

CHINA SXAN BIOTECH, INC.
Form 10-Q
February 17, 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 December 31, 2008

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 Small Business Issuer in its Charter)

Nevada
(State of Other Jurisdiction of incorporation or organization)

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

c/o American Union Securities, Inc. 100 Wall Street, 15th Floor, New York, NY 10005
(Address of Principal Executive Offices)

Issuer's Telephone Number: 212-232-0120

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

February 13, 2009: Common Stock: 19,542,572 shares

Transitional Small Business Disclosure Format (check one): Yes No

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENT

CHINA SXAN BIOTECH INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2008 (Unaudited)	June 30, 2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 3,678	\$ 23,203
Accounts receivable	5,317	-
Other receivables	1,306,101	1,163,854
Inventory	6,755,844	2,076,016
Advances to suppliers	55,007	5,884,877
Prepaid expenses	385	385
Total current assets:	8,126,332	9,148,335
Property and equipment, net:	1,755,880	695,163
Other assets:		
Intangible assets, net	4,492,377	4,515,047
Total assets:	\$ 14,374,589	\$ 14,358,545
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 150,501	\$ 249,212
Income taxes payable	694,573	1,216,130
Other taxes payable	127,054	126,362
Other current liabilities	69,446	68,435
Due to stockholders	79,350	79,350
Total current liabilities:	1,120,924	1,739,489
Stockholders' equity:		
Series A convertible preferred stock, \$0.001 par value, 100,000,000 shares authorized, 27,011,477 shares issued and outstanding, respectively	27,011	27,011
Common stock, \$0.001 par value, 100,000,000 shares authorized 19,542,572 shares issued and outstanding	19,543	19,543
Additional paid-in capital	4,466,731	4,466,731
Retained earnings	6,143,431	6,169,574
Statutory reserve	378,782	378,782
Accumulated other comprehensive income	2,218,167	1,557,415
Total stockholders' equity:	13,253,665	12,619,056

Total liabilities and stockholders' equity:	\$	14,374,589	\$	14,358,545
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The accompanying notes are an integral part of these financial statements

CHINA SXAN BIOTECH INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2008	2007	December 31, 2008	2007
Sales:	\$ 31,118	\$ 3,644,824	\$ 51,112	\$ 5,010,882
Cost of goods sold:	40,849	1,983,135	59,154	2,383,374
Gross profit:	(9,731)	1,661,689	(8,042)	2,627,508
Operating expenses:				
Selling, general and administrative	8,621	559,912	17,808	818,492
Income (loss) from operations:	(18,352)	1,101,777	(25,850)	1,809,016
Other income (expenses):	(5,831)	89	(293)	4,590
Income (loss) before provision for income tax:	(24,183)	1,101,866	(26,143)	1,813,606
Provision for income tax:	-	165,280	-	272,041
Net income (loss):	(24,183)	936,586	(26,143)	1,541,565
Other comprehensive income:				
Foreign currency translation adjustment	17,719	285,907	660,752	418,423
Comprehensive income (loss):	\$ (6,464)	\$ 1,222,493	\$ 634,609	\$ 1,959,988
Basic earnings per share:	\$ (0.00)	\$ 0.09	\$ (0.00)	\$ 0.24
Diluted earnings per share:	\$ (0.00)	\$ 0.05	\$ (0.00)	\$ 0.08
Weighted average shares outstanding:				
Basic:	20,072,209	10,910,858	20,072,209	6,348,381
Diluted:	20,072,209	20,072,209	20,072,209	20,072,209

The accompanying notes are a integral part of these financial statements

CHINA SXAN BIOTECH INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	December	
	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ (26,143)	\$ 1,541,565
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	124,903	114,286
Amortization	47,340	43,629
Bad debt expense	-	(4,321)
Changes in assets and liabilities:		
Accounts receivable	223	1,354,335
Other receivables	(135,633)	118,292
Inventory	(4,659,853)	(3,918,049)
Advances to suppliers	4,679,908	342,522
Prepaid expenses	-	154
Accounts payable and accrued expenses	(96,562)	199,597
Income tax payable	-	156,341
Other taxes payable	-	115,700
Other current liabilities	(1,968)	-
Total adjustments:	(41,642)	(1,477,514)
Net cash provided by (used in) operating activities:	(67,785)	64,051
Cash flows from investing activities:		
Acquisition of property and equipment	(8,427)	(566)
Net cash used in investing activities:	(8,427)	(566)
Cash flows from financing activities:		
Cash acquired in reverse merger transaction	-	2,087
Net cash provided by financing activities:	-	2,087
Effect of foreign currency translation on cash:	56,687	1,872
Net increase (decrease) in cash and cash equivalents:	(19,525)	67,444
Cash and cash equivalents – beginning:	23,203	4,892
Cash and cash equivalents – ending:	\$ 3,678	\$ 72,336

The accompanying notes are an integral part of these financial statements

CHINA SXAN BIOTECH INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007 (UNAUDITED)

NOTE 1 – ORGANIZATION AND NATURE 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 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 with the requirements of Form 10-Q and Regulation S-X of the Securities and Exchange Commission applicable to smaller reporting companies. 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 year ended June 30, 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 year ended June 30, 2008.

NOTE 3 – 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 has 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.

