CHINA AGRO SCIENCES CORP.
Form 10-Q
May 15, 2009

U. S. Securities and Exchange Commission
Washington, D. C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from _____ to _____

Commission file number: 000-49687
China Agro Sciences Corp.
(Name of registrant in its charter)

Florida	33-0961490
(State or Other Jurisdiction of incorporation or organization)	(IRS Employer I.D. No.)

100 Wall Street, 15th Floor, New York, NY 10005
(Address of Principal Executive Offices)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No _

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One)
Large accelerated filer __ Accelerated filer ____ Non-accelerated filer ____ Small reporting company _X_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ___ No X_

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of May 7, 2009, there were 20,050,000 shares of common stock, par value $0.001, issued and outstanding.

TABLE OF CONTENTS

PART I

ITEM 1. Financial Statements

CHINA AGRO SCIENCES CORP.
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2009	September 30, 2008
ASSETS		
CURRENT ASSETS		
Cash	$ 101,838	$ 99,087
Prepaid financial consulting expenses	89,014	207,415
Other Current assets	6,844	6,937
Total Current Assets	197,696	313,439
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	4,181,717	4,259,786
Total Assets	$ 4,379,413	$ 4,573,225
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 307,579	$ 427,335
Due to affiliated company	655,118	447,308
Accrued expenses	22,167	41,207
Total Current Liabilities	984,864	915,850
LONG-TERM DEBT	375,040	374,528
STOCKHOLDERS' EQUITY		
Common Stock, $0.001 par value, 100,000,000 shares Authorized, 20,050,000 shares issued and outstanding	20,050	20,050
Additional paid-in capital	3,764,900	3,751,900
Accumulated deficit	(1,522,079)	(1,261,133)
Accumulated other comprehensive income	756,638	772,030
Total Stockholders' Equity	3,019,509	3,282,847
Total Liabilities and Stockholders' Equity	$ 4,379,413	$ 4,573,225

The accompanying notes are an integral part of these consolidated financial statements.

CHINA AGRO SCIENCES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	2009	2008	2009	2008
SALES	$ -	$ -	$ -	$ -
COSTS OF GOODS SOLD	-	-	-	-
GROSS PROFIT	-	-	-	-
COSTS AND EXPENSES (INCOME):				
General and administrative expenses	136,683	103,925	239,147	202,083
Interest income	11,112	-	21,799	(35,098)
TOTAL COSTS AND EXPENSES (INCOME)	147,795	103,925	260,946	166,985
NET LOSS	$ (147,795)	$ (103,925)	$ (260,946)	$ (166,985)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	(4,175)	137,990	(15,392)	229,879
COMPREHENSIVE INCOME (LOSS)	$ (151,970)	$ 34,065	$ (276,338)	$ 62,894
BASIC AND DILUTED EARNINGS PER COMMON SHARE	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	20,050,000	20,050,000	20,050,000	20,050,000

The accompanying notes are an integral part of these consolidated financial statements.

CHINA AGRO SCIENCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	SIX MONTHS ENDED MARCH 31, 2009	SIX MONTHS ENDED MARCH 31, 2008
OPERATING ACTIVITIES:		
Net loss	$ (260,946)	$ (166,985)
Adjustments to reconcile net loss		
to net cash provided by (used in) operating activities:		
Depreciation	64,151	60,417
Imputed interest	13,000	-
Changes in operating assets and liabilities:		
Prepaid expenses	118,685	117,874
Other current assets	103	-
Accounts payable	(120,341)	(237,618)
Accrued expenses	(19,096)	(24,971)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(204,444)	(251,283)
FINANCING ACTIVITIES:		
Loans from affiliated company	207,199	244,250
NET CASH PROVIDED BY FINANCING ACTIVITIES	207,199	244,250
EFFECT OF EXCHANGE RATE ON CASH	(1,675)	(2,675)
DECREASE IN CASH	1,080	(9,708)
CASH – BEGINNING OF PERIOD	100,758	114,271
CASH – END OF PERIOD	$ 101,838	$ 104,563
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 15,635	$ 13,710
Non-cash operating activities:		
Transfer accounts payable to affiliated company	$ -	$ 213,678

The accompanying notes are an integral part of these consolidated financial statements.

CHINA AGRO SCIENCES CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X relating to smaller reporting companies. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustment, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009.

The balance sheet at September 30, 2008 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

2. GOING CONCERN AND IMPAIRMENT LOSS

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. The Company’s ability to continue as a going concern is dependent on, among other things, its ability to achieve profitable operations, to maintain its existing financing and to obtain additional financing to meet its obligations and to pay its liabilities when they come due. The Company is currently pursuing new debt and equity financing in conjunction with proposed future acquisitions and operations.

At the present time, the Company does not have sufficient working capital to meet its needs. The Company intends to raise additional funds through the issuance of equity or convertible debt securities. There can be no assurance that additional financing will be available on terms favorable to the Company, or at all. The inability to raise the additional funds could cause the Company to cease all operations.

