

CHINA SXAN BIOTECH, INC.
Form 10-Q
May 21, 2008

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

FORM 10-QSB

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

For the quarterly period ended March 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

May 20, 2008: Common Stock: 19,542,572 shares

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

CHINA SXAN BIOTECH INC.
(FORMERLY ADVANCE TECHNOLOGIES INC.)
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007
(UNAUDITED)

.....
Comprehensive Income
.....
.....

CHINA SXAN BIOTECH INC.

(FORMERLY ADVANCE TECHNOLOGIES INC.)

CONSOLIDATED BALANCE SHEET

AS OF MARCH 31, 2008

(UNAUDITED)

ASSETS

CURRENT ASSETS

| | |
|------------------------------------------------|------------------|
| Cash and cash equivalents | \$ 265,414 |
| Accounts receivable, net of allowance of \$-0- | 5,100 |
| Other receivables, net of allowance of \$2,653 | 527,981 |
| Inventory | 5,685,278 |
| Advances to suppliers | 1,672,616 |
| Prepaid expenses | 385 |
| Total Current Assets | 8,156,774 |

PROPERTY AND EQUIPMENT, NET

732,111

OTHER ASSETS

| | |
|------------------------|-----------|
| Intangible assets, net | 4,442,432 |
|------------------------|-----------|

Total Assets

\$ 13,331,317

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

| | |
|---------------------------------------|------------------|
| Accounts payable and accrued expenses | \$ 686,836 |
| Income taxes payable | 993,104 |
| Taxes payable | 123,677 |
| Due to stockholders | 298,495 |
| Total Current Liabilities | 2,102,112 |

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 |
| Common stock, \$0.001 par value, 100,000,000 shares authorized 19,542,572 shares issued and outstanding | 19,543 |
| Additional paid-in capital | 4,466,731 |

| | |
|--------------------------------------------|---------------|
| Retained earnings | 5,066,380 |
| Statutory reserve | 378,782 |
| Accumulated other comprehensive income | 1,270,758 |
| Total Stockholders' Equity | 11,229,205 |
| Total Liabilities and Stockholders' Equity | \$ 13,331,317 |

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

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CHINA SXAN BIOTECH INC.

(FORMERLY ADVANCE TECHNOLOGIES INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(UNAUDITED)

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------------------|--------------------|------------|-------------------|--------------|
| | March 31, | | March 31, | |
| | 2008 | 2007 | 2008 | 2007 |
| REVENUE | \$ 1,015,156 | \$ 667,447 | \$ 6,026,038 | \$ 3,972,621 |
| COST OF GOODS SOLD | 600,028 | 292,398 | 2,983,402 | 1,605,531 |
| GROSS PROFIT | 415,128 | 375,049 | 3,042,636 | 2,367,090 |
| OPERATING EXPENSES | | | | |
| Selling, general and administrative expenses | 221,189 | 95,608 | 1,039,681 | 414,766 |
| INCOME FROM OPERATIONS | 193,939 | 279,441 | 2,002,955 | 1,952,324 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income (expense), net | - | (910) | - | (2,043) |
| Other income (expense), net | (201) | 393 | 4,389 | 13,279 |
| Total Other Income (Expense) | (201) | (517) | 4,389 | 11,236 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 193,738 | 278,924 | 2,007,344 | 1,963,560 |
| PROVISION FOR INCOME TAXES | 29,060 | 41,972 | 301,102 | 313,442 |
| NET INCOME | 164,678 | 236,952 | 1,706,242 | 1,650,118 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Foreign currency translation adjustment | 434,226 | 92,704 | 853,649 | 253,599 |
| COMPREHENSIVE INCOME | \$ 598,904 | \$ 329,656 | \$ 2,559,891 | \$ 1,903,717 |
| NET INCOME PER SHARE | | | | |
| Basic | \$ 0.02 | \$ 0.31 | \$ 0.27 | \$ 2.13 |
| Diluted | \$ 0.01 | \$ 0.31 | \$ 0.09 | \$ 2.13 |
| WEIGHTED AVERAGE SHARES OF | | | | |

| COMMON STOCK | | | | |
|--------------|------------|---------|------------|---------|
| Basic | 10,910,858 | 775,056 | 6,348,381 | 775,056 |
| Diluted | 20,072,209 | 775,056 | 20,072,209 | 775,056 |

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

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CHINA SXAN BIOTECH INC.