CHINA SXAN BIOTECH INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007 (UNAUDITED)

NOTE 3 – EARNINGS (LOSS) PER SHARE (CONTINUED)

	Three Months Ended December 31,	
	2008	2007
Net income (loss) \$	(24,183)	\$ 936,586
Weighted average common shares	20,072,209	10,910,858
Effect of diluted securities:	-	9,161,351
Weighted average common shares	20,072,209	20,072,209
Basic net income per share \$	(0.00)	\$ 0.09
Diluted net income per share \$	(0.00)	\$ 0.05
	Six Months Ended December 31,	
	2008	2007
Net income (loss) \$	(26,143)	\$ 1,541,565
Weighted average common shares	20,072,209	6,348,381
Effect of diluted securities:	-	13,723,828
Weighted average common shares	20,072,209	20,072,209
Basic net income per share \$	(0.00)	\$ 0.24
Diluted net income per share \$	(0.00)	\$ 0.08

CHINA SXAN BIOTECH INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007 (UNAUDITED)

NOTE 4 – OTHER RECEIVABLES

Other receivables represent advances made to third parties for non-operating purposes. They are unsecured and non-interest bearing.

NOTE 5 – INVENTORY

Inventory at December 31, 2008 and June 30, 2008 consists of the following:

	December 31, 2008	June 30, 2008
Food for frogs	\$ 29,770	\$ 28,049
Food for pigs	5,517,746	29,541
Frogs in process	518,421	305,259
Pigs in progress	680,977	278,499
Packaging supplies	8,930	-
Finished goods	-	1,434,668
Total	\$ 6,755,844	\$ 2,076,016

NOTE 6 – ADVANCES TO SUPPLIERS

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

CHINA SXAN BIOTECH INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2008 AND 2007 (UNAUDITED)

NOTE 7 – PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31, 2008 and June 30, 2008 consists of the following:

	December 31, 2008	June 30, 2008
Buildings	\$ 1,240,883	\$ 1,234,117
Equipment	176,145	254,444
Breeding livestock	78,709	1,223
Construction in progress	1,194,012	9,705
	2,689,749	\$ 1,499,489
Less:		
accumulated depreciation	933,869	804,326
Total	\$ 1,755,880	\$ 695,163

Depreciation expense for the three months ended December 31, 2008 and 2007 was \$62,709 and \$57,626, and for the six months ended December 31, 2008 and 2007 was \$124,903 and \$114,286, respectively.

NOTE 8 – INTANGIBLE ASSETS, NET

Intangible assets at December 31, 2008 and June 30, 2008 consisted of the following:

	December 31, 2008	June 30, 2008
Rights to use land	\$ 4,733,055	\$ 4,707,245
Less:		
accumulated amortization	240,678	192,198
Total	\$ 4,492,377	\$ 4,515,047

CHINA SXAN BIOTECH INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2008 AND 2007 (UNAUDITED)

NOTE 7 – PROPERTY AND EQUIPMENT, NET (CONTINUED)

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 Company’s intangible assets for the three months ended December 31, 2008 and 2007 amounted to \$23,918 and \$21,999, and for the six months ended December 31, 2008 and 2007 was \$47,340 and \$43,629, respectively.

Amortization expense for the Company’s intangible assets over the next five fiscal years is estimated to be:

2009	\$	88,596
2010		88,596
2011		88,596
2012		88,596
2013		88,596
2014 and thereafter		3,977,303
Total	\$	4,420,283

NOTE 9 – DUE TO STOCKHOLDERS

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

CHINA SXAN BIOTECH INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007 (UNAUDITED)

NOTE 10 – SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid for interest was \$-0- and \$ -0-, during the six months ended December 31, 2008 and 2007, respectively. Cash paid for income taxes was \$-0- and \$ -0-, during the six months ended December 31, 2008 and 2007, respectively.

NOTE 11 – RISK FACTORS

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC as well as by the general state of the PRC's economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

NOTE 12 - 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 \$3,678.

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.

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 our gross and net margins drastically deteriorated to 37.7% and 22.2% for fiscal year 2008 as compared to 59.6% and 43.4% for fiscal year 2007. This is primarily due to the increase of grain prices within China which has in turn increased our expenses for feedstock. In light of increasing production costs, raw material costs, and costs associated with being a public company, management has concluded that the current business is not sustainable. 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.

As production and marketing has been halted, sales for the three and six months ended December 31, 2008 only totaled \$31,118 and \$51,112 as compared to \$3,644,824 and \$5,010,882, representing decreases of 99% and 98% respectively, compared to the same period in 2007. Accordingly our gross profit for the three and six months ended December 31, 2008 were reduced significantly to negative figures, (\$9,731) and (\$8,042) as compared to \$1,661,689 and \$2,627,508 respectively, during the same period in 2007. We incurred a net loss of \$24,183 during the second quarter of fiscal year 2009 as compared to a net profit of \$936,586 during the second quarter of fiscal year 2008. For the six months ended December 31, 2008, we ended up with a cumulative net loss of \$26,143, as compared to a cumulative net profit of \$1,541,565 during the same period of 2007.

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. The result is that at December 31, 2008 the Company had \$7,005,408 in working capital.

During the three months ended December 31, 2008, the operations of Tieli XiaoXingAnling used \$67,785 in cash. This was primarily due to the large increase in inventory during the period. Our principal asset as of December 31, 2008 is our inventory which represents \$6,755,844 out of our \$14,374,589 in total assets.

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.

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 depends 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, 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.

China SXAN Biotech is not likely to hold annual shareholder meetings in the next few years.

Management does not expect to hold annual meetings of shareholders in the next few years, due to the expense involved. The current members of the Board of Directors were appointed to that position by the previous directors. If other directors are added to the Board in the future, it is likely that the current directors will appoint them. As a result, the shareholders of China SXAN Biotech will have no effective means of exercising control over the operations of China SXAN Biotech.

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 second fiscal quarter 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 December 31, 2008.

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

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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: February 17, 2009

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