In May 2007, the Company received a notice from the Chinese National Environmental Bureau that all chemical manufacturing facilities must be located in designated “chemical zones” going forward, and for manufacturing plants not located there now will have to be relocated. The Company’s manufacturing facility is not currently located in a “chemical zone” and, therefore, it will be forced to move the facility to a “chemical zone" at some point in the next one to two years.

3. DUE TO AFFILIATED COMPANY

This amount is non-interest bearing and due on demand. The company has imputed interest of $13,000 at the rate of 4% per annum for the six months ended March 31, 2009.

4. LONG-TERM DEBT

The obligation bears interest at 0.3% over the prime rate in effect in the PRC and is payable interest only through July 2009, followed by annual principal installments of approximately 233,000 RMB ($34,000) commencing in August 2010, plus interest, with the final payment due in July 2020.

Future principal loan payments are as follows:

Year ended September 30th (using current year exchange rates)		
2010	$	34,135
2011		34,135
2012		34,135
2013		34,135
2014		34,135
Thereafter		204,365
	$	375,040

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Forward Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking" statements as such term is defined in the Private Securities Litigation Reform Act of 1995 and information relating to the Company that is based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phras of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other filings made by the company with the Securities and Exchange Commission. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

Summary Overview

On March 17, 2006, China Agro Sciences Corp., a Florida corporation formerly known as M-GAB Development Corporation entered into an Agreement and Plan of Merger with Dalian Holding Corp., a Florida corporation (formerly known as China Agro Sciences Corp.) ("DHC"). This transaction closed on May 1, 2006, at which time, in accordance with the Agreement, DHC merged with Dalian Acquisition Corp, a Florida corporation that was our wholly-owned subsidiary ("Dalian") (the "Merger"). As a result of the merger, Dalian merged into DHC, with DHC remaining as the surviving entity and our wholly-owned subsidiary, Dalian, ceased to exist, and we issued 13,449,488 shares of our common stock to the former shareholders of DHC.

After the merger transaction between our subsidiary, Dalian, and DHC, all of our operations are conducted through our subsidiary, DHC, which conducts all of its operations through its subsidiary, Ye Shun, and its wholly-owned subsidiary, Runze. Therefore, since our relevant operations post merger are conducted through Ye Shun and Runze the discussion herein relates to the operations of those two entities.

Ye Shun is a Hong Kong registered enterprise that has its ownership in Runze as its primary asset. Runze is a state-appointed pesticide manufacturer in China. Through Runze, we specialize in the manufacturing of various pesticides and herbicides, particularly the herbicide Acetochlor. However, during the quarterly period ended March 31, 2009, we did not sell any product or have any revenues as a result of not being able to utilize DHC's facilities because of the new regulation regarding all manufacturing plants being in "chemical zones." Although we hope to be able to manufacture product in the near future, we may not be able to do so and would have to undertake a significant expense in building a new manufacturing facility if we decided to continue with our current business plan and manufacture herbicides and pesticides.

Results of Operations

Our financial statements for the quarter and six months ended March 31, 2009 are consolidated with Runze's since the only operations we have are Runze's operations. During the quarter and the six month period ended March 31, 2009, sales of our products was $0. We did not sell any product in the three-month period ended March 31, 2009 and had no revenue.

We had sales of $0 for the quarter and six months ended March 31, 2009, continuing the same situation of the past year ended September 30, 2008. We did not generate sales and cost of goods sold for the three and six month period ended March 31, 2009 and March 31, 2008.

Revenues and Income (Loss) from Operations

Our revenues remained at $0 for the quarter ended March 31, 2009. Going forward we will not be able to manufacture product at our existing plant due to the new "chemical zone" regulation. Therefore, if we are not able to contract with a third party to utilize a qualified manufacturing facility to produce our products, we do not know if we will be able to manufacture product in the future. However, if we do build a new manufacturing facility in a "chemical zone" it will be at a substantial cost to the company.

The Company has imputed interest of $13,000 at the rate of 4% per annum on loan from affiliated company for the six months ended March 31, 2009. This loan is non-interest bearing and due on demand.

Net Income (Loss)

Our net loss for the quarter and six months ended March 31, 2009, were $147,795 and 260,946 respectively, representing increase in net losses of $43,870 and $93,961 or 29% and 56% compared to that for the same periods of last year. We expect to continue at a significant net loss until we are able to contract with a third party with an approved manufacturing facility to manufacture our products, if we are able to do so. And we anticipate our net loss of $147,795 to be fairly indicative of future quarters in which we do not manufacture our own products.

Currently we do not have any operations, income, or expenses in the United States, and, therefore, we do not owe any income taxes in the United States and we are not accruing for income taxes in the United States. If it changes in the future and we become subject to income taxes in the United States and either pay or accrue such taxes it will have a negative impact on our net income (loss).

