

Edgar Filing: AGROCAN CORP - Form 10QSB

AGROCAN CORP  
Form 10QSB  
April 30, 2003

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, 2003

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

98-0352588

-----  
(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, 2003, the Company had 12,473,451 shares of common stock issued and outstanding.

Transitional Small Business Disclosure Format: Yes  No   
Documents incorporated by reference: None.

AGROCAN CORPORATION

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets  
- March 31, 2003 (Unaudited) and September 30, 2002 (Audited)

## Edgar Filing: AGROCAN CORP - Form 10QSB

Consolidated Statements of Operations (Unaudited)

- Three Months and Six Months Ended March 31, 2003 and 2002

Consolidated Statements of Cash Flows (Unaudited)

- Six Months Ended March 31, 2003 and 2002

Notes to Consolidated Financial Statements (Unaudited)

- Six Months Ended March 31, 2003 and 2002

Item 2. Management's Discussion and Analysis or Plan of Operation

### PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Item 6. Exhibits and Reports on Form 8-K

### SIGNATURES

2

### PART 1. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

AGROCAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2003 AND SEPTEMBER 30, 2002  
(UNITED STATES DOLLARS)

	(Unaudited) MAR 31, 2003	(Audited) SEP 30, 2002
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 78,932	\$ 128,615
Accounts receivable, less allowance for doubtful accounts of \$178,617	797,240	934,600
Other receivables and prepayments	98,970	132,399
Interest receivable	10,389	-
Inventories	585,614	284,886
Amount due from related parties, net	422,415	422,415
Deferred consulting fees	38,100	-
	-----	-----
<b>TOTAL CURRENT ASSETS</b>	<b>2,031,660</b>	<b>1,902,915</b>
<b>ADVANCES RECEIVABLE, NET</b>	<b>117,952</b>	<b>168,145</b>
<b>PROPERTY, PLANT AND EQUIPMENT - NET</b>	<b>629,648</b>	<b>673,209</b>
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 2,779,260</b>	<b>\$ 2,744,269</b>
	=====	=====

Edgar Filing: AGROCAN CORP - Form 10QSB

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Short-term loans-unsecured	\$ 296,411	\$ 296,411
Short-term bank loan	120,482	120,482
Account payable	56,123	82,624
Other payables and accruals	57,799	139,903
Deposits received	499,192	296,375
Amount due to related parties	31,782	341,196
Income tax payable	73,243	72,263

TOTAL LIABILITIES, ALL CURRENT	1,135,032	1,349,254
--------------------------------	-----------	-----------

MINORITY INTEREST	67,860	74,644
-------------------	--------	--------

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 12,473,451 at March 31, 2003 and 3,673,304 at September 30, 2002	1,247	367
Capital in excess of par value	2,200,112	1,885,251
Retained earnings		
Unappropriated	(746,549)	(686,805)
Appropriated	120,457	120,457
Other comprehensive income	1,101	1,101

TOTAL SHAREHOLDERS' EQUITY	1,576,368	1,320,371
----------------------------	-----------	-----------

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,779,260	\$ 2,744,269
--	--------------	--------------

See notes to consolidated financial statements

3

AGROCAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002  
(UNITED STATES DOLLARS)

	2003	2002
NET SALES	\$ 216,940	\$ 447,129
COST OF SALES	184,724	380,724
GROSS PROFIT	32,216	66,405
ADMINISTRATIVE AND GENERAL EXPENSES	80,392	80,430

Edgar Filing: AGROCAN CORP - Form 10QSB

SELLING EXPENSES	2,492	8,664
	-----	-----
LOSS FROM OPERATIONS	(50,668)	(22,689)
OTHER INCOME (EXPENSE)		
Interest income	5,176	11,474
Interest expense	(1,799)	(391)
	-----	-----
LOSS BEFORE INCOME TAXES	(47,291)	(11,606)
INCOME TAXES	785	5,117
	-----	-----
LOSS BEFORE MINORITY INTEREST	(48,076)	(16,723)
MINORITY INTEREST	2,533	355
	-----	-----
NET LOSS	\$ (45,543)	\$ (16,368)
	=====	=====
WEIGHT AVERAGE SHARES OUTSTANDING		
Basic and diluted	5,360,407	3,059,970
BASIC AND DILUTED LOSS PER SHARES	\$ (0.01)	\$ (0.01)
	=====	=====

See notes to consolidated financial statements

4

AGROCAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
FOR THE SIX MONTHS ENDED MARCH 31, 2003 AND 2002  
(UNITED STATES DOLLARS)