(FORMERLY ADVANCE TECHNOLOGIES INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Nine Months Ended | |
|------------------------------------------------------------------------------------------|-------------------|--------------|
| | March 31, | |
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 1,706,242 | \$ 1,650,118 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation | 174,113 | 137,872 |
| Amortization | 66,447 | 61,731 |
| Bad debt expense | (4,355) | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,375,118 | (97,535) |
| Other receivables | 113,703 | (191,691) |
| Inventory | (4,025,800) | (365,589) |
| Advance to suppliers | 347,914 | (1,952,048) |
| Prepaid expenses | 156 | 458 |
| Accounts payable and accrued expenses | 195,961 | 40,591 |
| Income tax payable | 183,626 | 313,402 |
| Other payables | 117,478 | 97,991 |
| Total Adjustments | (1,455,639) | (1,954,818) |
| Net Cash Provided by Operating Activities | 250,603 | (304,700) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (5,594) | (84,364) |
| Net Cash Used by Investing Activities | (5,594) | (84,364) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from capital contribution | - | 301,797 |
| Proceeds from shareholders' loans | | 89,860 |
| Cash acquired in reverse merger transaction | 2,087 | - |
| Net Cash Provided by Financing Activities | 2,087 | 391,657 |
| EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH | 13,426 | 190 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 260,522 | 2,783 |
| CASH AND CASH EQUIVALENTS - BEGINNING | 4,892 | 2,783 |

| | | |
|------------------------------------|------------|----------|
| CASH AND CASH EQUIVALENTS - ENDING | \$ 265,414 | \$ 5,566 |
|------------------------------------|------------|----------|

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

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CHINA SXAN BIOTECH INC.

(FORMERLY ADVANCE TECHNOLOGIES INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 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 – INTERIM FINANCIAL STATEMENTS

These interim financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2007, 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, 2007.

NOTE 3 – ACCOUNTING POLICIES

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-QSB and Item 310 of Regulation S-B 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.

NOTE 4 – ACCOUNTS RECEIVABLE

The Company’s sales terms allow for payments to be made for up to one year. Management reviews customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the need for reserves.

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CHINA SXAN BIOTECH INC.

(FORMERLY ADVANCE TECHNOLOGIES INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008 AND 2007

NOTE 5 – OTHER RECEIVABLES

Other receivables represent advances made to third parties for non-operating purposes. They are unsecured and non-interest bearing. The allowance for doubtful accounts amounted to \$2,653 at March 31, 2008.

NOTE 6 – INVENTORY

Inventory at March 31, 2008 consisted of the following:

| | |
|-------------------------|--------------|
| Frog oil | \$ 4,348,994 |
| Food for pigs | 59,796 |
| Frogs in process | 335,916 |
| Pigs in progress | 188,579 |
| Frog oil ready for sale | 452,525 |
| Packaging supplies | 299,468 |
| Total | \$ 5,685,278 |

NOTE 7 – 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.

NOTE 8 – PROPERTY AND EQUIPMENT, NET

Property and equipment at March 31, 2008 consisted of the following:

| | |
|--------------------------|--------------|
| Buildings | \$ 1,390,857 |
| Equipment | 52,515 |
| Breeding livestock | 4,703 |
| Construction in progress | 10,133 |
| | \$ 1,458,208 |

| | |
|--------------|------------|
| Less: | |
| accumulated | |
| depreciation | 726,097 |
| Total | \$ 732,111 |

Depreciation expense for the nine months ended March 31, 2008 and 2007 was \$174,113 and \$137,872, respectively.

NOTE 9 – INTANGIBLE ASSETS, NET

Net intangible assets at March 31, 2008 consisted of the following:

| | |
|------------------|--------------|
| Rights to use | |
| land | \$ 4,607,228 |
| L e s s : | |
| accumulated | |
| amortization | 164,796 |
| Total | \$ 4,442,432 |

CHINA SXAN BIOTECH INC.