We did not make a provision for income taxes in China, since we have not made profits.

Liquidity and Capital Resources

During the quarter ended March 31, 2009 we did not generate positive cash flows, the same as the situation for the past periods.

Our significant balance sheets accounts as of March 31, 2009 compared to the end of September 30, 2008, are as follows:

	31-Mar-09	30-Sep-08	Increase (Decrease)	Percent (Decrease)
Cash	$ 101,838	$ 99,087	$ 2,751	2%
Accounts Receivable	$ -	$ -	$ -	
Inventories	$ -	$ -	$ -	
Prepaid expenses	$ 89,014	$ 207,415	$ (118,401)	-57%
Accounts Payable	$ 307,579	$ 427,335	$ (119,756)	-28%
Due to Affiliated Company	$ 655,118	$ 447,308	$ 207,810	46%

As of March 31, 2009, we had cash totaling $101,838, no accounts receivable and inventories, since we did not manufacture any products. Prepaid financial consulting expenses of $89,014, is an amount we prepaid to individual consultants for general advices and guidance. Our total current liabilities as of March 31, 2009 were $984,864, consisting of $307,579 in accounts payable, $655,118 in amount due to affiliated company, and $22,167 in accrued expenses. The creditor of the amount due to affiliate company is Dalian Ruize Pesticides, Inc., a company that our sole officer also serves as an officer of. We owed this company the amount they loaned us primarily covering our bills and employees salary.

Operations

Our net cash used in operating activities for the six month period ended March 31, 2009 totaled $204,444, representing a decrease of cash used in operations of 46,839 or 18% compared to $251,283 for the same period one year ago. We anticipate that both our cash generated from operations and used for operations will decrease significantly as long as we do not manufacture or sell our products.

Financing

During the six month period ended March 31, 2009, we had $207,199 net cash provided by financing activities. The entire amount is from loans from affiliated company. For the same period of 2008, the net cash from financing activities totaled $244,250.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include interest rate changes in United States of America and the People's Republic of China, commodity prices and, to a lesser extent, foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes.

Interest Rate Risk. The interest payable on our long term debt is based on variable interest rates and therefore affected by changes in market interest rates in People's Republic of China. In addition, there may be interest charged on our accounts payable, as well as interest we charge on our accounts receivable, depending on their age. Typically these interest rates are fixed are not affected by changes in market interest rates.

Commodity Prices. We are exposed to fluctuation in market prices for our raw materials. To mitigate risk associated with increases in market prices and commodity availability, we negotiate contracts with favorable terms directly with vendors. We do not enter into forward contracts or other market instruments as a means of achieving our objectives or minimizing our risk exposures on these materials.

Foreign Currency Risks. Our market risk associated with foreign currency rates is not considered to be material. To date, we have only had minor amounts of transactions that were denominated in currencies other than the currency of the country of origin, and, therefore, we have only minimal exposure to foreign currency exchange risk. We do not hedge against foreign currency risks and believe that foreign currency exchange risk is immaterial to our current business.

ITEM 4. Controls and Procedures

We conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of March 31, 2009, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2009, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses described below.

In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified the following three material weaknesses which have caused management to conclude that, as of March 31, 2009, our disclosure controls and procedures were not effective at the reasonable assurance level:

1. We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act and will be applicable to us for the year ending September 30, 2008. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

3. We have had a number of audit adjustments. Audit adjustments are the result of a failure of the internal controls to prevent or detect misstatements of accounting information. The failure could be due to inadequate design of the internal controls or to a misapplication or override of controls. Management evaluated the impact of our significant number of audit adjustments and has concluded that the control deficiency that resulted represented a material weakness.

To address these material weaknesses, management performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

Remediation of Material Weaknesses

We have attempted to remediate the material weaknesses in our disclosure controls and procedures identified above by working with our independent registered public accounting firm and refining our internal procedures. To date, we have not been successful in reducing the number of audit adjustments, but will continue our efforts in the coming fiscal year.

Changes in Internal Control over Financial Reporting

Except as noted above, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. Legal Proceedings

In the ordinary course of business, we may be from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon our financial condition and/or results of operations. However, in the opinion of our management, matters currently pending or threatened against us are not expected to have a material adverse effect on our financial position or results of operations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

There have been no events that are required to be reported under this Item.

ITEM 3. Defaults Upon Senior Securities

There have been no events that are required to be reported under this Item.

ITEM 4. Submission of Matters to a Vote of Security Holders

There have been no events that are required to be reported under this Item.

ITEM 5. Other Information

There have been no events that are required to be reported under this Item.

ITEM 6. Exhibits

31 Rule 13a-14(a) Certification

32 Rule 13a-14(b) Certification

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.

China Agro Sciences Corp.

Date: May 15, 2009

By: /s/ Zhengquan Wang
Zhengquan Wang, Chief Executive Officer, Chief Financial Officer