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**UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA**

FREDRIC ELLIOTT, Individually, and On Behalf
of All Others Similarly Situated,

Plaintiff,

vs.

CHINA GREEN AGRICULTURE, INC., TAO LI,
YING YANG, KEN REN, YU HAO, LIANFU
LIU, ROBERT B. FIELDS, YIZHAO ZHANG,
BARRY RAEBURN, ROTH CAPITAL
PARTNERS LLC, RODMAN & RENSHAW LLC.

Defendants.

) Case No. 3:10-cv-00648-LRH-RAM

) CLASS ACTION

) AMENDED COMPLAINT FOR
) VIOlations OF THE FEDERAL
) SECURITIES LAWS

) JURY TRIAL DEMANDED

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1 By and through their undersigned counsel, Lead Plaintiff the China Green Investor
2 Group¹ (“Lead Plaintiff”) alleges the following against China Green Agriculture, Inc. (“China
3 Green” or the “Company”), certain of the Company’s executive officers and directors (the
4 “Individual Defendants”), and the Underwriters (“Underwriter Defendants”) of the Company’s
5 various Offerings during the Class Period. Lead Plaintiff makes these allegations upon personal
6 knowledge as to those allegations concerning Lead Plaintiff and, as to all other matters, upon the
7 investigation of counsel.

8 **I. NATURE OF THE ACTION**

9 1. This is a federal securities class action against China Green and certain of its
10 directors and officers for violations of the federal securities laws. Lead Plaintiff brings this
11 action on behalf of all persons or entities that purchased shares of China Green securities
12 between May 12, 2009 and January 4, 2011, inclusive (the “Class Period”), seeking to pursue
13 remedies under the Securities Exchange Act of 1934 (the “Exchange Act”). The Exchange Act
14 claims allege that Defendants engaged in a fraudulent scheme to artificially inflate the
15 Company’s stock price. As a result of the fraud described below, the Company has lost a
16 substantial portion of its value.

17 2. This action is also brought on behalf of all persons or entities who purchased
18 shares of China Green common stock pursuant and/or traceable to the Company’s: (i) public
19 offering of common stock at \$7.15 per share, closing on or around July 24, 2009; and (ii) public
20 offering of common stock at \$15.60 per share, closing on or around November 25 and December
21 17, 2009 (collectively, the “Offerings”), seeking to pursue remedies under the Securities Act of
22 1933 (the “Securities Act”). Under the Securities Act, Defendants are strictly liable for the
23 material misstatements in the Offering Documents (as defined below) issued in connection with
24 the Offerings. The Securities Act Claims specifically exclude any allegations of knowledge or
25 scienter. The Securities Act Claims also expressly exclude and disclaim any allegation that
26 could be construed as alleging fraud or intentional or reckless misconduct.

27
28 ¹ The China Green Investor Group is comprised of the following Class members: Thomas Johnston, Giuliano
Lazzeretti, Thuan Ly, Christina Galbraith and Charles White.

1 3. The Complaint alleges that, in China Green's Offering Documents and throughout
2 the Class Period, Defendants materially misrepresented and failed to disclose material adverse
3 facts about the Company's operations, manufacturing, financial well-being, acquisitions, and
4 future prospects. Defendants' actions resulted in the artificial inflation of China Green stock
5 during the Class Period. As a result of Defendants' wrongful acts, false and misleading
6 statements and omissions, and the precipitous decline in the market value of the Company's
7 securities, Plaintiff and other Class members have suffered significant losses and damages, as
8 detailed below.

9 **II. SUMMARY OF THE FRAUD**

10 4. China Green's securities came to be traded on American exchanges—first the
11 AMEX, then the NYSE—through a process commonly known as a “reverse merger.” This
12 process is straightforward in that a foreign business is typically acquired by a non-operational
13 U.S. shell company that is worthless, except for one thing—the shell company is publicly traded.
14 Following the merger of the foreign company and the U.S. shell company, the board of directors
15 of the U.S. company promptly resigns, and the foreign board takes over. The foreign board then
16 promptly changes the company's name and issues new stock to investors, thus raising millions of
17 dollars in fresh capital.

18 5. Many Chinese companies have been able to exploit the reverse merger process in
19 recent years in order to tap into the lucrative American investor market without being subject to
20 the extensive governmental and regulatory oversight required through a traditional initial public
21 offering. Since businesses that use the reverse merger process to lure American investments
22 often keep the bulk, if not all, of their operations in China, there exist significant limitations in
23 the ability of American authorities, such as the Securities and Exchange Commission (the
24 “SEC”), to actively regulate these companies. While reverse Chinese mergers (“RCMs”) have
25 allowed these companies to obtain a comparatively easy influx of capital, the relatively
26 unregulated nature of the process also allows for fraudulent schemes to play the system and
27 defraud investors of millions of dollars.

1 6. This is exactly what happened in the case of China Green. In fact, China Green is
2 exactly the type of “vessel of outright fraud” described by the SEC as part of its ongoing
3 investigation into RCMs and their catastrophic effects on American investors.

4 7. China Green, together with its subsidiaries Jinong, Jintai, and Yuxing, engages in
5 the research, development, production and sale of various types of fertilizers and agricultural
6 products in the People’s Republic of China (“PRC”). In the Company’s publicly disseminated
7 documents during the Class Period, including in the Offering Documents, China Green
8 represented to investors that it had paid various taxes, including Value Added Taxes (“VAT”)
9 and Corporate Income Taxes (“CIT”), and that China Green had purchased 88 acres of land in
10 Hu County, PRC for a large research and development center. China Green also disclosed that it
11 had acquired Gufeng, a smaller company, for approximately \$48 million, and had plans to
12 increase manufacturing and production capacities. The Company also claimed it had a strong
13 distribution network, and repeatedly reported seemingly amazing increases in sales, often
14 doubling or even tripling profits compared to prior financial periods. These exciting reports of
15 the Company’s increasing operational and financial industry leadership created strong demand
16 for China Green’s securities, substantially increased the Company’s stock price, and allowed
17 Defendants to complete the Offerings in July 2009 and November/December 2009, reaping
18 aggregate total proceeds of approximately \$50,000,000.

19 8. The investor excitement over China Green’s future prospects was short-lived.
20 Investigators and analysts started chipping away at the Company’s façade in the summer of
21 2010, when reports began surfacing that China Green had, among other things, filed conflicting
22 financial information with Chinese and American authorities, and lied in its financial statements
23 regarding VAT payments, CIT payments, the Gufeng acquisition, the purchase price for the 88
24 acres of land in Hu County, its distributors, and its fertilizer products. In fact, analysts tried
25 verifying the Company’s claims by visiting its corporate headquarters, searching for its
26 purported Chinese distributors, and reviewing local Chinese regulatory filings. These
27 investigations often came up short, as the Company’s records in China were repeatedly found to
28

1 be inconsistent with records filed with the SEC, the purchase price of the land in Hu County was
 2 inaccurate, and the Gufeng acquisition premium made absolutely no sense based on Gufeng's
 3 low earnings quality, causing analysts to recognize that millions of dollars must have been
 4 diverted from the Company's coffers.

5 9. Notably, the Company has issued weak and unsatisfactory responses to these
 6 allegations, and has yet to provide a sufficient explanation for the numerous inconsistencies
 7 between its public filings in the U.S. and its regulatory filing in China. Instead, management
 8 urges that any inconsistencies in filings are meant to intentionally mislead competitors, or that
 9 management was unaware of investors' reliance on such financial figures.

10 10. However, the magnitude of the discrepancies between China Green's SEC and
 11 State Administration for Industry and Commerce ("SAIC") filings in China is so great that there
 12 is no feasible way they can be explained away as mere oversights. For example, China Green's
 13 reported revenues figures in 2007, 2008, and 2009 between SEC and SAIC filings simply do not
 14 match up:

	SEC Report	SAIC Report	Difference
Calendar 2007	\$14,790,590	\$6,646,166	122.54%
Calendar 2008	\$22,896,632	\$7,793,689	193.78%
Calendar 2009	\$35,207,997	\$8,363,284	320.98%

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 19 11. As additional information has come to light regarding the true state of China
 20 Green's financial condition and business operations—including the resignation of the
 21 Company's well-known investor relations firm—a picture has emerged of an international fraud
 22 committed by Defendants who exploited the lax regulatory entry requirements of RCM's to
 23 intentionally defraud American investors of millions of dollars. Defendants' lies and omissions
 24 are startling as they, among other things: (1) lied to investors regarding the accrual and payment
 25 of VAT payments; (2) lied to investors regarding CIT payments; (3) misled investors as to the
 26 purchase price of the 88 acre Hu County land acquisition, stating that it was sold for \$10 million
 27 when Chinese records show it was merely worth \$2 million; (4) inexplicably overpaid for
 28

1 Gufeng, a smaller company with low earnings quality, as is evident by Gufeng's financial
2 statements and net asset value; (5) misrepresented key facts with respect to its distributor
3 network and fertilizer products; and (6) submitted false financial results claiming millions in
4 supposed profits.

5 12. When the true extent of Defendants' fraud was revealed to the market, the
6 Company's stock price plummeted all the way to \$7.48 at the end of the Class Period—a
7 stunning fall from China Green's Class Period high of \$18.35, and a decline of nearly 60% that
8 caused millions of dollars in damages to Lead Plaintiff and the Class. Numerous shareholders'
9 portfolios and investments have been devastated by China Green's fraudulent scheme, and today,
10 the stock is trading in the mere \$4.50 - \$5.00 range.

11 **III. JURISDICTION AND VENUE**

12 13. This action arises under Sections 11, 12(a)(2), and 15 of the Securities Act (15
13 U.S.C. §§77k and 77o), and under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§
14 78j(b) and 78t(a)) and Rule 10b-5 promulgated under Section 10(b) (17 C.F.R. § 240.10b 5).

15 14. This Court has subject matter and personal jurisdiction pursuant to 28 U.S.C.
16 §§1331 and 1307, Section 22 of the Securities Act (15 U.S.C. § 77v), and pursuant to Section 27
17 of the Exchange Act (15 U.S.C. § 78aa). In addition, according to the official Company May 12,
18 2009 conference call transcript discussing the third quarter fiscal year 2009 earnings, Defendants
19 Li, Yang, and others hosted meetings with current and potential investors and analysts in the
20 United States, including at least in New York, from May 14 to May 21, 2009, and attended the
21 BMO Capital Markets Agriculture, Protein and Fertilizer Conference, which took place on May
22 13 and 14, 2009 in New York City, NY.

23 15. Venue is proper in this Judicial District pursuant to Section 22 of the Securities
24 Act and Section 27 of the Exchange Act. China Green trades on the NYSE under the symbol
25 "CGA."

26 16. In connection with the acts and omissions alleged in this complaint, Defendants,
27 directly or indirectly, used the means and instrumentalities of interstate commerce, including, but
28

not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

IV. THE SECURITIES ACT CLAIMS

A. PARTIES

i. Plaintiffs

17. Plaintiff Thomas Johnston acquired shares of China Green pursuant or traceable to the Company's offering of securities which closed on July 24, 2009 (the "July 2009 Offering"), and pursuant or traceable to the Company's offering of securities which closed on November 25, 2009 (the "December 2009 Offering").

18. Plaintiff Giuliano Lazzeretti acquired shares of China Green pursuant or traceable to the Company's offering of securities which closed on July 24, 2009 (the "July 2009 Offering"), and pursuant or traceable to the Company's offering of securities which closed on November 25 and December 17, 2009 (the "December 2009 Offering").

19. Plaintiff Thuan Ly acquired shares of China Green pursuant or traceable to the Company's offering of securities which closed on July 24, 2009 (the "July 2009 Offering"), and pursuant or traceable to the Company's offering of securities which closed on November 25 and December 17, 2009 (the "December 2009 Offering").

20. Plaintiff Christina Galbraith acquired shares of China Green pursuant or traceable to the Company's offering of securities which closed on July 24, 2009 (the "July 2009 Offering"), and pursuant or traceable to the Company's offering of securities which closed on November 25 and December 17, 2009 (the "December 2009 Offering").

21. Plaintiff Charles White acquired shares of China Green pursuant or traceable to the Company's offering of securities which closed on July 24, 2009 (the "July 2009 Offering"), and pursuant or traceable to the Company's offering of securities which closed on November 25 and December 17, 2009 (the "December 2009 Offering").

1 **ii. Securities Act Defendants**

2 **1. The Company**

3 22. Defendant China Green is incorporated under the laws of Nevada, with
4 headquarters in the PRC. During the Class Period, China Green maintained executive offices at:
5 3rd Floor, Borough A, Block A, No. 181, South Taibai Road, Xi'an, Shaanxi Province, Peoples'
6 Republic of China, 710065. The Company's fiscal year runs from July 1 to June 30.

7 **2. The Officer and Director Defendants**

8 23. Defendant Tao Li ("Li") served as the Chief Executive Officer, Chairman, and
9 President of the Company at all relevant times.

10 24. Defendant Ying Yang ("Yang") served as the Chief Financial Officer of the
11 Company from the start of the Class Period until she was replaced by Ken Ren on April 23,
12 2010.

13 25. Defendant Ken Ren ("Ren") served as the Chief Financial Officer of the
14 Company from April 23, 2010 through the end of the Class Period.

15 26. Defendant Yu Hao ("Hao") has served as a director of the Company since
16 December 26, 2007.

17 27. Defendant Lianfu Liu ("Liu") has served as a director of the Company since
18 December 26, 2007. Liu is also Chairman of the Company's Nominating Committee, and is a
19 member of the Audit Compensation Committees.

20 28. Defendant Robert B. Fields ("Fields") has served as a director of the Company
21 since February 7, 2010. Fields is Chairman of the Compensation Committee, and a member of
22 the Audit and Nominating Committees.

23 29. Defendant Yizhao Zhang ("Zhang") has served as a director of the Company
24 since March 27, 2008. Zhang is Chairman of the Audit Committee, and a member of the
25 Compensation and Nominating Committees. Zhang was formerly CFO and audit committee
26 chairman of China Universal China Group ("UTA") between August 17, 2009 and August 16,
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2010, when that company said he resigned for personal reasons. John Hampton of Bronte Capital later accused UTA of being a fraud.

30. Defendant Barry Raeburn (“Raeburn”) served as a Director of the Company from July 1, 2009 until February 3, 2010. While a director, he served on the Compensation Committee.

31. Defendants Li, Yang, Ren, Hao, Liu, Fields, Zhang, and Raeburn are collectively referred to herein as the “Officer and Director Defendants.” The Officer and Director Defendants served as officers and/or directors of China Green during the Class Period, and are strictly liable under the Securities Act for endorsing the Company’s false statements in the Offering Documents.

3. The Underwriter Defendants

32. Defendant Roth Capital Partners LLC (“Roth Capital”) acted as underwriter for the Company’s offering of securities which closed on July 24, 2009 (the “July 2009 Offering”).

33. Defendant Rodman & Renshaw, LLC (“R&R”) acted as underwriter for the Company’s offering of securities which closed on November 25 and December 17, 2009 (referred to below as the “December 2009 Offering”).

34. Roth Capital and R&R are collectively referred to herein as the Underwriter Defendants.

35. Defendants China Green, the Officer and Director Defendants, and the Underwriter Defendants, are collectively referred to herein as the “Securities Act Defendants.”

B. ALLEGATIONS UNDER THE SECURITIES ACT

i. The July 2009 Offering

36. On July 21, 2009, China Green filed a Form 424(b)(5) prospectus (the “July Prospectus”) with the SEC in connection with the July 2009 Offering for the sale of the Company’s shares at \$7.15 per share. In addition, the Company also filed the following documents with the SEC: (i) Form S-3 Registration Statement on June 8, 2009 (the “June

1 Registration Statement”); and (ii) a Form 424(b)(5) prospectus on July 21, 2009 (collectively, the
2 “July 2009 Offering Documents”).

3 37. The July 2009 Offering Documents incorporated by reference into the Prospectus
4 numerous other documents filed with the SEC, including China Green’s: (a) annual report on
5 Form 10-K for the year ended June 30, 2008 filed on September 26 , 2008; (b) Quarterly Report
6 on Form 10-Q for the fiscal quarter ended March 31, 2009, filed on May 11, 2009; (c) Quarterly
7 Report on Form 10-Q for the fiscal quarter ended December 31, 2008, filed with on February 12,
8 2009; (d) Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, filed
9 with on November 10, 2008; (e) Current Report on Form 8-K filed on May 12, 2009; (f) Current
10 Report on Form 8-K filed with on February 12, 2009; (g) Current Report on Form 8-K filed on
11 November 10, 2008; and (h) the description of China Green’s common stock contained in the
12 Company’s registration statement on Form 8-A12B filed on March 4, 2009.

13 38. Through the July 2009 Offering, China Green sold 3,500,000 shares of common
14 stock at \$7.15 per share, providing proceeds to the Company (before expenses) of approximately
15 \$27,339,812.50.

16 39. According to the July 2009 Offering Documents, Roth Capital acted as the
17 underwriter of the July 2009 Offering. The Company granted Roth Capital an option for a
18 period of 30 days after the date of the Prospectus to purchase up to an additional 525,000 shares
19 of China Green common stock to cover over-allotments, if any.

20 40. The July 2009 Offering Documents contained untrue statements of material facts,
21 omitted to state other facts necessary to make the statements not misleading, and were not
22 prepared in accordance with the rules and regulations governing their preparation.

23 41. With respect to the effects that the July 2009 Offering would have on the
24 Company, such as China Green’s plans for the capital raised through the July 2009 Offering, the
25 July 2009 Offering Documents stated the following:

- 26 • Use of Proceeds: We intend to use all of the net proceeds from this
27 offering for the construction of our new green-house facilities. We
28 estimate that the new greenhouse facilities will require an aggregate
investment of approximately \$38.6 million over the course of two

1 years. We anticipate using our existing cash reserves, operating profits
2 and bank loans to provide the difference between the total required
investment of the new greenhouse facilities and the net proceeds from
this offering.

- 3 • Currently, we sell our products through a network of over 500 regional
4 distributors covering 27 provinces in China. We currently sell more
5 than 130 different fertilizer products. We conduct our research and
6 development activities through Techteam's wholly-owned subsidiary,
Jintai, which tests new fertilizers and grows high quality flowers,
vegetables and seedlings for commercial sale.
- 7 • We have completed the construction of a three-story building totaling
8 approximately 13,803 square meters (i.e., approximately 148,574
square feet) for our new production facility with an expected annual
9 production capacity of up to 40,000 metric tons of our fertilizer
10 products. We anticipate our new facility will commence actual
production in August 2009 with a ramp up to full utilization over three
11 years. Along with our current annual production capacity of 15,000
tons, our new production facility will give us a total production
capacity of 55,000 tons per year.
- 12 • Jintai's existing greenhouse facility covers approximately 137,000
13 square meters. It consists of six intelligent greenhouses, made by
ACM-China Greenhouse Engineering (Shanghai) Co., Ltd., the China
14 branch of the Spanish manufacturer of greenhouse facilities. The
facility is equipped with an advanced drip irrigation system supplied
15 by Eldar-Shany Technology Co., Ltd. of Israel. We also have water
purification equipment supplied by Beijing Nuobaijing Science &
16 Technology Development Co., Ltd., a professional supplier of water
purification facilities, which allow us to perform tests with water at
17 different pH levels. We plan to build new 95,000 square meter
greenhouse facility on a separate parcel of land to expand our output of
18 high quality agricultural products for commercial sale while providing
an advanced testing field for our new fertilizer products. While we
19 anticipate that the fertilizer business will generate over 80% of our
total revenue over the next four years, once our greenhouse facility
20 reaches full output capacity, our revenue mix may shift towards
agricultural products.
- 21 • During the fiscal years ended June 30, 2008 and 2007, we earned net
income of \$7,778,527 and \$6,918,742 respectively. During the nine
22 months ended March 31, 2009 and 2008, we earned net income of
\$10,046,061 and \$6,433,682, respectively. As of March 31, 2009, we
23 had total assets of \$55,978,960.
- 24 • Net cash provided by operating activities was \$980,997 for the nine
months ended March 31, 2009, a decrease of \$4,500,519 from
25 \$5,481,516, net cash provided by operating activities for the same
period in 2008. The decrease was mainly due to an increase in
26 accounts receivable as a result of the strong sales in the second half of
the quarter ended March 31, 2009 and a decrease in tax payables as a
27 result of payment of an accrued income tax and VAT obligation.

