

CNOA – Positioned for Continued Rapid Organic Growth

CNOA produces, processes and distributes green and organic rice. To date, CNOA has sold products exclusively within China, and the company expects this to continue for the immediate future. CNOA, which became public through a March 2007 reverse merger, originally was created in 2002 and has delivered rapid growth, increasing profitability and gains in operational efficiency since its inception. When assessing CNOA's positioning, fundamental elements to consider with regard to its markets and opportunity include:

- **Demographics:** A population of 1.3 billion people, whose average incomes rose 4.5 times from 1998 to 2005.¹
- **Significant niche market growth:** A domestic Green Food market that quadrupled from 1997 to 2003, and now stands at approximately \$13 billion.
- **General market strength:** China is the world's leading rice producer and is now 3rd in terms of rice export.²
- **Product vital to the world economy:** 2 billion people in Asia alone obtain 65% of energy intake from rice and its derivatives.³
- **Governmental support:** The Chinese government is placing a heightened emphasis on food safety.
- **CNOA pricing premium:** CNOA has earned AA grade status from China's Green Food Development Center and its' ErMaPao brand is an award winning name and quality product earning a price premium over competing products.
- **Soaring global rice prices:** Prices have increased 20% since January of this year.
- **Significant revenue and EPS growth:** CNOA revenue increased nearly 140% from 2004 to 2006 and net profit was up nearly 180% as net profit margin increased to 38%. 2007 revenue was nearly 5x that of 2006, and EPS increased nearly 4x.

As Master Sun Tzu taught in "The Art of War" regarding the power of recognizing and capitalizing on the power of potential energy - logs and stones remain stationary on level ground but roll with accelerating force when deployed on a mountainside.⁴ CNOA is poised to participate in and benefit from the relentless momentum building in the global rice market, the Chinese economy in general and the Chinese organic and Green Food markets in particular.

CNOA provides a vital product at a premium price to an enormous and growing market, and the Company delivered \$0.26 in earnings per share in 2007, a year in which revenue grew nearly 5x the preceding year. Murphy Analytics (MA) views CNOA, priced at \$1.90 as of 4/11/08, as an attractive investment opportunity and is initiating coverage on CNOA with an "Outperform" rating.

Please review and consider the risk factors outlined later in this report and the important disclosures and disclaimers at the end of this report.

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¹ www.worldbank.org

² <http://www.fao.org/rice2004/en/factsheets.htm>

³ <http://www.fao.org/rice2004/en/concept.htm>

⁴ V. Energy #22; <http://classics.mit.edu/Tzu/artwar.html>

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Company Contact Information:

China Organic Agriculture, Inc.

Mr. Steve Wan

Phone 310-441-9777

stevewan@chinaorganicagriculture.com

Investor Relations Contact:

Winning IR Company, Ltd.

Mr. Darren Minton

Phone 212-823-0523

darren.minton@winningir.com

Analyst Contact Information:

Patrick J. Murphy, CFA

Analyst

Murphy Analytics

Phone 636-273-9440

www.murphyanalytics.com

pmurphy@murphyanalytics.com

CNOA Management and Directors

<u>Name</u>	<u>Age</u>	<u>Title</u>
Changqing Xu	38	Chief Executive Officer
Xuefeng Guo	34	Chief Financial Officer, Secretary
Huizhi Xiao	46	Chairman and Director
Shujie Wu	38	Director
Zhouzhe Jin	68	Director
Jingyong Ma	56	Director

Changqing Xu, 38, was the CEO, from 2002 to December 2007, of food distributor Hubei Tianjian Limited, in charge of the company's investment plans and policies as well as management and market expansion. During this time, he worked with local agricultural universities to improve rice grain quality and increase grain production, and negotiated exclusive retail agreements in the Hubei and Hunan area as well. Prior to joining Hubei, Mr. Xu served as COO of Shanghai Huaying Investments Ltd., in charge of market planning, internal control, financing, and asset restructuring, and was market manager and managing director of Shenzhen Fuxing Printing Company Limited, in charge of sales and promotions of its products.

Xuefeng Guo, 34, specializes in financial management and has successfully held, over the past five years, significant positions in investment, finance and banking industries. Mr. Guo holds an MBA from the University of Shandong. Until December 2002, Mr. Guo was Deputy Manager of Tianlishou Medicine Factory, in Shandong. From January 2003 to present, he was deputy Manager of Beijing Mingtian Capital Holding Limited.

Huizhi Xiao, 46, graduated from Jilin Agricultural University and is a senior agronomist with many years of experience in the food processing industry, particularly in rice processing. He is a prominent figure in the China's agriculture industry with a reputation as an innovator with expansive management experience through several past enterprises. From 1990-2002 he was General Manager of Qianguo District Guangsha Construction Company. From 2002 to the present he has served as President of Songyuan City ErMaoPao" Green Rice Limited.

Shujie Wu, 38, has served, from 2002 to 2004, as Chairman of Dongguan Shijin Market Investment Company Limited. From 2003 to 2005, Wu served as Chairman of Guangzhou City Weirong Investment Consulting Company Limited, and from 2005, to 2007, served as Managing Director of Jiayuanfen International Investments Company Limited.

Zhouzhe Jin, 68, is a senior agronomist and recipient of the "National Special Contributions" Award. Jin graduated from Yanbian Agricultural College, and, upon graduation, was assigned to Jilin Province Qianguo District's Agricultural Bureau on agricultural systems. In December 1969, he was delegated to Qianguo District Jilatu Agricultural Station. He also served as deputy mayor of Jilatu from 1982 until retirement. While working with the agricultural bureau, Jin

conducted agricultural scientific experiments such as paddy field phosphorus test, dry seeding, courtyard seeding, formulated fertilization of rice, the "Three Dry Cultivation Methods".

Jingyong Ma, 56, is an agricultural researcher. Mr. Ma is a specialist in agriculture. Since 1970, Mr. Ma has been a lecturer to the graduate students of the Jilin Agricultural Academy, while also conducting research on quality of rice grains, new varieties of rice breeding, and rice grain breeding genetics. Since January 2005, Mr. Ma has been retained by the Company as a rice grain specialist and consultant. Mr. Ma has developed around 10 new species of grains which are of high quality, high production value, and high resistance to disease and blight. Mr. Ma was approved in 1998 for outstanding contributions of young technical professionals in Jilin and was awarded the State Council's "Government's special allowances" in 2001.

