CHINA AGRO SCIENCES CORP.
Form 10-Q
June 20, 2007

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

[ ] TRANSITION REPORT PURSUANT TO 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.
(Exact name of registrant as specified in its charter)

Florida	**33-0961490**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 Xinanyao Street, Jinzhou District Dalian, Liaoning Province	**PRC 116100**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code(212) 232-0120

(Former name or former address, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [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 .

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes_____ No______

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of June 20, 2007, there were 20,050,000 shares of common stock, par value $0.001, issued and outstanding.

China Agro Sciences Corp.

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PART I

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on management's beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading "Management's Discussion and Analysis of Financial Condition or Plan of Operation." Forward-looking statements also include statements in which words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "consider" or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company's future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

ITEM 1 Financial Statements

CHINA AGRO SCIENCES CORP.

CONSOLIDATED BALANCE SHEETS
(U.S. $)

		MARCH 31, 2007 (Unaudited)		SEPTEMBER 30, 2006
ASSETS				
CURRENT ASSETS:				
Cash	$	102,685	$	103,817
Accounts receivable		-		2,013,529
Inventories		485,651		399.636
Prepaid financial consulting expense		498,335		-
Due from affiliated company		390,313		-
Other current assets		13,166		20,943
TOTAL CURRENT ASSETS		**1,490,150**		**2,537,925**
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION		**5,546,855**		**5,620,703**
TOTAL ASSETS	**$**	**7,037,005**	**$**	**8,158,628**
LIABILITIES AND STOCKHOLDERS= EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	1,321,076	$	1,815,719
Due to affiliated company		-		344,136
TOTAL CURRENT LIABILITIES		**1,321,076**		**2,159,855**
LONG-TERM DEBT		**331,520**		**323,363**
STOCKHOLDERS' EQUITY:				
Common stock, $0.001 par value,				
100,000 shares authorized				
20,000,000 shares issued and outstanding		20,000		20,000
Additional paid-in capital		3,738,900		3,738,900
Retained earnings		1,255,708		1,682,842
Accumulated other comprehensive income		369,801		233,668
TOTAL STOCKHOLDERS' EQUITY		**5,384,409**		**5,675,410**
TOTAL LIABILITIES AND STOCKHOLDERS= EQUITY	**$**	**7,037,005**	**$**	**8,158,628**

See notes to financial statements

CHINA AGRO SCIENCES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(U.S. $)

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	2007	2006	2007	2006
REVENUES	**$ -**	**$ 4,827,290**	**$ -**	**$ 5,814,184**
COST OF SALES	**-**	**3,598,146**	**-**	**4,325,889**
GROSS PROFIT	**-**	**1,229,144**	**-**	**1,488,295**
COSTS AND EXPENSES:				
General and administrative	218,490	166,057	423,896	256,170
Interest expense, net	-	2,128	3,238	2,128
TOTAL COSTS AND EXPENSES	**218,490**	**168,185**	**427,134**	**258,298**
NET INCOME (LOSS)	**$ (218,490)**	**$ 1,060,959**	**$ (427,134)**	**$ 1,229,997**
BASIC AND DILUTED EARNINGS PER COMMON SHARE	**$ (0.01)**	**N/A**	**$ (0.02)**	**N/A**
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**20,000,000**	**N/A**	**20,000,000**	**N/A**

See notes to financial statements

CHINA AGRO SCIENCES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(U.S. $)

	SIX MONTHS ENDED MARCH 31, 2007	2006
OPERATING ACTIVITIES:		
Net income (loss)	$ (427,134)	$ 1,229,997
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	236,330	263,367
Changes in operating assets and liabilities:		
Accounts receivable	2,045,622	-
Inventories	(76,861)	(3,816,623)
Prepaid expenses and sundry current assets	(497,357)	(365,860)
Accounts payable	(507,110)	3,506,846
Accrued expenses, taxes and sundry current liabilities	(29,125)	55,455
NET CASH PROVIDED BY OPERATING ACTIVITIES	**744,365**	**873,182**
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(23,167)	(753,307)
NET CASH USED IN INVESTING ACTIVITIES	(23,167)	(753,307)
FINANCING ACTIVITIES:		
Loan from (payment to) affiliated company	(352,019)	339.837
Loan to affiliated company	(390,313)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(742,332)	**339,837**
EFFECT OF EXCHANGE RATE ON CASH	**20,002**	**15,885**
INCREASE (DECREASE) IN CASH	(1,132)	**475,597**
CASH - BEGINNING OF PERIOD	**103,817**	**77,250**
CASH - END OF PERIOD	**$ 102,685**	**$ 552,847**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 3,238**	**$ 2,128**

