AGROCAN CORP
Form 10QSB
May 15, 2001

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2001

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

For the transition period from _________ to _________

Commission File Number: 0-25963

AGROCAN CORPORATION
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

CLI Building, 313 Hennessy Road, Suite 1003, Hong Kong
(Address of principal executive offices)

011-852-2519-3933
(Issuer's telephone number)

Not applicable
(Former name, former address and former fiscal year, if changed since last report.)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
As of March 31, 2001, the Company had 2,334,970 shares of common stock issued and outstanding.
Transitional Small Business Disclosure Format: Yes [ ] No [X]
Documents incorporated by reference: None.

AGROCAN CORPORATION

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AGROCAN CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | MARCH 31, 2001 USD | MARCH 31, 2001 RMB | SEPTEMBER 30, 2000 RMB |
|---|---|---|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 477,115 | 3,960,054 | 4,616,686 |
| Accounts receivable | 4,743,537 | 39,371,357 | 38,030,840 |
| Other receivables and prepayments | 594,529 | 4,934,592 | 480,688 |
| Inventories | 459,686 | 3,815,389 | 2,787,401 |
| Deposit | 57,591 | 478,009 | 434,521 |
| Amount due from related parties | 359,248 | 2,981,759 | 3,748,850 |
| TOTAL CURRENT ASSETS | 6,691,707 | 55,541,160 | 50,098,986 |
| PROPERTY, PLANT AND EQUIPMENT - NET | 802,199 | 6,658,253 | 6,297,254 |
| DEFERRED COSTS | 6,892 | 57,200 | 359,507 |
| TOTAL ASSETS | $7,500,797 | 62,256,613 | 56,755,747 |

AGROCAN CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED) (CONTINUED)

| | | | |
|---|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Short-term bank loans | $ 240,964 | 2,000,000 | - |
| Short-term loans-unsecured | 418,098 | 3,470,212 | 3,980,212 |
| Accounts payable | 2,700,160 | 22,411,328 | 21,159,642 |
| Other payables and accruals | 591,893 | 4,912,708 | 1,409,816 |
| Notes payable | 49,880 | 414,000 | - |
| Income tax payable | 80,499 | 668,139 | 847,324 |
| Deposit received | 81,051 | 672,732 | 1,481,629 |
| Amount due to related parties | 502,038 | 4,166,917 | 3,663,101 |
| TOTAL CURENT LIABILITIES | 4,664,582 | 38,716,036 | 32,541,724 |
| MINORITY INTEREST | 132,519 | 1,099,909 | 1,129,531 |
| SHAREHOLDERS' EQUITY | | | |
| Preferred stock, par value US$0.0001 per share, authorized 10,000,000 shares; none issued | | | |
| Common stock, par value US$0.0001 per share, authorized 25,000,000 shares; issued and outstanding 2,334,970 shares at March 31, 2001 | 233 | 1,934 | 1,934 |
| Capital in excess of par value | 1,358,385 | 11,274,599 | 11,274,599 |
| Retained earnings | | | |
| Unappropriated | 1,286,853 | 10,680,881 | 11,324,705 |
| Appropriated | 56,049 | 465,204 | 465,204 |
| Other comprehensive income | 2,175 | 18,050 | 18,050 |
| TOTAL SHAREHOLDERS' EQUITY | 2,703,695 | 22,440,668 | 23,084,492 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $7,500,796 | 62,256,614 | 56,755,747 |

See notes to consolidated financial statements.

AGROCAN CORPORATION
CONSOLIDATED
STATEMENTS OF CASH FLOWS (UNAUDITED)

| | SIX MONTHS ENDED MARCH 31, 2001 | 2001 | 2000 |
|---|---|---|---|
| | USD | RMB | RMB |
| OPERATING ACTIVITIES | | | |
| Net Income | $ (77,569) | (643,824) | 702,717 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Amortization of deferred costs | 36,423 | 302,307 | 357,229 |
| Depreciation | 35,962 | 298,490 | 221,135 |
| Minority interest | (3,569) | (29,622) | (128,808) |
| (Increase) decrease in account receivable | (161,508) | (1,340,517) | (9,135,490) |