	2003	2002
NET SALES	\$ 486,135	\$ 575,036
COST OF SALES	369,299	474,286
	-----	-----
GROSS PROFIT	116,836	100,750
ADMINISTRATIVE AND GENERAL EXPENSES	145,030	125,091
SELLING EXPENSES	34,631	16,554
	-----	-----
LOSS FROM OPERATIONS	(62,825)	(40,895)
OTHER INCOME (EXPENSE)		
Interest income	10,594	11,968
Interest expense	(3,613)	(3,583)

Edgar Filing: AGROCAN CORP - Form 10QSB

LOSS BEFORE INCOME TAXES	(55,844)	(32,510)
INCOME TAXES	10,684	4,533
LOSS BEFORE MINORITY INTEREST	(66,528)	(37,043)
MINORITY INTEREST	6,784	1,191
NET LOSS	\$ (59,744)	\$ (35,852)
WEIGHT AVERAGE SHARES OUTSTANDING		
Basic and diluted	4,754,128	3,059,970
BASIC AND DILUTED LOSS PER SHARES	\$ (0.01)	\$ (0.01)

See notes to consolidated financial statements

5

AGROCAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
FOR THE SIX MONTHS ENDED MARCH 31, 2003 AND 2002  
(UNITED STATES DOLLARS)

	2003	2002
OPERATING ACTIVITIES		
Net loss	\$ (59,744)	\$ (35,852)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Common shares issued for directors' remuneration	60,000	180,038
Depreciation	51,811	36,387
Minority interest in net loss	(6,784)	(1,191)
Decrease in account receivable	137,360	225,822
Decrease (increase) in other receivables, deposit and prepayments	33,429	(8,116)
(Increase) in interest receivable	(10,389)	-
(Increase) in inventories	(300,728)	(324,144)
Decrease in amounts due from related parties	-	(74,329)
(Decrease) increase in accounts payable	(26,501)	(145,705)
(Decrease) increase in tax payable	980	(18,496)
(Decrease) in other payables and accruals	(82,104)	84,940
Increase in deposits received	202,817	341,703
(Decrease) increase in amounts due to related parties	(91,773)	(152,475)
Net cash provided by (used in) operating activities	(91,626)	108,582
INVESTING ACTIVITIES		
Decrease in advances receivable	50,193	-

Edgar Filing: AGROCAN CORP - Form 10QSB

Additions to property, plant and equipment	(8,250)	(35,825)
	-----	-----
Net cash used in investing activities	41,943	(35,825)
	-----	-----
FINANCING ACTIVITIES		
Repayment of short term bank loan	-	(119,639)
Proceeds from short term loans - unsecured	-	58,434
	-----	-----
Net cash used in financing activities	-	(61,205)
	-----	-----
Net decrease in cash and cash equivalents	(49,683)	11,552
Cash and cash equivalents at beginning of year	128,615	71,309
	-----	-----
Cash and cash equivalents at end of year	\$ 78,932	\$ 82,861
	=====	=====
Supplement schedule of non-cash investing and financing activities		
Common shares issued for amount due to related parties	\$ 277,641	-
Common shares issued for deferred consulting fees	\$ 38,100	-
Cash paid during the six months for income taxes	\$ 9,704	\$ 23,030
Cash paid during the six months for interest	\$ 3,613	\$ 3,583

See notes to consolidated financial statements

6

AGROCAN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED MARCH 31, 2003 AND 2002  
(UNAUDITED)  
(EXPRESSED IN UNITED STATES DOLLARS)

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, 2002, 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, 2002 financial statements, the disclosures are adequate to make the information presented not misleading. The results of operations for the six months ended March 31, 2003 and 2002 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

## Edgar Filing: AGROCAN CORP - Form 10QSB

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 15% decrease in sales during the six months ended March 31, 2003 compared to the six months ended March 31, 2002. The Company believes that it has adequate funds to support operations for the current fiscal year ending September 30, 2003.

To address its on-going and long-term cash needs, the Company plans 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. The Company cannot provide any assurance that it will be able to raise any such funds.

### 2. INVENTORIES

Inventories at March 31, 2003 and September 30, 2002 are comprised of the following:

	MARCH 31, 2002	SEPTEMBER 30, 2002
	USD	USD
RAW MATERIALS	\$ 193,439	\$ 110,030
		7
FINISHED GOODS	392,175	\$ 174,856
	-----	-----
	\$ 585,614	\$ 284,886
	=====	=====

### 3. SHORT-TERM LOANS

Short-term loans-unsecured represent amounts borrowed from third parties. Loans in the amount of \$296,411 are unsecured, non-interest bearing and payable on demand.

