

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

FORM 10-K

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

For the fiscal year ended June 30, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34260

**CHINA GREEN AGRICULTURE, INC.**

(Exact name of registrant as specified in its charter)

Nevada

36-3526027

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

Third floor, Borough A, Block A. No. 181, South Taibai Road  
Xi'an, Shaanxi Province, PRC 710065

(Address of principal executive offices) (Zip Code)

Registrant's telephone number: +86-29-88266368

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$0.001 Par Value Per Share

NYSE

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s)), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Do not check if a smaller reporting company

Emerging growth company

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

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



























fertilizers.

Since the 1980s, China has intensified the use of chemical fertilizers to increase crop yields. While the increase in crop yield slowed down in recent years, the overuse of chemical fertilizers also caused many environmental issues ranging from water pollution to soil damage. As a result, the PRC government has been promoting the use of environmental friendly green fertilizers, such as humic acid-based organic compound fertilizers and mixed organic-inorganic compound fertilizers, because they provide crops with incremental yield by adding various nutrients essential to soil. Although being relatively new to farmers, the demand for these green fertilizers is increasing and we expect this trend to continue in the coming years. Although we expanded business among other Asian and Southeast Asian countries, the PRC remained our principal market for organic compound fertilizers and related agricultural products.

#### *The “Green Food” Industry in the PRC*

The rise of the PRC industry for food free from pollutants or harmful chemicals, or “green food,” raises the demand for organic fertilizers. “Green Food”, the certificate for agricultural products promoted by Chinese Government, positioned between ordinary agricultural food from common farming practice and the organic food has two levels: “AA Green Food” and “A Green Food”. The “AA Green Food” standard indicates or equals to that of organic agriculture. Since the market for organic agricultural products in China has huge potential, it is forecasted that the increase of organic agricultural products consumption in China will exceed that of the average organic agricultural products consumption in the world in the next few years, and the market of Chinese organic agricultural products will reach RMB 24.8 billion-59.4 billion in 2015, with an incremental 15 percent increase year over year during the following years.

With the rapid development of the organic food industry in China, an increasing number of companies have been entering into the green food sector to utilize market opportunities. In 1990, the PRC Ministry of Agriculture began to promote the production of green food. In 1992, the PRC Ministry of Agriculture established the China Green Food Development Center (CGFDC) to supervise the development and management of green food at the national and provincial levels in the PRC. In 1993, the PRC Ministry of Agriculture established regulations for green food labeling; in 1996, a trademark for green food was registered and put into use in the PRC.

Crops grown with the use of our products are qualified for the “AA Green Food” certificate. As mentioned above, the “AA” rating indicates that the crops contain minimal chemical residue from fertilizers. Although our products are not qualified for the “AA Green Food” certificate, they are (except for the products from Gufeng) certified as “Green Food Production Material” by the CGFDC.

According to the statistics from the CGFDC, China's annual output of green food reached 15 million tons in 2008. However, the domestic consumption level remains relatively low, comprising approximately 3% of the market share of food commodities. The low consumption level is primarily due to: (i) small scale of production of green food; (ii) lack of consumer awareness of green food and (iii) the presence of counterfeit green food products that adversely affect consumers’ purchase.

As described by the CGFDC, the development strategy for China’s green food industry are as follows: first, maintain high quality standards and focus on developing key products; second, promote and facilitate the industrialization of green food; third, implement an integrated development strategy emphasizing producers, production base and farmers; fourth, accelerate the pace of development with the aid of the government; and fifth, to carry out an international development strategy aimed at promoting exports.

According to the Investment and Forecast Report on China Green Food Industry 2012-2016 by Research in China, a Chinese market research company, the green food industry is a high growth industry with significant investment potential. According to the report, leading green food producers will experience huge growth when they achieve national and provincial agricultural industrialization with the supports of favorable government policies and tax breaks.

#### **Growth Strategy**

We believe that our increased production capacity, our research and development capability, along with the new sales segment positioned us to benefit from the anticipated growth of the PRC fertilizer market. We expect to expand sales and grow revenues through the following strategies:

*Expand Capacity and Diversify Product Offerings.* Our current annual fertilizer production capacity is 555,000 metric tons and our production portfolio of fertilizers includes 466 products. In the future, we will expand our existing production lines, develop new products and acquire certain PRC fertilizer manufacturers that complement our product lines.

