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AGROCAN CORP  
Form 10QSB  
May 08, 2002

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

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2002

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

N/A

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(I.R.S. Employer Identification Number)

Suite 706, Dominion Centre, 43-59 Queen's Road East, 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  No   
As of March 31, 2002, the Company had 3,059,970 shares of common stock issued and outstanding.

Transitional Small Business Disclosure Format: Yes  No

Documents incorporated by reference: None.

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AGROCAN CORPORATION

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### AGROCAN CORPORATION CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2002		September 30, 2001
	USD	RMB	RMB
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 82,861	687,749	591,864
Accounts receivable, net	1,310,175	10,874,453	12,748,777
Other receivables and prepayments	81,399	675,610	625,772
Inventories	499,267	4,143,920	1,453,528
Deposits	20,883	173,327	155,801
Amount due from related parties, net	510,254	4,235,107	3,618,173
<b>TOTAL CURRENT ASSETS</b>	<b>2,504,839</b>	<b>20,790,166</b>	<b>19,193,915</b>
ADVANCES RECEIVABLE, NET	984,200	8,168,860	8,168,860
PROPERTY, PLANT AND EQUIPMENT, NET	739,611	6,138,772	6,143,437
<b>TOTAL ASSETS</b>	<b>\$ 4,228,650</b>	<b>35,097,798</b>	<b>33,506,212</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short-term bank loan	\$ 120,482	1,000,000	1,993,000
Short-term loans-unsecured	469,303	3,895,212	3,410,212
Accounts payable	127,356	1,057,060	2,266,412
Other payables and accruals	226,099	1,876,620	1,171,615
Income tax payable	75,120	623,496	777,015

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Deposits received	435,728	3,616,544	780,404
Amount due to related parties	371,541	3,083,789	4,349,334
	-----		
TOTAL LIABILITIES, ALL CURRENT	1,825,629	15,152,721	14,747,992
MINORITY INTEREST	133,703	1,109,737	1,119,624
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 3,059,970 shares at March 31, 2002	306	2,540	2,224
Capital in excess of par value	1,656,750	13,751,029	12,257,029
Retained earnings			
Unappropriated	464,269	3,853,432	4,151,004
Appropriated	145,818	1,210,289	1,210,289
Other comprehensive income	2,175	18,050	18,050
	-----		
TOTAL SHAREHOLDERS' EQUITY	2,269,318	18,835,340	17,638,596
	-----		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,228,650	35,097,798	33,506,212
	=====		

See notes to consolidated financial statements

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AGROCAN CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)  
THREE MONTHS ENDED MARCH 31, 2002 AND 2001

	2002	2002	2001
	USD	RMB	RMB
NET SALES	\$ 447,129	3,711,171	4,406,913
COST OF SALES	380,724	3,160,006	3,402,809
	-----		
GROSS PROFIT	66,405	551,165	1,004,104
ADMINISTRATIVE AND GENERAL EXPENSES	(80,430)	(667,571)	(809,707)
SELLING EXPENSES	(8,664)	(71,911)	(225,560)
	-----		
LOSS FROM OPERATIONS	(22,689)	(188,317)	(31,163)
OTHER INCOME (EXPENSE)			
Interest income	11,474	95,235	35,058
Interest expense	(391)	(3,246)	(21,114)
Amortization of loan fees	-	-	(151,153)
	-----		

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LOSS BEFORE INCOME TAXES	(11,606)	(96,328)	(168,372)
INCOME TAXES	(5,117)	(42,472)	(56,903)
LOSS BEFORE MINORITY INTEREST	(16,723)	(138,800)	(225,275)
MINORITY INTEREST	355	2,945	7,040
NET LOSS	\$ (16,368)	(135,855)	(218,235)
WEIGHTED AVERAGE SHARES OUTSANDING			
Basic and diluted	3,059,970	3,059,970	2,334,970
BASIC AND DILUTED LOSS PER SHARE	\$ (0.01)	(0.04)	(0.09)