CNOA Share Count and Significant Holder Estimates

As of 3/28/08, CNOA reports 51,548,776 in outstanding common shares with a fully diluted share count of 51,616,372. CNOA has not utilized options or any other equity-based compensation for its officers or employees. CNOA reports the following significant shareholders:

Beneficial Owner	% Held	# of Shares Held
Xia Wu	29.1%	15,000,000
Huizhi Xiao (Chairman and Director)	19.6%	10,114,873
Luxesource International Limited	12.0%	6,175,975
Simple (Hong Kong) Investment & Management	5.6%	2,882,121
First Capital Limited	5.3%	2,744,878
China US Bridge Limited	5.3%	2,744,878
Officers and Directors as a Group (6 total but reflects Xiao holdings)	19.6%	10,114,873

Global Organic Food Market

A study reviewed by IFOAM (www.ifoam.org) and FIBL (www.fibl.org) estimates that: “Global sales of organic food and drink have increased by 43 percent from 23 billion USDollars (17.8 billion Euros) in 2002 with sales reaching 33 billion US-Dollars (25.5 billion Euros) in 2005. Organic Monitor expects sales to have approached 40 billion US-Dollars (30.9 billion Euros) in 2006. Although organic agriculture is now present in most parts of the globe, demand remains concentrated in Europe and North America. The two regions are experiencing undersupply because production is not meeting demand. Thus, large volumes of imports are coming in from other regions”⁵ The study also estimates dedicated organic farmland according to the following table:

Top 10 Countries by # of Hectares of Organic Land

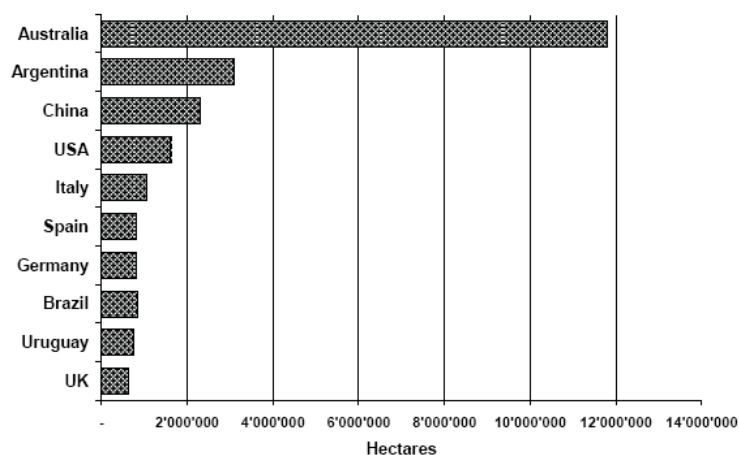


Table from <http://orgprints.org/10506/01/willer-yussefi-2007-p1-44.pdf>

Although home to only a small percentage of the world’s organic farmland, U.K. Consulting Firm Organic Monitor estimates that Europe and North America consume 97% of the global organic products market⁶.

Organic Food Distribution: In a presentation at the Biofach⁷ 2007 Conference, a presentation by Salvador V. Garibay⁸ entitled “Organic supply chain” estimates that in 1991, 7% of organic products were sold in supermarkets and 93% were sold in organic shops, fairs and direct sales; but that by 2003, 50% of organics were sold in supermarkets. Garibay estimates further that the average growth of the global food market annually is 4% - 5%, while average growth in organic food is 15% annually.

⁵ “THE WORLD OF ORGANIC AGRICULTURE STATISTICS AND EMERGING TRENDS 2007”; EDITED BY HELGA WILLER & MINOU YUSSEFI; <http://orgprints.org/10506/01/willer-yussefi-2007-p1-44.pdf>

⁶ <http://www.fibl.org/english/news/events/2007/documents/sahota-2007-market.pdf>; www.organicmonitor.com

⁷ www.biofach.de

⁸ <http://www.fibl.org/english/news/events/2007/biofach.php#fr1>

Distinction between Organic Products and Green Food

It must be noted that there is a difference between “Organic” food and China’s “Green Food” classification. “Organic” food is that which meets international standards, the most prominent of which have been established by IFOAM – the International Federation of Organic Agriculture Movements (www.ifoam.org). China’s “Green Food” is a classification for agricultural products grown and processed in accordance with the standards set by the China Green Food Development Center. Although both of these markets are growing, China’s organic market still is small relative to its Green Food market. Approximately 15% of CNOA’s 2007 sales were organic, and 85% were green. In 2006, 56% of CNOA revenue came from organic rice and 44% came from the sale of green rice. Following is a discussion and tabular representation of some of the distinctions as clarified in a paper published by U.N. Agency IFAD⁹

“AA-Grade Green Food products are somewhat comparable to organic products but there are distinct differences. Green Foods use product standards rather than process standards as organic products do. See Table 2.2. For example, the Green Food Program makes extensive use of modern test methodologies to ensure that the production environment and the characteristics of the final products meet its benchmarks. Green Food production is dominated by larger companies and farms that can more readily manage the standards of environment and food quality. Organic products — rather than testing a product or soil/water sample — require the management of the production and post harvest processes that assume many of the same parameters, plus a number of others. Organics do not regularly require environmental or sample tests unless problems are suspected. Green Foods have an end-product orientation born of consumer and government concern for safe foods whereas organic farming historically developed more to meet farmers’ needs. In this sense, rather than simply refraining from polluting the crops or environment, organic farmers employ active measures to seek to improve their soils and ecological environment. In this sense, organic production internalizes public benefits such as biodiversity and natural resource conservation by bundling both a product and an environmental service that are paid for by consumers whenever organic products are sold at a premium. This creates an undistorted market incentive for farmers to conserve public goods even if consumers might be less willing to pay for the public services independently.”

Table 2.2. Comparison of Green Foods and Organics

	Certification	Environment Test	Residue Test of Final Products	Synthetic Chemicals Permitted	Traceability	Conversion Period	International Recognition	Market Premium
Green A	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>				Limited
Green AA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		Limited	Limited
Organic	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Source: Daniele Giovannucci

⁹ http://www.ifad.org/evaluation/public_html/eksyst/doc/thematic/organic/asia.pdf (pages 10 - 12)

China's Organic Market Overview

A report from BioFach China estimates that China is now the world's 5th largest agricultural exporter at \$30 billion annually and growing, noting further that: "Admittedly, conventional farming currently dominates, but the rapidly growing demand for environment-friendly products and organic food is not to be overlooked in China either. Moreover, the demand for some organic raw materials in the Western industrial countries can no longer be covered at present. The People's Republic is responding to this by increasing the growing areas. According to information from the organic certification organizations, over 300 different products are currently available that meet the legal standards. The sale of organic products in 2005 amounted to some 400 million dollars, of which a large part was export business."¹⁰

According to the report "The World of Organic Agriculture – Statistics & Emerging Trends 2006"¹¹, the Asian market for organic food, defined in this case only as those products meeting Japanese Agricultural Standards, was \$750 million in 2004, approximately ½ of which was sold in Japan. The report states that sales would be "much higher" if the total included products sold directly by producers to consumers. The report goes on to state that:

- "The highest market growth is occurring in China, which has the largest area of organic farmland in Asia. Production of organic crops has increased significantly in recent years. The growing affluence of Chinese consumers and expanding expatriate community is developing a domestic market for organic food (page 71)."
- "The highest reported domestic market growth, estimated to be up to 30 percent, is in China, mainly in the eastern part. The main products are vegetables, rice and fruits. Reasons include government promotion; growth of local certification bodies; increased public concern on food safety; increasing demand from high-income earners and increased public knowledge about organic agriculture and food. Chinese export growth is estimated at about 10 percent. Along with on-going increasing demand there is also increasing quantity and varieties of certified products available worldwide (page 110)."

