

## SEC Probing China Green Ag

**Scott Eden**

01/12/11 - 05:48 PM EST

*Updated with details from China Green's press release addressing the SEC inquiry.*

NEW YORK (TheStreet) -- Securities regulators have launched an informal inquiry into **China Green Agriculture** (CGA) as accusations of fraud continue to dog a universe of small Chinese companies with shares listed on U.S. exchanges.

China Green issued a press release after the close of trading Wednesday, disclosing the inquiry and that the company's U.S. legal counsel "has voluntarily provided a comprehensive report on selected issues that were of interest to the SEC to the Los Angeles Office of the SEC."

The company said it will "continue to cooperate with the SEC on this matter."

Based in the central Chinese city of Xi'an, the organic-fertilizer producer and its struggles are emblematic of a trans-Pacific controversy, with investors casting doubt on the probity of hundreds of Chinese companies that have come public in the U.S. through a back-door process known as a reverse merger -- also called a reverse takeover, or RTO.

Over the last year, allegations and revelations of financial fraud have beset these companies to such a degree that the SEC has launched a wide-ranging probe, according to people with knowledge of the investigation.

China Green went public in a reverse merger in 2007 and has seen its stock trade as high as \$18. It reached that point in December 2009, not long after it began trading on the **New York Stock Exchange**. The stock was uplisted to the American Stock Exchange in March 2009 from the over-the-counter bulletin board.

China Green Agriculture is one of more than a dozen Chinese companies that SEC investigators have shown a particular interest in examining, those same people have told *TheStreet*. The agency has declined to comment.

Scrutiny of the company has grown heated enough that last week China Green hired New York public relations firm Sitrick & Co., which specializes in crisis management. The firm's principal, Mike Sitrick, confirmed that the SEC had begun an informal inquiry into China Green Agriculture in September. He wouldn't comment on the nature of the agency's interest. No subpoenas have been issued to China Green, he said.

The inquiry came to light in an article published earlier this week by the Chinese financial newspaper, the *21st Century Business Herald*. The report contained an interview with China Green's founder and chairman, Li Tao, who disclosed in the paper that the SEC had launched its inquiry.

In the article, Li said that the SEC had contacted the company about alleged discrepancies between financial results reported in its filings in the U.S. and financial results implied by tax records filed with the Chinese government.

Criticism of the company grew so intense this summer -- and, indeed, short positions in its stock grew so large -- that China Green issued a number of press releases in September defending the accuracy of its financial filings in the U.S. and denying the fraud accusations.

Then, last week, a firm called J Capital released a scathing 35-page report, saying it found "compelling evidence that China Green Agriculture ... has vastly inflated the sales and profit figures it reports to investors." According to its research, the firm asserted that shares of China Green are worth "no more than \$2.85 a share." J Capital says it does not have a position in the stock.

China Green spokesman Mike Sitrick said the J Capital report had "numerous inaccuracies." He said he couldn't be more specific. In its Wednesday press release, China Green reiterated that sentiment, calling the J Capital report and earlier ones "largely inaccurate."

The fresh critique sent shares of China Green down 19% last week. The selling pressure was heightened when an analyst at Brean Murray Carret downgraded the stock to sell from hold.

The firm's negative opinion carried weight: Brean Murray is one of a few small U.S. investment banks that do a robust business in the raising of capital and selling of shares in Chinese small-cap companies. The firm, in other words, has an interest in being bullish on Chinese stocks.

Ingrid Yin, Brean Murray's China-stock analyst, noted that CGA executives have fallen short on promises made in September to show proof to investors that would refute several specific pieces of evidence suggesting that China Green was distorting its numbers in order to raise capital in the U.S.

The company filed a shelf registration with the SEC in July to sell as much as \$200 million in securities.

"Although management has given some answers to address allegations and investors' concerns, we think management's previous clarification was not enough to rebuild investors' confidence," Yin wrote.

China Green's spokesman said the company was still examining those earlier allegations and would respond "at the appropriate time."

In the *21st Century* interview, the newspaper asked China Green's chairman, "After the SEC received your responses, what was their feedback?" according to a translation from the original Mandarin.

"This is our lawyers' job," he is quoted as saying. "They are constantly communicating and sending feedback."

Asked if he had any idea what conclusions the SEC had made, Li is quoted as responding, "We believe when the SEC issues this type of informal inquiry they will not say when the investigation is complete. They will not issue an official report. This is the SEC's style."

>To contact the writer of this article, click here: [Scott Eden](#).

>To follow the writer on Twitter, go to <http://twitter.com/ScottEden>.

>To submit a news tip, send an email to: [tips@thestreet.com](mailto:tips@thestreet.com).