See notes to consolidated financial statements

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AGROCAN CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)  
SIX MONTHS ENDED MARCH 31, 2002 AND 2001

	2002	2002	2001
	USD	RMB	RMB
NET SALES	\$ 575,036	4,772,797	6,606,045
COST OF SALES	474,286	3,936,568	5,053,818
GROSS PROFIT	100,750	836,229	1,552,227
ADMINISTRATIVE AND GENERAL EXPENSES	(125,091)	(1,038,257)	(1,596,375)
SELLING EXPENSES	(16,554)	(137,401)	(245,481)
LOSS FROM OPERATIONS	(40,895)	(339,429)	(289,629)
OTHER INCOME (EXPENSE)			
Interest income	11,968	99,340	35,058
Interest expense	(3,583)	(29,743)	(31,740)
Amortization of loan fees	-	-	(302,306)
LOSS BEFORE INCOME TAXES	(32,510)	(269,832)	(588,617)
INCOME TAXES	(4,533)	(37,627)	(84,829)
LOSS BEFORE MINORITY INTEREST	(37,043)	(307,459)	(673,446)

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MINORITY INTEREST	1,191	9,887	29,622
	-----	-----	-----
NET LOSS	\$ (35,852)	(297,572)	(643,824)
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSANDING			
Basic and diluted	3,059,970	3,059,970	2,334,970
BASIC AND DILUTED LOSS PER SHARE	\$ (0.01)	(0.10)	(0.28)
	=====	=====	=====

See notes to consolidated financial statements

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AGROCAN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
SIX MONTHS ENDED MARCH 31, 2002 AND 2001

	2002	2002	2001
	USD	RMB	RMB
	-----	-----	-----
OPERATING ACTIVITIES			
Net loss	\$ (35,852)	(297,572)	(643,824)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Amortization of deferred costs	-	-	302,307
Common shares issued for directors' remuneration	180,038	1,494,316	-
Depreciation	36,387	302,010	298,490
Minority interest in net loss	(1,191)	(9,887)	(29,622)
(Increase) decrease in accounts receivable	225,822	1,874,324	(1,340,517)
Decrease (increase) in other receivables, deposits and prepayments	(8,116)	(67,364)	(4,497,392)
(Increase) in inventories	(324,144)	(2,690,392)	(1,027,988)
(Increase) decrease in amounts due from related parties	(74,329)	(616,934)	767,091
Increase (decrease) in accounts payable	(145,705)	(1,209,352)	1,251,686
Increase (decrease) in income tax payable	(18,496)	(153,519)	(179,185)
Increase in other payables and accruals	84,940	705,005	3,502,892
Increase (decrease) in deposits received	341,703	2,836,140	(808,897)
Increase (decrease) in amounts due to related parties	(152,475)	(1,265,545)	503,816
	-----	-----	-----
Net cash provided by (used in) operating activities	108,582	901,230	(1,901,143)
	-----	-----	-----
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(35,825)	(297,345)	(659,489)
	-----	-----	-----
Net cash used in investing activities	(35,825)	(297,345)	(659,489)
	-----	-----	-----
FINANCING ACTIVITIES			
Repayment of short term bank loan	(119,639)	(993,000)	-

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Repayment of short term loans - unsecured	-	-	(510,000)
Increase in note payable	-	-	414,000
Proceeds from short term loans - unsecured	58,434	485,000	-
Short term bank loan	-	-	2,000,000
Net cash (used in) provided by financing activities	(61,205)	(508,000)	1,904,000
Net increase (decrease) in cash and cash equivalents	11,552	95,885	(656,632)
Cash and cash equivalents beginning	71,309	591,864	4,616,686
Cash and cash equivalents ending	\$ 82,861	687,749	3,960,054

See notes to consolidated financial statements

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AGROCAN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED MARCH 31, 2002 AND 2001  
(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 our Form 10-KSB for the year ended September 30, 2001, have been condensed or omitted for the interim statements. It is our opinion that, when the interim statements are read in conjunction with the September 30, 2001 financial statements, the disclosures are adequate to make the information presented not misleading. The results of operations for the six months ended March 31, 2002 and 2001 are not necessarily indicative of the operating results for the full fiscal year, as the Company's business fluctuates in accordance with planting seasons resulting in increased revenues in the second and third quarters.