*Capitalize on Synergies Created by Research and Development Efforts.* Regarding the construction of Yuxing’s research and development center, we have established 98 sunlight greenhouses and six “intelligent” greenhouses. We expect the Yuxing facility to help us shorten the fertilizer market cycle by providing an advanced testing field for new products which are manufactured by Jinong. In addition, by making efforts in research and development, we expect to simultaneously facilitate the production of superior agricultural products, such as flower bulbs, flowers, fruits and vegetables, which would eventually increase revenues.

*Develop new advanced high efficient fertilizers.* The new fertilizer products represented by slow controlled-release fertilizer, microbial fertilizer and others, are developed rapidly with high market expansion. Gufeng has signed a cooperation agreement with Anhui Diyuan Biological Technology Co., LTD (“Anhui Diyuan”) to produce the “Tianjuyuan” controlled-release fertilizer. The objective is to provide Gufeng with fertilizer agent supplied by Anhui Diyuan to improve the control release effectiveness when producing controlled-release compound fertilizers. In the agreement, Chinese Academy of Sciences (“CAS”) and Anhui Diyuan authorized Gufeng to refer to CAS and Anhui Diyuan’s name in marketing related fertilizer products. We expect that Gufeng’s controlled-release compound fertilizer will stay an advantageous position in the market.

*Develop proprietary sales segment.* Our business started and was rooted in fertilizer production. Since 2016, we added a new business segment, the sales of fertilizer and other agriculture material products, to the existing manufacturing segments. We believe adding this sales segment will be beneficial to our manufacturing segments: this sales segment can provide supplemental revenue and earnings by covering more market areas, and selling more products not only produced by ourselves but also by other manufacturers. In the downstream of fertilizer value lines, a sales segment can offset the impact on profitability when the demand for our produced fertilizer is softened; it also can mitigate the counterparty risk for manufacturers when the creditworthiness of a manufacturer’s distributor is weakened. Thus, a sales segment is a natural hedge to manufacturing segments, as it improves product portfolio, customer base, and capital structure. We had been developing the sales segment mainly by acquiring the control of eight established VIE sales ventures to build this new segment rapidly.

## **Products**

Our principal products are our own fertilizers, which consist of liquid, granular and powdered fertilizers and various kinds of compound fertilizers developed to increase crop yields. We can manufacture 466 fertilizer products from humic acid-based fertilizers to compound fertilizers. In Yuxing, we produce high quality agricultural products such as fruits, vegetables and flowers for commercial sale. In sales segment, we sell various products such as fertilizers, pesticides, and seeds. These products are either manufactured by ourselves or by other manufacturers.

### *Fertilizer Products*

Fertilizer manufacturing is our core business, which accounts for approximately 74% of total revenues. The self-manufactured fertilizers are produced and sale through Jinong, Gufeng, and sales VIEs. We believe that Jinong utilizes one of the most advanced automated humic acid production lines in China. Humic acid is a complex with natural, organic ingredient essential to make soil fertile. Humic acid-rich material, such as peat, lignite or weathered coal generating naturally from decomposed plant or animal remains, is one of the major organic constituents for soil composition. Humic acid exhibits a high capacity for cation exchange (a chemical process in which cations of like charge are exchanged equally between a solid and a solution), which serves to chelate plant nutrient elements and release them as the plant requires. The chelation process prevents leaching of nutrients by holding them in the soil solution. Moreover, humic acids can bind soil toxins along with plant nutrients, thereby strongly stabilize soil. The regular use of humic acid organic liquid compound fertilizer can effectively reduce the use of chemical fertilizer, insecticide, herbicide and water. This mechanism contributes to environmental protection by preventing contamination of water sources caused by runoff.

In nature, humic acid improves soil structure and aeration, nutrient absorption and water retention. It also increases soil’s buffering capacity against fluctuations in PH levels, and reduces soil crusting and erosion from wind and water as well as radical toxic pollutants. Humic acid promotes the developing of root systems, seed germination and overall plant growth. It also enhances health, resilience and overall appearance of plants. We believe there is no synthetic material currently known to match humic acid's effectiveness and versatility.

The pure humic acid used in our fertilizers is distilled and extracted from weathered coal by way of alkaline digestion and acid recrystallization. Our Jinong fertilizers are principally used as a foliar fertilizer (a liquid, water soluble fertilizer applied to a plant’s foliage by a fine spray so the plant absorbs the nutrients through its leaves), through spraying directly on soil or injecting into the irrigation systems. Benefits of using our products are to stimulate the growth and yield of plants, protecting them from drought, disease and temperature damages while improving soil structure and fertility.