See notes to financial statements

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See notes to financial statements

CHINA AGRO SCIENCES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007
(Unaudited)

1 NATURE OF OPERATIONS AND ACCOUNTING POLICIES

Merger transaction

On February 10, 2006, the Company entered into a letter of intent with the stockholders of DaLian RunZe Chemurgy Co., Ltd. ("DRC" or the "Purchasers"). The Purchasers agreed to pay a total of $515,000 to the Company and the Company's controlling stockholders, including the Lebrecht Group, APLC ("TLG"), legal counsel for the Company. Upon signing the letter of intent, the Purchasers paid $300,000 as a deposit and the remaining amount was paid at the closing of the transaction. Subsequent to entering into this letter of intent, the Purchasers were replaced with China Agro Sciences Corp., ("China Agro") a Florida corporation, and the terms of the letter of intent remained the same.

On March 15, 2006, the Company entered into an Agreement and Plan of Merger with China Agro whereby, at the closing, China Agro will merge with DaLian Acquisition Corp. ("DaLian"), a wholly-owned subsidiary of the Company formed in 2006 (the "Merger Agreement"), The transaction closed on May 1, 2006, at which time, in accordance with the Merger Agreement, DaLian Holding Corp. ("DHC") merged into DaLian, whereby DHC remained the surviving entity and DaLian ceased to exist. Upon this merger, the Company issued 13,449,488 shares of its common stock to the former stockholders of DHC.

In addition, certain of the DHC stockholders acquired 5,500,000 shares of the Company from the then majority stockholder, director and sole officer and his holding company. Following the closing, the DHC stockholders owned 18,949,488 shares of the Company's common stock, or 94.7% of the Company's outstanding 20,000,000 shares. As a result of the DHC transaction, the Company terminated their status as a business development company and, through DHC, became a development stage company specializing the sale and distribution of pesticides and herbicides. The Company's only operations after this transaction are conducted through their wholly-owned subsidiary (Ye Shen) which controls the assets and operations of Runze, an entity with operations in the People's Republic of China ("PRC").

The above transaction was accounted for as a reverse merger and, accordingly, DHC is considered to be the surviving entity.

Business description

The Company specializes in the manufacturing, sale and distribution of herbicides and pesticides to reduce or eliminate the amount of agricultural produce lost to plant diseases and insects. Their manufacturing and distribution operations are based in the PRC, which is where all of the Company's sales to date have occurred.

Accounting methods

The Company's financial statements are prepared using the accrual method of accounting. The Company has elected a fiscal year ending on September 30th.

(Unaudited)

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Uses of estimates in the preparation of financial statements

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 reported amounts of net revenue and expenses during each reporting period. Actual results could differ from those estimates.

Cash

The Company maintains cash with financial institutions in the PRC and Hong Kong. The Company performs periodic evaluation of the relative credit standing of financial institutions that are considered in the Company's investment strategy.

Inventories

Inventories, consisting of raw materials, are valued at the lower of cost as determined by the first-in, first-out method or market.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided in amounts sufficient to amortize the cost of the related assets over their useful lives using the straight line method for financial reporting purposes, whereas accelerated methods are used for tax purposes.

Maintenance, repairs and minor renewals are charged to expense when incurred. Replacements and major renewals are capitalized.

Deferred income taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (ASFAS 109") which requires that deferred tax assets and liabilities be recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, SFAS 109 requires recognition of future tax benefits, such as carryforwards, to the extent that realization of such benefits is more likely than not and that a valuation allowance be provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

Currency translation

Since the Company operates primarily in the PRC, the Company's functional currency is the Chinese Yuan (RMB). Revenue and expense accounts are translated at the average rates during the period, and balance sheet items are translated at period-end rates. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of stockholders' equity. Gains and losses from foreign currency transactions are recognized in current operations.

Seasonal business

Due to the seasonal nature of the Company's business, the results of operations for the six months ended March 31, 2007 are not necessarily indicative of the anticipated results for the year ending September 30, 2007.