China's Green Food Overview

A Thematic Evaluation entitled "*Organic Agriculture and Poverty Reduction in Asia: China and India Focus*"¹² and published by the International Fund for Agricultural Development (IFAD), an agency of the United Nations, estimated in July 2005 that China's Green Food retail sales were approximately \$12 billion, with perhaps 12% of this exported to Japan and Europe. The IFAD report also estimates that in 2003 there were 2,047 certified Green Food producers and over 4,000 Green Food products. The following tables from the IFAD report show the

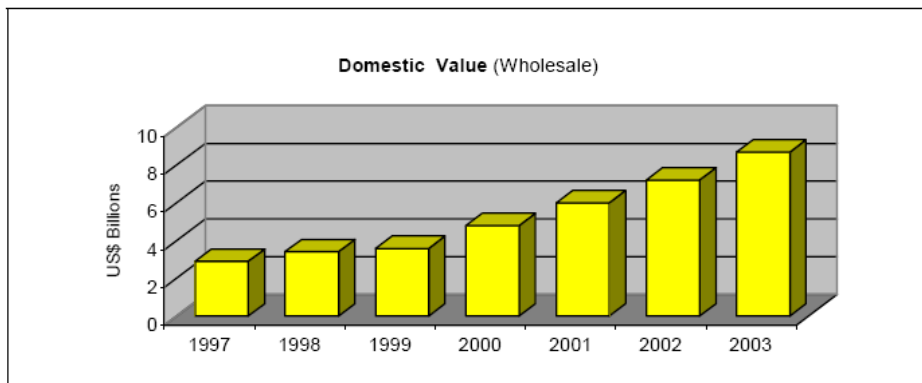
¹⁰ http://press.nuernbergmesse.de/en/biofach_america/25.pm.3407.html

¹¹ <http://orgprints.org/5161/02/willer-yussefi-2005-world-of-organic.pdf>

¹² http://www.ifad.org/evaluation/public_html/eksyst/doc/thematic/organic/asia.pdf

recent growth of Chinese Green Food, a domestic market that quadrupled from 1997 to 2003, and an export market that grew from virtually nothing in 1997 to nearly \$1.5 billion by 2003.

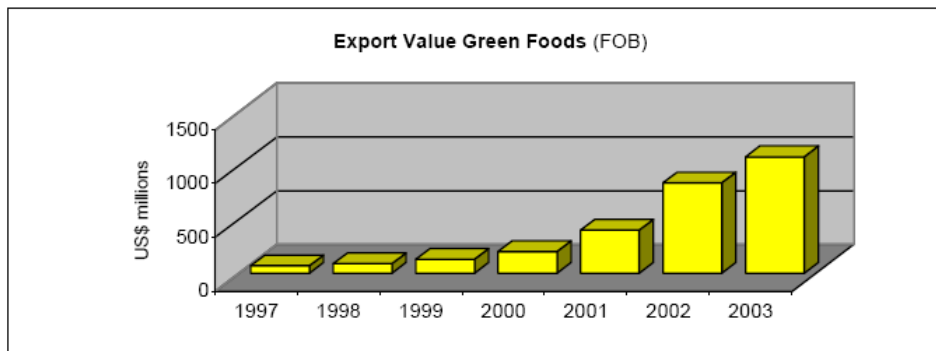
Figure 2.1. Domestic Value of Green Food



Source: China National Green Food Development Center

Note: domestic company sales, not retail

Figure 2.2. Export Value of Green Food



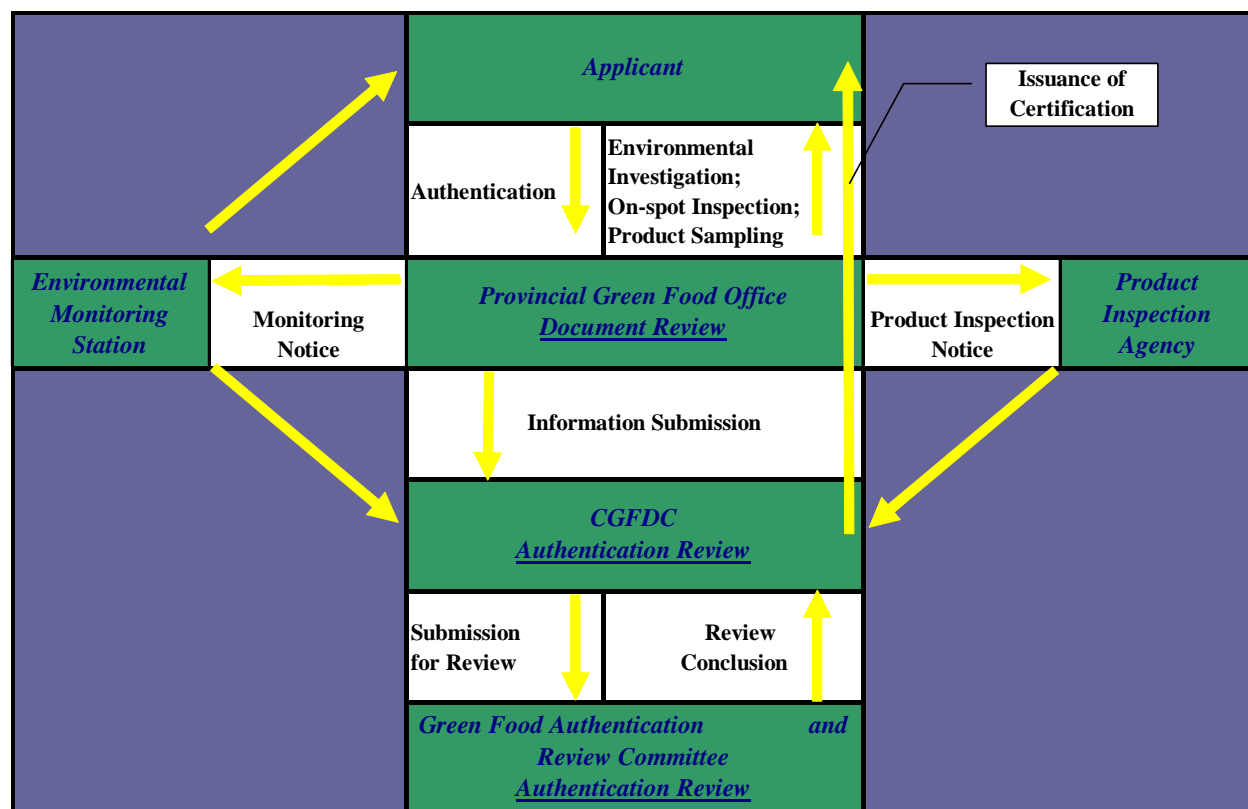
Source: China National Green Food Development Center

In summarizing China’s Green Food sector, the IFAD report states:

“Green Food is strongly promoted by the Chinese government and is of great significance in improving overall food quality in China. However, when exported it is usually as conventional and does not necessarily receive a premium price as is the case for organic products. There is a demand for Green Food in countries like Japan, primarily because Green Food is more likely to meet the basic import requirements of such developed markets in ways that China's non-certified exports may not.”