As of March 31, 2003, the Company has a bank loan of \$120,482. The bank loan bears interest at 6.04% per annum and is originally due April 4, 2003. The bank loan has been extended and is due on April 2004 and interest at 6.04% per annum. The loan is guaranteed by a customer of the Company.

### 4. INCOME TAXES

During the six months ended March 31, 2003, our subsidiaries recorded an income tax of \$10,684. 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

## Edgar Filing: AGROCAN CORP - Form 10QSB

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 material at March 31, 2003 and 2002.

### 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.

### 6. CHANGES IN SECURITIES

During the six months ended March 31, 2003, the Company issued 8,800,147 shares of common stock. Among those shares, 545,454 shares, with an aggregate value of \$60,000, were issued to two of the Company's directors/officers in lieu of cash as remuneration for their services to the

8

Company, 7,254,693 shares were issued to the shareholders in lieu of cash as repayment of the shareholders' loan of \$217,641 and 1,000,000 shares (see Note 7.) with an aggregate value of \$38,100 were issued to two individuals in lieu of cash for their consulting services to the Company.

### 7. CONSULTING AGREEMENTS

As disclosed on April 7, 2003 in a Form S-8 filing with the Securities and Exchange Commission, on March 28, 2003, the Company entered into one year consulting agreements with Winnex Enterprises Ltd. and Mr. Wong Wai Hung (the "Consultants"). The services to be rendered include assisting the Company through its relationships with potential sources on a best efforts basis in order to identify sources for the acquisition of the Company's equity securities in connection with up to \$5,000,000. The agreement calls for 500,000 shares of freely tradable shares of common stock to be issued to each consultant upon the signing of the agreement and in the event the consultants introduce the Company to any party that leads to merger and / or acquisition transaction with the Company that the Consultants will be compensated at the time of closing of the transaction a fee up to six percent on the transaction based on the number of shares issued by the Company for the transaction. In accordance with SFAS 123 and EITF 96-18, the Company has accounted for the consulting agreements based on the fair market value of the Company's stock at the commencement date of the agreement. The Company recorded \$38,100 for deferred consulting fees associated with this agreement as of March 31, 2003.

## 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, 2003 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

## Edgar Filing: AGROCAN CORP - Form 10QSB

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, 2003 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% interest 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

9

venture 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 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 March 31, 2003, 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 U.S. Dollars ("\$"). The functional currency of the Company's PRC

## Edgar Filing: AGROCAN CORP - Form 10QSB

operations is the Chinese Renminbi ("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 U.S. Dollars are translated into USD using the applicable exchange rates. Monetary assets and liabilities denominated in other currencies are translated into U.S. Dollars 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, 2003 and 2002:

**Sales.** The sales for the three months ended March 31, 2003 were \$216,940 as compared to sales of \$447,129 for the three months ended March 31, 2002, a decrease of \$230,189 or 51%. The decrease was due to lower demands from our major customers. The lower demand is due to the bad economic condition. Subsequent to March 31, 2003, we have increased production levels and sales order from customers. Management believes that sales for the year ended September 30, 2003 will approximate as same as the prior year levels.

**Gross Profit.** Gross profit for the three months ended March 31, 2003 was \$32,216 or 14.9% of revenues, as compared to \$66,405 or 14.9% of revenues for the three months ended March 31, 2002. The gross profit margin unchanged in 2003 as compared to 2002.

**Administrative and General Expenses.** Administrative and general expenses for the three months ended March 31, 2003 were \$80,392 or 37% of revenues, as compared to \$80,430 or

10

18% of revenues for the three months ended March 31, 2002, a decrease of \$38.

**Selling Expenses.** Selling expenses for the three months ended March 31, 2003 were \$2,492 or 1.1% of revenues, as compared to \$8,664 or 1.9% of revenues for the three months ended March 31, 2002. Selling expenses decreased in 2003 compared to 2002 as a result of decreasing sales due to the lower demand from major customers.

**Loss from Operations.** Loss from operations was \$50,668 for the three months ended March 31, 2003, as compared to a loss from operations of \$22,689 for the three months ended March 31, 2002.

**Other Income (Expense).** We recorded interest income of 5,176 and \$11,474 for the three months ended March 31, 2003 and 2002, respectively.

We recorded interest expense of \$1,799 and \$391 for the three months ended March 31, 2003 and 2002, respectively. As of March 31, 2003, we had a bank loan of \$120,482, which bears interest at 6.04% per annum and is due on April 2004.

**Income Taxes.** During the three months ended March 31, 2003, we recorded income tax of \$785. We recognized income tax of \$5,117 for the three months ended March 31, 2002.

