AGROCAN CORP
Form 10QSB
August 20, 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 June 30, 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)

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 [X] No [ ]
As of June 30, 2001, the Company had 2,464,970 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)

	JUNE 30, 2001 USD	2001 RMB
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 46,386	385,00
Accounts receivable	1,702,675	14,132,20
Other receivables and prepayments	482,053	4,001,04
Inventories	434,451	3,605,94
Deposits	1,020,160	8,467,32
Amounts due from related parties	1,517,119	12,592,08
TOTAL CURRENT ASSETS	5,202,844	43,183,60
PROPERTY, PLANT AND EQUIPMENT - NET	777,995	6,457,35
DEFERRED COSTS	-	
TOTAL ASSETS	$ 5,980,839	49,640,96
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term bank loans	$ 1,204,819	10,000,00
Short-term loans-unsecured	410,869	3,410,21
Accounts payable	121,900	1,011,76
Other payables and accruals	617,044	5,121,46
Income tax payable	80,567	668,70
Deposits received	78,974	655,48
Amounts due to related parties	499,165	4,143,07

TOTAL CURRENT LIABILITIES	3,013,338	25,010,70
MINORITY INTEREST	135,887	1,127,86
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 2,464,970 shares at June 30, 2001	246	2,04
Capital in excess of par value	1,358,372	11,274,49
Retained earnings		
Unappropriated	1,411,605	11,716,32
Appropriated	56,049	465,20
Other comprehensive income	5,342	44,33
TOTAL SHAREHOLDERS' EQUITY	2,831,614	23,502,39
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,980,839	49,640,96

See notes to consolidated financial statements.

AGROCAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (UNAUDITED)
THREE MONTHS ENDED JUNE 30, 2001 AND 2000

	2001	2001
	USD	RMB
NET SALES	$ 1,087,595	9,027,03
COST OF SALES	804,530	6,677,60
GROSS PROFIT	283,065	2,349,43
ADMINSTRATIVE AND GENERAL EXPENSES	89,223	740,54
SELLING EXPENSES	48,168	399,79
INCOME FROM OPERATIONS	145,674	1,209,09
OTHER INCOME (EXPENSE)		
Interest income	495	4,11
Interest expense	(2,543)	(32,63
Amortization of loan fees	(6,892)	(57,20

INCOME BEFORE INCOME TAXES	136,734	1,123,37
INCOME TAXES	7,227	59,98
INCOME BEFORE MINORITY INTEREST	129,507	1,063,39
MINORITY INTEREST	(3,367)	(27,95
NET INCOME	$ 126,140	1,035,44
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustments	3,167	26,28
COMPREHENSIVE INCOME	129,307	1,061,73
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	2,318,318	2,318,31
Diluted	2,318,318	2,318,31
BASIC EARNINGS PER SHARE	$ 0.06	0.4
DILUTED EARNINGS PER SHARE	$ 0.06	0.4

See notes to consolidated financial statements.

AGROCAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (UNAUDITED)
NINE MONTHS ENDED JUNE 30, 2001 AND 2000

	2001	2001
	USD	RMB
NET SALES	$ 1,883,504	15,633,08
COST OF SALES	1,413,424	11,731,41
GROSS PROFIT	470,080	3,901,66
ADMINSTRATIVE AND GENERAL EXPENSES	281,557	2,336,92
SELLING EXPENSES	77,744	645,27
INCOME FROM OPERATIONS	110,779	919,46
OTHER INCOME (EXPENSE)		

Interest income	4,719	39,16
Interest expense	(7,755)	(64,37
Commission income	-	
Amortization of loan fees	(43,314)	(359,50
INCOME BEFORE INCOME TAXES	64,429	534,75
INCOME TAXES	17,447	144,81
INCOME BEFORE MINORITY INTEREST	46,982	389,94
MINORITY INTEREST	201	1,67
NET INCOME	$ 47,183	391,61
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustments	3,167	26,28
COMPREHENSIVE INCOME	50,350	417,90
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	2,318,318	2,318,31
Diluted	2,318,318	2,318,31
BASIC EARNINGS PER SHARE	$ 0.02	0.1
DILUTED EARNINGS PER SHARE	$ 0.02	0.1

See notes to consolidated financial statements.

AGROCAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
NINE MONTHS ENDED JUNE 30, 2001 AND 2000

	2001	2001
	USD	RMB
OPERATING ACTIVITIES		
Net Income	$ 47,183	391,61
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deferred costs	43,314	359,50
Depreciation	65,992	547,73
Capital reserve transfer	-	
Minority interest	(201)	(1,67
(Increase) decrease in account receivable	2,879,353	23,898,63
Increase in other receivables, prepayments and deposits	(1,391,947)	(11,553,16
Increase in inventories	(98,619)	(818,54

(Increase) decrease in amounts due from related parties	(1,065,450)	(8,843,23
Increase (decrease) in accounts payable	(2,427,455)	(20,147,87
Decrease in income tax payable	(21,521)	(178,62
Increase in other payables and accruals	447,187	3,711,65
Decrease in deposits received	(99,536)	(826,14
Increase in amounts due to related parties	57,828	479,97
Net cash used in operating activities	(1,563,872)	(12,980,13
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(85,281)	(707,83
Additions to construction in progress	-	
Net cash used in investing activities	(85,281)	(707,83
FINANCING ACTIVITIES		
Repayment of short term bank loan	-	
Repayment of short term loans - unsecured	(68,674)	(570,00
Proceeds from issuance of common stock	-	
Proceeds from short term bank loans	1,204,819	10,000,00
Net cash provided by financing activities	1,136,145	9,430,00
Net decrease in cash and cash equivalents	(513,008)	(4,257,97
Cash and cash equivalents, beginning	556,227	4,616,68
Effect of exchange rate changes on cash	3,167	26,28
Cash and cash equivalents, ending	$ 46,386	385,00

See notes to consolidated financial statements.

AGROCAN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 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 nine months ended June 30, 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 June 30, 2001 and September 30, 2000 are comprised of the following:

	JUNE 30, 2001		SEPTEMBER 30, 2000
	USD	RMB	RMB
RAW MATERIALS	$230,470	1,912,902	2,238,353
FINISHED GOODS	203,981	1,693,039	549,048
	$434,451	3,605,941	2,787,401

3. SHORT-TERM BANK LOANS

During the nine months ended June 30, 2001, three of the Company's subsidiaries arranged short-term bank loans in the total amount of RMB 10,000,000 to fund operations. One of the loans in the amount of RMB 1,000,000, is due on August 19, 2001 and bears interest at 6.3375%. A

second loan for RMB 1,000,000 is due on June 19, 2002 and bears interest at 5.3625%. A third loan for RMB 5,000,000, bears interest at 6.138% and was due on July 15, 2001. A fourth loan for RMB 3,000,000, bears interest at 6.138% and is due on September 29, 2001. Subsequent to the three months ended June 30, 2001, the first and third loans were repaid.

4. INCOME TAXES

During the nine months ended June 30, 2001, the Company's subsidiaries incurred income taxes of RMB 144,810. 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.

6. RELATED PARTY TRANSACTIONS

The Company had made a loan of RMB 9,085,790 to an affiliated entity owned by two of the Company's directors. The loan is non-interest bearing, and is due on demand.

7. DEPOSITS

One of the Company's subsidiaries had made refundable deposits of RMB 8,000,000 to its major supplier for purchasing raw material in anticipation of the next planting season. The raw material is expected to be delivered to the subsidiary by the end of September 2001.

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 June 30, 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 June 30, 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 June 30, 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 June 30, 2001 and 2000:

Sales. The sales for the three months ended June 30, 2001 were RMB 9,027,035 as compared to sales of RMB 14,934,984 for the three months ended June 30, 2000, a decrease of RMB 5,907,949 or 39.6%. The decrease in sales in 2001 as compared to 2000 was due to the bad weather and serious flooding that occurred in the Guangxi Province resulting in the cessation of almost all planting activities during June. Since it is close to the end of the planting season, management believes that it is unlikely that prior year sales level will be achieved.