Chinese Green Food Regulation

The China Green Food Development Center (CGFDC)¹³: Established in 1990 by the Ministry of Agriculture to promote the production of agricultural products free of the widely used but often dangerous pesticides and fertilizers. The mission of the CGFDC is to enhance food quality and safety, to promote consumer's health, and to protect agricultural bio-environment for sustainable development. Among other mandates, the CGFDC controls the use of the “GreenFood” label: “Under strict supervision, control and regulation in production, processing, packing, storage and transportation, Green Food adopts the whole-some quality control from field to table, while it requires reasonable applications of inputs, including pesticide, fertilizer, veterinary drug and additive etc. to prevent any pollution of toxic and harmful matters to produce and links in food processing so as to ensure environmental and product safety.” Following is a graphic illustrating the CGFDC Green Food Authentication Process¹⁴:



¹³ <http://www.greenfood.org.cn/sites/GREENFOOD/>

¹⁴ Table from: http://www.greenfood.org.cn/Html/2007-5-30/3675_4688_2007-5-30_4691.html

As an overview of the standards and approach of the Green Food review process, the IFAD report provides the following summary:

Box 2.1. China's Green Food: certifying safety

The Green Food certification process includes tests and field inspections of growing and processing environment, food quality, and processing procedures. To bear the Green Food label, raw materials should be cultivated in a pollution-free environment and manner:

- Area should meet the highest grade of air standards in China
- Heavy mineral residues are restricted in irrigation water and soil (tests for mercury, cadmium, arsenic, lead, chrome, etc.)
- Processing water must meet the National Drinking Water Standard
- Chemical applications are restricted and regulated, and some of the most poisonous pesticides and herbicides are banned

Samples of the final products are tested, not only for content and hygiene, but also for banned residues and substances. About 80 Environmental Monitoring Stations and Food Quality Monitoring Stations across China are designated to conduct such tests.

CNGFDC receives a fee for the certification and its Green Food certificate is valid for a period of three years. During the certified period, annual scheduled inspection is conducted by the CNGFDC and local Green Food Management Offices, where products are reportedly sampled.

In response to domestic and international market needs, CNGFDC introduced a more rigorous grading in the late 1990s called AA-Grade Green Food that is comparable — but not the same as — organics. This is now distinguished from the standard A-Grade Green Food by requiring traceability and the absence of any synthetic agro-chemicals. There are more than one hundred firms now certified.

Researched by Daniele Giovannucci

Governed by the China National Organic Product Standard (CNOPS) enacted in 2005, Chinese Green Food must be labeled as either “fully organic” or “in conversion”¹⁵, as noted below:



Fully Organic



Organic in Conversion

¹⁵ <http://www.biofach-china.com/main/eefmgjhs/eefmrb2w/page.html?layout=print>

CNOA Overview

CNOA Location: CNOA operates in the Jilin Province in northeastern China. The company operates in Songnen Plains on 6,260 acres (2,533 hectares) fed by the Nen (Nenjiang) River¹⁶ - “the main tributary of the Sungari (Songhua) River (one of China’s seven major rivers). It rises between the Da Hinggan and Xiao Hinggan ranges in northern Heilongjiang province and flows south, forming part of the border between Heilongjiang and Jilin provinces and watering the fertile northern section of the Northeast (Manchurian) Plain. It is about 725 mi (1,170 km) long and is an important route; much of it is navigable.” With 2005 Water Quality grades¹⁷ of II and IV (a grade of higher than V is considered heavily polluted), the Nen River is among the least polluted of the tributaries feeding the Songhua River.

CNOA Products: CNOA grows and processes organic rice and green rice distributed under the “ErMaPao” brand, which has been recognized as AA quality by the China Green Food Development Center (CGFDC). ErMaPao products are packaged as gifts, for supermarket distribution and for larger scale distribution from 1 kg up to 10 kg. ErMaPao brand rice has won several quality and brand awards. CNOA states that ErMaPao is among the most popular rice brands in China.



China Organic Agriculture’s “ERMAPO” Brand Organic Rice and Green Jasmine Rice

CNOA Production and Processing: CNOA operates on 6,260 acres, approximately 1,600 of which have been granted land use rights by the Chinese government until 2032, and the balance of which is made available under collaborative contracts with “family units¹⁸” who utilize CNOA materials and training to produce rice on accordance with CNOA standards. CNOA also obtains rice from several grain depots providing product that meets CNOA certification standards.

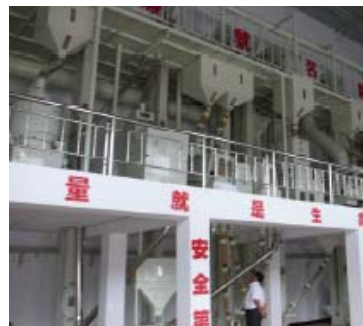
¹⁶ <http://www.britannica.com/ebc/article-9373221>

¹⁷ SEPA’s “Report on the State of the Environment 2005”;

<http://english.sepa.gov.cn/ghjh/hjzkgb/200701/P020070118528407141643.pdf>

¹⁸ CNOA’s 2007 10-K defines a family unit as one or more persons within a familial group who are capable of working a given plot of land on acreage allotted to the unit by the government.

Processing of rice requires washing, separation by quality, husking, re-washing, polishing and packaging. CNOA processes in its own facilities, but also contracts with two grain depots that process in accordance with CNOA standards. The 7/07 agreement with Xinmiao Grain Depot calls for the provision of 10,000 tons of processed rice in the 1st year, increasing to 12,000 tons by the 3rd and final year of the contract. The 7/07 agreement with Wukeshu Grain Depot calls for the processing of 60,000 tons of green rice grains, expected to yield 42,000 tons of ErMaPao rice, in the 1st year, increasing by 10% annually over the 3-year term. In addition to providing CNOA with processing capacity, the agreements also effectively decrease CNOA's storage, administrative and transportation costs. CNOA had approximately 69 full-time employees as of 12/31/07 – 20% of which are in management positions, 50% in production and 30% in sales / procurement.



CNOA Distribution: In 2007, CNOA generated \$17.5 million, or 39% of \$44.5 million of total net sales, from four large retailers / supermarkets. The largest concentration among these four was the Songyuan Shunda Grain and Oil Company at 11% of total sales. In total, 84% of sales came from large retailers and supermarkets. CNOA expects to continue selling to customers within China for the foreseeable future.

CNOA Competitors: Although there are some large and well capitalized agricultural producers, China's general agricultural production market must be characterized as fragmented due to the high percentage of rural population that earns a living in farming related businesses. CNOA's 10-K lists six competitors that have obtained green and organic certifications, and the company expects that growth within these markets will continue to attract small and large potential competitors. The market for food processing is more concentrated, however, and CNOA faces processing competition from large national, regional and local processors.