**Minority Interest.** For the three months ended March 31, 2003 and 2002, we recorded a minority interest of \$2,533 and \$355 respectively, to reflect the interest of the Company's 30% joint venture partner in the net income of Jiangxi Fenglin.

## Edgar Filing: AGROCAN CORP - Form 10QSB

**Net Loss.** Net loss was \$45,543 for the three months ended March 31, 2003, as compared to a net loss of \$16,368 for the three months ended March 31, 2002. The reason for recording higher net loss for the three months ended March 31, 2003 than the three months ended March 31, 2002 was primarily the result of the decrease in sales.

Six Months Ended March 31, 2003 and 2002:

**Sales.** The sales for the six months ended March 31, 2003 were \$486,135 as compared to sales of \$575,036 for the six months ended March 31, 2002, a decrease of \$88,901 or 15%. The decrease was due to lower demands from our major customers. The lower demand is due to the bad economic condition. Subsequent to March 31, 2003, we have increased production levels and sales order from customers. Management believes that sales for the year ended September 30, 2003 will approximate as same as the prior year levels.

**Gross Profit.** Gross profit for the six months ended March 31, 2003 was \$116,836 or 24% of revenues, as compared to \$100,750 or 17.5% of revenues for the six months ended March 31,

11

2002. The gross profit margin increased in 2003 as compared to 2002 as a result of the company is targeting on the higher profit margin customers.

**Administrative and General Expenses.** Administrative and general expenses for the six months ended March 31, 2003 were \$145,030 or 30% of revenues, as compared to \$125,091 or 18% of revenues for the six months ended March 31, 2002, an increase of \$19,939. The increase of administrative and general expenses is higher wages and travel expenses.

**Selling Expenses.** Selling expenses for the six months ended March 31, 2003 were \$34,631 or 7.1% of revenues, as compared to \$16,554 or 2.9% of revenues for the six months ended March 31, 2002, an increase of \$18,077. Selling expenses increased in 2003 compared to 2002 as a result of higher freight for delivering of our products.

**Loss from Operations.** Loss from operations was \$62,825 for the six months ended March 31, 2003, as compared to a loss from operations of \$40,895 for the six months ended March 31, 2002.

**Other Income (Expense).** We recorded interest income of \$10,594 and \$11,968 for the six months ended March 31, 2003 and 2002, respectively.

We recorded interest expense of \$3,613 and \$3,583 for the six months ended March 31, 2003 and 2002, respectively. As of March 31, 2003, we had a bank loan of \$120,482, which bears interest at 6.04% per annum and is due on April 2004.

**Income Taxes.** During the six months ended March 31, 2003, we recorded income tax of \$10,684. We recognized income tax of \$4,533 for the six months ended March 31, 2002.

**Minority Interest.** For the six months ended March 31, 2003 and 2002, we recorded a minority interest of \$6,784 and \$1,191 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 \$59,744 for the six months ended March 31, 2003, as compared to a net loss of \$35,852 for the six months ended March 31, 2002. The reason for recording more net loss for the six months ended March 31, 2003 than

## Edgar Filing: AGROCAN CORP - Form 10QSB

the six months ended March 31, 2002 was primarily the result of the decreasing sales and higher administrative and general expenses.

Consolidated Financial Condition:

Liquidity and Capital Resources - March 31, 2003

We reported a 15% decrease in sales during the six months ended March 31, 2003 compared to the six months ended March 31, 2002. The Company believes that it has adequate funds to

12

support operations for the current fiscal year ending September 30, 2003.

To address its 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.

Operating. For the six months ended March 31, 2003, our operations utilized cash resources of \$91,626 as compared to generated \$108,582 for the six months ended March 31, 2002. Our operations utilized more cash resources in 2003 as compared to 2002 primarily as a result of the settlement of other payables, including the settlement of shareholders' loans. At March 31, 2003, cash and cash equivalents decreased by \$49,683 to \$78,932, as compared to \$128,615 at September 30, 2002. We had working capital of \$896,628, at March 31, 2003, as compared to \$553,661 at September 30, 2002, resulting in current ratios of 1.79:1 and 1.41:1 at March 31, 2003 and September 30, 2002, respectively.

Accounts receivable. Accounts receivable decreased by \$137,360, to \$797,240 at March 31, 2003, from \$934,600 at September 30, 2002. Accounts receivable decreased during the six months ended March 31, 2003 as a result of settlement of part of the accounts receivable from customers.

Inventories. Inventories increased by \$300,728, to \$585,614 at March 31, 2003, from \$284,886 at September 30, 2002 in anticipation of the current selling season during the spring and summer.

