

CHINA SXAN BIOTECH, INC.
Form 10-Q
November 12, 2009

U. S. Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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

For the transition period from _____ to _____

Commission File No. 0-27175

CHINA SXAN BIOTECH, INC.
(Name of Registrant in its Charter)

Nevada
(State of Other Jurisdiction of
incorporation or organization)

95-4755369
(I.R.S. Employer I.D. No.)

Three-Kilometer Spot Along the Hayi Highway, Tieli City, Heilongjiang Province, P.R. China
(Address of principal executive office)

Issuer's Telephone Number: (86)-458-2386888

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 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

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

The number of shares outstanding of the issuer's common stock, as of November 11, 2009, was 19,919,795.

Documents incorporated by reference: NONE

ITEM I. FINANCIAL INFORMATION

CHINA SXAN BIOTECH INC.
Consolidated Balance Sheets
(UNAUDITED)

| | September 30, 2009 (Unaudited) | June 30, 2009 |
|--|--------------------------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,209 | \$ 5,204 |
| Inventory | 168,111 | 335,764 |
| Other receivables, net | 584,992 | 1,168,398 |
| Advance payments, net | 613,326 | 1,224,980 |
| Other current assets | 385 | 384 |
| Total current assets | 1,372,023 | 2,734,730 |
| Property and equipment, net | 399,437 | 461,633 |
| Intangible assets, net – rights to use land | 4,420,505 | 4,438,408 |
| Total assets | \$ 6,191,965 | \$ 7,634,771 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 100,963 | \$ 145,945 |
| Income taxes payable | 1,222,798 | 1,221,131 |
| Due to shareholders | 144,350 | 79,350 |
| Other taxes payable | 127,054 | 126,881 |
| Other payables | 67,640 | 67,548 |
| Total current liabilities | 1,662,805 | 1,640,855 |
| Stockholders' equity: | | |
| Series A convertible preferred stock, \$0.001 par value, 99,900,000 shares authorized, 7,825,525 shares issued and outstanding at September 30, 2009 and June 30, 2009 | 7,826 | 7,826 |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 19,919,795 shares issued and outstanding at September 30, 2009 and June 30, 2009 | 19,920 | 19,920 |
| Additional paid-in capital | 4,485,539 | 4,485,539 |
| Statutory reserve | 378,782 | 378,782 |
| Retained earnings (deficit) | (1,955,205) | (482,879) |
| Accumulated other comprehensive income | 1,592,298 | 1,584,728 |

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| | | |
|---|--------------|--------------|
| Total stockholders' equity | 4,529,160 | 5,993,916 |
| Total liabilities and stockholders' equity | \$ 6,191,965 | \$ 7,634,771 |
| The accompanying notes are an integral part of these consolidated financial statements. | | |

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CHINA SXAN BIOTECH INC.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(UNAUDITED)

| | For the Three months Ended September 30, | |
|--|---|------------|
| | 2009 | 2008 |
| Sales | \$ - | \$ 19,994 |
| Cost of sales | - | 18,305 |
| Gross profit | - | 1,689 |
| Operating expenses: | | |
| Selling, general and administrative | 1,472,326 | 9,187 |
| Loss from operations | (1,472,326) | (7,498) |
| Other income (expenses): | | |
| Other income, net | - | 5,538 |
| Total other income | - | 5,538 |
| Loss before provision for income tax | (1,472,326) | (1,960) |
| Provision for income tax | - | - |
| Net loss | (1,472,326) | (1,960) |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 7,570 | 643,033 |
| Comprehensive income (loss) | \$ (1,464,756) | \$ 641,073 |
| Basic earnings (loss) per share | \$ (0.07) | \$ (0.00) |
| Diluted earnings (loss) per share | \$ (0.07) | \$ (0.00) |
| Weighted average number of common shares outstanding: | | |
| Basic | 19,919,795 | 20,072,209 |
| Diluted | 19,919,795 | 20,072,209 |