- The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years.
- The Company records a valuation allowance for deferred tax assets, if any, based on its estimates of its future taxable income as well as its tax planning strategies when it is more likely than not that a portion or all of its deferred tax assets will not be realized. If the Company is able to utilize more of its deferred tax assets than the net amount previously recorded when unanticipated events occur, an adjustment to deferred tax assets would increase the Company net income when those events occur. The Company does not have any significant deferred tax asset or liabilities in the PRC tax jurisdiction.
- Jintai has been exempt from paying income tax since its formation as it produces products which fall into the tax exemption list set out in the EIT. This exemption will last as long as the related EIT does not change.

42. With respect to the Company's reported financial figures, the Offering Documents stated the following select financial information:

- The provision for income taxes as of March 31, 2009 and March 31, 2008 consisted of the following:

	2009	2008
Current income tax - Provision for China income and local tax	\$1,597,833	\$ 301,841
Deferred taxes	-	-
Total provision for income taxes	<u>\$1,597,833</u>	<u>\$ 301,841</u>

The following table reconciles the U.S. statutory rates to the Company's effective tax rate as of March 31, 2009 and 2008:

	2009	2008
Tax at statutory rate	34%	34%
Foreign tax rate difference	(19)%	(19)%
Net operating loss in other tax jurisdiction for where no benefit is realized	(1)%	(11)%
Total	<u>14%</u>	<u>4%</u>

- Taxes payable consist of the following as of March 31, 2009 and June 30, 2008:

	March 31, 2009	June 30, 2008
VAT payable	\$ 582,925	4,495,140
Income tax payable	525,716	1,038,651
Other levies	361,908	344,484
Total	<u>\$ 1,470,549</u>	<u>5,878,275</u>

- The following table shows the operating results of the Company on a consolidated basis for the nine months ended March 31, 2009 and 2008.

	Nine months ended March 31, 2009	Nine months ended March 31, 2008
Net Sales	\$ 24,721,802	\$ 15,382,089
Cost of Goods Sold	(10,608,336)	(6,377,066)
Gross Profit	14,113,466	9,005,023
Selling Expenses	(786,462)	(614,646)
General and Administrative Expenses	(1,432,514)	(1,430,762)
Income from Operations	11,894,490	6,959,615
Total Other Income (expense)	(250,596)	(223,933)
Income Before Income Taxes	11,643,894	6,735,682
Provision for Income Taxes	(1,597,833)	(301,841)
Net Income	10,046,061	6,433,842

43. The statements and representations discussed above were materially false and misleading, and failed to disclose material information concerning China Green's financials and accounting, including, among other things, the following:

- The amount of VAT paid by the Company according to China Green's SEC filings, is completely inconsistent with the amount of VAT that the Company reportedly paid to Chinese officials at the State Administration of Taxation ("SAT");
- The Company never provided analysts or investors with SAIC filings and Chinese tax payment information, to verify the VAT payables in SEC filings, as Defendant Li stated he would in a conference call on September 1, 2010;
- While the Company had historically accrued large VAT payables up until September 2009, the large accruals were never paid according to SAT records of China Green's subsidiary, Jinong;
- According to SAT records, from July 2008 through April 2010, Jinong paid VAT of only RMB469,000, or approximately \$67,971, which is inconsistent with the larger accruals reported by the Company for each quarter in SEC filings;
- Management has failed to sufficiently explain where the \$15 million that represents the difference in VAT reported in the SAT and the SEC, has actually gone;
- The Company's lump-sum payments for corporate income taxes payable are reported in SEC filings as being paid to Chinese officials on an annual basis, when, according to Chinese tax law, these payments are required to be made quarterly;
- The SAT in China has no documentation of corporate income taxes ever being paid to Chinese authorities by CGA, despite the Company's claims in SEC filings such payments were made;

- The Company failed to disclose that the true purchase price of the Hu County greenhouse land acquisition was actually one quarter of the price that was reported in SEC filings;
- The financial statements for Gufeng as released by China Green, contradict the financial results for Gufeng which were filed with the SEC;
- The Company's financial statements filed throughout the Class Period materially overstated and inflated China Green's and net income amounts;
- The margins reported by the Company were far in excess of other comparable companies operating in a similar business environment during this period; and
- The Company's claims with respect to humic acid and similar technologies it markets were exaggerated.

ii. The December 2009 Offering

44. On November 23, 2009, China Green filed a Form 424(b)(5) prospectus (the "November Prospectus") with the SEC in connection with the December 2009 Offering for the sale of the Company's shares at \$15.60 per share. In addition, the Company also filed a Form S-3MEF Registration Statement on November 23, 2009 (the "November Registration Statement," and together with the November Prospectus, the "December 2009 Offering Documents").

45. The December 2009 Offering Documents incorporated by reference numerous other documents filed with the SEC, including China Green's: (a) Annual Report on Form 10-K for the year ended June 30, 2009 filed on September 17, 2009; (b) Quarterly Report on Form 10-Q for our fiscal quarter ended September 30, 2009, filed on November 12, 2009; (c) Definitive Proxy Statement on Schedule 14A for the Company's 2009 Annual Meeting of Stockholders, as filed on October 28, 2009; and (d) the description of China Green's common stock contained in the Company's registration statement on Form 8-A12B filed on March 4, 2009.

46. Through the December 2009 Offering, China Green sold a total of 1,602,564 shares of common stock at \$15.60 per share, for total net proceeds of approximately \$24.5 million. This included the sale of 320,512 shares by R&R for approximately \$5 million. R&R acted as the sole underwriter of the December 2009 Offering, according to the December 2009 Offering Documents.

1 47. The December 2009 Offering Documents contained untrue statements of material
2 facts, omitted to state other facts necessary to make the statements not misleading, and were not
3 prepared in accordance with the rules and regulations governing their preparation.

4 48. With respect to the effects that the December 2009 Offering would have on the
5 Company, such as China Green's plans for the capital raised through the December 2009
6 Offering, the December 2009 Offering Documents stated the following:

7 Use of Proceeds: We intend to use all of the net proceeds of this offering for working
8 capital and general corporate purposes.

9 Currently, we sell our products through a network of 530 regional distributors covering
10 21 provinces, 4 autonomous regions and 3 municipal cities in China. We currently sell
11 more than 130 different fertilizer products. We conduct our research and development
activities through Jinong's wholly-owned subsidiary, Jintai, which tests new fertilizers
and grows high quality flowers, vegetables and seedlings for commercial sale.

12 In August 2009, we commenced the manufacture of fertilizer products on a new
13 production line at our newly-constructed, three-story production facility totaling
approximately 13,803 square meters (i.e., approximately 148,574 square feet). The new
14 production line has a 40,000 metric ton capacity, which increases our production capacity
from 15,000 tons per year to 55,000 tons per year. The new line includes an entirely
15 automated manufacturing system that precisely measures and mixes key ingredients to
formulate both liquid and highly concentrated fertilizer (i.e. powder fertilizer)
16 products. The new line is intended to allow us to meet the growing demand for our
organic compound fertilizer products. We anticipate our new production line will ramp
up to full utilization over three years.

17 Jintai's existing greenhouse facility covers approximately 137,000 square meters. It
18 consists of six intelligent greenhouses, made by ACM-China Greenhouse Engineering
(Shanghai) Co., Ltd., the China branch of the Spanish manufacturer of greenhouse
19 facilities. The facility is equipped with an advanced drip irrigation system supplied by
Eldar-Shany Technology Co., Ltd. of Israel. We also have water purification equipment
20 supplied by Beijing Nuobaijing Science & Technology Development Co., Ltd., a
professional supplier of water purification facilities, which allow us to perform tests with
21 water at different pH levels. We plan to build a new 95,000 square meter greenhouse
facility on a separate parcel of land to expand our output of high quality agricultural
22 products for commercial sale while providing an advanced testing field for our new
fertilizer products. While we anticipate that the fertilizer business will generate over 80%
23 of our total revenue over the next four years, once our greenhouse facility reaches full
output capacity, our revenue mix may shift towards agricultural products. In September
24 2009, Yuxing obtained the land use right over a 353,850-square-meter (or approximately
88-acre) parcel of land for a term of 50 years from the local Chinese government and has
25 recently begun the design phase of the new 95,000 square-meter greenhouse facility.

26 During the fiscal years ended June 30, 2009 and 2008, we earned net income of
\$14,464,422 and \$7,778,527, respectively. During the three months ended September 30,
27 2009 and 2008, we earned net income of \$5,247,274 and \$3,497,927, respectively. As of
September 30, 2009, we had total assets of \$96,014,630.

Net cash provided by operating activities was \$4,291,270 for the three months ended September 30, 2009, an increase of \$3,849,402 from net cash of \$441,868, provided by operating activities for the same period in 2008. The increase was mainly due to a decrease in inventory and an increase in tax payables as a result of payment of an accrued income tax and VAT obligation.

The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years.

The Company records a valuation allowance for deferred tax assets, if any, based on its estimates of its future taxable income as well as its tax planning strategies when it is more likely than not that a portion or all of its deferred tax assets will not be realized. If the Company is able to utilize more of its deferred tax assets than the net amount previously recorded when unanticipated events occur, an adjustment to deferred tax assets would increase the Company net income when those events occur. The Company does not have any significant deferred tax assets or liabilities in the PRC tax jurisdiction.

Jintai has been exempt from paying income tax since its formation as it produces products that fall into the tax exemption list set out in the EIT. The duration of exemption is indefinite so long as there are no amendments to the relevant provisions of the EIT.

49. With respect to the Company's reported financial figures, the Offering Documents stated the following select financial information:

■ The provision for income taxes as of September 30, 2009 and 2008 consisted of the following:

	September 30, 2009	September 30, 2008
Current income tax - Provision for China income and local tax	\$ 930,757	\$ 621,483
Deferred taxes	-	-
Total provision for income taxes	<u>\$ 930,757</u>	<u>\$ 621,483</u>

The following table reconciles the U.S. statutory rates to the Company's effective tax rate as of September 30, 2009 and 2008:

	September 30, 2009	September 30, 2008
Tax at statutory rate	34%	34%
Foreign tax rate difference	(19)%	(19)%
Net operating loss in other tax jurisdiction for where no benefit is realized	(8)%	(8)%
Total	<u>7%</u>	<u>7%</u>

■ Tax payables consist of the following as of September 30, 2009 and June 30, 2009:

	September 30, 2009	June 30, 2009
VAT payable	\$ 2,191,772	1,216,191
Income tax payable	2,972,679	1,290,777
Other levies	380,240	380,860

Total	\$	5,544,691	2,887,828
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- The following table shows the operating results of the Company on a consolidated basis for the three months ended September 30, 2009 and 2008.

	Three months ended September 30, 2009	Three months ended September 30, 2008
Net Sales	\$ 11,276,820	\$ 8,880,002
Cost of Goods Sold	(4,317,862)	(3,930,893)
Gross Profit	6,958,958	4,949,109
Selling Expenses	(215,672)	(216,376)
General and Administrative Expenses	(534,179)	(437,129)
Income from Operations	6,209,108	4,295,604
Total Other Income (expense)	(31,077)	(176,194)
Income Before Income Taxes	6,178,031	4,119,410
Provision for Income Taxes	(930,757)	(621,483)
Net Income	5,247,274	3,497,927

50. The statements and representations discussed above were materially false and misleading, and failed to disclose material information concerning China Green's financials and accounting, including, among other things, the following:

- The amount of VAT paid by the Company according to China Green's SEC filings, is completely inconsistent with the amount of VAT that the Company reportedly paid to Chinese officials at the State Administration of Taxation ("SAT");
- The Company never provided analysts or investors with SAIC filings and Chinese tax payment information, to verify the VAT payables in SEC filings, as Defendant Li stated he would in a conference call on September 1, 2010;
- While the Company had historically accrued large VAT payables up until September 2009, the large accruals were never paid according to SAT records of China Green's subsidiary, Jinong;
- According to SAT records, from July 2008 through April 2010, Jinong paid VAT of only RMB469,000, or approximately \$67,971, which is inconsistent with the larger accruals reported by the Company for each quarter in SEC filings;
- Management has failed to sufficiently explain where the \$15 million that represents the difference in VAT reported in the SAT and the SEC, has actually gone;
- The Company's lump-sum payments for corporate income taxes payable are reported in SEC filings as being paid to Chinese officials on an annual basis, when, according to Chinese tax law, these payments are required to be made quarterly;

- 1 • The SAT in China has no documentation of corporate income taxes ever being
2 paid to Chinese authorities by CGA, despite the Company's claims in SEC
3 filings such payments were made;
- 4 • The Company failed to disclose that the true purchase price of the Hu County
5 greenhouse land acquisition was actually one quarter of the price that was
6 reported in SEC filings;
- 7 • The financial statements for Gufeng as released by China Green, contradict the
8 financial results for Gufeng which were filed with the SEC;
- 9 • The Company's financial statements filed throughout the Class Period materially
10 overstated and inflated China Green's and net income amounts;
- 11 • The margins reported by the Company were far in excess of other comparable
12 companies operating in a similar business environment during this period; and
- 13 • The Company's claims with respect to humic acid and similar technologies it markets
14 were exaggerated.

11 **V. COUNTS AGAINST THE SECURITIES ACT DEFENDANTS**

12 **COUNT I**

13 **Violation of Section 11 of the Securities Act**
14 **Against the Securities Act Defendants**

15 51. Lead Plaintiff incorporates the allegations set forth above pertaining to the false
16 July 2009 Offering Documents and the December 2009 Offering Documents (collectively, the
17 "Offering Documents"), as if set forth fully herein, only to the extent, however, that such
18 allegations do not allege fraud, scienter, or the intent of the Defendants to defraud Plaintiff or
19 members of the Class. This Count is predicated upon Defendants' strict liability for making false
20 and materially misleading statements in the Offering Documents under the Securities Act.

21 52. This claim is asserted by Lead Plaintiff against the Securities Act Defendants by,
22 and on behalf of, persons who purchased or otherwise acquired the Company's common stock
23 pursuant and/or traceable to the July and December 2009 Offerings. The Offering Documents
24 for the Offerings were inaccurate and misleading, contained untrue statements of material facts,
25 omitted to state other facts necessary to make the statements made not misleading, and concealed
26 and failed adequately to disclose material facts, as described above.

27 53. The Securities Act Defendants are strictly liable for the misstatements and
28 omissions and for the damages that Lead Plaintiffs and other members of the Class have

1 sustained thereby. The Securities Act Defendants are responsible for the contents and
2 dissemination of the Offering Documents, and did not conduct a reasonable investigation or
3 possess reasonable grounds for the belief that the statements contained in the Offering
4 Documents were true and without omissions of any material facts and were not misleading.

5 54. The Securities Act Defendants issued, caused to be issued, and participated in the
6 issuance of materially false and misleading written statements to the investing public that were
7 contained in the Offering Documents, which misrepresented or failed to disclose, among other
8 things, the facts set forth above. By reasons of the conduct alleged herein, each Section 11
9 Defendant violated, and/or controlled a person who violated, Section 11 of the Securities Act.

10 **COUNT II**
11 **Violation of Section 12(a)(2) of the Securities Act**
12 **Against China Green and the Underwriter Defendants**

13 55. Lead Plaintiff incorporates the allegations set forth above pertaining to the false
14 Offering Documents, as if set forth fully herein, only to the extent, however, that such allegations
15 do not allege fraud, scienter, or the intent of the Defendants to defraud Lead Plaintiff or members
16 of the Class. This Count is predicated upon Defendants' strict liability for making false and
17 materially misleading statements in the Offering Documents under the Securities Act.

18 56. This Count is brought against China Green and the Underwriter Defendants on
19 behalf of all persons or entities who purchased or otherwise acquired the Company's common
20 stock pursuant and/or traceable to the Offerings. China Green and the Underwriter Defendants
21 were sellers, offerors, and/or solicitors of purchasers of the shares offered pursuant to the
22 Offering Documents.

23 57. The Offering Documents contained untrue statements of material facts, omitted to
24 state other facts necessary to make the statements made not misleading, and concealed and failed
25 to disclose material facts. China Green's and the Underwriter Defendants' actions of solicitation
26 included participating in the preparation and dissemination of the false and misleading Offering
27 Documents.
28

1 do not allege fraud, scienter, or the intent of the Securities Act Defendants to defraud Lead
2 Plaintiff or members of the Class. This Count is predicated upon the Securities Act Defendants'
3 strict liability for making false and materially misleading statements in the Offering Materials
4 under the Securities Act.

5 63. This Count is brought against the Offer and Director Defendants pursuant to
6 Section 15 of the Securities Act, 15 U.S.C. §77o, on behalf of all persons or entities who
7 purchased or otherwise acquired the Company's common stock pursuant and/or traceable to the
8 Offerings. Each of the Officer and Director Defendants was a controlling person of China Green
9 by virtue of their positions as directors and/or senior officers of the Company and/or by virtue of
10 their status as a major shareholder of the Company.

11 64. Each of the Officer and Director Defendants was a control person of the Company
12 with respect to the Offerings by virtue of that individual's position as a senior executive officer
13 and/or director of the Company. These Defendants each had a series of direct and/or indirect
14 business and/or personal relationships with other directors and/or officers and/or major
15 shareholders of China Green. By reason of their positions with the Company and/or their stock
16 ownership of China Green, the Officer and Director Defendants had the requisite power to
17 directly or indirectly control or influence the specific corporate policy that resulted in the
18 unlawful acts and conduct alleged in Count I.

19 65. Each of the Officer and Director Defendants was a culpable participant in the
20 violations of Section 11 of the Securities Act alleged in Count I above, based on their having
21 signed the Offering Documents and having otherwise participated in the process that allowed the
22 Offerings to be successfully completed. These Defendants, by virtue of their managerial and/or
23 Board positions with the Company, controlled the Company as well as the contents of the
24 Offering Documents at the time of the Offerings. Each of the Officer and Director Defendants
25 was provided with or had unlimited access to copies of the Offering Documents and had the
26 ability to either prevent their issuance or cause them to be corrected.