(FORMERLY ADVANCE TECHNOLOGIES INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008 AND 2007

NOTE 9 ?C INTANGIBLE ASSETS, 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 nine months ended March 31, 2008 and 2007 amounted to \$66,447 and \$61,731, respectively.

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

| | | |
|---------------------|----|-----------|
| 2008 | \$ | 88,596 |
| 2009 | | 88,596 |
| 2010 | | 88,596 |
| 2011 | | 88,596 |
| 2012 | | 88,596 |
| 2013 and thereafter | | 3,977,303 |
| Total | \$ | 4,420,283 |

NOTE 10 – DUE TO STOCKHOLDERS

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

NOTE 11 – SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid for interest was \$-0- and \$2,043, during the nine months ended March 31, 2008 and 2007, respectively. Cash paid for income taxes was \$-0- and \$-0-, during the nine months ended March 31, 2008 and 2007, respectively.

NOTE 12 – 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 13 - 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 \$265,414.

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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. The mission of Tieli XiaoXingAnling is to become the leader in this industry.

Results of Operations

Our level of operations increased dramatically during our 2007 fiscal year, which ended on June 30, 2007. Through the first nine months of fiscal 2008, we have continuing that growth, albeit at a slower pace. In the nine month period ended March 31, 2008 our revenue reached \$6,026,038, a 52% increase from the \$3,972,621 in revenue recorded during the nine months ended March 31, 2007. Similarly, during the three months ended March 31, 2008 our revenue increased by 52%, from \$667,447 to \$1,015,156, although revenue in the three months ended March 31, 2008 represented only 17% of revenue for the full nine month period ended March 31, 2008. The primary reason that our revenue in the first quarter of fiscal 2008 exceeded our revenue in the second and third quarters was the maturity schedule of our inventory. We commenced forest frog production in 2004. Forest frogs reach maturity after two years, after which they can be harvested. So the initial inventory of forest frogs that we accumulated in 2004 and 2005 became available for harvesting in the fall of 2006 and spring of 2007. We processed that inventory and took it to market, achieving initial revenues in the second quarter of fiscal 2007, but with sales peaking in the summer of 2007. As we have liquidated our inventory, sales have waned. Because we continued to hold an inventory of \$5,685,278 at March 31, 2008, we expect our near term operations to approximate the levels achieved in recent quarters, until we obtain the funds needed to substantially expand our marketing and production.

We realized a gross margin of 50% on our sales in the first nine months of fiscal year 2008 and 41% on our sales in the quarter ended March 31, 2008. This margin ratio fell below the 60% margin that we achieved in the nine months ended March 31, 2007. The primary causes for the reduction were:

- increased prices for grain in China, which have increased our expense for feedstock; and
- the increasing proportion of our sales attributable to manufactured products, which require more processing than sales of raw hasma.

Our gross margin will continue to dwindle in the next two years as we introduce even more manufactured products into our product offerings.

Our selling, general and administrative expenses increased from \$95,608 in the three months ended March 31, 2007 to \$221,189 in the three months ended March 31, 2008, and from \$414,766 in the nine months ended March, 31, 2007 to \$1,039,681 in the nine months ended March 31, 2008. The primary reasons for the increase were

- increased administrative salaries, as we have developed a staff capable of managing our growing company;
 - increased selling expenses, related to the increase in our sales volume; and
 - expenses incurred as a result of the merger of Tieli XiaoXingAnling into a U.S. public company.

We expect that in the next two years our selling, general and administrative expense will remain at its current level or higher, as we will incur the expenses attributable to being a U.S. public company and as we continue to expand the focus of our business operations, necessitating a staff of skilled administrators.

Because we are involved in husbandry, the government of China has allowed us to defer payment of our income taxes until the end of this year. Therefore we have accrued the income tax expense on our Statement of Operations - \$29,060 for the three months ended March 31, 2008 and \$301,102 for the nine months ended March 31, 2008 – but recorded the tax as payable on our balance sheet. We expect to satisfy that payable during the winter. During the next five years, we will be entitled to a tax abatement by reason of becoming a foreign-owned entity during the current fiscal year. As a foreign owned entity, Tieli XiaoXingAnling will be entitled to a two year income tax holiday, followed by a 50% income tax reduction for the next three years.