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.

The Company reported a 27.8% decrease in sales during the six months ended March 31, 2002 compared to the six months ended March 31, 2001. At March 31, 2002 the Company is in default on short-term loans with third parties of approximately RMB 1.5 million. The Company believes that it has adequate funds to support operations for the current fiscal year ending September 30, 2002.

To address its on-going and long-term cash needs, the Company plans to

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initiate discussions with investment banks and financial institutions and attempt to raise funds to support current and future operations. This includes attempting to raise additional working capital through the sale of additional capital stock or through additional bank or third party borrowings. The Company cannot provide any assurance that it will be able to raise any such funds.

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### 2. INVENTORIES

Inventories at March 31, 2002 and September 30, 2001 are comprised of the following:

	MARCH 31, 2002	SEPTEMBER 30, 2001	
	USD	RMB	RMB
RAW MATERIALS	\$228,898	1,899,859	1,020,669
FINISHED GOODS	270,369	2,244,061	432,859
	-----	-----	-----
	\$499,267	4,143,920	1,453,528
	=====	=====	=====

### 3. SHORT-TERM BANK LOANS

As of March 31, 2002, the Company had a bank loan of RMB1,000,000 (US\$120,482). The bank loan bears interest at 6.435% per annum and is due during the year ending September 30, 2002.

### 4. INCOME TAXES

During the six months ended March 31, 2002, our subsidiaries recorded income tax expense of RMB 37,627. We are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled. Our British Virgin Islands subsidiary is not liable for income taxes. Our PRC subsidiaries comprise two wholly owned foreign enterprises and a 70% held Sino-Foreign Equity Joint Venture. PRC Companies are generally subject to income taxes at an effective rate of 33% (30% Chinese national income tax plus 3% Chinese state income tax). Two of our PRC subsidiaries, Fenglin and Linmao, are manufacturing companies operating in special zones, and they are entitled to a reduced national income taxes rate of 24%. All the subsidiaries are exempt from state income tax. Further, pursuant to the approval of the relevant PRC tax authorities, all the subsidiaries have been granted a "tax holidays", whereby the subsidiaries are fully exempted from PRC income taxes for two years starting from the year profits are first made, followed by a 50% exemption for the next three years. In 1999, the two-year, 100% exemption expired for Fenglin and Linmao, subjecting them to income tax at a rate of 12%. Effective January 1, 2001, the two-year, 100% exemption expired for Jiali and it became subject to income tax at a rate of 15%. Losses incurred by PRC companies may be carried forward for five years. Deferred tax assets and liabilities are not considered to be material at March 31, 2002 and 2001.

### 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.

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### 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, 2002 contains "forward-looking" statements within the meaning of the Federal securities laws. These forward-looking statements include, among others, statements concerning our expectations regarding sales trends, gross and net operating margin trends, political and economic matters, the availability of equity capital to fund our 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, 2002 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 was incorporated on December 8, 1997 in the State of Delaware. Effective December 31, 1997, we 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.

Prior to the above transaction, we had no material operations. The AgroCan China 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. were recorded at historical cost, and the shares of common stock issued by the company were reflected in the consolidated financial statements giving retroactive effect as if we had been the parent company from inception.

We, through AgroCan (China) Inc., currently own 100% interests in two wholly-owned subsidiaries, Guangxi Linmao Fertilizer Company Limited ("Guangxi Linmao") and Jiangxi Jiali Chemical Industry Company Limited ("Jiangxi Jiali"). We, through AgroCan (China) Inc., also own a 70% interest in Jiangxi Fenglin Chemical Industry Company Limited, a Sino-Foreign Equity Joint Venture ("Jiangxi Fenglin"). All of the aforementioned entities are located in the People's Republic of China ("China" or the "PRC").