66. As a result, the Officer and Director Defendants are liable under Section 15 of the Securities Act for the Company's primary violation of Section 11 of the Securities Act.

67. By virtue of the foregoing, Lead Plaintiff and other members of the Class who purchased or otherwise acquired the Company's common stock pursuant and/or traceable to the Offerings are entitled to damages against the Officer and Director Defendants.

VI. THE EXCHANGE ACT CLAIMS

A. PARTIES

i. Lead Plaintiff

68. Lead Plaintiff the China Green Investor Group, comprised of Class Members Thomas Johnston, Giuliano Lazzeretti, Thuan Ly, Christina Galbraith, and Charles White, purchased the publicly traded securities of China Green during the Class period and has been damaged thereby.

ii. Defendants

1. The Company

69. Defendant China Green is incorporated under the laws of Nevada, with headquarters in the PRC. During the Class Period China Green maintained executive offices at: 3rd Floor, Borough A, Block A, No. 181, South Taibai Road, Xi'an, Shaanxi Province, Peoples' Republic of China, 710065.

2. The Individual Defendants

70. Defendant Tao Li ("Li") served as the Chief Executive Officer, Chairman, and President of the Company at all relevant times herein. Li is a former general manager of "National Key Lab," which in the past was administered by the Chinese Ministry of Aeronautics, and he is also a member to various advisory bodies to the Shaanxi Party Committee. Li also owns 41% of the Dingtian Group ("Dingtian"), a diversified Chinese firm involved in software and real estate in Shaanxi Province. Li listed one of the Dingtian subsidiaries, Xi'an Tech Team Intelligent Technology, on the NASDAQ as Kingstone Wireless ("Kingstone" or "KONE"), of which he controls 60%. China Green is co-premised with Kingstone, and many of Li's share

1 grants in KONE are structured as call options, possibly to avoid having to report them as share-
2 based compensation.

3 71. Defendant Ying Yang ("Yang") served as the Chief Financial Officer of the
4 Company from the start of the Class Period until she was replaced by Ken Ren on April 23,
5 2010. Yang left China Green to become the Chief Financial Officer of Kingstone, a few weeks
6 before it was listed on the NASDAQ. Prior to joining China Green, Yang spent two years as
7 Financial Reporting and Analysis Manager of Beckman Coulter Inc. ("BEC"), a medical
8 instruments firm that has also been under investigation by the SEC for misreporting its financial
9 results. Two years prior to being employed at BEC, Yang worked at Ready Pac Foods, a
10 California-based supplier of fresh produce.

11 72. Defendant Ken Ren ("Ren") served as the Chief Financial Officer of the
12 Company from April 23, 2010 through the end of the Class Period. Ren was born and raised in
13 Xi'an, but went to Purdue University in the United States to study for his Masters and PhD.
14 According to his Reuters Financial bio, prior to joining China Green, Ren was a capital market
15 analyst for the Federal Home Loan Bank of Des Moines since April 2009 to April 2010. From
16 March 2008 to April 2009, Ren served as a senior investment associate at an asset management
17 subsidiary of Wells Fargo.

18 73. Defendant Yu Hao ("Hao") has served as a director of the Company since
19 December 26, 2007.

20 74. Defendant Lianfu Liu ("Liu") has served as a director of the Company since
21 December 26, 2007. Liu is also Chairman of the Company's Nominating Committee, and is a
22 member of the Audit Compensation Committees.

23 75. Defendant Robert B. Fields ("Fields") has served as a director of the Company
24 since February 7, 2010. Fields is Chairman of the Compensation Committee, and a member of
25 the Audit and Nominating Committees.

26 76. Defendant Yizhao Zhang ("Zhang") has served as a director of the Company
27 since March 27, 2008. Zhang is Chairman of the Audit Committee, and a member of the
28

1 Compensation and Nominating Committees. Zhang was formerly CFO and audit committee
2 chairman of China Universal China Group (“UTA”) between August 17, 2009 and August 16,
3 2010, when that company said he resigned for personal reasons. John Hampton of Bronte
4 Capital later accused UTA of being a fraud.

5 77. Defendant Barry Raeburn (“Raeburn”) served as a Director of the Company from
6 July 1, 2009 until February 3, 2010. While a director, he served on the Compensation
7 Committee.

8 78. Defendants Li, Yang, Ren, Hao, Liu, Fields, Zhang, and Raeburn are collectively
9 referred to herein as the “Individual Defendants.”

10 79. The Individual Defendants and China Green are collectively referred to herein as
11 the “Exchange Act Defendants.”

12 80. As set forth herein, the Individual Defendants, by virtue of their receipt of
13 information reflecting the true facts regarding China Green, their control over, receipt and/or
14 modification of China Green’s allegedly materially misleading statements and omissions, and/or
15 their positions with the Company which made them privy to confidential information concerning
16 China Green, participated in the fraudulent scheme alleged herein. The ongoing fraudulent
17 scheme described herein could not have been perpetrated over a substantial period of time, as has
18 occurred, without the knowledge and complicity of the personnel at the highest level of the
19 Company, including the Individual Defendants.

20 81. During the Class Period, the Individual Defendants, as senior executive officers of
21 China Green, were privy to confidential, proprietary and material adverse non-public information
22 concerning China Green, its operations, finances, financial condition and present and future
23 business prospects via access to internal corporate documents, conversations and connections
24 with other corporate officers and employees, attendance at management and/or board of directors
25 meetings and committees thereof, and via reports and other information provided to them in
26 connection therewith. Because of their possession of such information, the Individual
27
28

1 Defendants knew or recklessly disregarded that the adverse facts specified herein had not been
2 disclosed to, and were being concealed from, the investing public.

3 82. The Individual Defendants are liable as direct participants in the wrongs
4 complained of herein. In addition, the Individual Defendants, by reason of their status as senior
5 executive officers and/or directors, were “controlling persons” within the meaning of §20(a) of
6 the Exchange Act and had the power and influence to cause the Company to engage in the
7 unlawful conduct complained of herein. Because of their positions of control, the Individual
8 Defendants were able to and did, directly or indirectly, control the conduct of China Green’s
9 business.

10 83. The Individual Defendants, because of their positions with the Company,
11 controlled and/or possessed the authority to control the contents of its reports, press releases and
12 presentations to securities analysts and, through such analysts, to the investing public. The
13 Individual Defendants were provided with copies of the Company’s reports and publicly
14 disseminated documents alleged herein to be misleading, prior to or shortly after their issuance
15 and had the ability and opportunity to prevent their issuance or cause them to be corrected.
16 Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged
17 herein.

18 84. As senior executive officers and/or directors and as controlling persons of a
19 publicly traded company whose securities were, and are, registered with the SEC pursuant to the
20 Exchange Act, and were traded on the NYSE and governed by the federal securities laws, the
21 Individual Defendants had a duty to promptly disseminate accurate and truthful information with
22 respect to China Green’s financial condition and performance, growth, operations, financial
23 statements, business, products, markets, management, earnings, and present and future business
24 prospects, to correct any previously issued statements that had become materially misleading or
25 untrue, so the market price of China Green’s securities would be based on truthful and accurate
26 information. The Individual Defendants’ misrepresentations and omissions during the Class
27 Period violated these specific requirements and obligations.
28

85. The Individual Defendants are liable as participants in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of China Green's publicly traded securities by disseminating materially false and misleading statements and/or concealing material adverse facts.

B. ALLEGATIONS UNDER THE EXCHANGE ACT

i. Background of Reverse Chinese Mergers

86. China Green's entry onto the AMEX, and eventually the NYSE, is just another example of a recent trend where operating Chinese companies effectuate reverse mergers with all-but-defunct publicly-traded U.S. corporations in order to trade on U.S. stock exchanges. Once the reverse merger is completed, the tried-and-true process that is typically followed is simple: the board of directors of the U.S. company resigns and the Chinese board takes over, immediately changing the company's name and issuing new stock to new investors, usually through a private placement, thus quickly raising millions of dollars in fresh capital.

87. Although an RCM allows a Chinese company to trade on a U.S. stock exchange and tap into the lucrative American investment market, these companies' assets and operations are often solely located in China. This limits the SEC's ability to regulate and enforce the securities laws against Chinese companies, especially given that these corporations did not complete the more rigorous requirements of an initial public offering.

88. Shielded by the geographic distance of thousands of miles and operating under a regulatory framework that is a world apart from the SEC's oversight, RCM companies have few incentives to provide complete and accurate disclosures to American investors and every incentive to maximize investments and profits. An August 28, 2010 article in *Barron's* by Bill Alpert and Leslie P. Norton entitled, "Beware This Chinese Export," discusses the enforcement problems that American regulators face when dealing with Chinese companies that trade on U.S. exchanges through RCMs. The article states that "[t]he SEC's enforcement staff can't subpoena evidence of any fraudulent activities in China, and Chinese regulators have little incentive to monitor shares sold only in the U.S."

89. Since 2004, there have been more than 350 small Chinese companies listed in the U.S. as a result of the reverse merger process. These companies attempt to establish the strength of their businesses with financial statements that can attract the interest of American investors, both casual and professional alike, while giving the appearance of stability and growth. However, these financial reports sometimes lack transparency and full disclosure, and even more troubling, are sometimes falsified.

90. These companies' SEC filings often stand in stark contrast to comparable filings with the Chinese equivalent of the SEC, the SAIC—the Chinese government agency responsible for drafting and implementing legislation concerning the administration of industry and commerce in China. SAIC regulations are implemented by local AIC branches. All Chinese companies file a variety of information with their local AIC office, including, among other things, property leases, land use information, business licenses, capital raises, bylaws and, importantly, annual financial statements. While some sectors of the investing public question the significance of SAIC filings, many leading analysts indicate that accuracy in SAIC filings is “an imperative.”²

91. Recently, many RCMs have been identified as fraudulent schemes where financial results and operational figures have been greatly exaggerated—and in some cases fabricated—in order to attract overseas investments. Often, examinations of filings with the SAIC have demonstrated sobering inconsistencies when viewed against the comparable figures filed in the U.S. Invariably, the American filings feature robust financial results and exciting statements of growth and expansion, while the Chinese filings are comparatively conservative, if not polar opposites. In essence, one version is prepared to lure foreign investment without the threat of repercussions from American regulators, while the accurate version is reported at home to avoid repercussions from Chinese authorities with the power to implement such measures.

² Gerry Wang, Chief Executive Officer of a containership company in Vancouver, Canada. *See also, January 5, 2011 J Capital Report at 2, fn 3*, stating that “some claim that statutory reports filed with the State Administration of Industry and Commerce (SAIC) are usually inaccurate. This is not our experience. Many companies in China, as elsewhere, manipulate profits by directing revenues and expenses to different corporate entities that may be out of the reach of regulators. But few companies simply lie on their SAIC filings: the government audits company books annually and would rescind the license if such a large discrepancy were found. At a minimum, if the SAIC report is false, CGA must have falsified receipts to support fictitious claims, and that should be of great concern to investors.”

92. RCMs were effective in attracting interest in small Chinese companies that were purportedly poised for growth and achievement. According to a *CNBC.com* article published on December 21, 2010 and entitled “Greenberg: Dangers Lurk in Chinese Reverse Mergers,” there are around 300 reverse mergers trading in the U.S. American investors have suffered losses in excess of \$30 billion as a result of their investments in RCMs.

93. As reports of fraud and manipulation have inundated the international business news in recent quarters, U.S. regulators have finally begun to take notice of the opportunities for manipulation and fraud that RCMs create. The SEC has recently established a task force to investigate investors’ claims regarding the impropriety and fraud of RCMs trading on the U.S. markets. Investigators are examining individual companies as well as the role of so-called “gatekeepers,” or firms that help find and bring Chinese businesses to U.S. capital markets, such as stock promoters, auditors, law firms, and investment banks.

94. The SEC has also started investigating reverse mergers and the allegations of fraud surrounding Chinese companies like China Green. For instance, in his speech to the Council of Institutional Investors on April 4, 2011, SEC Commissioner Luis A. Aguilar (the “Commissioner”) discussed Chinese reverse mergers and the process of “backdoor registration,” stating:³

A common but lesser known way of accessing the public markets is the reverse merger into a public shell, or where a public shell merges into a private company, a so-called “backdoor registration.” For those of you not familiar with these types of mergers, what typically happens is a private company seeking to go public merges with a public shell company. Before the transaction, the public shell company no longer has substantive operations, but its public company registration remains in effect. The transaction gives the formerly private company the credibility and access to capital of being registered as a public company, without any of the vetting from underwriters and investors that companies undergo when they perform a traditional IPO.

Since January of 2007, there have been over 600 backdoor registrations. Over 150 of these have been by companies from China and the China region. Notwithstanding the SEC rulemaking of a few years ago to respond to abuses involving shell companies, *we are seeing increasing problems*. While the vast majority of these Chinese companies may be legitimate businesses, *a growing*

³ Text of the entire speech is available at http://sec.gov/news/speech/2011/spch040411laa.htm#P79_43025.

1 *number of them are proving to have significant accounting deficiencies or*
 2 *being vessels of outright fraud.* (Emphasis added) (footnotes omitted).⁴

3 95. Further, in discussing regulators' responses to the problems posed by these
 4 Chinese reverse merger companies, the SEC Commissioner stated:

5 I support all of the efforts to address these problems. The SEC staff has been
 6 working collaboratively and tirelessly with many others to investigate and shed
 7 light on this situation. It has been widely reported that the SEC set up an internal
 8 task force to investigate fraud in overseas companies with listings on U.S.
 exchanges, with particular emphasis on companies engaging in these mergers to
 achieve backdoor SEC registration. The staff's hard work has yielded, and will
 continue to yield, results.

9 96. The SEC Commissioner also discussed his concerns that RCMs suffer from
 10 auditing and financial reporting deficiencies, stating:

11 In the world of backdoor registrations to gain entry into the U.S. public market,
 12 the use by Chinese companies has raised some unique issues, even compared to
 13 mergers by U.S. companies. Two important ones are:

- 14 • First, there appear to be *systematic concerns with the quality of the auditing*
 15 *and financial reporting*; and
- 16 • Second, even though these companies are registered here in the U.S., there are
 17 *limitations on the ability to enforce the securities laws, and for investors to*
 18 *recover their losses when disclosures are found to be untrue, or even*
 19 *fraudulent.*

20 *I am worried by the systematic concerns surrounding the quality of the*
 21 *financial reporting by these companies.* In particular, according to a recent report
 22 by the staff of the Public Company Accounting Oversight Board (PCAOB), *U.S.*
 23 *auditing firms may be issuing audit opinions on the financials, but not*
 24 *engaging in any of their own work.* Instead, the U.S. firm may be issuing an
 opinion based almost entirely on work performed by Chinese audit firms. If this is
 true, it *could appear that the U.S. audit firms are simply selling their name and*
 25 *PCAOB-registered status because they are not engaging in independent activity*
 26 *to confirm that the work they are relying on is of high quality.* This is significant
 for a lot of reasons, including that the PCAOB has been prevented from
 inspecting audit firms in China.

27 97. The SEC Commissioner's concerns articulated in his April 2011 speech were
 28 spawned from the repeated shareholder abuses inflicted by dubious RCMs such as China Green.

⁴ Unless otherwise indicated, emphasis is added.

1 **ii. Background of China Green**

2 98. China Green is engaged in the research, development, production and sale of
3 various types of fertilizers and agricultural products in the PRC through its wholly-owned
4 Chinese subsidiaries: Jinong, Jintai, and Yuxing. The Company's primary business is fertilizer
5 products, specifically compound fertilizer produced through Jinong.

6 99. In addition, the Company also focuses on products such as blended fertilizer,
7 organic compound fertilizer, and mixed organic-inorganic compound fertilizer. China Green
8 also develops agricultural products such as top-grade fruits, vegetables, flowers, and colored
9 seedlings through its Jintai subsidiary. As of June 30, 2010, the Company purported to have
10 developed 157 different fertilizer products.

11 100. On July 2, 2010, the Company acquired Gufeng, a Beijing-based fertilizer
12 producer. By acquiring Gufeng and its wholly-owned subsidiary Tianjuyuan, the Company's
13 total annual production capacity purportedly increased from 55,000 to 355,000 metric tons.
14 Moreover, the Company's products were forecasted to increase as there were 150 additional
15 distributors that will be integrated into an already established sales network with the acquisition
16 of Gufeng and Tianjuyuan.

17 101. China Green was originally incorporated under the laws of Kansas on February 6,
18 1987 and had no operations from December 1996 through December 2007. In October 2007, it
19 reincorporated in the State of Nevada.

20 102. On December 26, 2007 the Company acquired all of the issued and outstanding
21 stock of Green New Jersey, a company which had been incorporated in New Jersey in 2007. On
22 August 24, 2007, Green New Jersey had acquired 100% of the outstanding shares of Jinong,
23 which was incorporated in the PRC on June 19, 2000. On January 19, 2007, Jinong incorporated
24 Jintai as a direct, wholly-owned subsidiary to be used as a research and development base for
25 Jinong's fertilizer products. The Company officially changed its name to China Green
26 Agriculture, Inc. on February 5, 2008, and was listed on the NYSE Amex Equities exchange on
27 March 9, 2009 under the symbol "CGA." On December 4, 2009, the Company voluntarily
28

1 ceased trading on the NYSE Amex Equities exchange, and transferred to the NYSE on
2 December 7, 2009, still under the symbol "CGA."

3 **C. DEFENDANTS' FALSE AND MISLEADING STATEMENTS**

4 103. Throughout the Class Period, Defendants issued various press releases, SEC
5 filings, financial reports and other statements that consistently touted China Green as a leader in
6 the realm of Chinese fertilizer products. To hear Defendants tell it, the Company was poised to
7 capitalize on its strong business fundamentals and embark on a prolonged expansion period
8 where it would substantially increase its manufacturing and production capacity, thus increasing
9 what were already impressive financial results. Unfortunately for the Company's shareholders,
10 however, China Green was a house of cards that would come crashing down when the truth
11 concerning the Company's true state of affairs slowly emerged.

12 **i. 2009 False and Misleading Statements**

13 104. The proposed Class Period commences on May 12, 2009. After the close of
14 trading on May 11, 2009, the Company issued a press release discussing its financial results for
15 the third quarter of fiscal year 2009. The press release emphasized China Green's claimed
16 increasing financial results, including third quarter increases in net sales of 99.4%, and a net
17 income increase of 132.7%. For the first nine months of fiscal year 2009, the Company reported
18 that sales had increased 60.7%, and net income increased 56.1%. Commenting on these results,
19 Defendant Li stated the following:

20 We continue to deliver year-over-year growth in each of our fertilizer product
21 categories, which is driven by a broader number of distributors across a larger
22 geographic footprint, while maintaining industry leading margins. *We are*
23 *confident that the drivers in place, including increasing demand for green*
fertilizers supported by consumer food safety and environmental concerns,
along with the desire for higher crop yields, will enable us to deliver further
revenue and earnings growth for our company during 2009.

24 *We are well positioned to capitalize on the market opportunities within China's*
25 *fertilizer and agriculture industry. With a national distribution network, state-*
26 *of-the-art research and development, automated production, and superior after-*
sales support, we have successfully built one of the premier organic compound
fertilizer producers in China today.