Overview of the Jilin Province – Home to CNOA Production and Processing



Jilin Province is located in the central part of northeast China, adjoining Heilongjiang in the north, Liaoning in the south, and Inner Mongolia in the west. It is adjacent to Russia in the east, and opposite to the North Korea in the southeast across the Tumen and Yalu rivers. Located between 122-131 degrees E and 41-46 degrees N, its territory covers 187,400 sq km, accounting for 2% of the nation's total. The land is high in the southeastern part and low in the northwestern, with a vast plain lying in its mid-west.

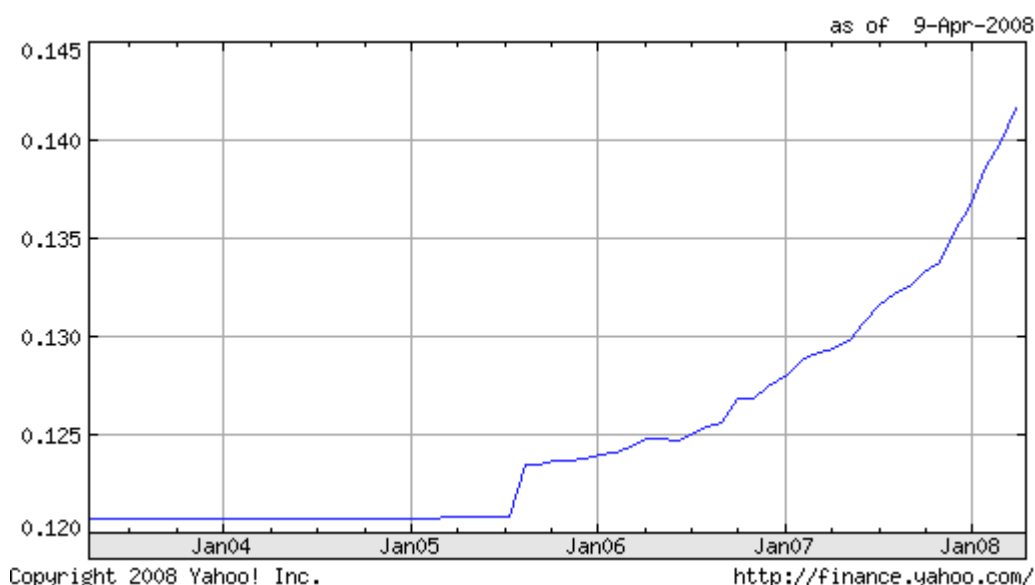
Gross domestic product (GDP)	<i>GDP for 2005 was 361.492 billion yuan, up 12.0% from the previous year.</i>
GDP ratio (primary, secondary and tertiary industries)	<i>The primary industry yielded a value added of 60.7 billion yuan, 8.3% more than that of the previous year; the secondary industry, 160.513 billion yuan, a growth of 13.3%; the tertiary industry, 140.279 billion yuan, a growth of 12.3%. The GDP ratio of the three sectors is 16.8: 44.4: 38.8.</i>
Revenue and expenditure	<i>Provincial revenue was 41.86 billion yuan, an increase of 27.2% over the previous year. Provincial expenditure was 63.11 billion yuan, an increase of 24.3%.</i>
Consumer price index (CPI)	<i>CPI was 101.5, down 2.6 percentage points from the previous year.</i>
Investment in fixed assets	<i>Fixed asset investment was valued at 180.198 billion yuan, up by 53.8% from the previous year.</i>
Population	<i>The year 2005 saw births of 214,000, or a birth rate of 7.89‰, and deaths of 144,000, or a mortality rate of 5.32‰. The natural growth rate of the population stood at 2.57‰. At the end of the year, the total population stood at 27.16 million, an increase of 75,000 than the 2004 figure.</i>
Employment	<i>The employed population stood at 12.389 million, up by 1.4% from the previous year. A total of 571,400 new jobs were created during the year. About 349,000 laid-off workers got re-employed.</i>
Registered unemployment rate	<i>The number of registered unemployed population at the end of the year was 276,400, the registered urban unemployment rate being 4.2%.</i>
Social security	<i>In 2005, insurance plans for endowments, unemployment and medical treatment covered a population of 4.56 million, 1.99 million and 2.83 million respectively. The figures for endowments and medical treatment insurances are up by 3.9% and 4.8% respectively from the previous year. About 1.36 million urban residents received minimum living allowance from the government.</i>
Residents' income	<i>The disposable income of urban residents was 8,691 yuan per capita, up by 10.8% from 2004. Rural residents' per capita net income was 3,264 yuan, up 8.8%.</i>

Map, description and data from: <http://www.china.org.cn/english/features/ProvinceView/184199.htm>

CNOA – Currency Exposure as a Source of Uncertainty

CNOA generates revenue in Chinese Yuan Renminbi while reporting revenue in United States dollars. Although China’s currency is no longer pegged at a fixed rate to the U.S. \$, China allows for only a narrow band of fluctuation of the currency. Many believe that the value of the Chinese currency is held artificially low by the Chinese government in an effort to increase the relative attractiveness of Chinese exports. The trend illustrated in the table below indicates that this certainly has been the case historically.

United States Dollar versus Chinese Yuan Renminbi*



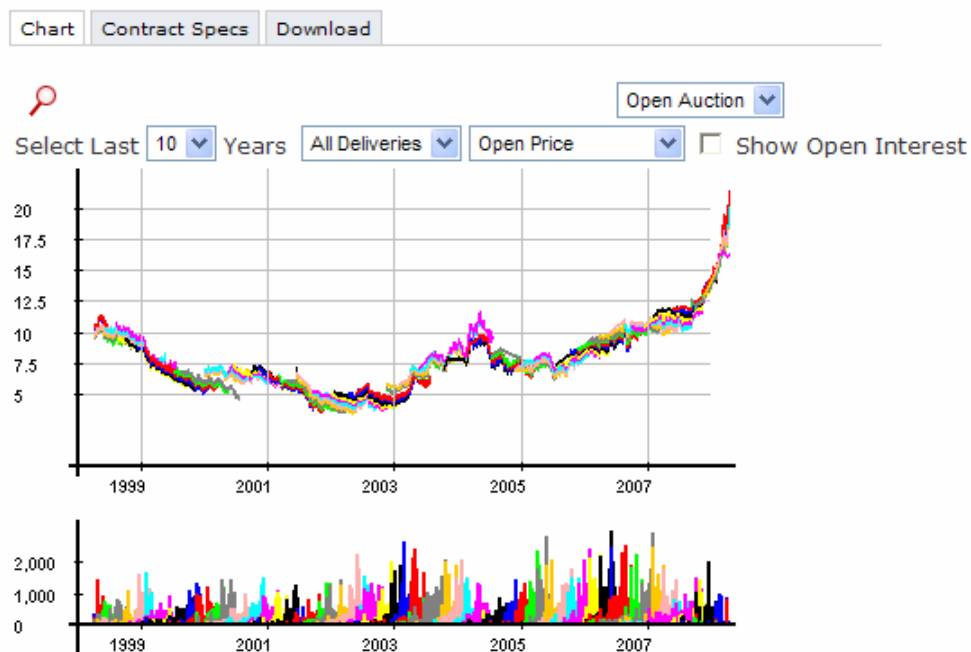
**Chart Shows How Many USD required to purchase one CNY
Current exchange rates as of 4/9/08 are approximately:
1 CNY = \$0.1429 \$1 = 6.9966 CNY*

Of course, for U.S. investors, CNOA’s generation of revenue in a currency that may have the potential to increase in relative value is a good thing. However, with a currency whose value is set by governmental policy rather than freely functioning currency markets, currency exposure is a source of uncertainty with limited visibility for investors in CNOA or any other company with operations in China.