Gufeng and Tianjuyuan produce compound fertilizer, blended fertilizer, organic compound fertilizer, slow-release fertilizers, highly-concentrated water-soluble fertilizers and mixed organic-inorganic compound fertilizer. Gufeng sells its products under four brands: “KEBA”, “Mei Er An”, “Huang Cheng Gen” and “SPR HOP”, which are all registered trademarks in the PRC. Tianjuyuan’s products are marketed under the brands “AGR GFJ” and “T.J.Y.” which are both PRC registered trademarks.





We have a multi-tiered product line of 466 fertilizer products, covering humic acid-based compound fertilizer produced through Jinong, and organic/inorganic compound fertilizer through Gufeng.

During the fiscal years ended June 30, 2017, 2016, and 2015, we recorded \$211,088,271, \$260,378,357, and \$259,030,774, respectively, in gross revenues from sales of our fertilizer products, representing 74.1%, 96.9%, and 98.4% of our total revenues for such periods. Gufeng and Tianjuyuan manufacture a total of 332 fertilizer products. 52.2% of Gufeng's fertilizer revenue came from humic acid compound fertilizers and 10.4% from compound fertilizer for the fiscal year ended June 30, 2017.

#### *Agricultural Products*

Our subsidiary, Yuxing, one of Jinong's VIEs, produces top-grade fruits, vegetables, flowers and colored seedlings for commercial sale. The gross revenues from the sale of our agricultural products for the fiscal years ended June 30, 2017, 2016, and 2015, were \$8,517,231, \$8,406,663, and \$4,323,514, respectively, representing 3.0%, 1.6%, and 1.6% of our total revenues, respectively.

Yuxing was originally established to be the research and development base for humic acid fertilizers produced by Jinong. By simulating the growing conditions and cycles of various plants, such as flowers, vegetables and seedlings, Yuxing regularly conducts experimental testing to enhance the efficacy of our new fertilizers.

#### *Sales Products*

Our sales segment, consisting of eight sales VIEs we acquired control of since 2016, procure various agriculture materials that farmers need, such as, fertilizers, pesticides, seeds, mulches, and soil conditioners etc., from different manufacturers and wholesalers. In turn, they sell these materials to their customers: farmers, distributors, and other parties. The gross revenues from the sales segment for the fiscal years ended June 30, 2017 were \$65,607,538, representing 23.0% of our total revenues.

#### **Fertilizer Manufacturing Process**

Our production lines employ scientifically-designed production procedures and strict quality control systems to ensure high quality in our products. These production lines are fully automated and ran by a central control system with minimal manual input by technicians. The machinery and vats for the line are supplied by a local medical machinery manufacturer and the automatic control systems were developed by us. Our access management system protects the proprietary ingredient mixes from any unauthorized use at all time. Our computer server is connected to the electronic scales on each of the material input bins to ensure that the exact quantity of each elements or ingredients is delivered correctly, thus maintain product quality and reduce waste. Our production line producing liquid fertilizer and powered fertilizer is centrally controlled by a wireless panoramic audio and video monitoring system that allows connectivity with mobile terminals such as cell phones.

In Jinong, we operate 6,495 square meters (69,911 square feet) production facility that manufactures liquid fertilizer products and a 13,803-square meter (148,576 square feet) production facility that produces liquid and highly concentrated (powdered) fertilizers. Jinong's total annual production capacity of these facilities is 55,000 metric tons.

In Gufeng and Tianjuyuan, we operate eight manufacturing facilities located in No. 6 Mafang Logistics Park, Pinggu, Beijing. These facilities produce various kinds of fertilizers and have a total annual production capacity of 500,000 metric tons.

The manufacturing techniques utilized by Gufeng include extruder granulation, rotary drum steam granulation, urea-based spraying granulation and resin-coated sustained release, which enable Gufeng to effectively meet the production requirements of all different compound fertilizers. To ensure high quality, Gufeng and Tianjuyuan employ strict quality controls from the raw materials purchases to the products sales to end users.

We produced and sold a total of approximately 361,388 metric tons of fertilizer products during the fiscal year ended June 30, 2017.

## **Raw Materials and Suppliers**

### *Fertilizer Products*

Among the three materials utilized to produce humic acid (weathered coal, lignite and peat), we have chosen weathered coal as a key raw material because it is abundant and economical for production. We have been sourcing the humic acid from different regions including Shaanxi and Shanxi provinces, and Inner Mongolia Autonomous Region.

