

# China Green Agriculture, Inc. (CGAG)



**YING YANG**, Chief Financial Officer of China Green Agriculture, Inc., joined the company in September 2008. She is responsible for overseeing the company's overall financial planning, control and reporting activities, SEC compliance, audit and investor relations. Prior to joining China Green Agriculture, Ms. Yang served as the financial reporting and analysis manager of Beckman Coulter, Inc. From December 2004 to July 2006, she worked for the financial department of Ready Pac Foods, Inc., a supplier of fresh-cut produce in California. Prior to that, Ms. Yang was a senior business analyst for Neman Brothers Assoc. Inc., which is engaged in the textile and apparel industry from May 2003 through December 2004 and a business consultant for American Elite Professional Management, Inc., from July 2002 through April 2003. Ms. Yang graduated from the University of California, Irvine in 2002 with a Master's degree in Business Administration and majored in Finance. She received her Bachelor's degree in Economics from the University of International Business and Economics in Beijing, China in June 1997. She has also received an Associate in Risk Management designation.

## SECTOR – AGRICULTURAL CHEMICALS

(AKX601) **TWST:** May we start with a short history and overview of your company?

**Ms. Yang:** China Green Agriculture conducts its business through a wholly owned subsidiary, Shaanxi TechTeam Jinong Humic Acid Product Corporation or TechTeam. TechTeam was originally founded in 1998 in Shaanxi Province as Yangling Jinong Humic Acid Product Co., Ltd. Since its inception, the company has been chiefly engaged in the development and production of humic acid-based compound fertilizer. TechTeam received approval to become a wholly foreign owned enterprise in August 2007 and became a subsidiary of China Green Agriculture through a share exchange transaction in December 2007. The product we produce and distribute is humic acid-based liquid compound fertilizer. The company actually produced and sold approximately 10,000 metric tons of over 119 different kinds of fertilizer products in fiscal year 2008. All of our fertilizer products are certified by the PRC government as green products and suitable for growing Grade AA green foods, also known as the green products that contain little or no chemical materials as stated by the China Green Food Research Center.

**TWST:** What is the total percentage of the fertilizer market that you control in China?

**Ms. Yang:** The organic liquid fertilizer market is very fragmented. There is no official number, but based on our knowledge of the market and our own market research analysis, we are roughly about 1% to 2% of the liquid fertilizer market in China.

**TWST:** How different is the composition of your product, the liquid fertilizer, compared to the standard fertilizers which are not classified as green?

**Ms. Yang:** The traditional chemical fertilizers have some negative impact to the soil after a period of overuse and the chemical residual would contaminate ground water. As compared to ours,

we actually help to improve the soil quality as well as crop yields. Our liquid fertilizers help crops to improve certain functions like get better fruit, better produce, better smell and taste, and help the leaves growing bigger and greener. Our products have much more features that can help the farmers to improve their crops as well as improve the soil and produce organic products.

**TWST:** What impetus has China taken to encourage farmers to go greener? What is the price differential from the non-organic fertilizers?

**Ms. Yang:** Green Food is an innovative project of China, initiated and coordinated nationwide by the Ministry of Agriculture of the People's Republic of China since 1990. Its fundamental concept and objectives are to enhance food quality and safety, to promote consumer's health, and to protect the agricultural bio-environment for sustainable development. The Chinese government is providing subsidies to farmers who produce organic produce as well as tax breaks to companies that produce organic fertilizers, like CGAG. In terms of price differential, there are two ways that we can compare this. The farmers will have to spend a premium price for the organic fertilizer; however, our fertilizer is very concentrated and you have to dilute it before application. Normally the dilution ratio ranges from 1:300 to 1:1,800, depending on the products. If you compare our liquid fertilizer after dilution with traditional chemical fertilizer, the cost to farmers to apply our fertilizer per mu, which is a Chinese measurement of the land, is about one-third of the traditional chemical fertilizers.

**TWST:** How many types of products do you make and what regions of China do you serve?

**Ms. Yang:** As of fiscal year 2008, we have 119 different products that cover three different categories — the broad-spectrum, the functional and tailored. The broad spectrum can be applied on all kinds of crops; the functional one, which I mentioned

earlier, helps the crops specifically on certain functions like blooming or fruiting; and the tailored products are specifically for certain vegetables or crops like cucumbers, watermelons or strawberries and help them to get better yields. We have about 480 distributors that cover 27 provinces, so we serve pretty much all of China except for Tibet right now.