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

CHINA SXAN BIOTECH INC.
Consolidated Statements of Cash Flows
(UNAUDITED)

| | For the Three months Ended September 30, | |
|--|---|-------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,472,326) | \$ (1,960) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 62,788 | 62,194 |
| Amortization | 23,947 | 23,422 |
| Provision for bad debts | 1,197,583 | - |
| Provision for obsolete inventory | 168,008 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | - | 223 |
| Other receivables | - | (135,596) |
| Inventory | - | (4,620,816) |
| Advance payments | - | 4,674,473 |
| Accounts payable and accrued expenses | (45,000) | (90,409) |
| Income taxes payable | - | (1,126) |
| Other payables | - | 861 |
| Total adjustments | 1,407,326 | (86,774) |
| Net cash used in operating activities | (65,000) | (88,734) |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | - | (7,720) |
| Net cash used in investing activities | - | (7,720) |
| Cash flows from financing activities: | | |
| Proceeds from shareholders' loans | 65,000 | - |
| Net cash provided by financing activities | 65,000 | - |
| Effect of foreign currency translation on cash | 5 | 75,672 |
| Net increase (decrease) in cash and cash equivalents | 5 | (20,782) |
| Cash and cash equivalents – beginning | 5,204 | 23,203 |
| Cash and cash equivalents – ending | \$ 5,209 | \$ 2,421 |

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

CHINA SXAN BIOTECH INC.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(Unaudited)

Note 1 – Organization and Description of Business

China Sxan Biotech, Inc. (the “Company”, formerly Advance Technologies, Inc.), a Nevada corporation, was incorporated on June 16, 1969. On July 10, 2007, the Company acquired the outstanding capital stock of American SXAN Biotech, Inc., a Delaware corporation (“American SXAN”). American SXAN is a holding company that on Oct 31, 2006 acquired 100% of the stock of Tieli Xiaoxinganling Forest Breeding Co., Ltd. (“Tieli Xiaoxinganling”), a corporation organized under the laws of The People’s Republic of China. Tieli Xiaoxinganling is engaged in the business of manufacturing and marketing wines and tonics derived from domesticated forest frogs.

The Company was organized under the laws of the State of Delaware under the name PWB Industries, Inc.; the articles of incorporation were issued on June 16, 1969. The name was changed to Sun Energy, Inc., which merged with Sto Med, Inc. on February 22, 1996 and changed its name to Sto Med, Inc. and domicile to the State of Nevada. Sto Med Inc. changed its name to Advance Technologies, Inc. on August 23, 1997. On September 27, 1999 the Company acquired Seacrest Industries of Nevada, also known as Infrared Systems International. On September 4, 2007 the name of the Company was changed to China Sxan Biotech, Inc.

Note 2 – Summary of Significant Accounting Policies

Basis Of Presentation

The Company’s consolidated financial statements include the accounts of its direct wholly-owned subsidiaries and of its indirect proportionate share of subsidiaries owned by the wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation. The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) applicable to interim financial information and the requirements of Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included.

Interim Financial Statements

These interim financial statements should be read in conjunction with the audited financial statements for the years ended June 30, 2009 and 2008, as not all disclosures required by generally accepted accounting principles for annual financial statements are presented. The interim financial statements follow the same accounting policies and methods of computations as the audited financial statements for the years ended June 30, 2009 and 2008.

Recent Accounting Pronouncements

On July 1, 2009, the Financial Accounting Standards Board (“FASB”) officially launched the FASB Accounting Standards Codification (“ASC”), which has become the single official source of authoritative nongovernmental U.S. GAAP, in addition to guidance issued by the Securities and Exchange Commission. The ASC is designed to simplify U.S. GAAP into a single, topically ordered structure. All guidance contained in the ASC carries an equal level of authority. The ASC is effective for all interim and annual periods ending after September 15, 2009. The Company’s implementation of this guidance effective July 1, 2009 did not have a material effect on the Company’s condensed

consolidated financial statements.

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Note 3 – Going Concern and Management's Plans

The Company has incurred extensive losses from operations and management believes that the Company will continue to incur losses, which raises substantial doubt about its ability to continue as a going concern. As a result, the Company's management resolved to temporarily halt operations and formed an exploratory committee to evaluate the possibility of utilizing the current production lines and inventories toward the manufacture and distribution of other frog related products.