We account for our interest in Jiangxi Fenglin similar to a majority-owned subsidiary because of our 70% interest, our contractual ability to appoint four out of six directors to the Board of Directors, which is the highest authority for the joint venture, and our right to appoint the Chairman of the Board. Due to the rights asserted by the PRC partner under customary joint venture

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agreements, 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. However, as a result of the aforementioned factors specific to Jiangxi Fenglin, management believes that it is appropriate to consolidate the joint venture's



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operations into our consolidated financial statements.

We produce various compound fertilizers. These ingredients used are blended in different proportions and packed into 50 kilogram bags. As of September 30, 2001, we have 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 we intend to enter markets in other provinces in China.

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 translation 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. For all purposes in this report, unless otherwise specifically stated, the U.S. dollar equivalent for the PRC Renminbi is the official exchange rate of 8.277 RMB=\$1.00 (U.S.).

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### Consolidated Results of Operations:

#### Three Months Ended March 31, 2002 and 2001:

**Sales.** The sales for the three months ended March 31, 2002 were RMB 3,711,171 as compared to sales of RMB 4,406,913 for the three months ended March 31, 2001, a decrease of RMB 695,742 or 15.8%. The decrease was due to lower demands from our major customers. Subsequent to March 31, 2002, we have increased production levels and management believes that sales for the year ended September 30, 2002 will approximate 80% of prior year levels.

**Gross Profit.** Gross profit for the three months ended March 31, 2002 was RMB 551,165 or 14.9% of revenues, as compared to RMB 1,004,104 or 22.8% of revenues for the three months ended March 31, 2001. The gross profit margin decreased in 2002 as compared to 2001 as a result of lower sales prices to attract new customers.

**Administrative and General Expenses.** Administrative and general expenses for the three months ended March 31, 2002 were RMB 667,571 or 18% of revenues, as compared to RMB 809,707 or 18.4% of revenues for the three months ended March 31, 2001, a decrease of RMB 142,136. In view of the reduced level of sales and production during the quarter ended March 31, 2002, 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, 2002 were RMB 71,911 or 1.9% of revenues, as compared to RMB 225,560 or 5.1% of revenues for the three months ended March 31, 2001, a decrease of RMB 153,649. Selling expenses decreased in 2002 compared to 2001 as a result of reduction in sales due to the lower demand from major customers.

**Loss from Operations.** Loss from operations was RMB 188,317 for the three

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months ended March 31, 2002, as compared to a loss from operations of RMB 31,163 for the three months ended March 31, 2001.

Other Income (Expense). We recorded interest income of RMB 95,235 and RMB 35,058 for the three months ended March 31, 2002 and 2001, respectively.

We recorded interest expense of RMB 3,246 and RMB 21,114 for the three months ended March 31, 2002 and 2001, respectively. As of March 31, 2002, we had a bank loan of RMB 1,000,000 (US\$120,482). The bank loan bears interest at 6.435% per annum and is due during the year ending September 30, 2002.

We recorded amortization of loan fees of RMB 0 and RMB 151,153 for the three months ended March 31, 2002 and 2001, respectively.

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Income Taxes. During the three months ended March 31, 2002, we recorded income tax of RMB 42,472. We recognized income tax expense of RMB 56,903 for the three months ended March 31, 2001.

Minority Interest. For the three months ended March 31, 2002 and 2001, we recorded a minority interest of RMB 2,945 and RMB 7,040 respectively, to reflect the interest of the Company's 30% joint venture partner in the net income of Jiangxi Fenglin.

Net Loss. Net loss was RMB 135,855 for the three months ended March 31, 2002, as compared to a net loss of RMB 218,235 for the three months ended March 31, 2001. The reason for less amount of net loss for the three months ended March 31, 2002 than March 31, 2001 was primarily the result of the reduced administrative and general expenses and selling expenses, even though the gross profit was less than the same period of last year.