27 We believe CGA will continue to benefit by offering high yielding and
28 environmentally sustainable fertilizers which are paramount to China's

1 agricultural production capabilities in the face of shrinking arable land, ongoing
2 consumer food safety concerns and growing population. Supported by a vertically
3 integrated platform that *utilizes 511 distributors to sell our 131 branded products*
4 *through 27 provinces in China, we have built an organization with multiple*
5 *competitive advantages and superior operating metrics*, as evidenced by our
6 third quarter 2009 gross and operating profit margins of 57.3% and 50.4%,
7 respectively. *By leveraging our new facility, which will be on line in August of*
8 *2009, we feel China Green Agriculture is well positioned to gain further market*
9 *share in China's green fertilizer market, which will translate into long term*
10 *revenue and net income growth.*

11 105. On May 11, 2009, the Company also filed with the SEC a Form 10-Q for the third
12 quarter of fiscal year 2009, which was signed and certified by Defendants Li and Yang. The
13 Company repeated its supposedly stellar financial results, claiming that “total annual production
14 capacity could be expanded to 55,000 metric tons considering our current production capacity of
15 15,000 metric tons,” and that “gross profit from Jintai increased \$362,002, or 18.3% for the nine
16 months ended March 31, 2009, to \$2,345,561 compared to \$1,983,559 for the nine months ended
17 March 31, 2008. Gross profit margin from Jintai sales approximated 44.4% and 56.2% for the
18 nine months ended March 31, 2009 and 2008, respectively. The filing also stated that “our net
19 income was \$10,046,061 for the nine months ended March 31, 2009, an increase of \$3,612,219
20 or 56.1% from \$6,433,842 for the nine months ended March 31, 2008. *The increase was mainly*
21 *a result of our increased net sales.*”

22 106. With respect to the Company’s VAT obligations, it stated: “Net cash provided by
23 operating activities was \$980,997 for the nine months ended March 31, 2009, a decrease of
24 \$4,500,519 from \$5,481,516, net cash provided by operating activities for the same period in
25 2008. The decrease was mainly due to an increase in accounts receivable as a result of the strong
26 sales in the second half of the quarter ended March 31, 2009 *and a decrease in tax payables as a*
27 *result of payment of an accrued income tax and VAT obligation.*”

28 107. Also on May 12, 2009, the Company held a conference call with analysts to
discuss the third quarter of fiscal year 2009 earnings release that had been incorporated in the
Form 10-Q. Representatives from the Company that participated in the conference call included
Defendants Li and Yang. Defendant Yang boasted that “*We have several competitive*

1 *advantages which create superior operating metrics* as evidenced by our growth and operating
 2 profit margin of 57.3% and 50.4% respectively for the third quarter ending March 31, 2009.”

3 108. On May 12, 2009, the next trading day following these positive announcements,
 4 the Company’s stock rose \$.80 per share to close at \$7.35.

5 109. On September 15, 2009, the Company issued a press release discussing its
 6 financial results for the fourth quarter and the year ending fiscal year 2009. The press release
 7 emphasized China Green’s continuing increasing financial results, including fourth quarter
 8 increases in net sales of 45.8%, and a net income increase of 238.5%. For the fiscal year ending
 9 2009, the Company reported that sales had increased 55.8%, and net income increased 86%.

10 Commenting on these results, Defendant Li stated the following:

11 We are pleased with our financial results which exceeded both our revenue and
 12 EPS guidance for the fiscal year 2009. We continue to experience robust growth
 13 driven by an extensive distribution network encompassing a large geographic
 14 footprint. *We are confident that the growing demand for our green fertilizer
 products coupled with our strong marketing efforts and after sales support will
 enable us to deliver incremental revenue and earnings growth,* while
 maintaining industry leading margins for fiscal year 2010.

15 We are confident that CGA will continue to capitalize on the market opportunities
 16 within China's fertilizer and agriculture industry. Based on the growing market
 17 demand for our green compound fertilizer products coupled with our extensive
 18 distribution network, we expect that our recent increase in production capacity to
 19 55,000 metric tons will be rapidly absorbed by the Chinese fertilizer market. We
 20 believe the Company will continue to benefit by offering high yielding and
 21 environmentally sustainable fertilizers which are vital to China's agricultural
 22 production capabilities in the face of shrinking arable land, ongoing consumer
 food safety concerns and growing population. Supported by a vertically integrated
 platform that currently utilizes 530 distributors to sell our 134 branded products
 through 21 provinces, 4 autonomous regions and 3 municipal cities in China, *we
 have built an organization with multiple competitive advantages and superior
 operating metrics. By leveraging our new production facility, supported by our
 existing and new greenhouse facilities, we feel China Green Agriculture is well
 positioned* to gain further market share in China's green fertilizer market.

23 110. On September 16, 2009, the Company held a conference call with analysts to
 24 discuss the year-end 2009 earnings release. Representatives from the Company that participated
 25 in the conference call included Defendants Li and Yang. Defendant Li opened the discussion by
 26 touting China Green’s “nationwide distribution network, strong up-sales cost,” and “increasing
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1 production capacity” which “will allow [the Company] to drive revenue and earnings for our
2 company during fiscal year 2010....”

3 111. During that conference call, Defendant Yang commented on the greenhouse
4 facilities, stating:

5 In July 2009, we completed a 28.8 million public offering by issuing roughly 4
6 million
7 shares of common stock. *We intend to use net proceeds to expand our research*
8 *and development centre, to build the construction of new greenhouse facilities,*
9 *with estimated cost of approximately 38.6 million over the next two years. We*
10 *plan to build 12 new greenhouse facilities on a separate 88 acre parcel of land,*
11 to expand output of high quality agricultural products for commercial sales, by
providing an advanced testing field for new fertilizers and other humic acid based
products. More importantly, this initiative will provide sustainable growth which
will give us the capability to reach full utilization of our 55,000 metric ton
capacity over the next three years.

12 112. Defendant Yang also fielded questions regarding the greenhouse facilities:

13 **Howard Zhou**

14 Okay. And then Mr. Li, could you update us on the progress of your greenhouse
15 expansion? Where do you stand in terms of the construction of your greenhouse?

16 **Ying Yang, Chief Financial Officer**

17 Yeah. Actually I can answer that, just a second. The greenhouse actually has the,
18 *as you know we have to purchase the land first. And normally this is very*
19 *complicated transaction in China. It normally takes about two to three years*
20 *sometimes to finalize the deal for such a big parcel of land. However, we*
21 *actually have been pushing the whole process very fast. And we're very*
22 *confident that we can close this deal to purchase the land in the near future.*
And with the construction plan and design is coming up soon. So, everything is
according to our previous schedule.

23 113. On September 17, 2009, the Company also filed with the SEC a Form 10-K for
24 the fiscal year 2009, which was signed and certified by Defendants Li, Yang, Hao, Liu, Zhang,
25 and Raeburn. In this filing, the Company made various statements regarding VAT and it income
26 taxes. For example, the Company disclosed in Note 11 to the Form 10-K, that *as of June 30,*
27
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1 **2009, the Company's Income Tax Payable was \$1,290,777, and VAT Payable was \$1,216,191.**

2 The Company also stated:

3 In July 2009, the Company completed a public offering of its common stock for
4 gross proceeds of \$28,778,750.00. As previously reported, the Company *intends*
5 *to use all of the net proceeds to expand its existing research and development*
6 *facilities through the construction of new intelligent green-houses, research*
7 *and training centers. The Company estimates that these new facilities will*
8 *require an aggregate investment of approximately \$38.6 million over the course*
9 *of two years.*

10 The Company *plans to build 12 new greenhouses over an 88 acre parcel of land*
11 *to expand output of high quality agricultural products for commercial sale*
12 while providing an advanced testing field for new fertilizer products. The new
13 facility will continue to increase the Company's capability to produce more
14 products while shortening the new product development cycle, which allows us to
15 get products to market quickly, thus increasing revenues and market share. In
16 addition to developing new humic acid based fertilizer products, the Company is
17 planning to develop other agricultural derivatives from humic acid, such as
18 humic-acid based organic pesticides, which can provide additional revenue
19 sources and increase profitability. The new facility is anticipated to reach full
20 capacity in 2012.

21 As of June 30, 2009, cash and cash equivalents were \$17,795,447, an increase of
22 \$1,183,031 from \$16,612,416 as of June 30, 2008. This does not include restricted
23 cash from our escrow account.

24 *We intend to use all of the net proceeds we received in the Public Offering to*
25 *expand our production of agricultural products through the construction of the*
26 *New Greenhouse*, as set forth above. We anticipate using existing cash reserves,
27 operating profits and bank loans to provide the difference between the total
28 required investment of the new green-house facilities and the net proceeds from
the Public Offering. The management believes that the Company has sufficient
cash, along with projected cash to be generated by the business of the Company to
support its operations for the next twelve months.

Net cash provided by operating activities was \$7,184,086 for the year ended June
30, 2009, a decrease of \$1,933,525 from \$9,117,611 of net cash provided by
operating activities for the year ended June 30, 2008. *The decrease was mainly*
due to an increase in accounts receivable as a result of the increased sales and
a decrease in tax payables as a result of payment of accrued income tax and
VAT obligation.

114. On November 12, 2009, the Company filed with the SEC a Form 10-Q for the
first quarter fiscal year of 2010, which was signed and certified by Defendants Li and Yang. In

1 this filing, the Company made various statements regarding VAT discrepancies, and the Hu
 2 County greenhouse land acquisition. For example, the Company disclosed in Note 10 to the
 3 Form 10-Q, that *as of September 30, 2009, the VAT Payable was \$2,191,772.*

4 115. In discussing the Hu County greenhouse land acquisition, the November 12, 2009
 5 Form 10-Q stated in relevant part:

6 LAND USE RIGHT

7 Under PRC governmental regulations, the Government owns all land. However,
 8 the government grants the user a “land use right” (the Right) to use the land. The
 9 Company has recognized the amounts paid for the acquisition of rights to use land
 10 as an intangible asset and amortizes the cost over a period of fifty years.

11 A former shareholder of Jinong contributed the land use right for a parcel of land
 12 of approximately 7.6 acres on August 16, 2001. The land use right was recorded
 13 at cost of \$1,065,447. *On August 13, 2009, Xi'an Yuxing was granted a*
 14 *certificate of Land Use Right for a parcel of land of approximately 88*
acres. The purchase cost is recorded at \$10,703,302. Both certificates of land use
 right are valid for fifty years. The land use right consists of the followings as of
 September 30, 2009 and June 30, 2009:

	September 30, 2009	June 30, 2009
Land use right	\$ 11,768,749	\$ 1,064,326
Less:		
accumulated		
amortization	(191,862)	(168,518)
Total	<u>\$ 11,576,887</u>	<u>\$ 895,808</u>

15 116. Also on November 12, 2009, the Company held a conference call with analysts to
 16 discuss the first quarter of fiscal year 2010 earnings release that had been incorporated in the
 17 Form 10-Q. Representatives from the Company that participated in the conference call included
 18 Defendants Li and Yang. Defendant Yang answered almost all of the questions posed by
 19 analysts, while Defendant Li answered a few questions in Chinese, and had a translator repeat his
 20 answers in English.
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1 117. In his introduction on the conference call, Defendant Yang made multiple
2 statements regarding the Hu County greenhouse land acquisition, such as the following:

3 We will continue to capitalize on the market opportunities while China's -- within
4 China's highly fragmented organic fertilizer industry supported by our expanded
5 production capacity and our designated R&D platform. *In addition, we intend to*
6 *use a majority of the net proceeds from our recent financing in July 2009 to*
7 *build 12 greenhouses for future R&D expansion. The new greenhouse facilities*
8 *will extend our output of high quality agriculture products for commercial sales*
9 *while providing an advanced testing field for new fertilizers.*

10 *We obtained the land use rights of 88 acres of land for 50 years from the local*
11 *Chinese government in September 2009, and broke ground on the new*
12 *R&D facility a month later. We anticipate that the new R&D facility will be*
13 *completed by the second quarter of calendar year 2011.*

14 118. In addition, Defendant Yang responded to questions from analyst Howard Zhou,
15 of Roth Capital Partners, relating to the greenhouse expansion project:

16 **Howard Zhou**

17 Good and any update you want to share with us on the greenhouse expansion
18 project?

19 **Ying Yang, Chief Financial Officer**

20 *Yes, we have obtained the land use rights and we broke ground -- had the*
21 *breaking ground ceremony in the end of October, started the initial*
22 *construction, everything is on schedule.*

23 119. On November 18, 2009, the Company announced that the National Taxation
24 Bureau had approved a value-added tax ("VAT") exemption for Jinong, which was previously
25 paying a VAT rate of 13% for producing and distributing humic acid-based compound fertilizer
26 products. China Green said that the application was submitted in May 2009, and the VAT
27 exemption will be valid through December 31, 2015. Illustrating how important and material the
28 VAT payments are, Defendant Li stated that "it will have a significant and immediate effect on
our net income while further expanding margins to 3-5%."

120. That same day, November 18, 2009, the Company's stock price opened at \$13.20
per share, and increased approximately 26% to close at \$16.63, on trading volume of
approximately 3,879,800 shares of China Green common stock. The Company's stock rose

again by almost 10% on November 20, 2009, opening at \$15.63 per share, and closing at \$17.14 per share, on a trading volume of 2,557,300 shares.

ii. 2010 False and Misleading Statements

121. On February 8, 2010, the Company filed a Form 10-Q with the SEC, discussing financial results for the second quarter of fiscal year 2010. The Form 10-Q was signed and certified by Defendants Li and Yang, and included references to VATs, and the Hu County greenhouse land acquisition. In discussing VAT Payable, the Form 10-Q stated that *as of December 31, 2009, the VAT Payable was \$4,536.*

122. In discussing the Hu County greenhouse land acquisition, the February 8, 2010 Form 10-Q stated:

LAND USE RIGHT

Per the People's Republic of China's governmental regulations, the Government owns all land. However, the government grants the user a "land use right" (the Right) to use the land. The Company has recognized the amounts paid for the acquisition of rights to use land as intangible asset and amortizing over a period of fifty years.

A shareholder contributed the land use rights on August 16, 2001. The land use right was recorded at a cost of \$1,012,833. *On August 13, 2009, Xi'an Yuxing was granted a certificate of Land Use Right for a parcel of land of approximately 88 acres. The purchase cost is recorded at \$10,721,648.* Both certificates of land use right are valid for fifty years. The land use right consists of the following as of December 31, 2009 and June 30, 2009:

	<u>December 31, 2009</u>	<u>June 30, 2009</u>
Land use right	\$ 11,734,481	\$ 1,064,326
Less:		
accumulated amortization	(256,472)	(168,518)
Total	<u>\$ 11,478,009</u>	<u>\$ 895,808</u>

We received net proceeds of approximately \$24.5 million from a public offering of our common stock with 1,282,052 shares issued on November 25, 2009 and 320,512 shares on December 17, 2009. The shares were sold under the Company's previously filed shelf registration statement, which was declared effective by the Securities and Exchange Commission on June 12, 2009.

The net proceeds are being used for new green house expansion in Yuxing, which is expected to complete in two years and working capital purposes. We plan to use the new greenhouse facilities to expand our research and development base for our humic-acid based fertilizer products and other humic-acid related agricultural products.

Investing Activities

Net cash used in investing activities in the six months ended December 31, 2009 was \$13,148,780, a decrease of \$11,223,551 as compared to \$1,925,229 for the same period in 2008. This increase was mainly due to the purchase of the land use right for the expansion of our new greenhouse facility by Yuxing.

123. On February 10, 2010, the Company's stock price increased from its opening price of \$12.91 to close at \$13.05, on trading volume of 644,900 shares of China Green common stock. The Company's stock rose again on February 17, 2010, opening at \$13.72 and increasing 5% to close at \$14.40 per share, on trading volume of 797,700 shares of China Green common stock.

124. On May 13, 2010, the Company filed a Form 10-Q with the SEC for the third quarter of fiscal year 2010. The Form 10-Q was signed and certified by Defendants Li and Ren, and contained statements regarding VAT payables, and the Hu County greenhouse land acquisition. Note 10 of the Form 10-Q stated that *as of March 31, 2010, VAT Payables were \$12,073.*

125. The Form 10-Q filed on May 13, 2010 stated the following regarding the Hu County greenhouse land acquisition:

On December 23, 2008, Xi'an Hu County Yuxing Agriculture Technology Development Co., Ltd. ("Xi'an Yuxing") was established and registered in Hu County, Xi'an by two related parties. The purpose of establishing this entity is mainly to facilitate the research and development of agriculture technology. On July 23, 2009, 100% ownership of Xi'an Yuxing was transferred to Jinong for \$146,250 which was the original contribution for the share capital. *On September 25, 2009, Xi'an Yuxing was granted a land use right for approximately 88 acres of land for 50 years by the People's Government and Land & Resources Bureau of Hu County. The Company applied a portion of the proceeds from its public offering in July 2009 and November/December 2009 toward construction of 12 additional greenhouse facilities to further strengthen its R&D base and support its greenhouse capacity expansion.*

LAND USE RIGHT

Per PRC governmental regulations, the PRC government owns all land. However, the government grants the user a “land use right” (the Right) to use the land. The Company has recognized the amounts paid for the acquisition of rights to use land as intangible asset and amortizing over a period of fifty years.

A shareholder contributed the land use rights on August 16, 2001. The land use right was recorded at a cost of \$1,067,289. ***On August 13, 2009, Xi'an Yuxing was granted a certificate of Land Use Right for a parcel of land of approximately 88 acres. The purchase cost is recorded at \$10,721,805.*** Both certificates of land use rights are valid for fifty years. The land use rights consist of the following as of March 31, 2010 and June 30, 2009:

	March 31, 2010	June 30, 2009
Land use rights	\$ 11,789,093	\$ 1,064,326
Less: accumulated amortization	(256,475)	(168,518)
Total	<u>\$ 11,532,618</u>	<u>\$ 895,808</u>

126. Also on May 13, 2010, the Company had a conference call with analysts to discuss the financial results for the third quarter of 2010. Representatives from the Company who participated on the call included Defendants Li, Yang, and Ren, who took over as Chief Financial Officer for Defendant Yang. Accordingly, Defendant Ren discussed the Hu County greenhouse land acquisition purchase price, stating the following:

For the first nine months ended March 31, 2010, the company had 7.4 million in cash flow from operating activities, ***while capital expenditures accounted for approximately 14.7 million, primarily due to the purchase of land use rights in the expansion of the Company's new greenhouse facility.***

127. In addition, on the May 13, 2010 conference call Defendant Ren discussed how China Green had entered into a Memo of Understanding to acquire a new target company, and while Ren was not at liberty to disclose the name of the target, it became apparent later on that the acquisition target was Beijing Gufeng Chemical Products Co., Ltd. (“Gufeng”). In discussing the Gufeng acquisition during the May 13, 2010 conference call, Ren stated, in relevant part:

In this immediately passed April, we signed a Memorandum of Understanding to purchase a 100% interest, a 300,000 metric ton fertilizer production facility in China ***for approximately 22 million in a combination of cash and equity.***

This facility, if acquired, could contribute at least 8 million in net income in fiscal year 2011. It also would further expand our distribution network and broaden our product mix to meet the growing demand for both traditional and organic fertilizers in China.