The Company's management intends to pursue a variety of sources for the funds required for potential capital investments, offering both debt and equity. At the present time, however, no commitment for funds has been received from any source.

Note 4 – Other Receivables

Other receivables represent advances made to third parties for non-operating purposes. They are unsecured and non-interest bearing. Management is of the opinion that the reported amounts will be fully collected and therefore, no allowance is deemed necessary.

Note 5 – Inventory

Inventory at September 30, 2009 and June 30, 2009 consisted of the following:

| | September 30, 2009 | June 30, 2009 |
|-------------------------|-----------------------|-------------------|
| Food for pigs | \$ 39,883 | \$ 39,829 |
| Pigs in process | 287,409 | 287,017 |
| Packaging supplies | 8,930 | 8,918 |
| | 336,222 | 335,764 |
| Less: inventory reserve | 168,111 | - |
| Total | \$ 168,111 | \$ 335,764 |

Note 6 – Advance Payments

As a common business practice in China, the Company is required to make advance payments to certain suppliers for purchase of raw material. Such advances are interest-free and unsecured.

Note 7 – Property and Equipment, Net

Property and equipment at September 30, 2009 and June 30, 2009 consisted of the following:

| | September 30, 2009 | June 30, 2009 |
|--------------------------------|-----------------------|------------------|
| Buildings | \$1,235,801 | \$1,234,117 |
| Equipment | 254,791 | 254,444 |
| Breeding livestock | 5,696 | 5,688 |
| Construction in progress | 21,816 | 21,786 |
| | 1,518,104 | 1,516,035 |
| Less: accumulated depreciation | 1,118,667 | 1,054,402 |
| Total | \$399,437 | \$461,633 |

Depreciation expense for the three months ended September 30, 2009 and 2008 was \$62,788 and \$62,194, respectively.

Note 8 – Intangible Assets, Net – Rights to Use Land

Net intangible assets at September 30, 2009 and June 30, 2009 consisted of the following:

| | September 30, 2009 | June 30, 2009 |
|--------------------------------|-----------------------|--------------------|
| Rights to use land | \$4,733,055 | \$4,726,603 |
| Less: accumulated amortization | 312,550 | 288,195 |
| Total | \$4,420,505 | \$4,438,408 |

The Company's office and production sites are located in Tieli City and Jiamusi City, Heilongjiang Province, PRC. The Company leases land per a real estate contract with the government of the People's Republic of China for a period from 2003 through 2057. Per the People's Republic of China's governmental regulations, the Government owns all land.

The Company has recognized the amounts paid by a shareholder for the acquisition of rights to use land as an intangible asset (“Rights to use land”) and a non-cash capital contribution. The Company is amortizing the asset over a period of fifty (50) years.

Amortization expense for the three months ended September 30, 2009 and 2008 was \$23,947 and \$23,422, respectively.

Note 9 – Accounts Payable and Accrued Expenses

The carrying value of accounts payable and accrued expenses approximate their fair value due to the short-term nature of these obligations.

Note 10– Due to Stockholders

Loans from stockholders are short-term in nature, unsecured and non-interest bearing.

Note 11 – Earnings (Loss) Per Share

The Company presents earnings per share on a basic and diluted basis. Basic earnings per share have been computed by dividing net earnings by the weighted average number of common shares outstanding. Diluted earnings per share have been computed by dividing net earnings plus convertible preferred dividends and interest expense (after-tax) on convertible debt by the weighted average number of common shares outstanding including the dilutive effect of equity securities. The weighted average number of common shares calculated for diluted EPS excludes the potential common stock that would be exercised under the options and warrants granted to officers because the inclusion of the potential shares from these options and warrants would cause an anti-dilutive effect by increasing the net earnings per share. On September 4, 2007, the Company effectuated a 1 for 51 reverse stock splits of the Company's common stock.

| | September 30, 2009 | September 30, 2008 |
|-----------------------------------|-----------------------|-----------------------|
| Net loss | \$(1,472,326) | \$(1,960) |
| Weighted average common shares | 19,919,795 | 20,072,209 |
| Effect of diluted securities | - | - |
| Weighted average common shares | 19,919,795 | 20,072,209 |
| Basic earnings (loss) per share | \$(0.07) | \$(0.00) |
| Diluted earnings (loss) per share | \$(0.07) | \$(0.00) |