2 PROPERTY AND EQUIPMENT

A summary of property and equipment and the estimated lives used in the computation of depreciation and amortization as of March 31, 2007 is as follows:

	AMOUNT	LIFE
Machinery and equipment	$ 2,527,568	5-10 years
Furniture, fixtures and office equipment	20,418	5-7 years
Building and building improvements	4,152,329	40 years
Automobile	27,526	5 years
	6,727,841	
Accumulated depreciation	1,180,986	
	$ 5,546,855	

3 LONG-TERM DEBT

This 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 installments of approximately 233,000 RMB ($29,000).

4 INCOME TAX STATUS

No provision for income taxes has been made, since the Company is not subject to income tax during the first two years of operations in China.

5 EARNINGS PER SHARE

Outstanding shares prior to March 15, 2006, the date of the merger, are undeterminable. The total shares issued are therefore used as the average shares outstanding.

6 RELATED PARTY TRANSACTIONS

During the six months ended March 31, 2007 the Company purchased $369,402 of finished goods from an affiliated company.

The Company had various advances and repayments with an affiliated company as follows:

		MARCH 31, 2007		SEPTEMBER 30, 2006
Current assets	$	390,313	$	-
Current liabilities	$	-	$	344,136

These amounts are non-interest bearing and due on demand.

(Unaudited)

7 RISK FACTORS

Vulnerability due to Operations in PRC

The Company's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

Substantially all of the Company's businesses are transacted in RMB, which is not freely convertible. The People's Bank of China or other banks are authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Since the Company has its primary operations in the PRC, the majority of its revenues will be settled in RMB, not U.S. Dollars. Due to certain restrictions on currency exchanges that exist in the PRC, the Company's ability to use revenue generated in RMB to pay any dividend payments to its shareholders may be limited.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk is primarily cash and accounts receivable. As of March 31, 2007, substantially all of the Company's cash was managed by financial institutions.

Substantially all sales were made to one customer and all accounts receivable were from one customer.

Other Risks

The Company conducts business in an industry that is subject to a broad array of environmental laws and regulations. The Company's costs to comply with these laws and regulations are charged to expense as incurred.

The Company's manufacturing facilities have not been granted the necessary operating environmental permits. Additionally, the facilities do not meet the quality control procedures required by its sole customer.

8 GENERAL COMMENTS

During the six month period ended March 31, 2007, approximately $370,000 of accounts payable was repaid by the transfer of finished goods inventory.

(Unaudited)

ITEM 2 Managements Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis contains not only statements that are historical facts, but also statements that are forward-looking (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements are, by their very nature, uncertain and risky. These risks and uncertainties include international, national and local general economic and market conditions; demographic changes; our ability to sustain, manage, or forecast growth; our ability to successfully make and integrate acquisitions; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other risks that might be detailed from time to time in our filings with the Securities and Exchange Commission.

Although the forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this report and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects.

Overview

As a result of the merger transaction between our subsidiary, Dalian Acquisition Corp. ("Dalian"), and Dalian Holding Corp. ("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 pesticides and herbicides, particularly the herbicide Acetochlor. During the fiscal year, which ended September 30, 2006, we only sold one product, Acetochlor, and that was to one customer, Jilin Ruiye Pesticide Co. Additionally, all the Acetochlor we manufactured was at the manufacturing facilities of Dalian Raiser Chemurgy Co., Ltd. ("DRC"), a related-party where our sole officer and Director is the President and Chairman of the Board. During the three months and six months ended March 31, 2007, we were not able to negotiate the same discounted rate for the use of DRC's manufacturing facilities and, as a result, we did not manufacture any of our own Acetochlor during these six months. Going forward we hope to again use DRC's manufacturing facilities to manufacture our product to sell to unrelated third parties, but there is no guarantee we will be permitted to use DRC's facilities or that we will receive a discounted rate if we are allowed to use their facilities. In the future we hope to continue manufacture at DRC's facility until such time as we are able to operate our own manufacturing facilities at levels satisfactory to our client's specifications and needs. Although we plan to obtain the necessary environmental permits and improve the quality control procedures at our manufacturing facility during fiscal year 2007, we currently anticipate manufacturing the majority of our product(s), if any, at DRC's production facility during fiscal year 2007.