In addition to weathered coal, we also use approximately 50 different components in our production process, including elements such as sodium, calcium, zinc, iron and potassium, all of which can be readily obtained from local markets. We utilize spectral analysis technology to select raw materials with the best quality, and we have specially-trained buyers to ensure the consistency of raw materials procured.

The fertilizer products that Gufeng and Tianjuyuan manufacture incorporate over 50 different raw materials, including coal, sulfuric acid and NPK (nitrogen, phosphorus and potassium) related compounds such as amide and hydro nitrogen. Gufeng sources these supplies largely from neighboring provinces and regions, such as Hebei and Shaanxi provinces, and the Municipality of Beijing, for the economical transportation costs.

Our products are packaged in bottles, bags and boxes. Each type of packaging material, along with packaging labels, is readily available for purchase from manufacturers in Shaanxi, Beijing, Shandong and Zhejiang provinces.

### *Agricultural Products*

The plants that generate our top-grade flowers and multi-colored seedlings are mainly planted and cultivated in research and development facilities maintained by Yuxing. We purchase seeds of green vegetables and fruits from agricultural companies, such as RijkZwaan Company, which imports the seeds from foreign markets, including Holland. We cultivate our agricultural products by applying fertilizers produced by Jinong.

## **Inventory**

For our fertilizer products, our efficient production methods allow us to maintain appropriate inventory levels, which keep inventory costs reasonable. We purchase raw materials and packaging materials based on demands and business forecasts. Products, in various formulas and different batches, with customized volumes, are shipped to distributors and users after production in response to the orders if we received.

For our agricultural products, we maintain corresponding inventory to both the anticipated demand from customers and other needs, as we often use certain agricultural products to serve our product testing base for research and development purpose.

## **Return Policy**

The Company accepts returns of defective fertilizer products. During the fiscal year ended June 30, 2017, the Company did not experience any significant returns.

## **Seasonality**

The peak season to sell fertilizer products is from January through June. However, during the fiscal year ended June 30, 2017, Jinong did not experience significant seasonal variation with respect to its fertilizer sales since approximately 46% of its annual sales revenue occurred in the third fiscal quarter (winter) and the fourth fiscal quarter (spring). Usually, Gufeng's sales of compound fertilizer undergoes significant seasonal variation in China. Correspondingly, during the fiscal year ended June 30, 2017, Gufeng experienced seasonal variation. The purchase of its raw material, basic fertilizers, is affected by the supply and demand in the fertilizer market with seasonality. Over non-peak sales season, when the raw material price is low and economical, Gufeng may choose to place larger orders for raw materials as its export business offsets the seasonality when exports are made to southern Asia, such as India is needed, where their selling season corresponds to the non-peak season in China.

The peak selling season for our agricultural products is from October till March, namely our second fiscal quarter (fall) and the third fiscal quarter (winter). This was primarily due to the strong demand for high-end fruits and decorative flowers during the holiday seasons. However, Yuxing did not have seasonal variation problems during the period from October 2016 through March 2017, it generated approximately 5.2 million, or 62% of our annual sales of agricultural products.

## **Marketing, Distribution and Customers**

### *Overview*

We currently market our own fertilizer products to private wholesalers and retailers of agricultural farm products in 22 provinces, 4 autonomous regions and 4 central government-controlled municipalities in China. For the fiscal year 2017, the following five PRC provinces, collectively accounted for 41% of our fertilizer manufacturing revenue: Inner Mongolia (5%), Hebei (16%), Shaanxi (5%), Heilongjiang (8%) and Liaoning (6%). We believe this geographically diverse distribution helps us to become a leader in the compound fertilizer market as compared to regional competitors because we are not heavily dependent on any single geographic area for sales and are able to raise our brand and product awareness nationwide. We also manufacture our fertilizer products for export through contracted distributors in foreign countries, including India and Africa. Total revenues from exported products accounted for approximately 0.1% of our total fertilizer revenues in fiscal 2017.

Our agricultural products are distributed through various channels in Shaanxi Province and other provinces. Decorative flowers are usually sold through our fertilizer distributors to end-users such as flower shops, luxury hotels and government agencies. Fruits and vegetables are sold to high-end supermarkets and upscale restaurants. Seedlings are sold primarily to departments of city planning.

A multi-tiered product strategy allows us to tailor our fertilizer products to the needs and preferences of the various geographic regions in China. Our fertilizers can be tailored to different crops grown in varying climate and soil conditions. For example, climate and rainfall conditions in Southern and Eastern China allow farmers to grow high margin crops such as fruit and seasonal vegetables. As a result, these farmers are willing to invest in expensive and specialized fertilizers. In contrast, we market low-cost fertilizers to farmers in the Northwest areas of China due to the inclement weather.