Note 12 – Stockholders' Equity

On July 10, 2007, Advance Technologies acquired 100% of the outstanding capital stock of American SXAN in a reverse merger transaction. Upon completion of the reverse merger, the Company had 96,671,199 shares of common stock issued and outstanding. In addition, there were 27,011,477 shares of Series A Non-voting Preferred Stock, each of which was convertible into one share of common stock. There were also 100,000 shares of Series B Preferred Stock issued and outstanding, which were convertible into 900,000,000 shares of common stock.

On September 4, 2007, Advance Technologies changed its name to China SXAN Biotech, Inc and effectuated a 1 for 51 reverse stock split of its outstanding common stock (the "Reverse Split"). The Reverse Split did not alter the number of shares of common stock the Company was authorized to issue, but rather simply reduced the number of shares of its common stock issued and outstanding.

Note 13 – Employee Welfare Plan

The Company has established an employee welfare plan in accordance with Chinese laws and regulations. Full-time employees of the Group in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on a certain percentage of the employees' salaries.

Note 14 - Concentrations of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist principally of cash on deposit with a financial institution of \$5,209 as of September 30, 2009.

Note 15 - Subsequent Events

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Outline of Our Business

China SXAN Biotech, Inc. is a holding company. Until July 2007 it was engaged exclusively in the business of developing infrared vision systems for commercial applications. In July 2007 the Company acquired the capital stock of Tieli XiaoXingAnling Forest Frog Breeding Co., Ltd. ("Tieli XiaoXingAnling"), a corporation organized under the laws of The People's Republic of China. In connection with that acquisition, the Company transferred all of the assets relating to the infrared vision systems business to a subsidiary named Infrared Systems International. Infrared Systems International has filed a registration statement that, when declared effective by the Securities and Exchange Commission, will permit the Company to distribute the capital stock of Infrared Systems International to its shareholders. Thereafter the Company will be exclusively engaged in the business carried on by Tieli XiaoXingAnling.

Tieli XiaoXingAnling was organized in 2003 in the City of Tieli, which is in the Heilongjiang Province in northeast China. Tieli XiaoXingAnling is engaged in the business of breeding forest frogs, which are also known as snow frogs or winter frogs, since they are traditionally harvested just prior to their winter hibernation in order to maximize the frog's fat content. Tieli XiaoXingAnling has obtained patents from the government of China to produce therapeutic wines and tonics from its forest frogs. Tieli XiaoXingAnling has been marketing its forest frog products since 2004 under the brand "Xiao Xing'an Mountain."

The desirable portion of the Chinese forest frog, known as "hasma," is a combination of the frog's ovaries and surrounding fatty tissues. Throughout Chinese history, hasma has been used to treat respiratory problems such as coughing, hemoptysis (expectoration of blood), and night sweats attributable to tuberculosis. Many Chinese residents also believe that forest frog hasma improves immune function, aids in the treatment of neurasthenia, and slows aging. Today, however, the forest frog is classified as an endangered species in China. Commercial harvesting of forest frogs in the wild is prohibited by national regulations. To meet the continuing demand for hasma, therefore, a domestic forest frog breeding industry has developed.

Early in the 2009 fiscal year, the Company's management determined that the Company's business, as then structured, was not sustainable. Among the factors that led to this conclusion were the increase of grain prices within China which has in turn increased our expenses for feedstock, increasing production costs, raw material costs, and costs associated with being a public company. As a result, management resolved to temporarily halt operations and formed an exploratory committee to evaluate the possibility of utilizing the current production lines and inventories toward the manufacture and distribution of other frog related products.

Results of Operations

For the fiscal year ended June 30, 2008, we experienced record growth in terms of sales as we recorded \$12.58 million in revenue, a 127% increase compared to fiscal year 2007. However, starting in mid-2008, as the management resolved to temporarily halt operations and formed an exploratory committee to evaluate the possibility of utilizing the current production lines and inventories, the Company did not generate any revenue for the three months ended September 30, 2009.

