

CHINA ORGANIC FERTILIZER, INC.  
Form 10-Q  
November 22, 2010

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, 2010

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-27175

CHINA ORGANIC FERTILIZER, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State of Other Jurisdiction of incorporation or organization)

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

49 Fuxingmennei Street, Suite 310, Beijing, P.R. China 100031  
(Address of principal executive offices) (Zip Code)

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 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)

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller 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

As of November 22, 2010, 5,954,257 shares of common stock, par value \$.001 per share, were outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**CHINA ORGANIC FERTILIZER, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| ASSETS  | September<br>30,<br>2010<br>(Unaudited) | March 31,<br>2010 |
|---|---|-------------------|
| Current Assets:   |   |                   |
| Cash and cash equivalents                                       | \$ 145,489                              | \$ 138,345        |
| Accounts receivable, net  | 71,449                                  | 70,017            |
| Other receivable  | 639,991                                 | 648,170           |
| Advanced to suppliers   | 66,722                                  | 17,604            |
| Inventory   | 149,090                                 | 146,102           |
| Prepaid Expenses  | 453,181                                 | 440,871           |
| Total Current Assets  | 1,525,922                               | 1,461,109         |
| Property, Plant & Equipment, net                                | 1,754,100                               | 1,756,857         |
| Intangible Assets, net  | 467,012                                 | 457,654           |
| Total Assets  | 3,747,034                               | 3,675,620         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                     |   |                   |
| Current Liabilities:  |   |                   |
| Accounts Payable  | 671,685                                 | 658,223           |
| Advance from Customers  | 146,541                                 | 125,429           |
| Tax Payable   | 80,209                                  | 78,588            |
| Accrued expenses and other payable                              | 1,049,477                               | 864,522           |
| Total Current Liabilities                                       | 1,947,912                               | 1,726,762         |
| Long-Term Liabilities:  |   |                   |
| Long Term Loan  | 1,921,186                               | 1,882,656         |
| Total Long-Term Liabilities                                     | 1,921,186                               | 1,882,656         |
| Total Liabilities   | 3,869,098                               | 3,609,418         |
| Stockholders' Equity:   |   |                   |
| Preferred stock series A, convertible, par value \$0.001        |   |                   |
| 153,442 shares issued and outstanding                           | 153                                     | 153               |
| Preferred stock series C, convertible, par value \$0.001, 3,600 |   |                   |
| shares authorized and 3,600 issued and outstanding              |   |                   |
| convertible to common stock at 1 to 10,000.                     | 36,000                                  | 36,000            |
| Prefer stock, 99,896,000 shares authourized,                    |   |                   |

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|  |             |             |
|--|-------------|-------------|
| 0 share issued and outstanding                     |             |             |
| Common stock, par value \$0.001, 10,000,000 share  |             |             |
| authorized 5,954,250 shares issued and outstanding | 5,954       | 5,954       |
| Additional paid in capital                         | 2,371,833   | 2,371,833   |
| Accumulated other comprehensive income             | (64,344 )   | (62,683 )   |
| Retained Earnings                                  | (2,471,661) | (2,285,055) |
| Total Stockholders' Equity                         | (122,065 )  | 66,202      |
| <br>   |             |             |
| Total Liabilities and Stockholders' Equity         | \$3,747,033 | \$3,675,620 |