| | | | |
|---|---|---|---|
| (Increase) decrease in other receivables and deposits | (541,854) | (4,497,392) | (956,366) |
| (Increase) decrease in inventories | (123,854) | (1,027,988) | (4,867,977) |
| (Increase) decrease in amounts due from related parties | 92,421 | 767,091 | 641,206 |
| Increase (decrease) in accounts payable | 150,806 | 1,251,686 | 678,162 |
| Increase (decrease) in income tax payable | (21,589) | (179,185) | - |
| Increase (decrease) in other payables and accruals | 422,035 | 3,502,892 | 699,480 |
| Increase (decrease) in deposits received | (97,458) | (808,897) | - |
| Increase (decrease) in advances from customers | - | - | 9,399,040 |
| Increase (decrease) in amounts due to related parties | 60,701 | 503,816 | 1,371,594 |
| Net cash (used in) provided by operating activities | (229,055) | (1,901,143) | (1,018,078) |
| INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | (79,457) | (659,489) | (181,172) |
| Net cash used in investing activities | (79,457) | (659,489) | (181,172) |
| FINANCING ACTIVITIES | | | |
| Repayment of short term bank loan | - | - | (700,000) |
| Repayment of short term loans - unsecured | (61,446) | (510,000) | - |
| Increase in note payable | 49,880 | 414,000 | - |
| Proceeds from issurance of common stock | - | - | 20,750 |
| Proceeds from short term bank loan | 240,964 | 2,000,000 | 780,000 |
| Net cash provided by financing activities | 229,398 | 1,904,000 | 100,750 |
| Net (decrease) increase in cash and cash equivalents | (79,113) | (656,632) | (1,098,500) |
| Cash and cash equivalents, beginning | 556,227 | 4,616,686 | 5,027,798 |
| Effect of exchange rate changes on cash | - | - | 178 |
| Cash and cash equivalents, ending | $ 477,114 | 3,960,054 | 3,929,476 |

See notes to consolidated financial statements.

AGROCAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2001 | 2001 | 2000 |
| | USD | RMB | RMB |
| NET SALES | $530,953 | 4,406,913 | 14,008,110 |
| COST OF SALES | 409,977 | 3,402,809 | 11,163,154 |
| GROSS PROFIT | 120,976 | 1,004,104 | 2,844,956 |

| | | | |
|---|---|---|---|
| ADMINSTRATIVE AND GENERAL EXPENSES | 97,555 | 809,707 | 2,258,888 |
| SELLING EXPENSES | 27,176 | 225,560 | 540,496 |
| INCOME (LOSS) FROM OPERATIONS | (3,755) | (31,163) | 45,572 |
| OTHER INCOME (EXPENSE) | | | |
| Interest income | 4,224 | 35,058 | 10,463 |
| Interest expense | (2,544) | (31,740) | - |
| Commission income | - | - | 251,100 |
| Amortization of loan fees | (18,211) | (151,153) | (154,072) |
| INCOME (LOSS) BEFORE INCOME TAXES | (20,286) | (168,372) | 153,063 |
| INCOME TAXES | 6,856 | 56,903 | 123,636 |
| INCOME (LOSS) BEFORE MINORITY INTEREST | (27,142) | (225,275) | 29,427 |
| MINORITY INTEREST | 849 | 7,040 | 49,439 |
| NET INCOME (LOSS) | $(26,293) | (218,235) | 78,866 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Foreign currency translation adjustments | - | - | 2,162 |
| COMPREHENSIVE INCOME (LOSS) | (26,293) | (218,235) | 81,028 |

AGROCAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (UNAUDITED) (CONTINUED)

| | | | |
|---|---|---|---|
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | |
| Basic | 2,334,970 | 2,334,970 | 2,188,944 |
| Diluted | 2,334,970 | 2,334,970 | 2,505,659 |
| BASIC EARNINGS (LOSS) PER SHARE | $ (0.01) | (0.09) | 0.04 |
| DILUTED EARNINGS (LOSS) PER SHARE | $ (0.01) | (0.09) | 0.03 |

See notes to consolidated financial statements.

AGROCAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

SIX MONTHS ENDED MARCH 31, 2001 AND 2000

| | 2001 | 2001 | 2000 |
|---|---|---|---|
| | USD | RMB | RMB |
| NET SALES | $795,909 | 6,606,045 | 24,600,910 |
| COST OF SALES | 608,894 | 5,053,818 | 19,968,717 |
| GROSS PROFIT | 187,015 | 1,552,227 | 4,632,193 |
| ADMINSTRATIVE AND GENERAL EXPENSES | 192,334 | 1,596,375 | 3,304,411 |
| SELLING EXPENSES | 29,576 | 245,481 | 600,996 |
| INCOME (LOSS) FROM OPERATIONS | (34,895) | (289,629) | 726,786 |
| OTHER INCOME (EXPENSE) | | | |
| Interest income | 2,944 | 35,058 | 29,023 |
| Interest expense | (2,544) | (31,740) | - |
| Commission income | - | - | 251,100 |
| Amortization of loan fees | (36,423) | (302,306) | (308,143) |
| INCOME (LOSS) BEFORE INCOME TAXES | (70,918) | (588,617) | 698,766 |
| INCOME TAXES | 10,220 | 84,829 | 124,857 |
| INCOME (LOSS) BEFORE MINORITY INTEREST | (81,139) | (673,446) | 573,909 |
| MINORITY INTEREST | 3,569 | 29,622 | 128,808 |
| NET INCOME (LOSS) | $(77,570) | (643,824) | 702,717 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Foreign currency translation adjustments | - | - | 178 |
| COMPREHENSIVE INCOME (LOSS) | (77,570) | (643,824) | 702,895 |

AGROCAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (UNAUDITED) (CONTINUED)
SIX MONTHS ENDED MARCH 31, 2001 AND 2000

| | | | |
|---|---|---|---|
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | |
| Basic | 2,334,970 | 2,334,970 | 2,180,023 |
| Diluted | 2,334,970 | 2,334,970 | 2,496,738 |

| | | | | |
|---|---|---|---|---|
| BASIC EARNINGS (LOSS) PER SHARE | $ | (0.03) | (0.28) | 0.32 |
| DILUTED EARNINGS (LOSS) PER SHARE | $ | (0.03) | (0.28) | 0.28 |

See notes to consolidated financial statements.

AGROCAN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)
(EXPRESSED IN RENMINBI)

1. THE INTERIM FINANCIAL STATEMENTS

The interim financial statements have been prepared by AgroCan Corporation and in the opinion of management, reflect all material adjustments which are necessary to a fair statement of results for the interim periods presented, including normal recurring adjustments. Certain information and footnote disclosures made in the most recent annual financial statements included in the Company's Form 10-KSB for the year ended September 30, 2000, have been condensed or omitted for the interim statements. It is the Company's opinion that, when the interim statements are read in conjunction with the September 30, 2000 financial statements, the disclosures are adequate to make the information presented not misleading. The results of operations for the six months ended March 31, 2001 and 2000 are not necessarily indicative of the operating results for the full fiscal year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however, actual results could differ materially from those results.

2. INVENTORIES

Inventories at March 31, 2001 and September 30, 2000 are comprised of the following:

| | MARCH 31, 2001 | | SEPTEMBER 30, 2000 |
|---|---|---|---|
| | USD | RMB | RMB |
| RAW MATERIALS | $319,203 | 2,649,390 | 2,238,353 |
| FINISHED GOODS | 140,483 | 1,165,999 | 549,048 |
| | $459,686 | 3,815,389 | 2,787,401 |

3. SHORT-TERM BANK LOANS

During the six months ended March 31, 2001, two of the Company's subsidiaries arranged a short-term bank loan of RMB 1,000,000 each to fund operations. One of the loans bears interest at 7.254% and is due on June 12, 2001. The other loan bears interest at 5.58% and is due on September 15, 2001.

4. INCOME TAXES:

During the six months ended March 31, 2001, the Company's subsidiaries incurred income taxes of RMB 84,829. The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled. The Company's British Virgin Islands subsidiary is not liable for income taxes. As manufacturing companies, the Company's PRC subsidiaries operate in special zones, which entitles them to a reduced national income taxes rate of 24%, and the subsidiaries are exempt from local income tax. Further, pursuant to the approval of the relevant PRC tax authorities, the subsidiaries are fully exempted from PRC income taxes for two years starting from the date profits are first recognized, followed by a 50% exemption for the next three years.

5. EARNINGS PER SHARE:

Basic earnings per share is based on the weighted average shares of common stock outstanding. Diluted earnings per share assumes the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce loss per share or increase earnings per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2001 contains "forward-looking" statements within the meaning of the Federal securities laws. These forward-looking statements include, among others, statements concerning the Company's expectations regarding sales trends, gross and net operating margin trends, political and economic matters, the availability of equity capital to fund the Company's capital requirements, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2001 are subject to risks and uncertainties that could cause actual results to differ materially from those results expressed in or implied by the statements contained herein.