Background

We were incorporated under the name M-GAB Development Corporation in March 2001. From inception through early 2003, our business was the development, marketing, and distribution of an interactive travel brochure. On May 16, 2003, we filed an election to be treated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"), which became effective on the date of filing. As a BDC our principal business was to make venture capital investments in early-stage and/or developing enterprises that were principally engaged in the development or exploitation of inventions, technological improvements, and new or unique products and services. The principal objective was long-term capital appreciation. Consistent with our previous status as a BDC and the purposes of the regulatory framework for BDC's under the 1940 Act, we were prepared to provide managerial assistance, potentially in the form of a consulting agreement or in the form of a board of director's seat, to the developing companies in which were looking to invest. As a BDC we never made any investments into eligible portfolio companies.

On March 10, 2006, we formed a wholly-owned subsidiary, Dalian Acquisition Corp, a Florida corporation ("Dalian"). On May 1, 2006, Dalian merged with Dalian Holding Corp., a Florida Corporation ("DHC") that was formed by non-affiliated party on March 9, 2006. As a result of this merger DHC remained as the surviving entity and Dalian ceased to exist. Prior to Dalian's merger with DHC, DHC acquired all the outstanding common stock of Ye Shun International ("Ye Shun"), a company that owns all the outstanding common stock of Dalian Runze Chemurgy Co., Ltd. ("Runze"). Ye Shun is a Hong Kong registered enterprise. Runze is classified by the Chinese government as an enterprise entity with 100% of its capital coming from Hong Kong

In accordance with the terms of the Agreement, on April 28, 2006 we terminated our status as a business development company under the Investment Company Act of 1940 and, through our wholly-owned subsidiary, became a company specializing in the sale and distribution of pesticides and herbicides. After the close of this transaction our only operations are conducted through our wholly-owned subsidiary, which controls the assets of Runze.

During the quarter ended March 31, 2005, a market maker filed an application to list our securities on the OTC Bulletin Board. On October 10, 2005, we were informed by the NASD that our common stock was approved by the NASD for trading on the OTC Bulletin Board. Our trading symbol is CHAS.

Our merger transaction closed on May 1, 2006. The merger transaction is accounted for using the reverse purchase method of accounting for financial reporting purposes since: (i) prior to this transaction China Agro had little or no substantial assets or business operations, (ii) post-closing, the former owners of DHC now own approximately 95% of China Agro and therefore control China Agro, and (iii) post-closing, the only continuing business operations of China Agro are those of DHC. In accordance with the reverse purchase method of accounting the historical financial numbers disclosed in this quarterly report are those historical numbers of DHC and Runze and does not cover our previous operations as a BDC.

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Results of Operations

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenues	$ -	4,827,290

Cost of revenue		-		3,598,146
Gross Profit		-		1,229,144
Total Operating Expenses		218,490		168,185
Net income (loss)	$	(218,490)	$	1,060,959

Revenues

We had no revenues for three months ended March 31, 2007, compared to revenues of $4,827,290 for the same period one year ago. This substantial decrease is revenue is due to the fact that we did not market or sell any of our products to customers in the three months ended March 31, 2007. This was as a result from the new regulations and standards imposed by the government. Due to the fact that we were not able to negotiate discounted rates to use the plant and equipment of DRC and the new government regulations and standards on herbicides and pesticides, to which our own facilities are not able to meet, we did not sell any products in the three months ended March 31, 2007.

Cost of Sales

Our cost of sales were nil for the three months ended March 31, 2007, compared to cost of sales of $3,598,146 for the same period one year ago. We did not have any cost of sales because, as described above, we did not have any sales during this three month period.

Gross Profit

Our gross profit was nil for the three months ended March 31, 2007, compared to gross profit of $1,229,144 for the same period one year ago. Our gross profit was significantly lower for the current three-month period compared to the same period one year ago due to the above-mentioned significant decrease in revenues.

Total Operating Expenses

Our total operating expenses were $218,490 for the three months ended March 31, 2007, compared to total operating expenses of $168,185 for the same period one year ago. All of our operating expenses for the two periods were attributable to general and administrative expenses. For the three months ended March 31, 2007 our operating expenses of $218,490 consisted primarily of amortized costs related to financial consulting services which totaled approximately $52,300 and depreciation of $117,923.