As production and marketing have been halted, the Company was forced to write-off other receivables and advances to suppliers as bad debts, which resulted in an increase in operating expenses. The Company incurred SG&A expenses of \$ 1,472,326 for the quarter ended September 30, 2009, representing an increase of \$1,463,139 as compared to the \$9,187 SG&A expenses incurred during the same period last year. We incurred a net loss of \$1,472,326 during the quarter ended September 30, 2009 as compared to a net loss of \$1,960 during the same period a year earlier. For

the three months ended September 30, 2009, we ended up with a cumulative net loss of \$1,464,756, as compared to a cumulative net income of \$641,073 during the same period last year.

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Liquidity and Capital Resources

Since Tieli XiaoXingAnling was organized at the end of 2003, its operations have been funded primarily by capital contributions from its shareholders (who became, in July 2007, the controlling shareholders of China SXAN Biotech). In addition, the shareholders have made short-term, non-interest bearing loans to Tieli XiaoXingAnling when it needed working capital. However, because the Company has recently incurred sizeable losses, at September 30, 2009 the Company had a working capital deficit of \$290,782.

During the three months ended September 30, 2009, the operations of Tieli XiaoXingAnling used \$65,000 in cash. The provision for bad debts of \$1,197,583 and obsolete inventory of \$168,008 largely reduced the negative effect of the net loss on our cash flow.

As we have temporarily halted our operations, we are currently exploring the following possibilities toward the development of the company:

- Acquisition of a liquor factory or medical wine factory with the necessary Good Manufacturing Practices (“GMP”) certification from the government.
- Acquisition of a pharmaceutical factory or healthcare products factory with a GMP certification.

Management intends to pursue a variety of sources for the funds required for those capital investments, offering both debt and equity. At the present time, however, no commitment for funds has been received from any source.

Off-Balance Sheet Arrangements

Neither China SXAN Biotech nor Tieli XiaoXingAnling has any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on their financial condition or results of operations.

Risk Factors That May Affect Future Results

You should carefully consider the risks described below before buying our common stock. If any of the risks described below actually occurs, that event could cause the trading price of our common stock to decline, and you could lose all or part of your investment.

We have suspended our primary operations due to their lack of profitability. There is no assurance that we will be able to achieve profits in the forest frog industry.

Until 2008, all of our business consisted of the sale of hasma – raw forest frog fatty tissues. During the 2009 fiscal year we suspended those operations, as we realized that they would not be profitable over the long term. We are currently exploring methods of achieving profitable operations in the forest frog industry. It may occur, however, that we will be unable to formulate a business plan that achieves profitability, in which case we will be forced to liquidate our property and equipment.

Competition could prevent us from achieving a significant market position.

There are currently over 5,000 brands of medicinal tonics being sold in China. The struggle to gain brand recognition is complicated by the lack of government regulation of health claims. In order to achieve substantial market presence, we will have to distinguish our brand from all of the others. In addition, if we are successful in establishing a strong market for our products, other large, well-capitalized nutraceutical companies could be attracted by our success we achieve, and develop similar products. If a well-capitalized company directed its financial strength toward competition with us, it could achieve economies of scale that might permit it to market its products at lower prices than ours. If this occurred before we had established a significant market awareness of our brand, we might be unable to compete effectively, and would be unable to achieve profitability.

A recession in China could significantly hinder our growth.

The growing demand for our products has been swelled, in large part, by the recent dramatic improvement in the standard of living in China. The continued growth of our market will depend on continuation of recent improvements in the Chinese economy and the amount of disposable income available to the Chinese population. If the Chinese economy were to contract and money became tight, individuals will be less able to pay premium prices for the benefits of forest frog hasma. Many financial commentators expect a recession to occur in China in the near future. The occurrence of a recession could significantly hinder our efforts to implement our business plan.

We are subject to the risk of disease and natural disasters.

Our business involves the production of livestock. We have not developed alternative sources for raw materials. If our forest frogs or, to a lesser extent, our pigs, become diseased, we could suffer a significant loss of value. In addition, if our farms are damaged by drought, flood, storm, or the other woes of farming, we will not be able to meet the demand for our products, and are likely to suffer operating losses. Such events could have both an immediate negative effect on our financial results, as well as a long-term negative effect on our ability to grow our business.