Our research and development capabilities allow us to tailor products to meet specific farming needs in considering different factors such as crops species, humidity, weather and soil conditions.

The sales segment utilizes each sales VIE's distribution network to deliver various agriculture materials from upstream providers such as manufacturers and wholesalers to downstream users and retailers. We aim to expand the sales VIEs network and integrate them together to better meet customer's demands with improved distribution efficiencies.

### *Marketing*

Our marketing staff is trained to closely work with distributors and customers, including retailers and farmers, providing professional advice on customizing our products to customer needs and offering agricultural knowledge and other extensive customer support. In addition, our employees educate and communicate with distributors and customers by regularly organizing training courses on new agricultural techniques.

Compared with industry norms, we believe our product development cycle of three to nine months is relatively short. Through our regular collection of market data, including growth records of a variety of plants cultivated in different soil and climate conditions, together with feedbacks from our end-users, we can conduct nationwide market analysis, ascertain new product needs, estimate demand and customer demographics and develop new products tailored to current market needs.

Although we utilize television advertisements and mass media, most of our marketing efforts are conducted through joint activities with distributors. Our sales and marketing staff works with and trains distributors and retail clients through lectures and interactive meetings. We emphasize the technological components of our products to end-users to help them understand the differences in products and how to effectively use them. Word-of-mouth advertising and sample trials of new products in new areas are also essential components of our marketing efforts. In addition, we have established nationwide telephone hotlines to answer questions and have constructed an SMS text message platform to have real-time interaction with customers.

Our best-selling self-manufactured fertilizers, based on revenues for the fiscal year ended June 30, 2017, are listed below:

Ranking	Product Names	Volume (Tons)	Revenues (USD)	Percent of Fertilizer Sales
1	Organic/Inorganic Compound Fertilizer (humic acid) NPK46%	131,238	447,419,420	16.6%
2	Compound Fertilizer NPK40%	130,862	42,854,133	15.0%
3	Jinong Guangpu Fertilizer (humic acid)	2,135	7,379,179	2.6%
4	Jinong FHF Fertilizer (humic acid)	15,218	5,911,716	2.1%
5	Jinong HXSGJ Fertilizer (humic acid)	1,331	4,954,832	1.7%

#### *Fertilizer Products*

The fertilizer product market in China is highly fragmented. Our primary sales strategy is to establish contractual relationships with qualified distributors throughout the country, who, in turn, will distribute our products to wholesalers and retailers, and ultimately, the farmers.

As of June 30, 2017, we sold our products through a nationwide constructed network of about 1,917 distributors covering 22 provinces, 4 autonomous regions and 4 central government-controlled municipalities in China.

The distributors sell our products to the smaller, local wholesale and retail outlets who then sell to the end-users, typically farmers. We do not grant provincial or regional exclusivity because there is currently no single distributor sufficiently dominant to warrant exclusivity. We enter into non-exclusive written distribution agreements with chosen distributors that demonstrate their ability in regional sales networks. The distribution agreements do not dictate distribution quantity because changes in weather and local market could dramatically affect sales quotas.

For the fiscal year ended June 30, 2017, self-manufactured sales to our top five distributors accounted for approximately 30% of our revenues. As we do not depend on specific customers, we believe that the loss of single customers would not have any significant effect on our business.

#### *Agricultural Products*

We distribute our agricultural products through several networks depending on the type of product. Our top-grade flowers are mainly distributed through our fertilizer distribution network; our green vegetables and fruits are mainly distributed to a variety of wholesale markets and supermarkets in Xi'an, while our multi-colored seedlings are distributed to the seedling centers and planting companies in China with which we have had long-term cooperation. For the fiscal year ended June 30, 2017, Yuxing's customers accounted for approximately 29.7% of the total revenues from Yuxing's agricultural products.

#### *Retail Stores and Authorized Retailers*

We have successfully implemented two marketing programs in Shaanxi, Hebei, Anhui, Jiangsu and Guangzhou provinces. These marketing programs consist of: (i) establishment of Company directly-owned retail stores to sell fertilizer products produced by Jinong and Gufeng through the designated sales personnel (the "Pilot Program") and (ii) selection of qualified retailers from the Company's distributor base to be designated as authorized retailers. With the Pilot Program, we have worked closely with our distributors, with each distributor's outlet having an assigned territory in order not to compete with other existing distributors. We have entered into agreements with these retailers on their exhibits, and have well-positioned standardized shelf and product displays in their retail stores. In addition, we provide the retailers with educational materials on proper product use and billboard ads with our product logo to attract target farmers.