Our operations during the quarter ended March 31, 2008 produced net after tax income of \$164,687, and net after tax income of \$1,706,242 for the nine months ended March 31, 2008. While the nine month net income represented a modest (3%) increase over the first nine months of fiscal 2007, our net income for the third quarter of fiscal 2008 was 31% lower than our net income for the third quarter of fiscal 2007. The primary reasons for the reduction in our earnings ratio were the reduction in gross margin and increase in selling, general and administrative expenses discussed earlier. We expect that our earnings-to-revenue ratio in the future will be closer to that realized in recent periods that that realized in fiscal 2007.

Our business operates entirely in Chinese Renminbi, but we will report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to Dollars results in translation adjustments, which are reported as a middle step between net income and comprehensive income. The net income is added to the retained earnings on our balance sheet; while the translation adjustment is added to a line item on our balance sheet labeled “accumulated other comprehensive income,” since it is more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During the three months ended March 31, 2008 the unrealized gain on foreign currency translations added \$434,226 to our accumulated other comprehensive income. \$853,649 was added to our equity by unrealized gains on foreign currency translations during the first nine months of fiscal 2008.

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 March 31, 2008 the Company had \$6,054,662 in working capital, with only \$298,495 in debt.

During the nine months ended March 31, 2008, the operations of Tieli XiaoXingAnling generated \$250,603 in cash, despite reporting \$1,706,242 in net income. This disparity, which was caused by a large increase in inventory during the period, is characteristic of the Company's operations. Its balance sheet at March 31, 2008 shows that the company is oriented towards near-term growth, as it includes only \$265,414 in cash among its \$8,156,774 in current assets. The principal current assets on that date were:

- \$1,672,616 in advances to suppliers – payments made to insure that the feedstocks and other raw materials necessary for production during the 2008 growing season are available;
 - \$5,685,278 in inventory – primarily forest frog hasma; and
- \$527,981 in other receivables – representing loans made to unrelated third parties to secure favourable business relationships.

Tieli XiaoXingAnling has adequate resources to fund its operations for the foreseeable future. However, its management has budgeted a capital expenditure over the next twelve months of 85 million RMB (approx. \$11 million). Management's plans include:

- Development of the Company's forest property in Heli to house an additional five million forest frogs, thus doubling the company's production;
- Acquisition of a liquor factory or medical wine factory with the necessary Good Manufacturing Practices ("GMP") certification from the government, to enable Tieli XiaoXingAnling to rapidly expand its production of medicinal tonic; and
- Acquisition of a pharmaceutical factory or healthcare products factory with a GMP certification, to enable Tieli XiaoXingAnling to rapidly initiate production of forest frog derivative products.

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.

Because we are expanding the scope of our operations, unexpected factors may hamper our efforts to implement our business plan.

Until recently, all of our business consisted of the sale of hasma – raw forest frog fatty tissues. We are currently expanding our business operations to include products enriched with hasma, as well as tonics and wines made from hasma. This expansion will involve us in much broader marketing operations. It will also entail much more complex production operations. Because these are areas in which we have limited experience, problems may occur with production or marketing that we have not anticipated, which would interfere with our business, and prevent us from achieving profitability.

The capital investments that we plan for the next two years may result in dilution of the equity of our present shareholders.

Our business plan contemplates that we will invest approximately 85 million RMB in our business during the next two years. We will raise the funds for that investment primarily by selling equity in our company. At present we have no commitment from any source for those funds. We cannot determine, therefore, the terms on which we will be able to raise the necessary funds. It is possible that we will be required to dilute the value of our current shareholders' equity in order to obtain the funds. If, however, we are unable to raise the necessary funds, our growth will be limited, as will our ability to compete effectively.

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. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2008. 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 as of March 31, 2008 for the purposes described in this paragraph.

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 of 1934) identified in connection with the evaluation described in the preceding paragraph that occurred during China SXAN Biotech's third 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 3rd quarter of fiscal 2008.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. 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: May 21, 2008

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

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