With our strong working capital position, growing product offerings and expanding research and development capabilities, *we feel we are well positioned to gain market share and build on being one of the leading fertilizer producers in China.*

We were very proud and very excited that with this new acquisition targets, we are going to deliver extra income, income source as much as 8 million.

128. On June 18, 2010, the Company filed correspondence with the SEC, in response to the SEC's questions regarding China Green's corporate income tax figures in a Comment Letter dated May 10, 2010 from the SEC. The SEC's Comment Letter stated the following:

Form 10-K for the Fiscal Year Ended June 30, 2009
Notes to Consolidated Financial Statements
Note 14 – Income Taxes, page F-17

You indicated that, due to your non-operating status in the U.S. and tax free status in China, you had no deferred taxes for the fiscal year ended June 30, 2009 and 2008. However, we note that Techteam Jinong is taxed at a 15% rate. In addition, your disclosure in the first paragraph of Note 14 indicates that deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of your assets and liabilities and the related financial reporting amounts at the end of each period. As such, please clarify your position that you had no deferred taxes due to your non-operating status in the U.S. and tax free status in China. Also, please tell us, in detail, how your current disclosures comply with the disclosure requirements set forth in paragraphs 43-49 of SFAS 109.

129. In response, on June 18, 2010, the Company filed the following response to the Comment Letter, in relevant part:

The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. The Company has nominal deferred tax assets or liabilities relative to its Chinese operations, and, therefore, such deferred tax assets or liabilities are not reported. TechTeam Jinong became subject to income tax in China at a rate of 15% beginning January 1, 2008 as a result of the expiration of its tax exemption on December 31, 2007, and accordingly, *it made provision for income taxes as of June 30, 2009 and 2008 of \$2,331,548 and \$692,474, respectively, which is mainly due to the operating income from TechTeam Jinong.*

The table below provides detail on how the Company reconciled its U.S. statutory tax rate with its effective tax rate:

FY 2008	China	United States	
	15%	34%	Total
	<hr/>	<hr/>	<hr/>

Pretax income (loss)	10,717,921	(2,246,920)	8,471,001
Expected income tax expense (benefit)	1,607,688	15.00%	(763,953) 34.00%
Nontaxable income on Jintai	(296,230)	-2.76%	
Nontaxable income on Jinong	(618,984)	-5.78%	
change in valuation allowance on deferred tax asset from US tax benefit			-
			763,953 34.00%
Actual tax expense	692,474	6.46%	0 0.00%
FY 2009	China 15%	United States 34%	Total
Pretax income (loss)	18,188,877	(1,392,907)	16,795,970
Expected income tax expense (benefit)	2,728,332	15.00%	(473,588) 34.00%
Nontaxable income on Jintai	(366,936)	-2.02%	
Nontaxable income on Jinong	(29,848)	-0.16%	
change in valuation allowance on deferred tax asset from US tax benefit			-
			473,588 34.00%
Actual tax expense	2,331,548	12.82%	0 0.00%

130. On July 7, 2010, the Company filed a Form 8-K with the SEC, which was signed by Defendant Li. The 8-K served as an official announcement of the Company's entry into a Material Definitive Agreement to purchase Gufeng, and stated in relevant part:

Pursuant to the terms of the Share Transfer Agreement and the Supplementary Agreement, *TechTeam acquired all the equity interests in Gufeng for a purchase price of RMB 60 million (approximately \$8.8 million) in cash and the issuance of an aggregate of 2,275,931 shares (the "Shares") of common stock, par value \$0.001 per share, of the Company ("Common Stock") to the Gufeng Shareholders or their designees.*

(1) On the Closing Date, 1,365,558 of the Shares were released from escrow to the Gufeng Shareholders as a result of the successful completion of the share transfer registration with the local Administration Bureau for Industry and Commerce in the People's Republic of China making TechTeam the sole registered shareholder of Gufeng.

(2) *If Gufeng achieves at least RMB 600 million (approximately \$88.4 million) in net sales revenue for its fiscal year ending June 30, 2011 (the "Sales Target"), 341,390 of the Shares will be released from escrow to the Gufeng*

Shareholders. However, a reduced number of the Shares may be released from escrow even if Gufeng fails to achieve the Sales Target. If Gufeng achieves at least 80% of the Sales Target, then 227,593 of the Shares will be released from escrow to the Gufeng Shareholder, and if Gufeng achieves at least 60% of the Sales Target, then 113,797 of the Shares will be released from escrow to the Gufeng Shareholders.

(3) If Gufeng achieves at least RMB 72 million (approximately \$10.6 million) in net profit after tax for its fiscal year ending June 30, 2011 (the "Profit Target"), 341,390 of the Shares will be released from escrow to the Gufeng Shareholders. However, a reduced number of the Shares may be released from escrow even if Gufeng fails to achieve the Profit Target. If Gufeng achieves at least 80% of the Profit Target, then 227,593 of the Shares will be released from escrow to the Gufeng Shareholders, and if Gufeng achieves at least 60% of the Profit Target, then 113,797 of the Shares will be released from escrow to the Gufeng Shareholders.

131. On July 7, 2010, the Company's common stock opened at \$8.52 per share, and by the end of trading the following day, had increased over 8% to close at \$9.21, on heavy trading volume.

132. On September 1, 2010, the Company filed a Form 8-K with the SEC that was signed by Defendant Li, and discussed the Company's financial results for the fiscal year ended June 30, 2010. In the press release, Li stated the following in regards to the Gufeng acquisition:

In July, we closed on the acquisition of Beijing Gufeng Chemical Products Co., Ltd., which expanded our annual fertilizer production capacity from 55,000 metric tons to 355,000 metric tons. The facility extends our distribution network and broadens our product mix to meet the growing demand for both traditional and organic fertilizers in China, and is expected to contribute at least \$10.6 million in net income in fiscal year 2011. With our strong working capital position, growing product offering and expanding R&D capabilities, we feel we are well positioned to gain market share and build on being one of the leading fertilizer producers in China.

133. Also on September 1, 2010, the Company hosted a conference call with analysts to discuss financial results for the fiscal year ended June 30, 2010. Representatives from the Company who were on the call included Defendants Li, and Ren, and an anonymous "Corporate Participant" who was later identified as a translator for Defendant Li. In discussing the greenhouse land acquisition, Defendant Ren stated:

The company owns and operates stores enhanced agricultural brands in new markets where we now compete our existing distributors. In June, we completed phase one of our research and development centre completing the construction of a 100 sunlight greenhouses on our 88 acre facility in Beijing. The land purchase price that we recorded in our -- is accurate and truly reflects the total cost for U.S. GAAP. The transaction was constructed through a land transfer

acquisition from a state-owned entity. It was not conducted by public auction from the land and the natural resource bureau. The purchase cost was recorded as approximately 10.8 million, which included our land transfer fee, land compensation fee, land use right transfer fee, -- tax, registration fee, -- and appraisal fee.

134. In addition, through the translator, Defendant Li discussed questions from analyst Tim Tiberio of Chardan Capital Markets regarding the discrepancies between VAT payables in SEC filings, versus what the Company reported in SAT filings in China:

Tim Tiberio

Okay. And then one other question, I know there has been a lot questions around tax returns for a lot of these Chinese companies. There's been some issues raised between the VAT tax that appears to been accrued in what's being paid to the Chinese tax authorities. I guess my first question is can you walk us through that, if there is a difference? And then secondly, how can investors actually get tax return from the Chinese central government? We've heard that due to privacy laws, actually getting the consolidated tax form is very difficult. So, I was hoping that maybe you could address that.

Corporate Participant

Okay. With respect to that question, I will ask Mr. Li to address it and I will translate for him. Wait for a second.
[Non-English]

Corporate Participant

So, I'm the translator. I understand there are some rumors that are concerned about the tax that we filed with the local government. *What I wanted to emphasize here is the value added taxes and the income taxes that we pay to the taxation bureaus are complete. There are some information outstanding that are showing partial information. They would be more than happy to share our information which matches exactly to what we filed to the SEC.*

135. Defendant Ren also addressed questions related to VAT payables posed by Luis Tan from Rodman & Renshaw:

Analyst

Per metric ton, okay. Just one more question, just one more question. There appears to be some difference between the VAT tax approved and what was paid to the Chinese tax authorities. Can you please help us to understand what occurred there and we can find the difference?

Ken Ren, Chief Financial Officer

I'll let Mr. Li to address this question and I'll translate.

Tao Li, President and Chief Executive Officer

[Non-English]

Analyst

I am sorry, I couldn't hear.

1 **Tao Li, President and Chief Executive Officer**
[Non-English]

2 **Analyst**

3 Okay. Ken, do want to translate that?

4 **Tao Li, President and Chief Executive Officer**
[Non-English]

5 **Analyst**

6 Okay. Are you guys going to translate into English?

7 **Ken Ren, Chief Financial Officer**

8 Alright, I can translate. *So, I would like to emphasize that the actual value added*
9 *tax we submitted or we paid to the Chinese government, there is -- consistent*
10 *with amount we held with SEC. So, according to the government's record the*
11 *tax payment receipt, they are exactly matching with each other. So, in terms of*
12 *the rumors and the report, we're not sure to really confirm and then that*
13 *information appears to be incomplete and inaccurate.* And again, we will raise
14 from the value added tax from majority of our asset based organic fertilizers,
15 products from September, 2010, -- 2009 ever since then that our product is
16 waiting approval of value added tax, I mean the majority of our fertilizer, organic
17 fertilizer products. However, there are still some other mix products, as a majority
18 is from the value added tax.

13 136. Also on the September 1, 2010 conference call, Defendant Li addressed questions
14 (through the translator) from analyst John Hickey with Cowen Capital, regarding reported
15 discrepancies as to the purchase price of the greenhouse land acquisition in Company
16 disclosures, compared with SAIC filings:

18 **Analyst**

19 Hi. Thanks for taking my questions. The first question I have is related to your
20 land purchase. You had mentioned that earlier, but I may have missed something.
21 It was 10.8 million as reported purchase price, but the official records are 2.5
22 million. Could you go over the reconciliation between those two amounts one
23 more time?

24 **Corporate Participant**

25 So, we would be more than happy to give you certain details on our land
26 acquisition. So, actually we feel encourage on this land acquisition from investors
27 and media. And there are some -- understanding of the land, property market in
28 China. *I would like to emphasize that these land acquisition was purchased*
29 *from a state owned enterprise to a private transaction, not from the government.*
30 *So, in terms of reconciliation, we paid total \$10.7 million, which is equivalent*
31 *73.2 million. The fee item that we paid to government with constitute land fee of*
32 *5.2 million and the land compensation fee of 12.1 million. In addition to that we*
33 *paid a seller 54.8 million in terms of net new nonuse land transfer fee. On top*
34 *of all these three fees, we also paid other linear target such as fee tax, --*
35 *registration fee, fee, survey, appraisal fee. So in total that RMB 73.2 million*
36 *equivalent to \$10.7.*

Analyst

Okay. So, for this kind of transaction, this private acquisition from state owned enterprise where the purchase price is 2.5 million, is it normal for the fees and the rights and everything that you just described to be four times the land purchase price?

Corporate Participant

Actually, I wouldn't like to reemphasize that. *The 2.8 million is to land -- fees and the land compensation fees that's a part of the total land purchase price. And the majority of the land purchase price is paid to retailer in terms of land utilized transfer fee.*

Analyst

Okay. All right, thanks. Also you mentioned earlier regarding --

Corporate Participant

I'd like to also reemphasize that in China the land transaction can either be conducted by the government through public auction or private transaction. And in our case, it was executed through our transaction. And then lately, there has been similar land transaction in the neighboring area. For instance in July 2010, in the same city, same suburban area, three land transaction auctions by the government done at roughly \$120,000 per acre for project use purpose, for industrial project purpose use. That's through the transaction. *So, this -- the prices high the local government through last channel constitute land planting fee and land compensation fee, totaled at \$120,000 per acre.*

Analyst

Okay.

Corporate Participant

So ours, the land price we paid in the same ballpark roughly a \$120,000 per acre. And then in the nearby, in the closer, the city area, the land price per acre is in the ballpark of 2 million to \$3 million per acre.

And then if we rational the purchase price of \$2.8 million of the total 88 acres of our transaction, it can be translated amount that our acre -- our land to acre price is at 20 to \$30,000. So that's unachievable price in this -- in today's China property market that's impossible for us.

It's just [an] impossible price that one can acquire with such a low level. Basically it's also in the property market.

137. On September 7, 2010, the Company also filed with the SEC a Form 10-K for the fiscal year 2010, which was signed and certified by Defendants Li, Ren, Hao, Liu, Zhang and Fields. In this filing, the Company reported gross profit for the fiscal year ended June 30, 2010 increased by \$10,456,270, or 51.0%, to \$30,952,201, as compared to \$20,495,931 for the fiscal year ended June 30, 2009. Gross profit margins were approximately 59.4% and 58.2% for the fiscal years ended June 30, 2010 and 2009, respectively.

1 138. The Company also made various statements regarding VAT and it income taxes.
2 For example, the Company disclosed in Note 12 to the Form 10-K, that *as of June 30, 2010, the*
3 *Company's Income Tax Payable was \$ 2,020,253, and VAT Credit (Provision) was \$(24,655).*

4 The Company also stated:

5 During the fiscal years ended June 30, 2010 and 2009, excluding Gufeng, our
6 revenues were \$52,090,752 and \$35,207,997, respectively, and our net income
7 was \$21,158,993 and \$14,464,422, respectively.

8 The Company issued 4,025,000 shares of common stock at a public offering price
9 of \$7.15 per share in an underwritten offering and received total gross proceeds of
10 approximately \$28.8 million on July 24, 2009. The shares were sold under the
11 Company's previously filed shelf registration statement, which was declared
effective by the SEC on June 12, 2009. *The Company intends to use the net*
proceeds to expand its production facilities through the construction of new
greenhouse at Yuxing.

12 The Company completed the sale of 1,282,052 shares of common stock at a
13 public offering price of \$15.60 per share on November 25, 2009 in a registered
14 direct offering for gross proceeds of \$20,000,011. On December 16, 2009, the
15 placement agent exercised rights to place up to 320,512 additional shares of
common stock at a price of \$15.60 per share, for additional gross proceeds of
16 \$4,999,987. *The Company intends to use all of the net proceeds for working*
capital purposes. The shares were sold under the Company's previously filed
17 shelf registration statement, which was declared effective by the SEC on June 12,
2009.

18 *As of June 30, 2010, we sold our products through a carefully constructed*
19 *network of about 573 distributors covering 21 provinces, 4 autonomous regions*
20 *and 3 central government-controlled municipalities in China.* We developed
21 43 new distributors during the fiscal year ended June 30, 2010 and terminated 15
distributors based on our evaluation of their performance. By integrating
Gufeng's network of over 150 distributors in China, we now have a collective
distribution system of over 723 distributors.

22 In January 2007, we invested approximately \$10 million to purchase and
23 construct advanced intelligent greenhouse facilities for Jintai to serve as our
24 research and development base. *We believe it has quickly become one of the*
25 *leading green fertilizer research facilities in China.* Flowers, fruits and
26 vegetables that are grown for experimental testing of Jinong's humic acid organic
liquid compound fertilizers are of high quality and value and are sold to local
supermarkets and airline companies. We sold approximately \$6,274,375 of these
27 agricultural products during the fiscal 2010.
28

During fiscal 2010, we applied \$12,956,621 of the proceeds from our public offerings in July 2009 and November/December 2009 (the "Public Offerings") toward the partial payment of Yuxing's pending research and development center, which includes the construction of 100 sunlight greenhouses and 12 "intelligent" greenhouses. *Upon completion, we expect the research and development center to expand our output of high quality agricultural products for commercial sale while providing an advanced testing field for new fertilizer products. The new facility will continue to increase our capability to produce more products while shortening the new product development cycle, which allows us to get products to market quickly, thus increasing revenues and market share.* In addition to developing new humic acid-based fertilizer products, we are planning to develop other agricultural derivatives from humic acid, such as humic-acid based organic pesticides, which can provide additional revenue sources and increase profitability.

In the highly fragmented Chinese fertilizer market, we have established our own distribution channels with private distributors that sell our products to retail stores and farmers throughout China. *With our acquisition of Gufeng and Tianjuyuan, we have over 723 distributors nationwide across 21 provinces, 4 autonomous regions and 3 central government-controlled municipalities in China. Our distribution and sales network is one of the largest among manufacturers of humic acid fertilizers in China.* Most of our competitors, including larger competitors, do not have a sales team as large as ours that specializes in the sale of humic acid fertilizer products. Moreover, we expect the regional strengths of Gufeng's distribution network to expand our sales coverage to certain cities and counties as well as foreign markets.

We are currently building 12 new greenhouses over an 88-acre parcel of land in connection with Yuxing's pending research and development center, which will expand output of high quality agricultural products for commercial sale while providing an advanced testing field for new fertilizer products. The new facility will continue to increase our capability to produce more products while shortening the new product development cycle, which allows us to release products to market quickly, thus increasing revenues and market share. In addition to developing new humic acid-based fertilizer products, we are planning to develop other agricultural derivatives from humic acid, such as humic-acid based organic pesticides, which can provide additional revenue sources and increase profitability.