#### *Sales Segment*

Strategically, supplemental to our manufacturing business, we added a new business segment, the sales of fertilizer and other agriculture material products, to our business since 2016. The sales segment had provided supplemental revenue and earnings by covering more market areas, and selling more products not only produced by ourselves but also by other manufacturers. We had been developing the sales segment mainly by acquiring control of established sales ventures and continue to grow them. The sales segment utilizes the distribution network acquired from the sales ventures to deliver various agriculture materials. For the fiscal year ended June 30, 2017, the sales segment sold \$65,607,538 of agriculture materials, and accounted for 23% of our revenues.

## Research and Development

We conduct the bulk of our research and development activities through Yuxing. Through Yuxing, we cultivate high-quality flowers, green vegetables and fruits in our own greenhouses and sell them to various end-users, including airlines, hotels and restaurants. Yuxing operates advanced research and development facilities that: (i) provide testing and an experimental data collection base for new fertilizers produced by Jinong by simulating the growing conditions and development stages of a variety of plants, such as flowers, vegetables and seedlings, (ii) 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, our research and development capabilities allow us to develop products tailored to specific farming needs generated by different crop species, humidity, weather and soil conditions. Flowers, fruits and vegetables grown from experimental testing of Jinong's humic acid compound fertilizers are of high quality and are sold to local supermarkets and airline companies.

The capital expenditure and other payments on Yuxing's construction, net of accumulated depreciation, were approximately \$12,124,940, \$13,300,313 and \$15,761,896 during the fiscal years ending of June 30, 2017, 2016 and 2015, respectively. The research and development center helps expanding our output of high quality agricultural products for commercial sale while providing an advanced testing field for new products. The facility at Yuxing enhances our capability to produce more products while shortening the development cycle, thus increase revenues and market share. In addition to developing new humic acid-based fertilizer products, we plan to develop other agricultural derivatives such as humic-acid based organic pesticides, which can provide additional revenue sources. For the fiscal year ended June 30, 2017, we sold approximately \$8,517,231 of these agricultural products.

	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>
Machines, Buildings and Equipment	\$12,120,687	\$13,236,949	\$15,692,975
Construction in Progress	\$ 63,253	\$ 63,364	\$ 68,921
Total	\$12,124,940	\$13,300,313	\$15,761,896

### New Product

With our research and development capabilities, we have developed 466 products and continued to develop new products. During the fiscal year ended June 30, 2017, we developed 7 new products, among which include several powder fertilizers, liquid fertilizers and compound fertilizers.

In addition to developing new fertilizer products, we also developed soilless seeding and breeding of colored-leaf plants, rare flowers and new species of fruits and vegetables.

### Intellectual Property

We hold the following trademarks registered with the PRC Trademark Offices of National Industrial and Commerce Administrative Bureau (the "PRC Trademark Offices"):

Trademark	Registration Number	Valid term
Huang Cheng Gen	No.5219720	June 28, 2009 to June 27, 2019
Mei Er An	No.1508004	January 21, 2011 to January 20, 2021
KEBA	No.10045980	December 07, 2012 to December 06, 2022
KEBA	No.10046405	December 14, 2012 to December 13, 2022
KEBA	No.10045898	March 07, 2013 to March 06, 2023
KEBA	No.10046344	March 07, 2013 to March 06, 2013
AGR GFJ	No.3320281	May 28, 2014 to May 27, 2024
SPR HOP	No.3320282	May 28, 2014 to May 27, 2024
T.J.Y	No.3320283	May 28, 2014 to May 27, 2024
KEBA	No.760379	August 14, 2005 to August 13, 2025

A registered trademark is protected in China for a term of 10 years, and is renewable for another 10-year term under the PRC trademark law, if the renewal application is submitted to the PRC Trademark Offices within 6 months prior to the expiration of the previous term.

Listed below are Jinong's four patents for a fertilizer formulation and a proprietary production line and manufacturing processes.