Overview:

AgroCan Corporation (the "Company") was incorporated on December 8, 1997 in the State of Delaware. Effective December 31, 1997, the Company issued 1,598,646 shares of common stock, which represented all of the capital stock outstanding at the completion of this transaction, to the shareholders of AgroCan (China) Inc., a corporation incorporated in the British Virgin Islands, in exchange for all of the capital stock of AgroCan (China) Inc. As of December 31, 1997, AgroCan (China) Inc. owned interests in three subsidiaries or joint ventures as follows: Jiangxi Jiali Chemical Industry Company Limited (100%), Jiangxi Fenglin Chemical Industry Company Limited (70%), and Guangxi Linmao Fertilizer Company Limited (100%), all of which were located in the People's Republic of China

("China" or the "PRC"). Prior to this transaction, the Company had no significant operations. This transaction was accounted for as a recapitalization of AgroCan (China) Inc., as the shareholders of AgroCan (China) Inc. acquired all of the capital stock of the Company in a reverse acquisition. Accordingly, the assets and liabilities of AgroCan (China) Inc. have been recorded at historical cost, and the shares of common stock issued by the Company have been reflected in the consolidated financial statements giving retroactive effect as if the Company had been the parent company from inception. The historical consolidated financial statements consist of the combined financial statements of AgroCan (China) Inc. and its subsidiaries from the dates of their respective formation or acquisition for all periods presented. All share and per share amounts presented herein have been adjusted to reflect the two for one stock split effective February 6, 1998.

AgroCan (China) Inc. was established in 1996 to develop, produce and sell fertilizers and other products and technologies to enhance the agricultural output of China. The Company produces various compound fertilizers, which are the end product made from the combination of three primary nutrients, nitrogen, phosphate and potassium, mixed together with other elements such as iron, zinc, copper and manganese. These ingredients are blended in different proportions and packed into 50-kilogram bags. The Company designs its compound fertilizers for specific

climate, soil and crop requirements of each individual geographic market. As of March 31, 2001, the Company had established an annual production capacity of 125,000 metric tons for compound fertilizers in Guangxi and Jiangxi, two of the largest agricultural provinces in China, and the Company intends to enter markets in other provinces in China.

Effective October 8, 1996, AgroCan (China) Inc. entered into a joint venture agreement with Nanchang Organic Fertilizer Factory, a state-owned enterprise in the PRC, for the establishment of a Sino-Foreign Equity Joint Venture, Jiangxi Fenglin Chemical Industry Company Limited ("Jiangxi Fenglin"). In exchange for capital contributions to Jiangxi Fenglin aggregating RMB 2,090,642 through September 30, 1998, AgroCan (China) Inc. received a 70% equity interest in the joint venture. Jiangxi Fenglin commenced operations on November 28, 1996, and became fully operational during the fiscal year ended September 30, 1998. The Company accounts for its interest in the joint venture similar to a majority-owned subsidiary because of its 70% interest, its contractual ability to appoint four out of six directors to the Board of Directors, which is the highest authority for the joint venture, and the Company's right to appoint the Chairman of the Board. The Company recognizes that joint venture interests in the PRC are generally not consolidated in the financial statements of companies that report under the periodic reporting requirements of the United States Securities and Exchange Commission due to the rights asserted by the PRC partner under customary joint venture agreements. However, in view of the above factors specific to the Company, management believes that it is appropriate to consolidate the joint venture's operations into the Company's consolidated financial statements.

AgroCan (China) Inc. also owns 100% of Jiangxi Jiali Chemical Industry Company Limited ("Jiangxi Jiali").

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All material intercompany balances and transactions are eliminated at consolidation. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States and have been presented in Chinese Renminbi ("RMB"). The functional currency of the Company's PRC operations is the RMB. The accounts of foreign operations are prepared in their local currency and are translated into RMB using the applicable rate of exchange. The resulting transaction adjustments are included in comprehensive income (loss). Transactions denominated in currencies other than the RMB are translated into RMB at the applicable exchange rates. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable rate of exchange at the balance sheet date. The resulting exchange gains or losses are credited or charged to the consolidated statements of operations.