Gross Profit. Gross profit for the three months ended June 30, 2001 was RMB 2,349,435 or 26% of revenues, as compared to RMB 3,090,253 or 20.7% of revenues for the three months ended June 30, 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 revenues.

Administrative and General Expenses. Administrative and general expenses for the three months ended June 30, 2001 were RMB 740,547 or 8.2% of revenues, as compared to RMB 771,314 or 5.2% of revenues for the three months ended June 30, 2000, a decrease of RMB 30,767. In view of the reduced level of sales and production during the quarter ended June 30, 2001, 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 June 30, 2001 were RMB 399,793 or 4.4% of revenues, as compared to RMB 571,321 or 3.8% of revenues for the three months ended June 30, 2000, a decrease of RMB 171,528. Selling expenses decreased in 2001 as compared to 2000 as a result of a reduction in sales arising as a result of the bad weather and the serious flooding in Guangxi Province.

Income from Operations. Income from operations was RMB 1,209,095 for the three months ended June 30, 2001, as compared to an income from operations of RMB 1,747,618 for the three months ended June 30, 2000.

Other Income (Expense). The Company recorded amortization of loan fees of RMB 57,200 and RMB 154,067 for the three months ended June 30, 2001 and 2000, respectively.

Interest Expense. Interest expense for the three months ended June 30, 2001 was RMB 32,630 or 0.4% of revenues. The company, through one of its subsidiaries, borrowed RMB 1,000,000 under short-term loans bearing interest at 6.3375% in November 2000, and through other subsidiary borrowed RMB 1,000,000 under short-term loans bearing interest at 5.3625% in March 2001. The Company also through another subsidiary borrowed RMB 8,000,000 under short-term loans bearing interest at 6.138%.

The Company had interest income of RMB 4,111 for the three months ended June 30, 2001 and RMB 3,514 for the three months ended June 30, 2000.

Income Taxes. The Company recognized income taxes of RMB 59,981 and RMB 380,835 for the three months ended June 30, 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%.

Minority Interest. For the three months ended June 30, 2001 and 2000, the Company recorded a minority interest of RMB 27,952 and RMB 111,334 respectively, to reflect the interest of the Company's 30% joint venture partner in the net income of Jiangxi Fenglin.

Net Income / Loss. Net income was RMB 1,035,443 for the three months ended

June 30, 2001, as compared to a net income of RMB 1,104,896 for the three months ended June 30, 2000.

Nine Months Ended June 30, 2001 and 2000:

Sales. Sales for the nine months ended June 30, 2001 were RMB 15,633,080, as compared to sales of RMB 39,535,894 for the nine months ended June 30, 2000, a decrease of RMB 23,902,814 or 60.5%. The decrease in sales in 2001 as compared to 2000 was due to the bad weather and as a result of the serious flooding that occurred in Guangxi Province resulting in the cessation of almost all the planting activities during June. Since it is close to the end of the planting season, management believes it is unlikely that prior year sales level will be achieved.

Gross Profit. Gross profit for the nine months ended June 30, 2001 was RMB 3,901,662 or 25% of sales. Gross profit for the nine months ended June 30, 2000 was RMB 7,722,446 or 19.5% 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 nine months ended June 30, 2001 were RMB 2,336,922 or 15% of sales, as compared to RMB 4,075,725 or 10.3% of sales, a decrease of RMB 1,738,695 or 42.7%. 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 nine months ended June 30, 2001 were RMB 645,274 or 4.1% of sales, as compared to RMB 1,172,317 or 3% of sales for the nine months ended June 30, 2000, a decrease RMB 527,043 or 45%. Selling expenses decreased in 2001 as compared to 2000 as a result of a reduction in sales.

Income (Loss) from Operations. Income from operations was RMB 919,466 for the nine months ended June 30, 2001, as compared to an income from operations of RMB 2,474,404 for the nine months ended June 30, 2000.