Patent/Pending Patent Application	Type of Patent	Patent No. /Application No.	Inventor's Name and Patent Holder	Date of Application	Date of Publication and Term
Patent: Production facility of Humic Acid Products	Utility Model Patent	Patent No.: ZL NL 2007 20031884.2	Inventor: Tao Li Patent Holder: Jinong	May 29, 2007	May 14, 2008; 10 years
Patent: Method and recipe of the water soluble humic acid fertilizers	Utility Model Patent	Application No.: ZL200710017334.x	Applicant: Jinong	February 1, 2007	November 24, 2010; 20 years
Patent: Production method of Organic Fertilizer	Utility Model Patent	Application No.: ZL201110282544.8	Applicant: Jinong	September 22, 2011	December 4, 2013; 20 years
Patent: Production method of Multifunctional liquid calcium fertilizer	Utility Model Patent	Application No.: NL 201410020442.2	Applicant: Jinong	January 17, 2014	October 19, 2014; 20 Years

The PRC Patent Law was adopted by the PRC National People's Congress in 1984 and was subsequently amended in 1992 and 2000. Under the PRC Patent Law, an invention patent is valid for a term of 20 years and a utility or design patent is valid for a term of 10 years. Both of our registered patents are all utility patents. Any use of our patent without consent or a proper license from us constitutes an infringement of patent rights.

In addition to trademark and patent protection in China, we also rely on contractual confidentiality provisions to protect our brand and intellectual property rights. To safeguard these rights our research and development personnel and executive officers are subject to confidentiality agreements. They are also subject to a non-compete covenant following the termination of employment. They also agree that all work products belong to us. Moreover, we take steps to limit the number of personnel involved in the production process and, instead of disclosing fertilizer ingredients to employees, we refer to the ingredients by numbers.

### Competitive Strengths

We believe our products possess the following competitive advantages which enable us to compete in the PRC fertilizer market.

*Nation-wide sales network.* 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. We have over 1,947 distributors nationwide across 22 provinces, 4 autonomous regions and 4 central government-controlled municipalities in China. Most of our competitors do not have a sales team as large as ours that specializes in the sale of compound fertilizer products. Moreover, we believe the regional strengths of Gufeng's distribution network have expanded and will continue to expand our sales coverage to certain cities and counties as well as foreign markets.

*Strong Research and Development.* Our research and development is managed effectively. Typically, it takes only three to nine months from the decision to develop a new product to mass production, which ensures product flow and helps to maintain market share. Our strong research and development department is based on our intelligent greenhouse facilities. The advanced equipment and soil-free techniques in such facilities simulate the natural environment in different areas and control selected factors. Since most of Jinong’s experimental work is conducted in Yuxing’s greenhouse facilities, thereby speeding up development cycles, we can reduce costs without sacrificing accurate results. During the fiscal year ended June 30, 2017, we generated approximately \$8,517,231 revenue from sales of Yuxing’s agricultural products, and we anticipate that this source of revenue will grow in the future. We have built 98 sunlight greenhouses and six intelligent greenhouses over an 88-acre parcel of land relating to Yuxing’s pending research and development center, which expands output of high quality agricultural products for commercial sale while providing an advanced testing field for new products.

Gufeng and Tianjuyuan have developed seven technologies:

- (1) Drying fan for urea-based compound fertilizer;
- (2) Heat balance control system for flexible compound fertilizer;
- (3) Automatic control system for the anti-block of compound fertilizer;
- (4) Water control technology for low nitrogen, low potassium and high phosphorus compound fertilizer;
- (5) Manufacturing technology for salt-alkaline resistance and soil improvement of compound fertilizer (The company won the third prize for “Progress in Science and Technology in Pinggu District Beijing” with this technology);
- (6) Manufacturing technology for compound HA fertilizer with high density (NPK  $\geq$  51%);
- (7) Manufacturing technology for the sustained release of blending and compound fertilizer

While we believe our greenhouse facilities provide us with a competitive advantage over the competitors, some of them may still have better understanding in certain local markets where they successfully marketed products over a period and have developed specifically formulated fertilizers for local plants, soil and climate conditions. To enhance our competitiveness, we will seek to diversify our fertilizers to benefit a wider range of plants and soil conditions.

*Well-known Brands.* We believe customers have strong brand recognition and make purchase decisions accordingly. “Jinong”, “KEBA” and “T.J.Y” are registered trademarks and are well recognized by end users; in addition, certain large national fertilizer traders, such as Sinoagri Holding Company Limited, one of the largest domestic fertilizer traders in China, had strong brand preference for Gufeng’s fertilizer products. Gufeng sells its products under four brands, namely “KEBA”, “Mei Er An”, “Huangchenggen” and “SPR HOP”. Tianjuyuan’s products are marketed under the brands “AGR GFJ” and “T.J.Y.” The primary products sold under the Gufeng and Tianjuyuan brands include organic/inorganic compound fertilizer (humic acid) with NPK  $\geq$  40%, and organic /inorganic compound fertilizer (humic acid) with NPK  $\geq$  48%.