D. REASONS FOR FALSITY

139. China Green's statements and filings listed above and presented in this Complaint were materially false and misleading because they failed to disclose and misrepresented the true nature and scope of the Company's business, financial reporting, and accounting. Defendants

1 failed to disclose material adverse information regarding the Company, including, among other
2 things, the following:

- 3 (i) The amount of VAT payables, as reported in Jinong's financial documents filed
4 with the SAT, differs from that reported in China Green's SEC filings for the same
5 period;
- 6 (ii) The Company never provided analysts or investors with SAIC filings and Chinese
7 tax information which "matches exactly to what we filed to the SEC," as
8 Defendant Li stated would happen in the September 1, 2010 conference call with
9 analysts, because those document do not, in fact, exist;
- 10 (iii) The Company reported its corporate income tax ("CIT") payable statement in its
11 Form 10-K for the 2010 fiscal year as having been paid annually, Chinese tax
12 laws, however, require such payments be made quarterly, yet the Company never
13 explained these discrepancies;
- 14 (iv) Despite the Company's claims that it made CIT payments to the SAT, the SAT has
15 no documentation of such payments ever even being made;
- 16 (v) The Company's stated that it had historically accrued large VAT payables up until
17 September 2009, yet these VAT payables were never paid according to Jinong's
18 SAT records;
- 19 (vi) According to SAT records, from July 2008 through April 2010, Jinong paid VAT
20 of only RMB341,023(approximately \$52,522), which is inconsistent with the large
21 amounts reported as accrued by the Company for each quarter from July 2008
22 through April 2010;
- 23 (vii) Management has never explained the \$15 million in discrepancies between what
24 China Green actually paid to the SAT and what the Company claimed, or what
25 happened to these missing funds;
- 26 (viii) According to filings with Hu County officials, the actual cost of the Hu County 88
27 acre greenhouse land purchase was approximately \$2.5 million, not the inflated
28 price of over \$10 million reported by the Company and Defendant Li to investors
in the conference call on September 1, 2010;
- (ix) In the context of the Hu County greenhouse land acquisition, there is no possibility
that the land use right payment made by China Green's subsidiary Yuxing was
made to an undisclosed third party, or a "state owned enterprise," as according to
SAIC documents, the land use right was acquired directly from the Hu County
government's Land and Resource Bureau, which directly contradicts the
Company's disclosures regarding the purchase;
- (x) In the Notice of Approval of the Land Use Right Sale (the "Notice") issued by Hu
County People's Government, it is clearly stated that on April 3, 2009 the local
government had taken back the ownership of the land use right that was
subsequently sold to Yuxing, and the same document also indicated the land use
right was granted to Yuxing by the Hu County government at the 26th and 60th
meeting of its standing committee;
- (xi) The Notice states that the specified usage of the land in Hu County is for
agriculture, which carries a much lower selling price than industrial use land, and

as such the comparable prices quoted by Defendant Li on the September 1, 2010 conference call are entirely misleading;

- (xii) Chinese receipts issued for the payment in the Hu County greenhouse land sale indicate that the seller of the land is the government, not the private entity which the Company has stated previously owned the land;
- (xiii) The calculation of the Deed Tax on the Hu County greenhouse land transaction does not support management's claims as to the selling price, regardless of who it was purchased from, as deed taxes in China are calculated based on total sales price; here, the 3% Deed Tax receipt from the Hu County Land and Resource Bureau shows that it was only applied to the RMB17.35M recorded purchase price, not the RMB 73.2M inflated purchase price claimed by management;
- (xiv) The sale price of the land use right for the Hu County greenhouse land acquisition was the result of an appraisal by a third party firm, which subsequently was approved by the Land and Resource Bureau. In the official confirmation Report of Land Appraisal issued by the Land and Resource Bureau, dated August 5, 2009, the Bureau acknowledged that the appraised value of the land use right was RMB17.33M, or approximately \$2.5 million, which properly reflects the real value of the land, not the inflated price misleadingly disclosed by management;
- (xv) The price that China Green reported it paid for Gufeng is entirely too high, given analysis of Gufeng's Inventories and Unearned Revenues figures, and simply does not make sense from a financial point of view;
- (xvi) Gufeng's SAIC financial statements as released by China Green, contradict the financial results for Gufeng which were filed with the SEC;
- (xvii) The Company's financial statements filed throughout the Class Period materially overstated and inflated China Green's and net income amounts;
- (xviii) The margins reported by the Company were far in excess of other comparable companies operating in a similar business environment during this period; and
- (xix) The Company's claims with respect to humic acid and similar technologies it markets were exaggerated.

140. The scope of Defendants' misrepresentations and omissions is daunting and affects nearly every aspect of the Company's finances and accounting. The revelation of Defendants' fraud began in the late summer of 2010, with the publication of a series of explosive research reports by the International Financial Research & Analysis Group ("IFRA"). While Defendants have attempted to brush aside these allegations by stating that the analysis was "incomplete" and therefore incorrect, investors and analysts would soon join IFRA's calls for China Green to admit what was becoming painfully obvious to anyone who investigated the

1 Company: Defendants had perpetrated a long-running scheme that had defrauded the investing
2 public of millions of dollars.

3 **E. THE TRUTH BEGINS TO EMERGE**

4 **i. The IFRA Report**

5 141. On or about September 1, 2010, the first disclosure of the falsity of Defendants'
6 statements concerning China Green's business and representations came to light when a revised
7 draft of a research report by IFRA, entitled "Project Shaanxi Due Diligence Report," was issued
8 (the "IFRA Report"). IFRA provides complex financial analysis, business research, and due
9 diligence services for investors. The Company aims to help investors reduce exposures in
10 funding new business opportunities and investments, by providing companies and individuals
11 with detailed analysis and intelligence regarding those potential investments.

12 142. The IFRA Report presented startling findings of China Green's business and
13 accounting practices, including, among other things: (i) that China Green's management had not
14 explained large discrepancies between the VAT payables presented in the Company's audited
15 financials filed with the SEC, compared to records obtained from the SAT; (ii) despite the
16 Company's claims in audited financial statements filed with the SEC that it had paid CIT in 2009
17 for Jinong, the SAT had no records that Jinong paid corporate income taxes in 2009; (iii) the
18 actual cost of the September 2009 Hu County 88 acre greenhouse land purchase was less than
19 one quarter the price that China Green reported in its SEC filings and told investors in the
20 conference call on September 1, 2010; (iv) management has not explained large discrepancies in
21 revenues and net income reported in China Green's filings with the SEC compared to those
22 reported to its local SAIC branch; (v) Kabani, the Company's auditor, had a history of auditing
23 questionable companies, all of which have significantly lower market capitalizations than China
24 Green; and (vi) the acquisition price China Green paid for Gufeng was way too high, as
25 Defendant Ren had admitted on a conference call that Gufeng's 2009 earnings quality was low,
26 and its audited financials completely contradicted its results filed with the SAIC.

27 **1. VAT Payables Are Inconsistent**

28

143. The IFRA Report provided detailed analysis of the inconsistencies in China Green's filings regarding the issues mentioned above. For example, in regards to VAT payables, IFRA pointed out that China Green's quarterly and annual audited financial statements filed with the SEC on forms 10-Q and 10-K disclosed VAT payables at the end of each period. According to Chinese law, these amounts are payable within thirty days, not quarterly or annually, and few if any extensions are granted. Late penalties are often severe, and act as a significant deterrent to paying late. China Green's VAT payables per quarter beginning in June 2008, are broken down as follows:

Period Ending Date	VAT Payable
3/31/2010	\$12,073
12/31/2009	\$4,536
9/30/2009	\$2,191,772
6/30/2009	\$1,216,191
3/31/2009	\$582,925
12/31/2008	\$1,009,242
9/30/2008	\$5,476,791
6/30/2008	\$4,495,140

144. As this table demonstrates, China Green historically accrued large VAT payables until September 2009, after which management claimed that they had received an exemption in accordance with SAT 2008 Taxation Notice #56, "Exemption of VAT for Organic Fertilizer Products" ("Exemption #56").⁵

145. However, despite the Company's claims that it paid its large VAT tax accruals, according to SAT records, these payments were never made. In fact, from July 2008 through April 2010, SAT records only show that Jinong paid VAT of approximately \$67,971 (RMB 469,000). This small amount differs significantly from the large amounts reported by China

⁵ According to a report by Deloitte Touche Tohmatsu entitled "NTS Tax News Issue P49/2008-23 July 2008," a well-known and respected auditor in China, to qualify for Exemption #56, a taxpayer must: (i) separately calculate the sales of organic fertilizer products, (ii) provide a copy of a valid fertilizer registration certificate, approved and issued by agricultural administration authorities, to Chinese tax authorities, (iii) and provide product quality examination reports. Further, taxpayers may not issue VAT invoices for sales of VAT-exempt organic fertilizer products.

Green on the balance sheets it filed with the SEC. This can be demonstrated in the following table:

SAT Tax Record		SEC Filings	
Tax Period	VAT Payment	Date	VAT Payable
Apr. 2010	¥127,976	Mar. 31, 2010	\$12,073
Mar. 2010	¥120,906		
Feb. 2010	¥3,784		
Jan. 2010	¥0	Dec. 31, 2009	\$4,536
Dec. 2009	¥19,536		
Nov. 2009	¥0		
Oct. 2009	¥41,291	Sept. 30, 2009	\$2,191,772
Sept. 2009	¥16,329		
Aug. 2009	¥14,921		
Jul. 2009	¥35,539	Jun. 30, 2009	\$1,216,191
Jun. 2009	¥11,869		
May 2009	¥23,761		
Apr. 2009	¥0	Mar. 31, 2009	\$582,925
Mar. 2009	¥8,337		
Feb. 2009	¥0		
Jan. 2009	¥0	Dec. 31, 2008	\$1,009,242
Dec. 2008	¥0		
Nov. 2008	¥4,630		
Oct. 2008	¥4,467	Sept. 30, 2008	\$5,476,791
Sept. 2008	¥4,453		
Aug. 2008	¥17,623		
Jul. 2008	¥13,577	Jun. 30, 2008	\$4,495,140
Total:	¥341,023		
Total(\$):	\$52,522	Total:	\$14,988,670

146. The difference between what was reported to the SAT, and what was disclosed in SEC filings, amounts to approximately \$15,000,000. To date, management has still not sufficiently explained where these missing funds have gone—they have refused to respond other than to say on the conference call on September 1, 2010 that IFRA's records are "incomplete."

147. The Company issued a press release on September 13, 2010, responding to IFRA's arguments. In relation to the VAT discrepancies, the Company stated the following, in part:

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

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

13 Those who questioned our VAT payments also confused two different accounting
 14 terms: "VAT Payable" (under the "SEC filings" column) and "VAT Payment"
 15 (under the "SAT Tax Record" column). "VAT Payable" is a balance sheet
 16 account entry representing the ending balance that the company is liable to pay to
 17 SAT whereas **"VAT Payment" is an expense account entry on income**
 18 **statement referring to the actual VAT Payment the Company made during**
 19 **that period.** The ending balance of VAT Payable represents the beginning
 20 balance of VAT Payable, plus the additional accrued VAT expense, minus the
 21 VAT Payment during that period. **It is incorrect to add up the ending balance**
 22 **of VAT Payable for the past eight quarters and to conclude that those are the**
 23 **actual payments made during these periods.**

24 The VAT payments made by the Company to the SAT, the duly empowered
 25 authority of the PRC, match to what we recorded in our accounting system, which
 26 provides the ledger details for our financial consolidation in the SEC filings. From
 27 July 2008 to June 2009, we made 16 VAT payments with a total amount of
 28 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.
 [Emphasis added.]

148. Despite the Company's claims that its VAT payables had been stated correctly,
 IFRA's analysis of VAT payments was subsequently reinforced by multiple analysts, all of
 whom questioned the Company's justifications. For instance, Alfred Little, a former CPA,
 published an article on September 14, 2010 entitled, "China Green Agriculture: Still Waiting For
 Answers," which points out additional details regarding China Green's VAT payables, and the

1 Chinese tax system in general. First, under GAAP, VAT related accounting entries are made
2 only to accounts on the Balance Sheet, not the Income Statement, as was referenced by the
3 Company's press release on September 13, 2010.

4 149. Accordingly, VAT accounting entries on the Balance Sheet include the following
5 accounts:

6 (1) Sale of Goods: an increase in Cash (or Accounts Receivable) and VAT Payable for
7 the amount of the VAT sales output tax;

8 (2) Purchase of Goods: A decrease in Cash and the VAT Payable for the VAT purchase
9 input tax deductible; and,

10 (3) VAT payment to the SAT: a decrease in Cash and VAT Payable.

11 150. As a result of the VAT touching the Balance Sheet, and NOT the Income
12 Statement, the explanation given by the Company that its VAT amount was an "expense entry"
13 on the Income Statement is completely incorrect.

14 151. Secondly, Little's article pointed out that China Green also failed to mention that
15 VAT is required to be accrued on a monthly basis, and any amount of VAT Payable that the
16 Company reports on its balance sheet must be paid within thirty days (to avoid severe penalties).
17 As a result, calculating all quarter ending VAT payable balances for the 8 quarters in question,
18 totaling approximately \$14.9 million, is an entirely reasonable method to reach the conclusion
19 that China Green must have paid at least that amount to the SAT in China. The Company's
20 statements in the September 13, 2010 press release stating that these methods of calculation were
21 "incorrect" is therefore completely misguided and wrong.
22
23

24 2. CIT Payments Were Never Made To Chinese Authorities

25 152. In addition to discussing the VAT payables, the IFRA report also analyzed
26 inaccuracies in China Green's disclosed CIT payments. The Company's cumulative amounts of
27
28

CIT payments from quarterly 10-Q SEC filings for 2009 (on a cash basis), and Jinong's net income figures for the same periods, are broken down as follows:

Fiscal Period	Income Tax Paid	Jinong Net Income (from SEC filings)
Q2E Dec. 31, 2009	\$0	\$4,213,250
Q1E Sept. 30, 2009	\$0	\$5,159,879
Q4E Jun. 30, 2009	\$(621,367)	\$4,369,862
Q3E Mar. 31, 2009	\$3,355,719	\$3,465,341
2009 Total:	\$2,734,352	\$17,208,332

153. However, according to documents obtained from reliable third party sources by IFRA, the SAT has no records of Jinong making any CIT payments in 2009. This raises numerous red flags and is an indicia of outright fraud, namely: (i) if Jinong did not make CIT payments in 2009 as indicated by SAT records, then Jinong's net income figures of \$17,208,332 above must be significantly overstated; and (ii) if Jinong did not make the \$2,734,352 CIT payment as reported to the SEC, then according to Chinese law the failure to pay is a serious criminal offense with significant penalties. The Company has failed to sufficiently inform investors as to where the \$2,734,352 has gone if Jinong did not make the CIT payments, other than by stating on the September 1, 2010 conference call that IFRA's records were "incomplete."

154. The Company addressed IFRA's allegations regarding CIT payments in the September 13, 2010 press release, stating the following, in part:

More specifically, Jinong paid RMB14,466,731.61 (approximately \$2.1 million) in March 2009 for the CIT incurred for calendar 2008. It paid RMB 21,040,562.21 (approximately \$3.1 million) in March 2010 for the CIT incurred for calendar 2009.

155. However, in his article on September 14, 2010, Little explained CIT in China has to be filed and pre-paid to SAT within fifteen days after the end of each month or quarter. By the end of the fifth month after a calendar year ends, the company must then file a final tax return, with adjustments, to prior pre-payments and its audited financial statements. As a result,

1 it is impossible for China Green to have paid each calendar year's income taxes in a lump sum in
2 March of the following year, as it claims to have done in the September 13, 2010 press release.

3 **3. The Hu County 88 Acre Greenhouse Land Purchase Price Was**
4 **Significantly Less Than What Was Reported To Investors**

5 156. IFRA's report also provided detailed analysis regarding the Hu County
6 greenhouse acquisition, questioning the purchase price of RMB73.2M that the Company
7 disclosed it had paid. In multiple press releases and on conference calls, the Company has stated
8 that the land was not purchased from the government, but was actually purchased from a private
9 State Owned Enterprise ("SOE"). However, as the IFRA Report pointed out, this is incorrect.
10 According to the land use right transfer agreement, China Green's Yuxing subsidiary acquired
11 the land use right from the Hu County government's Land and Resource Bureau, and there is no
12 chance that the payment was made to an unidentified third party. Further, the agreement
13 between the Company and Hu County is entitled "State-Owned Land Use Right Transfer
14 Agreement' and the seller is clearly stated as the "Land and Resource Bureau of Hu County,
15 Xi'an, Shaanxi."

16 157. Making matters worse, not only did the Company obfuscate the identity of the
17 party from whom China Green bought the 88 acre parcel of land, but the Company also
18 inaccurately stated the purchase price paid for the land. For instance, in the Notice of Approval
19 of the Land Use Right Sale issued by Hu County Peoples' Government, file number – Notice
20 #16 (2009) (the "Notice"), it states that the specified usage of the land is for agriculture, which is
21 a much lower offering price than land designated for industrial purposes.

22 158. Further, calculation of the Deed Tax on the land confirms the purchase price was
23 closer to approximately \$2.5 million, not the inflated \$10.7 million disclosed by management.
24 The Deed Tax in China is required to be calculated and paid based on total sale price, which,
25 according to Land and resource Bureau records, shows that the 3% tax was applied to RMB
26 17.35M (~ \$2.5 million), not the RMB73.2M (~\$10.7 million) price quoted by management.

27 159. In addition to the Deed Tax calculation, the 88 acre parcel of land was appraised
28 by the Land and Resource Bureau of China for RMB17.35M, and was stated as such in the

1 Confirmation Report of Land Appraisal issued by the Land Resource Bureau on August 5, 2009.
2 As a result of the official reports and documents from multiple government agencies in China
3 estimating the land's worth to be RMB17.35M (~\$2.5 million), the Company's disclosures in
4 SEC filings and on the September 1, 2010 conference call representing that the price was
5 approximately \$10.7 million, are, therefore, materially false and misleading.

6 160. The Company barely addressed IFRA's allegations regarding the land purchase
7 payments in the September 13, 2010 press release, largely repeating what it had said before—
8 stating that the Company "paid the seller, a state-owned entity RMB54,834,840.71
9 (approximately \$8.1 million) in order to secure the transfer of the land use right as the Land
10 Transfer Fee," and that it "also had to pay a Deed Tax and a Registration Fee. Such fees are also
11 standard government charges."

12 161. Alfred Little quickly addressed China Green's response with respect to IFRA's
13 claims regarding the Hu County greenhouse land acquisition in his September 14, 2010 article,
14 pointing out that the Company has still not explained the payment of RMB 54.83 million to an
15 unnamed SOE, and in fact, the government record obtained by IFRA titled "Notice of Approval
16 for the Land Use Right Sale from Hu County Government" explains very clearly that the
17 government took back the usage rights to the land from the previous owner on April 3, 2009
18 before reselling it to CGA subsidiary Yuxing. It is also clearly stated in the land use right
19 transfer agreement that Yuxing acquired the land use right directly from Hu County
20 government's Land and Resource Bureau. Therefore, there is absolutely no possibility of the
21 RMB 54.83 million payment CGA claims it made to the unnamed SOE to purchase the land use
22 rights.

23 162. In addition, with respect to the Deed Tax Receipt, that showed a tax payment of
24 RMB 520,534.78, an amount CGA also confirms in their press release. According to the Deed
25 Tax Regulation of the Shaanxi provincial government, the applicable deed tax rate for such
26 transactions is 3% according to Section 5 of the regulation. Section 6 (1) clearly explains that 3%
27 shall be calculated on the contracted price of land usage rights and properties, including all forms
28

of payments made in monetary considerations, tangible, intangible assets and economic interests. The land usage right sale price based on the RMB 520,534.78 and 3% deed tax rate is RMB 17.35 million. CGA therefore paid no Deed Tax on the balance of RMB 54.83 million it claims it paid to the unidentified “selling SOE,” in clear violation of the Deed Tax law. Little concluded that “once again it strongly appears this money went somewhere else unrelated to the land purchase.”

4. The Price Paid For Gufeng Was Too High Given The Quality of The Acquisition

163. According to China Green’s 8-K filed with the SEC on July 7, 2010, the Company acquired 100% of the equity interests in Gufeng a combination of RMB 60M (~ \$8.8 million) in cash plus the issuance of 2,275,931 in Company common stock to Gufeng shareholders, making the total purchase price approximately \$33.38 million.⁶ However, as highlighted in the IFRA report, there was an extra \$14.7 million disclosed as having been advanced to Gufeng for working capital shortfalls, which actually makes the total cost of the acquisition approximately \$48 million. Accordingly, China Green appears to be significantly overpaying for the Gufeng acquisition, for a number of reasons.

164. First, Gufeng’s net assets are far less than the purchase price paid by China Green. It was disclosed by the Company that Gufeng’s fertilizer production capacity was approximately 300,000 metric tons/year, with a current utilization rate of 60%. IFRA’s investigation surveyed fertilizer industry experts, who concluded that the cost to construct a facility with similar capacity levels would not cost more than approximately \$15 million. Yet, in its audited financials, Gufeng stated on August 13, 2010 in a Form 8-K/A that it had Plant, Property, and Equipment of approximately \$10 million as of March 31, 2010 – less than 1/3 the reported purchase price paid by China Green in the acquisition. On Gufeng’s Balance Sheet, when Gufeng’s Liabilities are deducted from its Total Assets, the net asset value becomes merely \$4.2 million, meaning approximately \$29 million of the purchase price China Green paid would be allocated to “Goodwill.”

