taxation Bureau of Yangling Hi-tech Development Zone on September 16, 2009. As granted, Jinong will have a VAT exemption on most of its fertilizer products from September 1, 2009 through December 31, 2015. Those who claimed that the Company was incorrectly accruing VAT liabilities after June 1, 2008 was either ignorant of or chose to ignore the process for the awarding of the VAT exemption.

Those who questioned our VAT payments also confused two different accounting terms: "VAT Payable" (under the "SEC filings" column) and "VAT Payment" (under the "SAT Tax Record" column). "VAT Payable" is a balance sheet account entry representing the ending balance that the company is liable to pay to SAT whereas "VAT Payment" is an expense account entry on income statement referring to the actual VAT Payment the Company made during that period. The ending balance of VAT Payable represents the beginning balance of VAT Payable, plus the additional accrued VAT expense, minus the VAT Payment during that period. It is incorrect to add up the ending balance of VAT Payable

for the past eight quarters and to conclude that those are the actual payments made during these periods.

The VAT payments made by the Company to the SAT, the duly empowered authority of the PRC, match to what we recorded in our accounting system, which provides the ledger details for our financial consolidation in the SEC filings. From July 2008 to June 2009, we made 16 VAT payments with a total amount of RMB44,126,115.99 (approximately \$6.4 million, using the twelve month average exchange rate in fiscal year 2009). From July 2009 to June 2010, we made 12 VAT payments with a total amount of RMB20,692,151.51 (approximately \$3.0 million, using the twelve month average exchange rate in fiscal year 2010). We expect the VAT payments for fiscal year 2011 will reduce further as the Company will enjoy the VAT exemption for the whole fiscal year rather than a partial year.

SEC Filing and SAIC Filing

It is well documented that reports filed with the PRC State Administration for Industry and Commerce ("SAIC") often do not reflect the comprehensive income and financial condition of a company. You may further refer to Roth Capital's Industry note on Comparing PRC filings and SEC filings - Primer, released on July 12, 2010; Robert Hsu's Briefing #222 on Reasons Behind Discrepancies in SAIC vs. SEC Filings, released on July 28, 2010; and a recent article written by Maj Soueidan, President at Geoinvesting on The SEC vs. SAIC Fact Finding Mission, released on August 25, 2010. The reason is that SAIC is a general registry of companies. It is not a tax authority with which tax returns are filed or tax payments made. Oftentimes, Chinese companies access SAIC filings to learn more about their competitors to gain a commercial advantage. As a result, many companies have understated their financial results in such filings. As discussed in the above cited studies, individuals knowledgeable about China do not rely on SAIC filings as a basis for determining a company's financial position. Rather, they rely on a company's tax filings and payments to the authorized PRC governmental authorities. As discussed above, the revenues reported in these tax filings and tax payments made are completely consistent with the Company's GAAP SEC financials.

"We knew we were giving the correct numbers to the SEC as well as to the Chinese taxation authorities." Tao Li, Chairman and CEO of the Company said, "Now, we also recognize that as a public company, to the extent that U.S. investors may consider SAIC filings, those filings must also be compatible to as those we provide to the SEC." Chairman Li continued, "Ever since the Company first provided its revenue and earnings guidance to the public, we have been working very diligently to grow our business and have consistently met or exceeded our revenue and earnings estimates every quarter. We are proud to have achieved all the milestones in our corporate history, particularly an upgrade listing on the New York Stock Exchange. As Chairman and the largest shareholder of China Green Agriculture, I am committed to the highest level of corporate compliance, transparency and integrity."

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