For the same period one-year ago DHC and Runze’s general and administrative expenses consisted primarily of administrative expenses. During that period, part of depreciation was not factored into the general and administrative expenses, but rather cost of sales as we actually were able to manufacture product with our own equipment.

Net Income (Loss)

Net loss for the three months ended March 31, 2007 totaled ($218,490) compared to net income of $1,060,959 for the comparable period one year ago. This significant difference is largely attributable to the lack of revenues, and is also due to our increase in general and administrative expenses for the current three-month period. We anticipate this net loss to be fairly indicative of future quarters in which we do not manufacture our own products but instead purchase finished product from DRC.

Six Months Ended March 31, 2007 Compared to Six Months Ended March 31, 2006

Results of Operations

	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
Revenues	$ -	5,814,184
Cost of revenue	-	4,325,889
Gross Profit	-	1,488,295
Total Operating Expenses	427,134	258,298
Net income (loss)	$ (427,134)	$ 1,229,997

Revenues

For the reasons stated above, we did no have any revenues for the six months ended March 31, 2007, compared to revenues of $5,814,184 for the same six-month period one year ago. We do not expect to generate revenues until we begin producing our own products in either DRC's facilities or our own facilities depending on if we are up to the most current standards and regulations, as discussed above.

Cost of Sales

Our cost of sales were nil for the six months starting September 30, 2006 and ending March 31, 2007, compared to cost of sales of $4,325,889 for the same period one year ago. As noted above, we did not have any cost of sales during this period because we did not have any sales during this six month period and all the goods we purchased went to pay off payables with third party vendors.

Gross Profit

Our gross profit was nil for the six months ended March 31, 2007, compared to gross profit of $1,488,295 for the same period one year ago. Our gross profit was significantly lower for the current six-month period compared to the same period one year ago due to the above-mentioned significant decrease in revenues.

Total Operating Expenses

Our total operating expenses were $427,134 for the six months ended March 31, 2007, compared to total operating expenses of $258,298 for the same period one year ago. All of our operating expenses for the two periods were attributable to general and administrative expenses. For the six months ended March 31, 2007 our operating expenses of $427,134 consisted primarily of amortized costs related to financial consulting services which totaled approximately $129,784 and depreciation of $236,330.

For the same period one-year ago DHC and Runze’s general and administrative expenses consisted primarily of administrative expenses. During that period, part of depreciation was not factored into the general and administrative expenses, but rather cost of sales as we actually were able to manufacture product with our own equipment.

Net Income (Loss)

Net loss for the six months ended March 31, 2007 totaled $427,134 compared to net income of $1,229,997 for the comparable period one year ago. This significant difference is largely attributable to the lack of revenues, and is also due to our increase in general and administrative expenses for the current six-month period. We anticipate this net loss to be fairly indicative of future six-month periods in which we do not manufacture our own products but instead purchase finished product from DRC.

Liquidity and Capital Resources

Introduction

As of March 31, 2007, we had cash and cash equivalents totaling $102,685, no accounts receivable as a result of the collection all $2,013,529 in account receivables as of September 30, 2006, inventory totaling $485,651, prepaid financial consulting expense of $498,335, due from an affiliated party of $390,313, and other current assets totaling $13,166. Our current inventory is primarily our stock of raw material chemicals and finished chemical products awaiting shipment and distribution. The prepaid financial consulting expense is an amount we prepaid to individual consultants for general advice and guidance. Our total current liabilities as of March 31, 2006 were $1,321,076 consisting entirely of accounts payable. All of our accounts payable were due to unrelated third parties and we had no amounts due to related parties. Currently we hope to fund operations out of our sales of herbicides and pesticides going forward, but there is no assurance we will be able to do so. If we are not able to do so we would likely fund operations through the sale of our stock and from loans.

Our cash, accounts receivable, inventories, accounts payable (due to be an affiliated company) and accrued liabilities, and total current liabilities at the end of this three-month period as compared to the end of our last fiscal year were:

		As of March 31, 2007		As of September 30, 2006		Change
Cash and cash equivalents	$	102,685	$	103,817	$	(1,132)
Accounts receivable		-		2,013,529		(2,013,529)
Inventories		485,651		399,636		88,015
Accounts payable		(1,321,076)		(1,815,719)		494,643
Due from affiliated party		-		(344,136)		344,136
Total current liabilities	$	(1,321,076)	$	(2,159,855)	$	838,779

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Cash Requirements

We intend to use our available funds as working capital to improve our own facilities in order to attempt to get them in satisfactory condition for our clients. We believe that our available funds will provide us with adequate capital for at least the next twelve months; however, to the extent that we make acquisitions, we may require additional capital for the acquisition or for the operation of the combined companies. We cannot assure that such funding will be available.