⁶ This price is based upon the China Green common stock price on August 13, 2010 of \$10.81 per share.

165. Second, in analyzing Gufeng's financial position before the acquisition, it becomes obvious that it was a very weak company, due to a lack of cash resources on the Balance Sheet, and lack of historical cash flow. China Green's July 7, 2010 Form 8-K filed with the SEC confirmed these concerns, when the Company stated that it would: "contribute RMB100M (approximately \$14.7 million) to Gufeng following the Closing Date for working capital." Given Gufeng's sub-par historical financial performance, there is simply no reason that China Green should have paid approximately \$48 million to acquire the Company.

166. Third, Gufeng's audited financials also indicate its low quality, and are inconsistent with SAIC records. On August 13, 2010, China Green filed a form 8-K/A with the SEC which included Gufeng's financial statements. On its Income Statement, Gufeng had a net loss of \$2,946,701 in 2008, and a net income of \$3,755,409 in 2009, with revenue forecasted to grow over 30% per year. However, in the financial statements filed with the SAIC, Gufeng made very little profit from 2007-2008, and actually had a loss of RMB7.98 in 2009, as demonstrated in the table below:

Beijing Gufeng Financial Information						
Unit: RMB '000						
Source	SAIC			Audited Financials*		
Cal. Year	2007	2008	2009	2007	2008	2009
Revenue	296,485	340,568	177,997	N/A	281,795	369,000
Net Profit	182	131	(7,980)	N/A	(20,097)	25,649

*Audited Financials provided by China Green were converted with the exchange rate of 6.82 in 2008, and 6.83 in 2009.

167. Another indicator of Gufeng's low earnings quality relates to unusually large changes or discrepancies in Inventory and Unearned Revenues, as was the case between 2008 and 2009. When companies delay or hold off on recognition of revenues, Inventory and Unearned Revenue tend to go up. Subsequently, when revenues are then recognized on the Income Statement, the Inventory amount becomes Cost of Revenue, and Unearned Revenue becomes actual Revenue.

168. In Gufeng's case, on the Balance Sheet for the years ended December 20, 2009 and 2008, Inventories in 2008 totaled \$40,209,729. Yet, in 2009, Inventories totaled just

1 \$28,297,957. Further, Unearned Revenues in 2008 totaled \$46,221,718, but in 2009 Unearned
2 Revenues were only \$32,571,022. Gufeng's record high Inventory and Unearned Revenues
3 figures, followed by sharp decreases the following year, are significant indications of the
4 company's low earnings quality.

5 169. Overall, IFRA's report (and Alfred Little's articles) highlighted numerous indicia
6 of fraudulent disclosures and accounting calculations in China Green's press releases, SEC
7 filings, and conference calls.

8 170. After these irregularities were released to the market, which were only a partial
9 disclosure of the fraudulent scheme yet to be revealed, China Green's common stock, which had
10 closed at \$10.20 on September 1, 2010, fell to \$9.60 on September 2, 2010, and continued to fall
11 throughout trading on September 3, 2010 to close at \$9.19, representing a 10% drop.

12 171. Almost immediately thereafter, on September 15, 2010, the Company issued a
13 press release stating that it had replaced its investor relations firm, Hayden Communications
14 International ("HCI"), with the firm of Christiansen IR. HCI is a well-recognized and reputable
15 investor relations firm, which draws from Wall Street, finance, agency, and media backgrounds.
16 In truth, HCI **resigned** from its appointment with China Green in August 2010, **forfeiting half of**
17 **its shares in the Company**. An employee of the firm commented that HCI had persistent
18 concerns regarding China Green's integrity, and told inquiring investors that HCI was unhappy
19 with China Green's **"slow and tepid response to the questions raised."**

20 172. Pushing forward and undeterred, on November 10, 2010, the Company issued a
21 press release discussing its financial results for the 1st quarter of fiscal year 2010. The press
22 release emphasized China Green's purported continuing increasing financial results, including
23 first quarter increases in net sales of 250.1%, and a net income increase of 48.4%. Commenting
24 on these results, Defendant Li stated the following:

25 "We are pleased with our strong performance in the first quarter. While **Gufeng**
26 **added \$21.8 million to our net sales**, Jinong turned in a solid performance with a
27 62.8% of sales increase compared to the first quarter of fiscal 2010," stated Mr.
28 Tao Li, Chairman, President and Chief Executive Officer of China Green
Agriculture.

"During this quarter we made substantial progress in many key areas of our business. Our consolidated product portfolio expanded to 464 products as Jinong launched five new humic acid based liquid and powder fertilizer products and Gufeng launched two new blended fertilizers. ***Our nationwide distribution network expanded to 740 distributors as Jinong added 13 and Gufeng contributed its 150 distributors and added 2 distributors in the quarter.*** The construction of Yuxing is also progressing well. In addition to the completion of the 100 sunlight greenhouses in June 2010, which are now operational, we have built the foundation and structure of the six intelligent greenhouses as of September 30, 2010."

"Our strong organic sales growth augmented by the Gufeng acquisition gives us a solid platform for continuous growth. With the integration of Gufeng underway, we will continue to enhance our product portfolio and distribution channels, fully utilize and expand capacity, and optimize operational efficiency. We believe our enlarged portfolio of diversified and branded products combined with continued solid financial performance will position us well to capitalize on the inevitable consolidation in the highly fragmented Chinese fertilizer industry and to create value for our shareholders."

173. On November 10, 2010, the Company held a conference call with analysts to discuss the 1st quarter earnings release. Representatives from the Company that participated in the conference call included Defendants Li and Ren. In his introduction on the conference call, Defendant Li boasted of China Green's purported results and the Gufeng acquisition, saying "***we are pleased to report record first quarter financial results reflecting our strong organic growth and the contribution of newly acquired Beijing Gufeng Chemical Products Co.*** and its subsidiary Beijing Tianjuyuan Fertilizer Co. The acquisition of Gufeng closed on July the 2, 2010 increasing the company's annual fertilizer production capacity to 355,000 metric tonnes from 55,000 metric tonnes, and ***substantially expending the company's further plan and distribution network.***" He continued, "Successful integration and the strengthened management team which allow us to ***continue to our focus on product innovation and profitable growth*** in our now expanded geographic footprint. We will change the product mix at Gufeng and produce humic acid based fertilizers ***which generate higher profit margins than its current products.***" Indeed, "our net income figure for the last three years exceeds 40%, and has consistently surpassed our financial guidance. ***The Gufeng acquisition has not only already proven its value this quarter, but it provides us with substantial leverage going forward.***"

1 174. In addition, Defendant Ren added that “we expect to deliver [and] continue the
2 sales growth as a result of our prudent product line, high quality brands, strong and expensive
3 distributor network and well-designed marketing program. *We are well positioned to introduce*
4 *new higher margin product due to [the] marketplace*, [and] further penetrat[ion] [of the]
5 historical and [] newly acquired market both [show] *our strength as one of the leading humic*
6 *acid-based fertilizer producers in China.*”

7 175. On November 10, 2010, China Green failed to file its required 10-Q for the first
8 quarter of fiscal 2011, instead claiming that it could not do so because it was “delayed” “due to
9 unanticipated complications in finalizing certain accounting details associated with the
10 Company’s recent acquisition of Beijing Gufeng Chemical Products Co., Ltd. and its
11 subsidiary.”

12 176. On November 12, 2010, the Company filed its 10-Q for the first quarter of fiscal
13 2011, which was signed and certified by Defendants Li and Ren. In this filing, the Company
14 made various statements regarding VAT and its income taxes. For example, the Company
15 disclosed in Note 12 to the Form 10-K, that *as of September 30, 2010, the Company’s Income*
16 *Tax Payable was \$ 3,766,933, and VAT Provision (Credit) was \$ 40,718.* In addition, with
17 respect to the land purchase, the Company stated that *on September 25, 2009, Yuxing was*
18 *granted a land use right for approximately 88 acres (353,000 square meters or 3.8 million*
19 *square feet) by the People’s Government and Land & Resources Bureau of Hu County, Xi’an,*
20 *Shaanxi Province.* The fair value of the related intangible asset was determined to be the
21 respective cost of \$10,938,628 (or RMB 73,184,895). With respect to Gufeng, the Company
22 stated that “*our acquisition of Gufeng improves our competitive position* by (i) increasing our
23 maximum production capacity of fertilizers from 55,000 metric tons to 355,000 metric tons per
24 year, (ii) adding over 152 new distributors to our existing nationwide distribution network of 588
25 distributors as of September 30, 2010, and (iii) broadening our fertilizer portfolio of organic and
26 non-organic fertilizer products to serve a larger base of end-users.
27
28

177. China Green's November 2010 statements and filings listed above were materially false and misleading because they failed to disclose and misrepresented the true nature and scope of the Company's business, financial reporting, and accounting for the reasons given in the Section above entitled Reasons for Falsity.

ii. J Capital Adds Additional Allegations Regarding China Green

178. On the morning of January 5, 2011, analyst firm J Capital Research ("J Capital"), issued its own detailed report regarding the inaccuracies in China Green's business and accounting figures. J Capital offers various types of investment research in China, such as retained research focusing on particular Chinese companies or sectors, standardized equities research, and consulting and deal sourcing. Further, J Capital provides analysis of upcoming and recent Chinese IPOs, in-depth analysis of competitors within certain segments and industries, and analysis of Chinese macroeconomic policies. According to *Businessweek.com* and *Bloomberg.com*, head partner and co-founder of J Capital, Anne Stevenson-Yang, headed the US-China Business Council's Beijing office from 1993 to 1998, and has spent over 20 years in China as either an industry analyst or as a CEO of three businesses. She also served as Managing Director of the US Information Technology Office.

179. J Capital's report focused on a variety of issues and problems with China Green, some of which had been mentioned and analyzed in depth by IFRA, but others that had not yet been revealed. In addition to discussing more details regarding what was covered in the IFRA report, J Capital also questioned: (i) China Green's vastly inflated revenues, sales figures, and gross margins, in addition to discrepancies in SEC filings; (ii) the Company's claims regarding its proprietary technology, given that J Capital's investigation showed no such technology exists; (iii) possible self dealing by Defendant Li and related party transactions with his other Company, Kingstone Wireless; and, (iv) significant excessive share-based compensation.

1 **1. China Green's Suspicious Manufacturing and Sales Practices**
2 **Lead To Questions**

3 180. According to the J Capital report, the Company has consistently advertised that it
4 has one of the most "advanced automated humic acid production lines in China." In terms of the
5 weathered coal that is used as raw materials, the Company claims that its sole supplier is
6 Lupoling Coal Mine Industry and Trade Company of Jinzhong City, in the Shaanxi Province in
7 China ("Lupoling"). China Green also advertises its "spectral analysis technology" as the
8 method with which it selects raw materials with the best quality.

9 181. However, J Capital's investigation and interviews with representatives of
10 Lupoling, shows that Lupoling actually does not produce weathered coal, and never had any
11 contracts with China Green.

12 182. China Green also engages in the manufacture and sale of humic acid, and in its
13 Form 10-K for the fiscal year 2010, the Company purports to manufacture humic acid and have
14 humic acid as an ingredient in all of its fertilizers.

15 183. However, in its investigation, J Capital uncovered evidence that, according to
16 agriculture and fertilizer distributors, there is actually no large scale market for humic acid in
17 China. Experts agree that while humic acid can be applied in areas with nutrient-poor soil to
18 enrich the soil and help vegetables grow, the fertilizer does not increase yield, and costs are
19 prohibitive for all but the highest value-added vegetable crops. An expert on organic fertilizer
20 markets at the Agriculture University in Beijing, told J Capital that organic humic acid-based
21 fertilizers sell in a chaotic market that is "rife with speculation."

22 184. Humic acid sales are also decreasing at a rapid pace, according to agricultural
23 experts, and farmers in China do not see much value in it. Humic acid sales do exist, but as it
24 does not assist growth, most farmers in China do not believe that the merit of humic acid is
25 worth the costs. Further, according to J Capital, "vendors of humic acid are seen as small-scale,
26 unreliable snake oil salesmen, to be avoided."

1 185. J Capital's report also explained that it had spoken with a company called
2 Taiyuan Meibang Biotech Development Company ("Taiyuan"), which stated that it had supplied
3 China Green with humic acid through the beginning of 2009, and the Company had never
4 actually made its own humic acid.

5 186. In addition to questioning manufacturing disclosures and practices, J Capital also
6 analyzed China Green's revenues and sales figures. Through questioning of China Green's
7 distributors, J Capital was unable to confirm any sales of China Green products, and distributors
8 stated that at best, their sales were "very small." In addition, the Company did not respond to J
9 Capital's requests for locations of sales offices, retail outlets, or sales agents. In addition, when J
10 Capital analysts visited China Green headquarters, they asked a company representative for
11 information on sales, and distributors. Not surprisingly, analysts were told that the information
12 as "confidential," and that it was hard to find actual Jinong distributors because management was
13 nervous that other tax collectors and troublesome visitors from their competition would lie and
14 say they did not actually distribute the product. It was therefore impossible for management to
15 introduce analysts to any actual China Green distributors.

16 187. By doing its own investigation, J Capital was able to find a few China Green
17 agents and sales people, yet all directly confirmed to J Capital that they had made few or no
18 sales. Sales agents in Shaanxi and Shandong, the largest markets for China Green products,
19 stated sales in those provinces were extremely small and much less than sales of China Green
20 vegetables. A former China Green distributor in Henan Province stated that no China Green
21 products had been sold in the province in 2010, despite the Company's claims that Henan was
22 the fourth-largest provincial market in China for its fertilizers. Also, a manager at another
23 distributor of China Green products, Shanghai Luyeyuan, stated that as of March 2010 it had
24 ceased distributing China Green products because they "simply do not sell" and the distributor
25 was relieved to have terminated the relationship with the Company.

26 188. In response to these concerns regarding distributor relationships and weak sales,
27 China Green has communicated to J Capital that it only uses dedicated distributors and sales
28

1 agents for products, because the Company does not trust third-party distributors to keep its trade
2 secrets. However, despite prodding by analysts, the Company has not given any names of
3 trusted distributors or telephone numbers.

4 189. China Green's products are also advertised online on Global Sources, a trading
5 network, yet the website warns that the Company is not verified, there are no telephone numbers
6 provided, and no way of completing a transaction for China Green products online. Another
7 well known international online marketplace, Alibaba, contains one Jinong product, but the
8 product cannot be purchased on the Alibaba website – instead, buyers are instructed to email
9 China Green for more information.

10 **2. J Capital Questions the Veracity of Financial Disclosures** 11 **Regarding the Gufeng Acquisition**

12 190. J Capital added to IFRA's analysis of the questionable purchase price of \$48
13 million that China Green paid for Gufeng. For example, after analyzing Gufeng's SAIC filings,
14 J Capital found that the Company is barely profitable, as it only reported \$146,786 in net profit
15 based upon revenues of \$38.8 million in 2009, constituting profit of less than 0.5%.

16 191. In terms of asset value, China Green reported that Gufeng's fixed assets were
17 approximately RMB150 million, or \$22.3 million. Yet, as of December 31, 2009, Gufeng itself
18 reported fixed assets were worth approximately \$3.098 million, indicating that China Green
19 assessed \$15.8 million in Gufeng's intangible assets, to justify the cost of the acquisition.

20 **3. Financial Analysis of China Green Yields More Questions** 21 **Than Answers**

22 192. As J Capital found, China Green's financial statements are questionable for a
23 variety of troubling reasons. For instance, the Company reports 43% net margins, gross margins
24 of approximately 60%, and a nearly 24% return on equity. However, similar companies cannot
25 even approach the margins that China Green reports. Few companies in China sell organic
26 fertilizer, but one company, Sinofert Holdings ("Sinofert"), sells a compound fertilizer similar to
27 what China Green sells. Yet, with approximately RMB 7 billion in sales in the first half of 2010,
28

1 Sinofert saw its gross margins in compound fertilizer rise to a historical high of only 7.8%, and
 2 its net margins were negative. Moreover, another organic fertilizer company, Century Sunshine
 3 in Hong Kong, only reported a net margin of 8.7%.

4 193. On China Green's balance sheets for 2008, 2009, and 2010, inventories are high
 5 and increasing despite rapidly increasing sales. According to China Green's disclosures, it
 6 stocks half of a ton of inventory for every ton that it produces. Yet, in 2009, the Company's cash
 7 flow from operating activities was only \$7 million – half of reported net income. In 2010, the
 8 Company reported revenue growth at a remarkable 48% rate, however China Green is paying
 9 suppliers more quickly without any reported extra credit arrangements, which placed doubt upon
 10 the Company's reported strong cash position.

11 194. In terms of revenues, J Capital repeated IFRA's allegations regarding China
 12 Green's complete lack of CIT payments made to the SAT in 2009, and the reported accrual but
 13 not payment of VAT amounts. Further, in evaluating revenue discrepancies between SEC and
 14 SAIC filings, the J Capital report included the following comparison chart:

	SEC Report	SAIC Report	Difference
16 Calendar 2007	\$14,790,590	\$6,646,166	122.54%
17 Calendar 2008	\$22,896,632	\$7,793,689	193.78%
18 Calendar 2009	\$35,207,997	\$8,363,284	320.98%

19 195. As the chart demonstrates, the numbers reported to the SEC are entirely different
 20 than the numbers reported to the SAIC. In addition, J Capital stated that it had confirmed with
 21 suppliers and distributors that the numbers reported to the SAIC are a fair reflection of China
 22 Green's purported revenues in the Chinese fertilizer market.

23 **4. Stock Option Grants and Share Based Compensation Follow** 24 **Repeated Patterns**

25 196. Stock options and grants at China Green are the most important form of employee
 26 compensation, yet have followed a consistent pattern being granted before a market-moving
 27
 28

1 event. For example, J Capital reported that in 2009, outstanding options and near-term grants
2 potentially diluted investors by 27%; and by January 2011 most of those shares had been issued.

3 197. Defendant Li was the biggest perpetrator of this share-based compensation
4 scheme, as despite the fact that he officially earns \$107,000 in salary, his share proceeds
5 averaged that amount on average every two weeks in 2010. In the fourth quarter of 2009, when
6 China Green learned that it would begin trading on the NYSE, Li earned \$11.8 million, and in
7 September, was awarded a new block of shares to increase his holdings to 8.9 million shares.
8 From September 17, 2009 through December 11, 2009, Li sold 788,030 shares of China Green
9 common stock—a huge amount of shares in a very short time period. On December 30, 2008,
10 the Company announced a higher-than-anticipated sales target, and subsequently Li was awarded
11 over 1 million shares of China Green common stock.