***"We have a very broad product line that makes us unique compared to competitors. Our production line is 100% automated. Normally a company with similar scale has to use 50 people on the production line, but with our advanced technology we only use 11 people on the production line. That really helps us to reduce the costs, eliminate the wastes, and manage the costs at a stable level."***

**TWST:** How do you educate farmers to use more green products such as yours versus the standard non-organic fertilizers? How do you explain to them the long-term benefits of your products?

**Ms. Yang:** That's a very good question. Actually this is how we wanted to differentiate ourselves from the rest of the competitors. We have been in the market since 2000 and our products have been well recognized by farmers, our end-users. We hardly spend any advertising expenses. Most of our products are recognized through word of mouth by the end users. We also have over 100 on-site sales people who talk to our end users through online support, SMS and the hotline. We also provide informational seminars and training sessions to really make sure our end users understand our products, know how to use the products to receive the best benefits.

**TWST:** Where are your manufacturing facilities? Are you selling your entire capacity at this current juncture?

**Ms. Yang:** Our production is in Xi'an, near the headquarters. We have currently reached over our capacity. The current production line has an annual capacity of about 10,000 metric tons. However, we are in the process of completing our new production line with an annual capacity of 40,000 metric tons as well as upgrading our existing product line to 15,000 metric ton by December 2008. The new production capacity is expected to be complete in February 2009 and start production in July 2009.

**TWST:** There are a lot of farmers losing their rural land for the industrialization of China. Is that a big issue in the areas in which you operate?

**Ms. Yang:** Due to the reducing rural land, the demand and need for our fertilizer actually is increasing because they have less land to grow their crops and they really are looking for some high functional and high performance fertilizers. That is actually helping our products and helping us to increase our market.

**TWST:** Are there any government regulations regarding the manufacturing process?

**Ms. Yang:** We actually have the production permit from the Ministry of Agriculture of PRC (MOA) and as long as you have the production permit, you are okay to distribute across the country.

**TWST:** Does China export many of its fertilizers and do you participate in the export market?

**Ms. Yang:** We currently have less than 1% of our sales that's exporting to other countries. Our main focus is still within China because that's a huge market.

**TWST:** What is the strategy for success going forward?

**Ms. Yang:** We have a few growth strategies. The main thing is to really invest our R&D and push the new products to the market in a short period of time. Last year we had about 13 new products that accounted for about 15% of our fertilizer sales and this coming year we are looking for pushing out another 15 new products to the market. In addition to that, as we were talking about earlier, is the new production that's going to be completed in February 2009. After a couple of months' trial production, we're hoping to get the production starting in July 2009 and that definitely can help us to improve our sales and maintain a sustainable organic growth for the next few years.

On another side is our national distribution network. We currently have about 480 distributors. Every year the company eliminates the bottom 10% regardless. Based on their performance, their credits, the bottom 10% will be eliminated and we will recruit another 15% to 20% new distributors. Our goal next year is to have about 540 distributors. We also have four regional offices that work closely with those distributors. We have over 100 field sales representatives who work with our end users and provide customer support.

As you know, we also have a very broad product line that makes us unique compared to competitors. Our production line is 100% automated. Normally a company with similar scale has to use 50 people on the production line, but with our advanced technology we only use 11 people on the production line. That really helps us to reduce the costs, eliminate the wastes, and manage the costs at a stable level.

Our management team is very experienced. Mr. Li is the CEO and the Chairman of the company. He is also the Vice Chairman of the China Green Food Association, a specialized agency responsible for national development and management of Green Food under the supervision of the ministry of agriculture, which generates industry policy, regulation and strategic plan, creates and implements standards, issues authentication and manages quality inspection based on "Law of Agro-Product Quality and Safety," and provides guidance for future development. With his industry knowledge and influence, Mr. Li is a tremendous asset to the company. In addition to that, we also have professors and engineers that are experts on the soil study that really help the company to grow and always stay on top of the industry.