Global Rice Pricing

The following chart from the CBOT Data Exchange¹⁹ provides an idea of trend in global rice pricing over the last decade and the magnitude of the change within the last year.

End-of-Day Futures Chart - Rough Rice Futures



As captured in a recent news releases from the U.N.²⁰ and BLOOMBERG²¹, global rice pricing volatility is likely to continue for the foreseeable future:

“The international rice market is currently facing a particularly difficult situation with demand outstripping supply and substantial price increases,” said FAO Senior Economist Concepcion Calpe. She added that higher rice production in 2008 could reduce the pressure, but short-term volatility will probably continue, given the very limited supplies available from stocks... “This implies that the According to FAO, global rice prices have risen by about 20 per cent since January, reflecting the limited supplies available for sale. Prices are not likely to rise further in the coming months, with the arrival of new rice harvests in Brazil or Uruguay, as well as in Bangladesh, India, Indonesia, Thailand and Viet Nam.” (U.N. 4/2/08)

“Rice, the staple food for about 3 billion people, rose 1.5 percent to a record in Chicago today after doubling in the past year. Higher imports by the Philippines, the biggest buyer, and reduced exports by China, India, Egypt and Vietnam pushed up prices, contributing to food riots in Ivory Coast and anti- hoarding campaigns in Pakistan and the Philippines.”(BLOOMBERG 4/4/08)

¹⁹ http://cbotdataexchange.if5.com/DataEOD_F_Chart.aspx?symbol=RR/F.CBOT

²⁰ <http://www.un.org/apps/news/story.asp?NewsID=26175&Cr=fao&Cr1=rice>

²¹ http://www.bloomberg.com/apps/news?pid=20601087&sid=ap_ojevFDm9U&refer=home

Select Publicly Traded Comparables for CNOA

Finding directly relevant comparables for CNOA is challenging, so the table below highlights companies that are: (a) agricultural companies of one type or another operating in China, (b) large international food / agricultural companies, and (c) Chinese companies operating in a variety of sectors in China.

Select Publicly Traded Comparables for CNOA						
Ticker	Company Name	Recent Price	Approximate Market Cap	TTM Revenue	TTM EBITDA	TTM Net Income
CAGC	China Agritech Inc.	\$2.41	\$59,530,000	\$39,270,000	\$15,317,000	\$8,529,000
CHFR	China Fruits Corporation	\$0.10	\$3,610,000	\$1,558,000	(\$876,000)	(\$925,000)
CHRN	China Huaren Organic Products, Inc.	\$0.77	\$11,320,000	\$9,364,000	\$2,003,000	\$793,000
CKGT	China Kangtai Cactus BioTech Inc.	\$0.75	\$13,300,000	\$13,400,000	\$3,889,000	\$2,925,000
SEED	Origin Agritech Limited	\$5.75	\$132,170,000	\$65,313,000	(\$17,367,000)	(\$21,781,000)
CNOA	China Organic Agriculture	\$1.88	\$96,400,000	\$44,500,000	\$13,561,254	\$13,492,500
ADM	Archer-Daniels-Midland	\$43.26	\$27,840,000,000	\$52,919,000,000	\$2,779,000,000	\$2,232,000,000
CAG	ConAgra Foods Inc.	\$24.49	\$11,940,000,000	\$13,327,000,000	\$1,836,000,000	\$921,000,000
HNZ	HJ Heinz Co	\$47.01	\$14,820,000,000	\$9,796,000,000	\$1,847,000,000	\$832,000,000
KFT	Kraft Foods Inc.	\$31.15	\$47,780,000,000	\$37,241,000,000	\$5,654,000,000	\$2,590,000,000
SLE	Sara Lee Corp.	\$14.21	\$10,120,000,000	\$12,827,000,000	\$1,291,000,000	\$615,000,000
TSN	Tyson Foods Inc.	\$17.00	\$6,050,000,000	\$27,108,000,000	\$1,072,000,000	\$245,000,000
ACH	Aluminum Corp. of China Ltd.	\$42.14	\$21,720,000,000	\$7,931,000,000	\$2,606,000,000	\$1,505,000,000
CBAK	China BAK Battery Inc.	\$4.01	\$213,530,000	\$155,566,000	\$10,874,000	(\$4,040,000)
CMED	China Medical Technologies	\$42.78	\$1,170,000,000	\$107,051,000	\$51,256,000	\$41,900,000
HNP	Huaneng Power International Inc.	\$28.01	\$8,440,000,000	\$6,813,000,000	\$1,104,000,000	\$843,000,000
SMI	Semiconductor Manufacturing Int	\$3.28	\$1,220,000,000	\$1,538,324,000	\$709,018,000	(\$21,360,000)
XFML	Xinhua Finance Media Limited	\$3.08	\$212,630,000	\$134,839,000	\$13,514,000	\$28,039,000

*Data from Quotemedia; Analyst Estimates - 4/9/08

Select Publicly Traded Comparables for CNOA						
Ticker	Company Name	Recent Price	Approximate Market Cap	Price / EBITDA	Price / Revenue	Price / Net Inc
CAGC	China Agritech Inc.	\$2.41	\$59,530,000	3.9	1.52	6.98
CHFR	China Fruits Corporation	\$0.10	\$3,610,000	n/a	2.32	n/a
CHRN	China Huaren Organic Products, Inc.	\$0.77	\$11,320,000	5.7	1.21	14.27
CKGT	China Kangtai Cactus BioTech Inc.	\$0.75	\$13,300,000	3.4	0.99	4.55
SEED	Origin Agritech Limited	\$5.75	\$132,170,000	n/a	1.55	n/a
CNOA	China Organic Agriculture	\$1.88	\$96,400,000	7.1	2.17	7.14
ADM	Archer-Daniels-Midland	\$43.26	\$27,840,000,000	10.0	0.53	12.47
CAG	ConAgra Foods Inc.	\$24.49	\$11,940,000,000	6.5	0.90	12.96
HNZ	HJ Heinz Co	\$47.01	\$14,820,000,000	8.0	1.51	17.81
KFT	Kraft Foods Inc.	\$31.15	\$47,780,000,000	8.5	1.28	18.45
SLE	Sara Lee Corp.	\$14.21	\$10,120,000,000	7.8	0.79	16.46
TSN	Tyson Foods Inc.	\$17.00	\$6,050,000,000	5.6	0.22	24.69
ACH	Aluminum Corp. of China Ltd.	\$42.14	\$21,720,000,000	8.3	2.74	14.43
CBAK	China BAK Battery Inc.	\$4.01	\$213,530,000	19.6	1.37	n/a
CMED	China Medical Technologies	\$42.78	\$1,170,000,000	22.8	10.93	27.92
HNP	Huaneng Power International Inc.	\$28.01	\$8,440,000,000	7.6	1.24	10.01
SMI	Semiconductor Manufacturing Int	\$3.28	\$1,220,000,000	1.7	0.79	n/a
XFML	Xinhua Finance Media Limited	\$3.08	\$212,630,000	15.7	1.58	7.58