Sources and Uses of Cash

Operations

Net cash provided by operating activities of $744,365 for the six months ended March 31, 2007 was primarily a result of collecting accounts receivable totaling $2,045,622 and depreciation of $236,330, offset by our net loss for the six months of $427,134, prepaid expenses and sundry current assets of $497,357, the payment of accounts payable of $507,110, inventories of $76,861, and accrued expenses, taxes and sundry current liabilities of $29,125. Our net cash provided by operating activities totaled $873,182 for the same six month period one year ago. The primary difference between the two periods is in the period ended March 31, 2006 we incurred $3,506,846 in accounts payable, had inventories of $3,816,623 and did not collect any accounts receivables during that period. .

Investing

Net cash used in investing activities totaled $23,167 for the six months ended March 31, 2007, as compared to $753,307 for the same period one year ago. Our investing activities for the six month period ended March 31, 2007 consisted entirely of the acquisition of property and equipment in the amount of $23,167. During the same period in 2006, we had investing activities, also related to the acquisition of property and equipment, totaling $753,307. The decrease for the current period is attributable to the additions to our infrastructure and production lines in 2006 as compared to 2007 when we had already built up our manufacturing base to an operational level.

Financing

Net cash used in financing activities totaled $742,332 for the six months ended March 31, 2007, as compared to $339,837 in net cash provided by financing activities for the six months ended March 31, 2006. Our net cash used for financing activities for the six months ended March 31, 2007 related to the payment of our loan from (DRC), which is an affiliated company by virtue of $352,019 and loan to DRC of $390,313. The $339,837 in net cash provided by financing activities for the six months ended March 31, 2006, was the resulted of $339,837 in loans from DRC, an affiliated company.

Debt Instruments, Guarantees, and Related Covenants

Our related party debt is non-interest bearing and payable on demand. Our long term debt 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 installments of approximately 233,000 RMB ($29,000).

Critical Accounting Policies

The preparation of our financial statements that are in conformity with accounting principles generally accepted in the United States of America require our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements. The same also applies for reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies are located in the notes to the financial statements which are an integral component of this filing.

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

The Company's Chief Executive Officer and Chief Financial Officer (or those persons performing similar functions), after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report (the "Evaluation Date"), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

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 1A Risk Factors

On at least an annual basis, we are required to provide our shareholders with a statement of risk factors and other considerations for their review. These risk factors and other considerations include:

Our manufacturing plants are located in China and our pesticide and herbicide production, sale and distribution is subject to Chinese regulation.

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Some of the things that could have this effect are: i) level of government involvement in the economy; ii) control of foreign exchange; methods of allocating resources; iv) international trade restrictions; and v) international conflict. Additionally, as a pesticide and herbicide manufacturer located in China, we are a state-licensed company and facility and subject to Chinese regulation and environmental laws. The Chinese government has been active in regulating the pesticide industry. If we were to lose our state-licensed status we would no longer be able to manufacture herbicides or pesticides in China, which is our sole operation.

We depend upon governmental laws and regulations that may be changed in ways that hurt our business.

Our business and products are subject to government regulations mandating the use of pesticides and herbicides in China and other countries. Changes in the laws or regulations in China, or other countries we sell into, that govern or apply to our operations could have a materially adverse effect on our business. For example, the law could change so as to prohibit the use of certain chemical agents in herbicides and pesticides. If our herbicides or pesticides contained that chemical agent then such a change would reduce our productivity of that product.

Recently, the Chinese government implemented new regulations related to the manufacturing of herbicides and pesticides. Our current manufacturing facilities do not meet these new stricter regulations and, therefore, we cannot use these facilities to manufacture our products until we meet these new standards.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

China only recently has permitted provincial and local economic autonomy and private economic activities. Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. Currently, our only manufacturing facility does not have current environmental permits and is not operational, which has caused us to manufacture our product(s) at DRC's manufacturing facility. We hope to obtain appropriate permits during fiscal year 2007, but there is no assurance this will occur. Additionally, even if we obtain appropriate permits, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

Future inflation in China may inhibit our activity to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has been more moderate since 1995, high inflation may in the future cause Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

The majority of our revenues will be settled in Renminbi, and any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

The value of our securities will be affected by the foreign exchange rate between U.S. dollars and Renminbi.