*Automated Production Line and Process.* All Jinong’s major production procedures are controlled by a centralized computer system only accessible by authorized personnel. Jinong’s production lines are fully automated to ensure that content in each product is measured exactly according to its recipe by linking the computer server with the electronic weights on each material input bin. In addition, spectral analysis is used to accurately check the composition of materials. During the fiscal year 2017, Jinong’s highly advanced production lines can manufacture a multi-tiered line of 134 fertilizer products, and we believe that Jinong’s production lines are among the few advanced lines in the Chinese industry. As mentioned above, we have patent protection for Jinong’s two proprietary production lines, one of which has medical grade production equipment with precise quality control, and the other can produce liquid, powder and granular fertilizers. We currently have an annual production capacity of 555,000 metric tons.



## Competition

### *Fertilizer Products*

Based on our internal estimates, there are approximately 2,000 organic fertilizer manufacturers in China, with no discernible market leaders in the sector. We believe our competitors are currently comprised of approximately 90% small-sized local manufacturers and 10% large national manufacturers. We believe we are among the large national fertilizer manufacturers.

Gufeng's primary competitor is Stanley Fertilizer Co., Ltd. ("Stanley"), a compound fertilizer manufacturer based in Linyi, Shandong Province, which was listed on Shenzhen Stock Exchange (China) in June 2011. Stanley manufactures various kinds of compound fertilizers and tailored fertilizers which directly compete with Gufeng.

The smaller competitors of ours are generally producers of amino acid compound fertilizers, which are very price competitive.

However, lacking adequate quality or process control technologies, these companies often sell products with inconsistent quality.

The Chinese fertilizer market has been fully opened to foreign companies since China's entry into the World Trade Organization in December 2006. Accordingly, the PRC government has increased its fertilizer import quota and, since January 2007, has reduced the import tariffs on foreign fertilizer to 1%. However, foreign fertilizers are generally more expensive than PRC manufactured fertilizers and are not customized to soil conditions influenced by China's diverse climate and terrains.

### *Agricultural Products*

The competitive market of our agriculture products varies among our three main products: Top-grade flowers, green vegetables and fruits, multi-colored seedlings.

*Top-grade Flowers:* The growers in the flowers and flower seedlings businesses are largely local based. We believe that our flower products have comparative advantages in terms of the advanced technologies we apply, the superior species of the seedlings we select and the efficiency and stability due to strict quality control. In addition, our greenhouse facilities enable us to produce flower seedlings year-round.

*Green Vegetables and Fruits:* Our competitors are primarily the vegetable planting centers and planters in Shaanxi, Shandong and Gansu provinces that produce vegetables such as cucumbers and peppers. With the aid from our green fertilizers that improve soil conditions and limit bacterial growth, our competitive advantage lies in the advanced greenhouse facilities which contribute to the pollution-free end products.

*Multi-colored Seedlings:* In the market of Multi-colored seedlings, one of our competitors is Kunming Anthura Horticulture Co., Ltd. Some of our products, such as red photiniaserrulata, are also imported from other countries with high survival rates.

### Government Regulation

Our business operations are subject to various laws, including environmental, health and workplace safety laws issued by governmental agencies on the provincial and state levels. Business and company registrations, along with the products, are monitored through the issuance of licenses and certificates including the following:

*"Green" Certification.* Except for those manufactured by Gufeng and Tianjuyuan, all our fertilizer products are certified by the CGFDC as "Green Food Production Material". Currently, the CGFDC provides two different certifications within the green food industry: "Green Food Certification" granted to edible foods, and "Green Food Production Material Certification" granted to production materials such as our fertilizers. A "Green Food Production Material Certification" was issued to Jinong on March 2015 and will expire in March 2018. The certificate is renewable with an application within 90 days prior to the expiration.

*Operating license.* Our operating license enables us to (1) undertake research and development, production, sales and services of humic-acid liquid fertilizer, (2) sales of pesticides, and (3) export and import of products, technology and equipment. Jinong's license (Registration No. 610000100003655) is valid until August 8, 2057, and the license is renewable. Gufeng and Tianjuyuan maintain valid operating licenses with expiration dates of August 1, 2043 (for the license with Registration No. 110000008250498) and August 7, 2021 (for the license with Registration No.110117003157142), respectively.











































































































































































































