**TWST:** What percentage of your revenues do you devote to research and development?

**Ms. Yang:** Our initial investment on R&D was large a few years ago. However, right now because the R&D center is using our own fertilizers to change different formulas and make experiments on different vegetables and flowers, we are able to sell those vegetables and flowers. All these sales are able to not only cover our R&D cost, but also make a profit. In fiscal year 2008, the portion of the sales from selling our organic produce in the R&D center was about \$3.9 million. After taking out all related R&D spending, the overhead, etc., we're still left with \$1.9 million net income.

**TWST: Would you give us a sense of the competitive environment?**

**Ms. Yang:** It's a very fragmented market in China with about 2000 fertilizer companies. 80% of them are small regional manufacturers and 9% are large regional manufactures. They have good competitive price and they are also knowledgeable to the local market. However, they don't provide consistent quality and they also don't have a nationwide distributor network like we do. There are about 8% of the international manufacturers that come in and provide higher quality products; however, they also don't have a nationwide distribution network and they don't have the local knowledge as we do. National large manufacturers like CGAG account for 3% of the total market. We come in and we have all of the five advantages that we were talking about — we have very good consistent quality, we provide a nationwide distribution network, we also have a very good competitive price and good relationships with our end users, and we have good knowledge of the local market, which helps us to remain very competitive.

**TWST: Do you see opportunities for acquisition?**

**Ms. Yang:** We currently don't have a plan for acquisitions of other competitors in the fertilizer industry and the main reason is the freight cost, which is the majority benefit of acquisition, is not going to take a big part of the cost of sales. We consider that due to the acquisition, the management cost is going to go up and also not many other competitors have the same level of production facility as we have. So we need to spend a lot of money operating their current facilities and also training their management is going to add more costs and benefits if we are expecting to acquisitions. However, if there are any good distributors that have a strong network and local knowledge, we will be interested in the opportunities.

**TWST: Would you comment on the expertise of one or two members of the management team that surround Mr. Li, including yourself?**

**Ms. Yang:** I had been working in China before I came to the US for my MBA program and I've been working in various industries in the US like chemicals, textiles, food manufactures and distributors for about eight years. My most recent job before I just joined with China Green three weeks ago was with Beckman Coulter, a \$2.6 billion leading medical testing instrument manufacturer and distributor, founded by Dr. Arnold Beckman, who is a firm believer of "Do the right thing." I am glad to find out that the management team in China Green also follows this philosophy. I'm also very familiar with US GAAP as well as the Chinese culture, which can help the company working toward better cooperation with the investors here in the US as well as helping the company to be more transparent, productive and be able to reach expectations.

**TWST: Do you feel your company is as well understood in the US as you would like it to be?**

**Ms. Yang:** Since we have only entered the US market for a very short period of time, there is still a lot that we would like the US investors to know about the company. We firmly believe that the company is very good, with strong performance, and we would expect the performance in the US market to be much better than it is currently.

**TWST: How aggressive is your investor relations program here in the US?**

**Ms. Yang:** We just publicly registered effectively in August of this year so there is still a lot that we would like to work with the investor community. What we've been doing best is the whole purpose of doing this road show right after our fiscal year end and we are also planning to join the Rodman & Renshaw conference in New York in November, as well as the Roth Capital conference in Las Vegas in November. In addition, we definitely want to take opportunities to work closely with media to deliver the company's growth strategies and recent events to potential investors.

**TWST: Have you been approached by any analysts who would like to follow your company?**

**Ms. Yang:** Yes, we've been approached by a couple of analysts and they are very interested in our company and they're actually writing up some articles as we speak.

**TWST: How does the balance sheet look to you? Do you expect any major changes in the near future?**

**Ms. Yang:** As you can see in our 10-K, we have very strong cash. Currently we have \$16.6 million cash and we also have a very small amount of accounts receivable. What the company has always been focused on is to control our cash and accounts receivable. If we can't get the money back, we would rather not sell the products. So we are expecting very stable growth in the future, with stable gross margin and those manageable items. We don't expect any major changes going forward.

**TWST: Do you have any final thoughts?**

**Ms. Yang:** We would love to invite you to come to our company in Xian and take a look with your own eyes and you will be very impressed with our production facility as well as our R&D center.

**TWST: Thank you. (WT)**

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