Consolidated Results of Operations:

Three Months Ended March 31, 2001 and 2000:

Sales. The sales for the three months ended March 31, 2001 were RMB 4,406,913 as compared to sales of RMB 14,008,110 for the three months ended March 31, 2000, a decrease of RMB 9,601,197 or 68.5%. The decrease in sales in 2001 as compared to 2000 was due to the delay in the planting schedule as a result of the unstable weather and as a result of the Chinese New Year holidays occurring earlier than usual. The planting season did not start until February. compared to previous years, which had relatively stable and good weather, the 2001 planting season was delayed by one to two months. However, the sales and production levels have been increased since mid-February and management believes that sales for the year ended September 30, 2001 will meet prior year levels.

Gross Profit. Gross profit for the three months ended March 31, 2001 was RMB 1,004,104 or 22.78% of sales, as compared to RMB 2,844,956 or 20.31% of revenues for the three months ended March 31, 2000. The gross profit margin increased in 2001 as compared to 2000 as a result of the Company raising its prices to focus on higher-margin customers, although total gross profit decreased as a result of the decline in revenue.

Administrative and General Expenses. Administrative and general expenses for the three months ended March 31, 2001 were RMB 809,707 or 18.4%, as compared to RMB 2,258,888 or 16.13% of revenue for the three months ended March 31, 2000, a decrease of RMB 1,449,181. In view of the reduced level of sales and production during the quarter ended March 31, 2000, management was able to reduce administrative and general expenses, primarily in discretionary wages, travel and office expenses.

Selling Expenses. Selling expenses for the three months ended March 31, 2001 were RMB 225,560 or 5% of revenues, as compared to RMB 540,496 or 3.9% of revenues for the three months ended March 31, 2000, a decrease of RMB 314,936. Selling expenses decreased in 2001 as compared to 2000 as a result of a reduction in sales arising because of the Chinese New Year holidays occurring earlier than usual, and also as a result of the bad weather and the ensuing delay in the planting season.

Income from Operations. Loss from operations was RMB 31,163 for the three months ended March 31, 2001, as compared to an income from operations of RMB 45,572 for the three months ended March 31, 2000.

Other Income (Expense). The Company recorded amortization of loan fees of RMB 151,153 and RMB 154,072 for the three months ended March 31, 2001 and 2000, respectively.

Interest Expense. Interest expense for the three months ended March 31, 2001 was RMB 21,114 or 0.5% of revenues. The company, through one of its subsidiaries, borrowed RMB 1,000,000 under short-term loans bearing interest at 7.254% in November 2000 and through another subsidiary borrowed RMB 1,000,000 under short-term loans bearing interest at 5.58% in March 2001. There were no similar loans during the quarter ended March 31, 2000.

The Company had interest income of RMB 35,058 for the three months ended March 31, 2001 and RMB 10,463 for the three months ended March 31, 2000.

The Company did not have any commission income for the three months ended March 31, 2001. The Company had commission income of RMB 251,100 for the three months ended March 31, 2000.

Income Taxes. The Company recognized income taxes of RMB 56,903 and RMB 123,636 for the three months ended March 31, 2001 and 2000, respectively. The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled. The Company's British Virgin Islands subsidiary is not liable for income taxes. The Company's PRC subsidiaries are subject to income taxes at an effect rate of 33%. Pursuant to the approval of the relevant PRC tax authorities, the subsidiaries are fully exempted from PRC income taxes for two years starting from the date profits are first recognized, followed by a 50% exemption for the next three years.

Minority Interest. For the three months ended March 31, 2001 and 2000, the Company recorded a minority interest of RMB 7,040 and RMB 49,439 respectively, to reflect the interest of the Company's 30% joint venture partner in the net loss of Jiangxi Fenglin.

Net Income / Loss. Net loss was RMB 218,235 for the three months ended March 31, 2001, as compared to a net income of RMB 78,866 for the three months ended March 31, 2000. Primarily as a result of the decrease in sales.

Six Months Ended March 31, 2001 and 2000:

Sales. Sales for the six months ended March 31, 2001 were RMB 6,606,045, as compared to sales of RMB 24,600,910 for the six months ended March 31, 2000, a decrease of RMB 17,994,865 or 73.2%. The decrease in sales in 2001 as compared to 2000 was due to the delay in the planting schedule as a result of the unstable weather and as a result of the Chinese New Year holidays occurring earlier than usual. The planting season did not start until February. Compared to previous years, which had relatively stable and good weather, the 2001 planting season was delayed by one to two months. However, the sales and production levels have been increased since mid-February and management believes that sales for the year ended September 30, 2001 will meet prior year levels.