Six Months Ended March 31, 2002 and 2001:

Sales. The sales for the six months ended March 31, 2002 were RMB 4,772,797 as compared to sales of RMB 6,606,045 for the six months ended March 31, 2001, a decrease of RMB 1,833,248 or 27.8%. The decrease was due to lower demands from our major customers. Subsequent to March 31, 2002, we have increased production levels and management believes that sales for the year ended September 30, 2002 will approximate 80% of prior year levels.

Gross Profit. Gross profit for the six months ended March 31, 2002 was RMB 836,229 or 17.5% of revenues, as compared to RMB 1,552,227 or 23.5% of revenues for the six months ended March 31, 2001. The gross profit margin decreased in 2002 as compared to 2001 as a result of lower sales prices to attract new customers.

Administrative and General Expenses. Administrative and general expenses for the six months ended March 31, 2002 were RMB 1,038,257 or 21.8% of revenues, as compared to RMB 1,596,375 or 24.2% of revenues for the six months ended March 31, 2001, a decrease of RMB 558,118. In view of the reduced level of sales and production during the quarter ended March 31, 2002, management was able to reduce administrative and general expenses, primarily in discretionary wages, travel and office expenses.

Selling Expenses. Selling expenses for the six months ended March 31, 2002 were RMB 137,401 or 2.9% of revenues, as compared to RMB 245,481 or 3.7% of revenues for the six months ended March 31, 2002, a decrease of RMB 108,080. Selling expenses decreased in 2002 compared to 2001 as a result of reduction in sales due to the lower demand from major customers.

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Loss from Operations. Loss from operations was RMB 339,429 for the six months ended March 31, 2002, as compared to a loss from operations of RMB 289,629 for the six months ended March 31, 2001.

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Other Income (Expense). We recorded interest income of RMB 99,340 and RMB 35,058 for the six months ended March 31, 2002 and 2001, respectively.

We recorded interest expense of RMB 29,743 and RMB 31,740 for the six months ended March 31, 2002 and 2001, respectively. As of March 31, 2002, we had a bank loan of RMB 1,000,000 (US\$120,482). The bank loan bear interest at 6.435% per annum and is due during the year ending September 30, 2002.

We recorded amortization of loan fees of RMB 0 and RMB 302,306 for the six months ended March 31, 2002 and 2001, respectively.

Income Taxes. During the six months ended March 31, 2002, we recorded income tax expense of RMB 37,627. We recognized income tax expense of RMB 84,829 for the six months ended March 31, 2001.

Minority Interest. For the six months ended March 31, 2002 and 2001, we recorded a minority interest of RMB 9,887 and RMB 29,622 respectively, to reflect the interest of the Company's 30% joint venture partner in the net income of Jiangxi Fenglin.

Net Loss. Net loss was RMB 297,572 for the six months ended March 31, 2002, as compared to a net loss of RMB 643,824 for the six months ended March 31, 2001. The reason for less net loss for the six months ended March 31, 2002 than March 31, 2001 was primarily as a result of the reduction in administrative and general expenses and selling expenses, even though the gross profit was less than the same period of last year.

Consolidated Financial Condition:

Liquidity and Capital Resources - March 31, 2002

We reported a 27.8% decrease in sales during the six months ended March 31, 2002 compared to the six months ended March 31, 2001. At March 31, 2002 we are in default on short-term loans with third parties of approximately RMB 1.5 million. We believe that it has adequate funds to support operations for the current fiscal year ending September 30, 2002.

To address our on-going and long-term cash needs, we plan to initiate discussions with investment banks and financial institutions and attempt to raise funds to support current and future operations. This includes attempting to raise additional working capital through the sale of additional capital stock or through additional bank or third party borrowings. We cannot provide any assurance that it will be able to raise any such funds.