Other Income (Expense). The Company recorded amortization of loan fees of RMB 359,506 and RMB 462,210 for the nine months ended June 30, 2001 and 2000, respectively.

Interest Expense. Interest expense for the nine months ended June 30, 2001 was RMB 64,370 or 0.4% of sales. The company, through one of its subsidiaries, borrowed RMB 1,000,000 under short-term loans bearing interest at 6.3375% in November 2000, and through other subsidiary borrowed RMB 1,000,000 under short-term loans bearing interest at 5.3625% in March 2001. The Company also through another subsidiary borrowed RMB 8,000,000 under short-term loans bearing interest at 6.138%.

The Company had interest income of RMB 39,169 and RMB 32,537 for the nine months ended June 30, 2001 and 2000, respectively.

The Company did not earn any commission income for the nine months ended June 30, 2001, as compared to RMB 251,100 for the nine months ended June 30, 2000.

Income Taxes. The Company recognized income taxes of RMB 144,810 and RMB 505,692 for the nine months ended June 30, 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%.

Minority Interest. For the nine months ended June 30, 2001 and 2000, the Company recorded a minority interest of RMB 1,670 and RMB 17,474 respectively, to reflect the interest of the Company's 30% joint venture partner in the net loss of Jiangxi Fenglin.

Net Income. Net income was RMB 391,511 for the nine months ended June 30, 2001, as compared to net income of RMB 1,807,613 for the nine months ended June 30, 2000.

Consolidated Financial Condition:

Liquidity and Capital Resources - June 30, 2001

Operating. For the nine months ended June 30, 2001, the Company's operations utilized cash resources of RMB 12,980,133 as compared to utilizing cash resources of RMB 4,111,037 for the nine months ended June 30, 2000. The

Company's operations utilized more cash resources in 2001 as compared to 2000 primarily as a result of making a total of RMB 8,000,000 in trading deposits with one of the major suppliers. Increases in other receivables and deposits were financed by a short-term loan of RMB 8,000,000 from a local bank. At June 30, 2001, cash and cash equivalents had decreased by RMB 4,257,969 to RMB 385,002, as compared to RMB 4,616,686 at September 30, 2000. The Company had working capital of RMB 18,172,905, at June 30, 2001, as compared to RMB 17,557,262 at September 30, 2000, resulting in current ratios of 1.73:1 and 1.54:1 at June 30, 2001 and September 30, 2000, respectively.

Accounts receivable. Accounts receivable decreased by RMB 23,898,633, to RMB 14,132,207 at June 30, 2001, from RMB 38,030,840 at September 30, 2000. Accounts receivable decreased during the nine months ended June 30, 2001 as a result of settlement of part of the accounts receivable.

Inventories. Inventories increased by RMB 818,540, to RMB 3,605,941 at June 30, 2001, from RMB 2,787,401 at September 30, 2000. Since the production stopped in July, inventories increased during the nine months ended June 30, 2001 in anticipation of the rest of the year.

Amount due from related parties. Amount due from related parties increased by RMB 8,843,237, to RMB 12,592,087 at June 30, 2001, from RMB 3,748,850 at September 30, 2000 as a result of making loan to an affiliated company of approximately RMB 9,000,000.

Investing. During the nine months ended June 30, 2001 and 2000, additions to property, plant and equipment aggregated RMB 707,836 and RMB 192,424, respectively.

Financing. During the nine months ended June 30, 2001, three of the Company's subsidiaries arranged short-term bank loans with total amount of RMB 10,000,000 to fund operations. These are to be repaid within one year. In addition, the Company repaid an amount of RMB 570,000 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 nine months ended June 30, 2001, the Company issued 130,000 shares of common stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

(b) Reports on Form 8-K:

During the nine months ended June 30, 2001, the Company filed the following report on Form 8-K:

Form	Filing Date	Event Reported
8-K	May 25, 2001	A report on Form 8-K (item 5), which announced the Company's principal executive office was relocated.

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: August 20, 2001

By: /s/ LAWRENCE HON

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

Date: August 20, 2001

By: /s/ CARL YUEN

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