*Data from Quotemedia; Analyst Estimates - 4/9/08

CNOA Operating Results

Select CNOA Historical Operating Results					
		2007	2006		
Net Sales		\$44,500,003	\$9,002,345		
Cost of sales		<u>\$29,382,399</u>	<u>\$5,210,575</u>		
Gross Profit		\$15,117,604	\$3,791,770		
Selling / General / Administrative		\$1,556,350	\$364,500		
Income from Operations		\$13,561,254	\$3,427,270		
Other Expense		\$70,295	(\$3,827)		
Interest (Income)		(\$1,631)	\$0		
Pre-Tax Income		\$13,492,590	\$3,431,097		
Provision for income taxes		<u>\$0</u>	<u>\$0</u>		
Net Income		\$13,492,590	\$3,431,097		
Weighted Average Fully Diluted Share Count		51,616,372	51,548,776		
Fully Diluted EPS		\$0.26	\$0.07		

Assuming CNOA revenues are likely to increase, perhaps significantly, it is reasonable to expect that CNOA's 30% pre-tax margin will remain achievable. Although there can be no certainty regarding CNOA's future tax status within the PRC, net income and EPS would still have been very attractive even if CNOA were taxed.²² The company's tax status is addressed in the 10-K for 2007:

"Note 5 - INCOME TAXES. The Company's subsidiary, Jilin Province ErMaPao Green Rice Ltd, is governed by the Income Tax Laws of the People's Republic of China ("PRC"). Pursuant to the PRC Income Tax Laws, the Enterprise Income Tax (EIT) is at a statutory rate of 33%, which is comprised of 30% national income tax and 3% local income tax. However, companies in the agricultural sector within the PRC typically receive an exemption from income tax. The Company has received a Notice of Exemption from income taxes and has no further information regarding if or when this exemption might be withdrawn."

As of 12/31/07, CNOA reported \$15.2 million in current assets against \$920,000 in current liabilities, and a total stockholders equity of \$19,043,476.

²² MA estimates net income would have been \$9.04 million and EPS would have been \$0.175 per share, assuming a 33% tax rate in the PRC

The Bellissimo Vineyard²³ Acquisition

On 2/29/08, CNOA purchased the Bellissimo Vineyard, a 153-acre operating vineyard in Sonoma County, California. The acquisition price was \$14,750,000, and CNOA reports that \$8,515,000 was financed with Transamerica Life Insurance Company / AEGON USA Realty Advisors (AEGON) and another \$6,216,000 was financed at 4% with a 3rd party lender. CNOA has not released guidance regarding the historical or expected future results of the vineyard.

The AEGON financing calls for an initial interest rate of 7.70%, with monthly principal and interest payments of \$69,641.34 through maturity on 3/1/28, subject to periodic resetting of the interest rate beginning 3/1/11. At each interest reset date, AEGON may or may not offer a new rate, and CNOA has the option to accept a reset rate or not, subject to full retirement of the then outstanding balance of the loan.

Combined with the subordinate financing, assumed to be interest only, MA is estimating this financing will require approximately \$1.1 million in cash annually.

In terms of the rationale for the acquisition, MA is assuming CNOA is seeking to leverage its position as a premium brand name into a broader model in which CNOA produces and distributes other high-end products in an attempt to capitalize on the growing affluence and size of the Chinese middle and upper classes. While this approach may prove to have merit, MA believes it is fair to ask whether the timing was right for this acquisition, whether there would have been alternative ways to leverage CNOA's premium brand into new products, and whether CNOA will be a productive operator of a U.S. vineyard. Although a \$14.75 million asset purchase for a company with \$20 million in total assets prior to the acquisition is significant, MA expects that CNOA will not have difficulty in meeting the annual debt service requirements associated with the financing of the acquisition. Additionally, until the company releases guidance on the expected future impact of the vineyard, MA also is assuming the operational impact will be minimal.

Again, CNOA has not addressed in detail the strategy driving the acquisition or the potential impact of the operations, although we expect the timing may be right for CNOA to do so after the expected completion of Dalian Baoshui District Huiming Trading Ltd. scheduled for later this month.

²³ <http://www.bellisimovineyard.com>

Conclusion

CNOA's green and organic rice products are sold at a premium in an enormous and growing market in a commodity experiencing significant global price increases. CNOA delivered \$0.26 in EPS for 2007, and has grown rapidly since inception. These factors paint a compelling picture of an attractive investment opportunity. Extrapolating historical growth rates into projected future cash flows for CNOA seems excessively optimistic, but the Company is sufficiently profitable to be attractive right now even if it does not grow at all.

Neither the merit of the timing of the Bellissimo Vineyard acquisition nor the source of the presumed synergy with the existing operations of CNOA is obvious to MA. However, MA is assuming that the impact of the acquisition is not likely to be significantly negative or positive on CNOA results. Moreover, if CNOA is able to prove the ability to leverage its brand position and distribution network into new products, the Company may be tapping into a significant potential driver of marginal growth.

In terms of valuation comparables, established and growing Chinese companies may trade at price / trailing net income multiples ranging from the single digits to 30x. A sampling of large-cap international food companies shows a generally more narrow band of trailing multiples – with 12x to 25x being more typical. The same variance of multiples applies for price / trailing revenue and price / EBITDA based approaches.

In the view of MA, the valuation of CNOA is straightforward and very compelling – even applying mid-range multiples of 15x to 20x for price / trailing net income of \$0.26 per share for CNOA produces a potential stock price of \$3.90 to \$5.20, ignoring potential revenue growth. If CNOA delivers revenue growth and margins anywhere near approaching historical levels, earnings per share has the potential to grow dramatically. There are many risks and uncertainties inherent in an investment in CNOA, but the likely margin for error seems more than sufficient to justify an “Outperform” rating.

Ratings Methodology

Murphy Analytics subscription research service classifies stocks as “Underperform”, “Outperform” or “Market Perform”. A “Market Perform” rating implies performance expected to be generally consistent with the performance of the NASDAQ Composite Index. An “Underperform” rating implies expected underperformance versus this index and an “Outperform” rating implies expected outperformance relative to the index. Murphy Analytics subscription research has no outstanding ratings other than CNOA.