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Operating. For the six months ended March 31, 2002, our operations generated cash resources of RMB 901,230 as compared to utilizing RMB 1,901,143 for the six months ended March 31, 2001. Our operations generated more cash resources in 2002 as compared to 2001 primarily as a result of the settlement of accounts receivable and also the receipt of deposits from our major customers, and we issued common shares for directors' remuneration totaling RMB 1,494,316 during the six months ended March 31, 2002. At March 31, 2002, cash and cash equivalents had increased by RMB 95,885 to RMB 687,749, as compared to

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RMB591,864 at September 30, 2001. We had working capital of RMB 5,637,445, at March 31, 2002, as compared to RMB 4,445,923 at September 30, 2001, resulting in current ratios of 1.37:1 and 1.30:1 at March 31, 2002 and September 30, 2001, respectively.

Accounts receivable. Accounts receivable decreased by RMB 1,874,324, to RMB 10,874,453 at March 31, 2002, from RMB 12,748,777 at September 30, 2001. Accounts receivable decreased during the six months ended March 31, 2002 as a result of settlement of part of the accounts receivable. Subsequent to March 31, 2002, we have received an additional RMB800,000 in settlement of accounts receivable.

Inventories. Inventories increased by RMB 2,690,392, to RMB 4,143,920 at March 31, 2002, from RMB 1,453,528 at September 30, 2001 in anticipation of the current selling season during the spring and summer.

Amount due from related parties. Amount due from related parties increased by RMB616,934, to RMB 4,235,107 at March 31, 2002, from RMB 3,618,173 at September 30, 2001 as a result of making loans to related companies.

Investing. During the six months ended March 31, 2002 and 2001, additions to property, plant and equipment aggregated RMB 297,345 and RMB 659,489, respectively.

Financing. During the six months ended March 31, 2002, one of our subsidiaries repaid RMB993,000 of short-term bank loans. Also, one of our subsidiaries obtained loan proceeds of RMB485,000 under unsecured short-term loans.

### 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. Our success depends in substantial part on the continued growth and development of the Chinese economy. During the fiscal quarters ended December 31, 2001 and 2000, inflation and changing prices have had a minor impact on our operations and financial position. The actual rate of inflation in the agricultural sector has been nominal, and the price level of fertilizer products has been stable.

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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

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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, we do not believe that such an action would have a detrimental effect on our operations, since we conduct virtually all of its business in China, and the sale of our products is settled in Renminbi. However, devaluation of the Renminbi against the United States dollar would adversely affect our financial performance when measured in United States dollars.

### New Accounting Pronouncements:

In July 2001, The Financial Accounting Standards Board (FASB) issued SFAS No.141, "Business Combinations", and SFAS no.142, "Goodwill and Other Tangible Assets". SFAS No.141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited after that date. SFAS No.142 changes the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment-only approach and acquires intangible assets with finite lives to be amortized over their useful lives. Thus, amortization of goodwill and intangible assets with indefinite lives will cease upon adoption of the statement. SFAS No.142 is required to be applied in fiscal years beginning after December 15, 2001. We do not expect that the adoption of SFAS No.141 or SFAS No.142 will have a significant immediate impact on our financial condition or results of operations, as we have no pending business combinations, nor do we have any goodwill or other intangible assets recorded as of December 31, 2001.

In August 2001, the FASB issued SFAS No.144, "Accounting for Impairment or Disposal of Long-Lived Assets", which addresses accounting and financial reporting for the impairment or disposal of long-lived assets. This statement is effective for fiscal years beginning after December 15, 2001. We are currently assessing the impact, if any, that SFAS No.144 may have on our financial condition and results of operations.

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## PART II. OTHER INFORMATION

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

During the six months ended March 31, 2002, we issued 375,000 shares of common stock. The shares were issued to two of our directors/officers, Mr. Danny Wu and Mr. Lawrence Hon, in lieu of cash as remuneration for their services to the Company.

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

(a) Exhibits:

(b) Reports on Form 8-K:

Six Months Ended March 31, 2002 - None

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SIGNATURES

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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: May 8, 2002

By: /s/ LAWRENCE HON

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Lawrence Hon  
President and Chief  
Executive Officer  
(Duly Authorized  
Officer)

Date: May 8, 2002

By: /s/ CARL YUEN

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Carl Yuen  
Chief Financial Officer  
(Principal Financial  
and Accounting Officer)