Gross Profit. Gross profit for the six months ended March 31, 2001 was RMB 1,552,227 or 23.5% of sales. Gross profit for the six months ended March 31, 2000 was RMB 4,632,193 or 18.83% of sales. The gross profit margin increased in 2001 as compared to 2000 as a result of the Company raising its prices to focus on higher-margin customers, although total gross profit decreased as a result of the decline in revenue.

Administrative and General Expenses. Administrative and general expenses for the six months ended March 31, 2001 were RMB 1,596,375 or 24.2% of sales, as compared to RMB 3,304,411 or 13.4% of sales, a decrease of RMB 1,708,036 or 51.7%. Administrative and general expenses, in particular salaries and related costs, decreased in 2001 as compared to 2000 primarily as a result of decreases in costs incurred to support and expand business operation, including costs related to travel and office expenses, as well as legal and professional fees.

Selling Expenses. Selling expenses for the six months ended March 31, 2001 were RMB 245,481 or 3.7% of sales, as compared to RMB 600,996 or 2.4% of sales for the six months ended March 31, 2000, a decrease RMB 355,515 or 59.2%. Selling expenses decreased in 2001 as compared to 2000 as a result of a reduction in sales.

Income (Loss) from Operations. Loss from operations was RMB 289,629 for the six months ended March 31, 2001, as compared to a income from operations of RMB 726,786 for the six months ended March 31, 2000.

Other Income (Expense). The Company recorded amortization of loan fees of RMB 302,306 and RMB 308,143 for the six months ended March 31, 2001 and 2000, respectively.

Interest Expense. Interest expense for the six months ended March 31, 2001 was RMB 31,740 or 0.5% of sales. The company, through one of its subsidiaries, borrowed RMB 1,000,000 under short-term loans bearing interest at 7.254% in November 2000, and through another subsidiary borrowed RMB 1,000,000 under short-term loans bearing interest at 5.58% in March 2001. There were no similar loans during the quarter ended March 31, 2001.

The Company had interest income of RMB 35,058 and RMB 29,023 for the six months ended March 31, 2001 and 2000, respectively.

The Company did not record any commission income for the six months ended March 31, 2001, as compared to record RMB 251,100 for the six months ended March 31, 2000.

Income Taxes. The Company recognized income taxes of RMB 84,829 and RMB 124,857 for the six months ended March 31, 2001 and 2000, respectively. The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled. The Company's British Virgin Islands subsidiary is not liable for income taxes. The Company's PRC subsidiaries are subject to income taxes at an effect rate of 33%. Pursuant to the approval of the relevant PRC tax authorities, the subsidiaries are fully exempted from PRC income taxes for two years starting from the date profits are first recognized, followed by a 50% exemption for the next three years.

Minority Interest. For the six months ended March 31, 2001 and 2000, the Company recorded a minority interest of RMB 29,622 and RMB 128,808 respectively, to reflect the interest of the Company's 30% joint venture partner in the net loss of Jiangxi Fenglin.

Net Income (Loss). Net loss was RMB 643,824 for the six months ended March 31, 2001, as compared to a net income of RMB 702,717 for the six months ended March 31, 2000.

Consolidated Financial Condition:

Liquidity and Capital Resources - March 31, 2001

Operating. For the six months ended March 31, 2001, the Company's operations utilized cash resources of RMB 1,901,143 as compared to utilizing cash resources of RMB 1,018,078 for the six months ended March 31, 2000. The Company's operations utilized more cash resources in 2001 as compared to 2000 primarily as a result of losses incurred during 2001. Increases in other receivables and deposit were financed in substantial part by accounts payable, and other payables and accruals. At March 31, 2001, cash and cash equivalents had decreased by RMB 656,632 to RMB 3,960,054, as compared to RMB 4,616,686 at

September 30, 2000. The Company had working capital of RMB 16,825,124 at March 31, 2001, as compared to RMB 17,557,262 at September 30, 2000, resulting in current ratios of 1.43:1 and 1.54:1 at March 31, 2001 and September 30, 2000, respectively.