CNOA Risks

As noted in the company's filings with the SEC, CNOA is subject to all the risks of any company doing business in China as well as of the risks of a relatively small and recently formed public company. Following are comments on certain specific risks and challenges faced by CNOA:

- CNOA faces risk as an agricultural company – including drought, flooding, crop disease and other potential environmental risks.
- CNOA has no property and casualty insurance.
- To date, CNOA has produced only rice products, and therefore has a concentrated exposure to unexpected changes in these markets or a change in consumer preferences.
- Relying upon a number of partners, CNOA does not control the entire process from production through distribution, exposing the Company to potential quality control and operational challenges.
- Currency risk with limited visibility as noted earlier in this report.
- CNOA investors are exposed to the potential for dilution for equity funded acquisitions or other investments.
- CNOA's tax-exempt status within the PRC is subject to continued government approval. It is unclear what a shift towards more exports and/or the incorporation of the Bellisimo Vineyard operations may have on this tax-exempt status.
- CNOA has one pending acquisition and the potential impact on operations of this purchase and the Bellisimo Vineyards is uncertain.

Useful Links and Miscellaneous Information

- **IFOAM – International Federation of Organic Agriculture Movements:** Mission is leading, uniting and assisting the organic movement in its full diversity. IFOAM's goal is the worldwide adoption of ecologically, socially and economically sound systems that are based on the principles of Organic Agriculture. www.ifoam.org.
- **Organic Eprints:** Organic Eprints is an international open access archive for papers related to research in organic agriculture. The archive contains full-text papers in electronic form together with bibliographic information, abstracts and other metadata. www.orgprints.org
- **FIBL:** The Research Institute of Organic Agriculture (Forschungsinstitut für biologischen Landbau – FiBL) is the world's leading information and documentation centre for organic agriculture. The close links between different fields of research and the rapid transfer of knowledge from research to advisory work and agricultural practice are FiBL's strengths. www.fibl.org.
- **Organic Monitor:** Organic Monitor is a business research & consulting company that specializes on the global organic & related product industries. www.organicmonitor.com.
- **BioFach:** Annual global organic trade fair. 45,500 trade visitors and 2,565 exhibitors from 110 countries in 2007. <http://www.biofach.de/main/d6rvc9vi/d7fr9e6m/page.html>; www.biofach-china.com/main
- **Chinese Green Food Development Center:** A specialized agency responsible for national development and management of Green Food in supervision of the Ministry of Agriculture. http://www.greenfood.org.cn/sites/GREENFOOD/List_3675_3811.html
- **China.org:** Extensive resource on Chinese business, culture, geography, current events, entertainment. <http://www.china.org.cn/english/index.htm>
- **Journal of Organic Systems:** www.organic-systems.org
- **People's Daily Online:** Chinese news/current events. <http://english.peopledaily.com.cn/china.html>
- **IFAD:** The International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations, was established as an international financial institution in 1977 as one of the major outcomes of the 1974 World Food Conference. IFAD's goal is to empower poor rural women and men in developing countries to achieve higher incomes and improved food security. <http://www.ifad.org/governance/index.htm>
- **SEPA:** China's State Environmental Protection Agency (SEPA) follows the principle of taking natural ecological conservation and environmental pollution prevention as the main

tasks; strengthening supervision on nuclear safety and enhancing environmental enforcement; improving supervision and administration; sticking to people-oriented principles; safeguarding the environmental rights and interests of the public, and promoting the sustainable development of society, economy and environment.
<http://english.sepa.gov.cn/>

- **Currency conversion as of 4/9/08:**
 - \$1.00 = 6.9966 Chinese Yuan
 - 1 Chinese Yuan = \$0.1429

- **Area conversion:**
 - 1 Hectare = 10,000 square meters = 2.471 acres
 - 1 acres = 4,840 square yards = 0.404685 hectares

- **Length conversion:**
 - 1 mile = 1,760 yards = 1.60934 kilometers
 - 1 kilometer = 1,000 meters = .6214 miles
 - 1 foot = 0.3048 meters
 - 1 meter = 3.281 feet
 - 1 square foot = 0.0929 square meters
 - 1 square meter = 10.764 square feet

- **Weight conversion:**
 - 1 kilogram = 2.205 pounds
 - 1 pound = 0.4536 kilograms

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The Analyst for this report, Patrick J. Murphy, CFA, has 15 years of investment and transaction analysis across a range of asset classes including microcap equities, commercial real estate debt and equity, municipal derivatives and public finance, venture capital, fixed income, commercial MBS and mortgage REIT's. In addition to his work with Murphy Analytics, Mr. Murphy also is employed as a research analyst for a broker/dealer and serves as a consultant to a municipal derivatives advisory firm. Mr. Murphy is an alumnus of the University of Notre Dame (1991), with an undergraduate degree in Economics, and earned a Masters Degree in Finance from St. Louis University in 1997. Mr. Murphy is a CFA Charterholder and a member of the CFA Society of St. Louis.

I, Patrick J. Murphy, hereby certify that all views expressed in this report accurately reflect my personal views about the Company, and that no part of my compensation was or will be related to the views expressed in this report.

Overview of the OTC Bulletin Board²⁴

The OTC Bulletin Board[®] (OTCBB) is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ[®] or a national securities exchange. OTCBB securities include national, regional, and foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs). The OTCBB is a quotation medium for subscribing members, not an issuer listing service, and should not be confused with The NASDAQ Stock MarketSM. There are no minimum quantitative standards which must be met by an issuer for its securities to be quoted on the OTCBB; however, the new Eligibility Rule limits quotations on the OTCBB to the securities of issuers that are current in their reports filed with the SEC or other regulatory authority. Issuers do not have any filing or reporting requirements with The Nasdaq Stock Market, Inc., or FINRA. Market Makers will be required to provide the periodic financial reports filed by OTCBB issuers with the SEC or other regulatory authorities pursuant to the Eligibility Rule. NASDAQ has no business relationship with the issuers of securities quoted on the OTCBB. Investors must contact a broker/dealer to trade OTCBB securities. Investors do not have direct access to the OTCBB service. The Securities and Exchange Commission's (SEC's) Order-Handling Rules which apply to NASDAQ-listed securities do not apply to OTCBB securities. It is important to note that FINRA has no regulatory authority over OTC Bulletin Board issuers. FINRA's responsibilities include establishing rules governing its broker/dealer members' business conduct; setting qualification standards for securities industry professionals; examining members for their financial and operational condition as well as their compliance with appropriate rules and regulations; investigating alleged violations of securities laws; disciplining violators of applicable rules and regulations; and responding to inquiries and complaints from investors and members. Due to the high level of risk involved in investing in Penny Stocks, the SEC created Rule 15g-2, which makes it "unlawful for a broker or dealer to effect a transaction in any penny stock for or with the account of a customer unless, prior to effecting such transaction, the broker or dealer has furnished to the customer a document containing the information set forth in Schedule 15G, Rule 15g-100, and has obtained from the customer a manually signed and dated written acknowledgement of receipt of the document." (SEC Rule 15g-2(a), Risk Disclosure Document Relating to the Penny Stock Market). If you believe that you have been defrauded by an OTC Bulletin Board issuer, you may file a complaint with your State Securities Regulator or contact the SEC's Office of Investor Education and Assistance.

²⁴ <http://www.otcbb.com/investorinformation/investorinfo.stm>