12 198. After further confirmation by J Capital of the allegations contained in the IFRA
13 report, as well as the additional devastating new allegations illustrating that the Company had
14 made false representations to shareholders, China Green's stock, which had opened the morning
15 of January 5, 2011 at an already depressed \$9.34 per share due to the earlier partial disclosures of
16 the true state of the Company, plummeted to close at \$8.11 at the end of the day, and then kept
17 dropping until closing at \$7.48 on January 6, 2011, a startling 20% drop. Trading volume was
18 massive, with nearly 7 million China Green shares trading hands in less than two days, more than
19 ***five times the average daily volume during the Class Period and ten times the average daily***
20 ***volume*** of the preceding month.

21 199. On January 12, 2011, an article in *TheStreet.com*, titled *SEC Probing China*
22 *Green*, revealed that the SEC had launched an informal inquiry into the Company China Green
23 “as accusations of fraud continue to dog a universe of small Chinese companies with shares
24 listed on U.S. exchanges.”

25 200. As a result, China Green desperately scrambled to cover its tracks and keep
26 further revelations of its fraudulent activities from becoming public. *TheStreet.com* reported that
27 scrutiny of the Company had grown heated enough that shortly after the J Capital report was
28

1 issued, China Green hired New York public relations firm Sitrick & Co., which specializes in
2 crisis management. The firm's principal, Mike Sitrick, confirmed that the SEC had begun an
3 informal inquiry into China Green Agriculture in September 2010, after the first partial
4 revelations has come to light. But Sitrick would not comment on the nature of the agency's
5 interest, although Defendant Li told the Chinese financial newspaper the *21st Century Business*
6 *Herald* that the SEC had contacted the Company about alleged discrepancies between financial
7 results reported in its filings in the U.S. and financial results implied by tax records filed with the
8 Chinese government.

9 201. The response of the Company to the detailed allegations was uninformative, with
10 spokesman Mike Sitrick saying the J Capital report had "numerous inaccuracies," and claiming
11 he couldn't be more specific. China Green elicited a similar response, merely calling the J Capital
12 report and earlier ones "largely inaccurate" in a terse January 12, 2011 press release.

13 202. However, professional analysts who follow the Company regularly had a very
14 different and much quicker response. On January 6, 2011, Brean Murray Carret downgraded the
15 stock to sell from hold. As reported by *TheStreet.com*, "the firm's negative opinion carried
16 weight, as Brean Murray is one of a few small U.S. investment banks that do a robust business in
17 the raising of capital and selling of shares in Chinese small-cap companies. The firm, in other
18 words, has an interest in being bullish on Chinese stocks. Ingrid Yin, Brean Murray's China-
19 stock analyst, noted that CGA executives have fallen short on promises made in September to
20 show proof to investors that would refute several specific pieces of evidence suggesting that
21 China Green was distorting its numbers in order to raise capital in the U.S."

22 203. As demonstrated above, multiple analysts, investors and commentators who have
23 reviewed the publicly available information and conducted their own independent investigations
24 of the Company have come away with the same conclusion: China Green fraudulently
25 misrepresented its business, financials, and operations to the SEC and the investing public in
26 order to inflate its stock price and capitalize on the lucrative American investor market. As a
27
28

1 result of Defendants' wrongful course of conduct, China Green shareholders have lost millions
2 of dollars in their investment in the Company.

3 **VII. UNDISCLOSED ADVERSE INFORMATION**

4 204. The market for China Green's securities was an open, well-developed and
5 efficient market at all relevant times. As a result of the materially false and misleading
6 statements and failures to disclose described herein, China Green's securities traded at artificially
7 inflated prices during the Class Period. Lead Plaintiffs and the other members of the Class
8 purchased or otherwise acquired China Green's securities relying upon the integrity of the
9 market price of China Green's securities and market information related to China Green, and
10 have been damaged thereby.

11 205. During the Class Period, Defendants materially misled the investing public,
12 thereby inflating the price of China Green's securities, by publicly issuing false and misleading
13 statements and omitting to disclose material facts necessary to make Defendants' statements, as
14 set forth herein, not false and misleading. Such statements and omissions were materially false
15 and misleading in that they failed to disclose material adverse non-public information and
16 misrepresented the truth about the Company, its business and operations, as alleged herein.

17 206. At all relevant times, the material misrepresentations and omissions particularized
18 herein directly or proximately caused or were a substantial contributing cause of the damages
19 sustained by Lead Plaintiffs and the other members of the Class. As described herein, during the
20 Class Period, Defendants made or caused to be made a series of materially false and misleading
21 statements about China Green's business, prospects and operations.

22 207. These material misstatements and omissions had the cause and effect of creating
23 in the market an unrealistically positive assessment of China Green and its business, prospects
24 and operations, thus causing the Company's securities to be overvalued and artificially inflated at
25 all relevant times. Defendants' false and misleading statements during the Class Period resulted
26 in Lead Plaintiff and other members of the Class purchasing the Company's securities at
27 artificially inflated prices, thus causing the damages complained of herein.
28

1 **VIII. SCIENTER ALLEGATIONS**

2 208. As alleged herein, the Exchange Act Defendants acted with scienter in that the
3 Exchange Act Defendants knew that the public documents and statements issued or disseminated
4 in the name of the Company during the Class Period were materially false and misleading; knew
5 that such statements or documents would be issued or disseminated to the investing public; and
6 knowingly and substantially participated or acquiesced in the issuance or dissemination of such
7 statements or documents as primary violations of the federal securities laws.

8 209. As set forth herein, the Exchange Act Defendants, by virtue of their receipt of
9 information reflecting the true facts regarding China Green, their control over, receipt and/or
10 modification of China Green's allegedly materially misleading statements and omissions, and/or
11 their positions with the Company which made them privy to confidential information concerning
12 China Green, participated in the fraudulent scheme alleged herein.

13 210. The ongoing fraudulent scheme described herein could not have been perpetrated
14 over a substantial period of time, as has occurred, without the knowledge and complicity of the
15 personnel at the highest level of the Company, including the Individual Defendants.

16 **IX. LOSS CAUSATION**

17 211. During the Class Period, as detailed herein, Defendants engaged in a scheme to
18 deceive the market and a course of conduct that artificially inflated the prices of China Green's
19 securities and operated as a fraud or deceit on Class Period purchasers of China Green's
20 securities by failing to disclose to investors that the Company's financial results were materially
21 misleading and misrepresented material information. When Defendants' misrepresentations and
22 fraudulent conduct were disclosed and became apparent to the market, the prices of China
23 Green's securities fell as the prior inflation came out of the Company's stock price. As a result
24 of their purchases of China Green's securities during the Class Period, Lead Plaintiff and the
25 other Class members suffered economic loss.

26 212. By failing to disclose the true state of the Company's finances and accounting,
27 investors were not aware of the true state of the Company's financial status. Therefore,
28

1 Defendants presented a misleading picture of China Green's business and prospects. Thus,
2 instead of truthfully disclosing during the Class Period the true state of the Company's business,
3 Defendants caused China Green to conceal the truth.

4 213. Defendants' false and misleading statements, including statements regarding the
5 July 2009 and December 2009 Offerings, had the intended effect and caused China Green's
6 common stock to trade at artificially inflated levels throughout the Class Period. However, as
7 inflation was taken out of the price due to the effects of revealing analyst reports, China Green's
8 common stock price fell multiple times as information concerning Defendants' fraud came to
9 light, including the following drops: the drops on September 2 and 3, 2010, in which China
10 Green stock had closed at \$10.20 on September 1, 2010, fell to \$9.60 on September 2, 2010, and
11 continued to fall throughout trading on September 3, 2010 to close at \$9.19, representing a 10%
12 drop; and the drops on January 5 and 6, 2011, in which China Green's stock, which had opened
13 the morning of January 5, 2011 at \$9.34 per share, plummeted to close at \$8.11 at the end of the
14 day, and then kept dropping until closing at \$7.48 on January 6, 2011, representing a 20% drop.
15 This series of drops caused real economic loss to investors who purchased the Company's
16 securities during the Class Period.

17 214. The decline in the price of China Green's common stock after the truth came to
18 light was a direct result of the nature and extent of Defendants' fraud finally being revealed to
19 investors and the market. The timing and magnitude of China Green's common stock price
20 decline negates any inference that the loss suffered by Lead Plaintiff and the other Class
21 members was caused by changed market conditions, macroeconomic or industry factors or
22 Company-specific facts unrelated to the Defendants' fraudulent conduct. The economic loss
23 suffered by Lead Plaintiff and the other Class members was a direct result of Defendants'
24 fraudulent scheme to artificially inflate the prices of China Green's securities and the subsequent
25 decline in the value of China Green's securities when Defendants' prior misrepresentations and
26 other fraudulent conduct were revealed.

X. **APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET DOCTRINE**

215. At all relevant times, the market for China Green stock was an efficient market for the following reasons, among others:

- a. China Green securities met the requirements for listing, and were listed and actively traded on the NYSE, a highly efficient market;
- b. As a regulated issuer, China Green filed periodic public reports with the SEC and the NYSE;
- c. China Green securities were followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace; and
- d. China Green regularly issued press releases which were carried by national newswires. Each of these releases was publicly available and entered the public marketplace.

216. As a result, the market for China Green securities promptly digested current information with respect to the Company from all publicly-available sources and reflected such information in China Green's stock price. Under these circumstances, all purchasers of China Green securities during the Class Period suffered similar injury through their purchase of stock at artificially inflated prices and a presumption of reliance applies.

XI. **CLASS ACTION ALLEGATIONS**

217. Lead Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of all persons who purchased or otherwise acquired China Green securities during the Class Period and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, members of the immediate family of each of the

1 Individual Defendants, any subsidiary or affiliate of China Green and the directors, officers and
2 employees of the Company or its subsidiaries or affiliates, or any entity in which any excluded
3 person has a controlling interest, and the legal representatives, heirs, successors and assigns of
4 any excluded person.

5 218. The members of the Class are so numerous that joinder of all members is
6 impracticable. While the exact number of Class members is unknown to Lead Plaintiff at this
7 time and can only be ascertained through appropriate discovery, Lead Plaintiff believes that there
8 are thousands of members of the Class located throughout the United States. Throughout the
9 Class Period, China Green securities were actively traded on the NYSE (an open and efficient
10 market) under the symbol "CGA." As of May 6, 2011, the Company had 26,845,859 shares
11 outstanding. Record owners and other members of the Class may be identified from records
12 maintained by China Green and/or its transfer agents and may be notified of the pendency of this
13 action by mail, using a form of notice similar to that customarily used in securities class actions.

14 219. Lead Plaintiff's claims are typical of the claims of the other members of the Class
15 as all members of the Class were similarly affected by Defendants' wrongful conduct in violation
16 of federal law that is complained of herein.

17 220. Lead Plaintiff will fairly and adequately protect the interests of the members of
18 the Class and has retained counsel competent and experienced in class and securities litigation.

19 221. Common questions of law and fact exist as to all members of the Class and
20 predominate over any questions solely affecting individual members of the Class. Among the
21 questions of law and fact common to the Class are:

22 a. whether the federal securities laws were violated by Defendants' acts and
23 omissions as alleged herein;

24 b. whether Defendants participated in and pursued the common course of
25 conduct complained of herein;

c. whether documents, press releases, and other statements disseminated to the investing public and the Company's shareholders during the Class Period misrepresented material facts about the business, finances, financial condition and prospects of China Green;

d. whether statements made by Defendants to the investing public during the Class Period misrepresented and/or omitted to disclose material facts about the business, finances, value, performance and prospects of China Green;

e. whether the market price of China Green common stock during the Class Period was artificially inflated due to the material misrepresentations and failures to correct the material misrepresentations complained of herein; and

f. the extent to which the members of the Class have sustained damages and the proper measure of damages.

222. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this suit as a class action.

XII. COUNTS AGAINST THE EXCHANGE ACT DEFENDANTS

COUNT I

For Violations of §10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against the Exchange Act Defendants

223. Lead Plaintiff repeats and realleges the allegations set forth above, except for those in the Securities Act portions of this complaint, as though fully set forth herein. This claim is asserted against the Exchange Act Defendants.

224. During the Class Period, China Green and the Individual Defendants, and each of them, carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Lead Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of China Green

1 common stock; and (iii) cause Lead Plaintiff and other members of the Class to purchase China
2 Green stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and
3 course of conduct, the Exchange Act Defendants, and each of them, took the actions set forth
4 herein.

5 225. These Defendants: (a) employed devices, schemes, and artifices to defraud; (b)
6 made untrue statements of material fact and/or omitted to state material facts necessary to make
7 the statements not misleading; and (c) engaged in acts, practices and a course of business which
8 operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to
9 maintain artificially high market prices for China Green securities in violation of §10(b) of the
10 Exchange Act and Rule 10b-5. Exchange Act Defendants are sued as primary participants in the
11 wrongful and illegal conduct charged herein. The Individual Defendants are also sued herein as
12 controlling persons of China Green, as alleged herein.

13 226. In addition to the duties of full disclosure imposed on the Exchange Act
14 Defendants as a result of their making of affirmative statements and reports, or participation in
15 the making of affirmative statements and reports to the investing public, they each had a duty to
16 promptly disseminate truthful information that would be material to investors in compliance with
17 the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. §
18 210.01 et seq.) and S-K (17 C.F.R. § 229.10 et seq.) and other SEC regulations, including
19 accurate and truthful information with respect to the Company's operations, financial condition
20 and performance so that the market prices of the Company's publicly traded securities would be
21 based on truthful, complete and accurate information.

22 227. China Green and the Individual Defendants, individually and in concert, directly
23 and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the
24 mails, engaged and participated in a continuous course of conduct to conceal adverse material
25 information about the finances, accounting, and future prospects of China Green as specified
26 herein. These Defendants employed devices, schemes and artifices to defraud, while in
27 possession of material adverse non-public information and engaged in acts, practices, and a
28

1 course of conduct as alleged herein in an effort to assure investors of China Green's value and
2 performance and substantial growth, which included the making of, or the participation in the
3 making of, untrue statements of material facts and omitting to state material facts necessary in
4 order to make the statements made about China Green and its finances and accounting, in light of
5 the circumstances under which they were made, not misleading, as set forth more particularly
6 herein, and engaged in transactions, practices and a course of business which operated as a fraud
7 and deceit upon the purchasers of China Green's securities during the Class Period.

8 228. Each of the Individual Defendants' primary liability, and controlling person
9 liability, arises from the following facts: (i) each of the Individual Defendants was a high-level
10 executive and/or director at the Company during the Class Period; (ii) each of the Individual
11 Defendants, by virtue of his responsibilities and activities as a senior executive officer and/or
12 director of the Company, was privy to and participated in the creation, development and
13 reporting of the Company's operational and financial projections and/or reports; (iii) the
14 Individual Defendants enjoyed significant personal contact and familiarity with each other and
15 were advised of and had access to other members of the Company's management team, internal
16 reports, and other data and information about the Company's financial condition and
17 performance at all relevant times; and (iv) the Individual Defendants were aware of the
18 Company's dissemination of information to the investing public which they knew or recklessly
19 disregarded was materially false and misleading.

20 229. These Defendants had actual knowledge of the misrepresentations and omissions
21 of material facts set forth herein, or acted with reckless disregard for the truth in that they failed
22 to ascertain and to disclose such facts, even though such facts were readily available to them.
23 Such Defendants' material misrepresentations and/or omissions were done knowingly or
24 recklessly and for the purpose and effect of concealing China Green's operating condition,
25 business practices and future business prospects from the investing public and supporting the
26 artificially inflated price of its stock. As demonstrated by their overstatements and
27 misstatements of the Company's financial condition and performance throughout the Class
28

1 Period, the Individual Defendants, if they did not have actual knowledge of the
2 misrepresentations and omissions alleged, were severely reckless in failing to obtain such
3 knowledge by deliberately refraining from taking those steps necessary to discover whether those
4 statements were false or misleading.

5 230. As a result of the dissemination of the materially false and misleading information
6 and failure to disclose material facts, as set forth above, the market price of China Green
7 securities was artificially inflated during the Class Period. In ignorance of the fact that the
8 market price of China Green shares was artificially inflated, and relying directly or indirectly on
9 the false and misleading statements made by the Exchange Act Defendants, upon the integrity of
10 the market in which the securities trade, and/or on the absence of material adverse information
11 that was known to or recklessly disregarded by the Exchange Act Defendants but not disclosed
12 in public statements by these Defendants during the Class Period, Lead Plaintiff and the other
13 members of the Class acquired China Green securities during the Class Period at artificially
14 inflated high prices and were damaged thereby.

15 231. At the time of said misrepresentations and omissions, Lead Plaintiff and other
16 members of the Class were ignorant of their falsity, and believed them to be true. Had Lead
17 Plaintiff and the other members of the Class and the marketplace known of the true performance,
18 business practices, future prospects and intrinsic value of China Green, which were not disclosed
19 by the Exchange Act Defendants, Lead Plaintiff and other members of the Class would not have
20 purchased or otherwise acquired China Green securities during the Class Period, or, if they had
21 acquired such securities during the Class Period, they would not have done so at the artificially
22 inflated prices which they paid.

23 232. By virtue of the foregoing, China Green and the Individual Defendants each
24 violated §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

25 233. As a direct and proximate result of the Individual Defendants' wrongful conduct,
26 Lead Plaintiff and the other members of the Class suffered damages in connection with their
27 purchases of the Company's securities during the Class Period.
28

COUNT II**For Violations of §20(a) of the Exchange Act Against the Individual Defendants**

234. Lead Plaintiff repeats and realleges the allegations set forth above, except for those in the Securities Act portions of this complaint, as if set forth fully herein. This claim is asserted against the Individual Defendants.

235. The Individual Defendants were and acted as controlling persons of China Green within the meaning of §20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions with the Company, participation in and/or awareness of the Company's operations and/or intimate knowledge of the Company's actual performance, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Lead Plaintiff contends are false and misleading. Each of the Individual Defendants was provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

236. In addition, each of the Individual Defendants had direct involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

237. As set forth above, China Green and the Individual Defendants each violated §10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their controlling positions, the Individual Defendants are liable pursuant to §20(a) of the Exchange Act. As a direct and proximate result of these Defendants' wrongful conduct, Lead Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

1 **XIII. REQUEST FOR RELIEF**

2 WHEREFORE, Lead Plaintiff, jointly and on behalf of the Class, prays for judgment as
3 follows:

- 4 a) Declaring this action to be a class action pursuant to Rule 23(a) and (b)(3) of the
5 Federal Rules of Civil Procedure on behalf of the Class defined herein;
- 6 b) Awarding Lead Plaintiff and the other members of the Class damages in an
7 amount which may be proven at trial, together with interest thereon;
- 8 c) Awarding Lead Plaintiff and the members of the Class pre-judgment and post-
9 judgment interest, as well as their reasonable attorneys' and experts' witness fees
10 and other costs; and
- 11 d) Awarding such other relief as this Court deems appropriate.

12 **XIV. JURY DEMAND**

13 Lead Plaintiff demands a trial by jury.

14 Dated: June 13, 2011

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CERTIFICATE OF SERVICE

I hereby certify that on June 13, 2011, a true and correct copy of the foregoing was filed electronically with the Clerk of the Court using CM/ECF System. Notice of this filing will be sent by operation of the Court's electronic filing system to all parties indicated on the electronic filing receipt. Parties may access this filing through the Court's electronic filing system.

By: /s/ Dan C. Bowen
Dan C. Bowen, Esq.