Accounts receivable. Accounts receivable increased by RMB 1,340,517, to RMB 39,371,357 at March 31, 2001, from RMB 38,030,840 at September 30, 2000. Accounts receivable increased during the six months ended March 31, 2001 as a result of extending credit terms offered to certain credit-worthy customers. Subsequent to the month ended March 31, 2001, an amount of RMB 9,180,000 was received from customers to settle part of the accounts receivable.

Inventories. Inventories increased by RMB 1,027,988, to RMB 3,815,389 at March 31, 2001, from RMB 2,787,401 at September 30, 2000. Inventories increased during the six months ended March 31, 2001 in anticipation for the current selling season.

Amount due from related parties. Amount due from related parties decreased by RMB 767,091, to RMB 2,981,759 at March 31, 2001, from RMB 3,748,850 at September 30, 2000 as a result of the repayment from an affiliated company of approximately RMB 800,000.

Investing. During the six months ended March 31, 2001 and 2000, additions to property, plant and equipment aggregated RMB 659,489 and RMB 181,172, respectively.

Financing. During the six months ended March 31, 2001, two of the Company's subsidiaries arranged short-term bank loans of RMB 1,000,000 each to fund operations, which will be repaid during 2001. In addition, the Company repaid an amount of RMB 510,000 of unsecured short-term loans.

The Company anticipates, based on currently proposed plans and assumptions relating to its existing operations, that its projected cash flows from operations will be sufficient to support its planned operations for the next twelve months. Depending on the Company's rate of growth, the

Company may seek additional capital in the future to support expansion of operations and acquisitions.

Inflation and Currency Matters:

In recent years, the Chinese economy has experienced periods of rapid economic growth as well as relatively high rates of inflation, which in turn has resulted in the periodic adoption by the Chinese government of various corrective measures designed to regulate growth and contain inflation. Since 1993, the Chinese government has implemented an economic program designed to control inflation, which has resulted in the tightening of working capital available to Chinese business enterprises. The success of the Company depends in substantial part on the continued growth and development of the Chinese economy.

Foreign operations are subject to certain risks inherent in conducting business abroad, including price and currency exchange controls, and fluctuations in the relative value of currencies. Changes in the relative value of currencies occur periodically and may, in certain instances, materially affect the Company's results of operations. In addition, the Renminbi is not freely convertible into foreign currencies, and the ability to convert the Renminbi is subject to the availability of foreign currencies.

Effective December 1, 1998, all foreign exchange transactions involving the Renminbi must take place through authorized banks in China at the prevailing exchange rates quoted by the People's Bank of China. The Company expects that a portion of its revenues will need to be converted into other currencies to meet foreign exchange currency obligations, including the payment of any dividends declared.

Although the central government of China has repeatedly indicated that it does not intend to devalue its currency in the near future, recent announcements by the central government of China indicate that devaluation is an increasing possibility. Should the central government of China decide to devalue the Renminbi, the Company does not believe that such an action would have a detrimental effect on the Company's operations, since the Company conducts virtually all of its business in China, and the sale of its products is settled in Renminbi. However, devaluation of the Renminbi against the United States dollar would adversely affect the Company's financial performance when measured in United States dollars.

New Accounting Pronouncements:

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which is effective for financial statements for all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS No. 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring that an entity recognize those item as assets or liabilities in the statement of financial position and measure them at fair value. SFAS

No. 133 also addresses the accounting for hedging activities. The Company will adopt SFAS No. 133 for its fiscal year beginning January 1, 2001. The Company does not expect that adoption of SFAS No. 133 will have a material impact on its financial statement presentation or disclosures.

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements. SAB No. 101, as amended by SAB No. 101A and SAB No. 101B, is effective no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. SAB No. 101 provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Currently, the Company believes that it complies with the accounting and disclosure described in SAB No. 101; therefore, management believes that SAB No. 101 will not impact the Company's financial statements.

## PART II. OTHER INFORMATION

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Sales of Equity Securities

During the six months ended March 31, 2001, the Company did not issue any shares of common stock.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

(b) Reports on Form 8-K:

Six Months Ended March 31, 2001 - None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AGROCAN CORPORATION
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(Registrant)

Date: By: /s/ LAWRENCE HON
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Lawrence Hon
President and Chief
Executive Officer
(Duly Authorized
Officer)

Date: By: /s/ CARL YUEN
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Carl Yuen
Chief Financial Officer
(Principal Financial
and Accounting Officer)