Our business and growth will suffer if we are unable to hire and retain key personnel that are in high demand.

Our future success will depend on our ability to attract and retain highly skilled scientists, geneticists, agricultural manufacturing specialists, and marketing personnel. In general, qualified individuals are in high demand in China, and there are insufficient experienced personnel to fill the demand. In a specialized scientific field, such as ours, the demand for qualified individuals is even greater. If we are unable to successfully attract or retain the personnel we need to succeed, we will be unable to implement our business plan.

We may have difficulty establishing adequate management and financial controls in China.

The People's Republic of China has only recently begun to adopt the management and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management and financial controls that are expected of a United States public company. If we cannot establish such controls, we may experience difficulty in collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards.

Government regulation may hinder our ability to function efficiently.

The national, provincial and local governments in the People's Republic of China are highly bureaucratized. The day-to-day operations of our business require frequent interaction with representatives of the Chinese government institutions. The effort to obtain the registrations, licenses and permits necessary to carry out our business activities can be daunting. Significant delays can result from the need to obtain governmental approval of our activities. These delays can have an adverse effect on the profitability of our operations. In addition, compliance with regulatory requirements applicable to livestock farming and production may increase the cost of our operations, which would adversely affect our profitability.

Capital outflow policies in China may hamper our ability to pay dividends to shareholders in the United States.

The People's Republic of China has adopted currency and capital transfer regulations. These regulations require that we comply with complex regulations for the movement of capital. Although Chinese governmental policies were introduced in 1996 to allow the convertibility of RMB into foreign currency for current account items, conversion of RMB into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange. We may be unable to obtain all of the required conversion approvals for our operations, and Chinese regulatory authorities may impose greater restrictions on the convertibility of the RMB in the future. Because most of our future revenues will be in RMB, any inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to pay dividends to our shareholders.

Currency fluctuations may adversely affect our operating results.

Tieli XiaoXingAnling generates revenues and incurs expenses and liabilities in Renminbi, the currency of the People's Republic of China. However, as a subsidiary of China SXAN Biotech, Inc., it will report its financial results in the United States in U.S. Dollars. As a result, our financial results will be subject to the effects of exchange rate fluctuations between these currencies. From time to time, the government of China may take action to stimulate the Chinese economy that will have the effect of reducing the value of Renminbi. In addition, international currency markets may cause significant adjustments to occur in the value of the Renminbi. Any such events that result in a devaluation of the Renminbi versus the U.S. Dollar will have an adverse effect on our reported results. We have not entered into agreements or purchased instruments to hedge our exchange rate risks.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this quarterly report, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures. Pursuant to Rule 13a-15(e) promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, “disclosure controls and procedures” means controls and other procedures that are designed to insure that information required to be disclosed by China SXAN Biotech in the reports that it files with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time limits specified in the Commission’s rules. “Disclosure controls and procedures” include, without limitation, controls and procedures designed to insure that information China SXAN Biotech is required to disclose in the reports it files with the Commission is accumulated and communicated to our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Based on his evaluation, our Chief Executive Officer and Chief Financial Officer concluded that China SXAN Biotech’s system of disclosure controls and procedures was effective ensure that material information is recorded, processed, summarized and reported by our management on a timely basis in order to comply with our disclosure obligations under the Exchange Act, and the rules and regulations promulgated hereunder.

Changes in Internal Controls.

There was no change in internal controls over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act or 1934) identified in connection with the evaluation described in the preceding paragraph that occurred during China SXAN Biotech’s first fiscal quarter of 2010 that has materially affected or is reasonably likely to materially affect China SXAN Biotech’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

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

(c) Unregistered sales of equity securities

None.

(e) Purchases of equity securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Exchange Act during the quarter ended September 30, 2009

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5A. Other Information

None

Item 6. Exhibits

31 Rule 13a-14(a) Certification

32 Rule 13a-14(b) Certification

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

CHINA SXAN BIOTECH, INC.

Date: November 12, 2009

By: /s/ Feng Zhen Xing
Feng Zhen Xing, Chief Executive Officer and
Chief Financial Officer