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi, and between those currencies and other currencies in which our sales may be denominated. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position, the business of the Company, and the price of our common stock may be harmed. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

For the three and six months ended March 31, 2007, we did not sell any products and had no revenues.

In the past, we have only had one customer for our products, Jilin Ruiye Pesticide Co., an unrelated third party located in China. For the three and six months ended March 31, 2007, we had no revenues. Due to the fact that we were not able to negotiate discounted rates to use the plant and equipment of DRC and the new government regulations and standards on herbicides and pesticides, which our own facilities are not currently able to meet, we did not sell any products in the three months ended March 31, 2007. We hope this will not continue in future quarters, but if we are not able to use DRC's facilities and cannot get our facilities up to our clients' and the government standards, we will not be able to manufacture any product to sell. If this occurs it would have a significant impact on our ability to continue as an operating company. We are currently looking for additional sales channels utilizing Mr. Wang's connections in the industry but there is no assurance we will be successful.

We give no assurances that any plans for future expansion will be implemented.

We plan on improving our current Acetochlor manufacturing facility to meet stricter manufacturing standards. In order to accomplish this we must obtain certain environmental permits and improve the quality control procedures at our facility. However, we have not made any definitive plans or signed any binding agreements to improve this facility. We may decide to use operating income to finance these expenditures, which would reduce our operating capital.

We have a limited operating history and limited historical financial information upon which you may evaluate our performance.

We are in our early stages of development and face risks associated with a new company in a growth industry. We may not successfully address these risks and uncertainties or successfully implement our operating strategies. If we fail to do so, it could materially harm our business to the point of having to cease operations and could impair the value of our common stock to the point investors may lose their entire investment. Even if we accomplish these objectives, we may not generate positive cash flows or the profits we anticipate in the future.

We will face a lot of competition, some of which may be better capitalized and more experienced than us.

We face competition in the herbicide and pesticide industry. Many of the other herbicide and pesticide producing companies that sell into our markets may be more successful than us and/or have more experience and money that we do. This additional experience and money may enable our competitors to produce more effective herbicides and/or pesticides and be sell their product with more success than we are able to, which would decrease our sales.

Our business is largely subject to the uncertain legal environment in China and your legal protection could be limited.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally used. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign invested enterprises to hold licenses and permits such as requisite business licenses. In addition, some of our executive officers and our directors may be residents of China and not of the United States, and substantially all the assets of these persons are located outside the U.S. As a result, it could be difficult for investors to affect service of process in the United States, or to enforce a judgment obtained in the United States against us or any of these persons.

Our business is largely seasonal and sales of our products are subject to changes in the weather.

Since we are in the business of manufacturing and selling herbicide and pesticide products our clients and end users are engaged in farming and crop production, which is subject to changes in the seasons and weather. Therefore, the sales of our products will generally substantially decrease during the autumn and winter months. Unusual weather such as prolonged freezing temperatures or particularly hot temperatures also effect crop production and, therefore, could affect the sales of our products.

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

Fiscal Year Change

On May 1, 2006, our Board of Directors approved the change of our fiscal year end from December 31 to September 30.

SEC Comments

On February 15, 2007, we received comments from the Securities and Exchange Commission regarding our Annual Report on Form 10-K and our First Amended Annual Report on Form 10-K/A for the year ended September 30, 2006. We responded to the comments on May 3, 2007. On May 8, 2007, we received additional comments from the Securities and Exchange Commission. We are in the process of analyzing these comments and do not yet know the impact they may have on our filings and/or if we will need to file a second amendment to our Annual Report on Form 10-K/A for the year ended September 30, 2006. Additionally, we do not know if the comments impact the disclosure in this Quarterly Report. If the comments impact this Quarterly Report we will file an amended Quarterly Report, if necessary.

ITEM 6 Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Chief Executive Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

Dated: June 19, 2007

By: /s/ Zhengquan Wang

Zhengquan Wang
President, Director,
Chief Executive Officer,
Chief Financial Officer