Amount due from related parties. Amount due from related parties remained unchanged between March 31, 2003 and September 30, 2002 as a result of no money movement to related companies.

Investing. During the six months ended March 31, 2003 and 2002, additions to property, plant and equipment aggregated \$8,250 and \$35,825, respectively.

During the six months ended March 31, 2003, there was part of settlement of the advance receivables of \$50,193.

Financing. During the six months ended March 31, 2003, we did not record any financing activities. During the six months ended March 31, 2002, one of our subsidiaries repaid \$119,639 of the short-term bank loans and proceeded \$58,434 from the unsecured short-term loan.

Inflation and Currency Matters:

13

## Edgar Filing: AGROCAN CORP - Form 10QSB

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 March 31, 2003 and 2002, 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.

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, 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 FASB issued Statement No.142 "Goodwill and Other Intangible Assets". Statement No.142 requires the use of a nonamortization approach to account for purchased goodwill and indefinite lived intangibles. Under a nonamortization approach, goodwill and indefinite lived intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and indefinite lived intangibles is more than its fair value. The provisions of Statement No.142 will be effective for us in fiscal 2003. We do not expect this standard, when implemented, to have a material effect on its future results of operations or financial position.

In August 2001, the FASB issued SFAS No.144, "Accounting for Impairment or Disposal of Long-Lived Assets". This statement supersedes Statement No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposal of", and the accounting and reporting provisions of APB Opinion 30, "Reporting the Results of Operation - Reporting the Effects of Disposal of a Segment of a Business, and the disposal of a segment of a business. This statement is effective for us in fiscal 2003. We do not expect the adoption of Statement No.144 to have a material impact on our future results of operations

## Edgar Filing: AGROCAN CORP - Form 10QSB

or financial position.

In April 2002, the FASB issued Statement No.145 "Rescission of FASB Statements No.4, 44 and 64. Amendment of FASB Statement No.13, and Technical Corrections". The Statement addresses the accounting for extinguishment of debt, sale-leaseback transactions and certain lease modifications. The statement is effective for us in fiscal 2003. We do not expect the adoption of Statement No.145 to have a material impact on our future results of operations or financial position.

In July 2002, the FASB issued Statement No.146, "Accounting for Cost Associated with Exit or Disposal Activities". The statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supercedes Emerging Issues Task Force Issue No.94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructing)." The provisions of Statement No.146 are effective for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of Statement No.146 to have a material impact on our future results of operations or financial position.

In October 2002, the FASB issued SFAS No. 147, "Acquisition of Certain Financial acquisitions of financial institutions, except transactions between two or more mutual enterprises. The Company does not expect that this standard will have any effect on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS No. 148 amends SFAS No. 123 "Accounting and Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used in reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company does not expect the adoption of SFAS No. 148 to have a material effect on out financial position, results of operations, or cash flows.

15

### PART II. OTHER INFORMATION

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

During the six months ended March 31, 2003, we issued 8,800,147 shares of common stock. Among those shares, 545,454 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. 7,254,693 shares were issued to the shareholders, Texon Investments Holdings Ltd., Intermax Ltd. and Masterpiece Development Ltd., in lieu of cash as repayment to the shareholders' loan. 1,000,000 shares were issued to two individuals, in lieu of cash for their consulting services to the Company.

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

(a) Exhibits:

- 99.1 Certification by Chief Executive Officer
- 99.2 Certification by Chief Financial Officer

## Edgar Filing: AGROCAN CORP - Form 10QSB

(b) Reports on Form 8-K:

During the six months ended March 31, 2003, the Company filed the following report on the Form 8-K:

Form	Filing Date	Event Reported
----	-----	-----
8-K	Oct 4, 2002	A report on Form 8-K (item 4), which announced changing in the Company's certifying accountant.
8-K/A	Oct 23, 2002	A report on Form 8-K/A (item 4), which announced changing in the Company's certifying accountant.
8-K	March 21, 2003	A report on Form 8-K (item 5), which announced issuing 7,254,693 shares of the Company's common stock to repay the shareholders' loan

16

### 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

-----  
(Registrant)

Date: April 25, 2003

By: /s/ LAWRENCE HON

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

Date: April 25, 2003

By: /s/ CARL YUEN

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

CERTIFICATIONS

I, Lawrence Hon, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AgroCan Corporation a Delaware Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 25, 2003

/s/ Lawrence Hon, Chief Executive Officer

-----  
Principal Executive Officer

I, Carl Yuen, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AgroCan Corporation a Delaware Corporation;

## Edgar Filing: AGROCAN CORP - Form 10QSB

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 25, 2003

/s/ Carl Yuen, Chief Financial Officer

-----  
Principal Financial Officer