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

| CHINA ORGANIC FERTILIZER, INC.                     |                    |             |                  |              |
|--|--------------------|-------------|------------------|--------------|
| CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS    |                    |             |                  |              |
| (UNAUDITED)  |                    |             |                  |              |
|  | Three Months Ended |             | Six Months Ended |              |
|  | September 30,      |             | September 30,    |              |
|  | 2010               | 2009        | 2010             | 2009         |
| Revenues   | 0                  | 0           | 0                | 36,400       |
| Cost of Goods Sold                                 | 0                  | 0           | 0                | 96,302       |
| Gross Profit (Loss)                                | 0                  | 0           | 0                | (59,902)     |
| Operating Expenses:                                |                    |             |                  |              |
| Sales Expenses                                     | 15,263             | 0           | 28,595           | 1,466        |
| General and Administrative Expenses                | 56,534             | 61,530      | 157,861          | 133,126      |
| Total Operating Expenses                           | 71,797             | 61,530      | 186,456          | 134,592      |
| Loss from Operations before other Income & Expense | (71,797)           | (61,530)    | (186,456)        | (194,494)    |
| Other Income & (Expense):                          |                    |             |                  |              |
| Other income                                       | 0                  | 18          | 0                | 33           |
| Financial Income (expense)                         | 81                 | (111)       | (149)            | (203)        |
| Non Operating Income (Loss)                        | 81                 | (93)        | (149)            | (170)        |
| Loss Before Income Taxes                           | (71,717)           | (61,623)    | (186,606)        | (194,664)    |
| Provision For Income Taxes                         | 0                  | 0           | 0                | 0            |
| Net Loss before other comprehensive income         | (71,717)           | (61,623)    | (186,606)        | (194,664)    |
| Other Comprehensive income:                        |                    |             |                  |              |
| Foreign Currency Translation Gain (Loss)           | (1,837)            | (36,899)    | (1,661)          | (59,837)     |
| Net Comprehensive Loss                             | \$ (73,554)        | \$ (98,522) | \$ (188,267)     | \$ (254,501) |
| Earning per share:                                 |                    |             |                  |              |
| Basic  | 0                  | 0           | 0                | 0            |
| Diluted  | 0                  | 0           | 0                | 0            |
| Weighted average number of shares outstanding      |                    |             |                  |              |
| Basic  | 59,542,572         | 59,542,572  | 59,542,572       | 59,542,572   |
| Diluted  | 419,696,014        | 419,696,014 | 419,696,014      | 419,696,014  |

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



CHINA ORGANIC FERTILIZER, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

| Cash Flows From Operating Activities:                        | For Six Months Ended |              |
|--|----------------------|--------------|
|  | September 30,        |              |
|  | 2010                 | 2009         |
| Net Income (loss)  | \$(186,606 )         | \$(194,664 ) |
| Adjustments To Reconcile Net Income To Net Cash              |                      |              |
| Provided By Operating Activities:                            |                      |              |
| Depreciation and Amortization Expense                        | 20,942               | 39,133       |
| (Increase) or Decrease in Current Assets:                    |                      |              |
| Accounts Receivable  | (1,432 )             | 63,888       |
| Inventories  | (2,988 )             | 75,208       |
| Other Receivable   | 8,179                | (23,823 )    |
| Advanced to Suppliers  | (49,118 )            | (6,150 )     |
| Prepaid Expenses   | (12,310 )            | (109,577 )   |
| Increase or (Decrease) in Current Liabilities:               |                      |              |
| Accounts payable   | 13,462               | 61           |
| Advanced from Customers                                      | 21,112               | (19,679 )    |
| Tax Payable  | 1,621                | (1,616 )     |
| Other payable  | 176,684              | 352,234      |
| Accrued expense  | 8,271                | 4,469        |
| Net Cash ( Used) Provided by Operating Activities            | (2,183 )             | 179,484      |
| Cash Flows From Investing Activities:                        |                      |              |
| Purchase of Property and Equipment                           | (58,622 )            | (75,786 )    |
| Disposal of Property and Equipment                           | 17,127               | 146,102      |
| Net Cash Used in Investing Activities                        | (41,495 )            | 70,316       |
| Cash Flows From Financing Activities:                        |                      |              |
| Capital contribution   | 0                    | 39,771       |
| Proceeds from Shareholder Loan                               | 38,530               | 15,524       |
| Net Cash Used in Financing Activities                        | 38,530               | 55,295       |
| Effect of exchange rate changes on cash and cash equivalents | 12,292               | (42,687 )    |
| Increase in Cash and Cash Equivalents                        | 7,144                | 262,408      |
| Cash and Cash Equivalents -Beginning Balance                 | 138,345              | 14,504       |
| Cash and Cash Equivalents - Ending Balance                   | \$145,489            | \$276,912    |
| Supplemental Disclosures of Cash Flow Information:           |                      |              |
| Cash Paid During The Years for:                              |                      |              |

|                   |   |   |
|-------------------|---|---|
| Interest Paid     | - | - |
| Income Taxes Paid | - | - |

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



CHINA ORGANIC FERTILIZER, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
SEPTEMBER 30, 2010  
(UNAUDITED)

Note 1 – Organization

On April 7, 2010 the Company effected a one-for-ten reverse split of its common stock. All statements in this report regarding outstanding shares or per share amounts assume the reverse split occurred prior to the relevant date.

On January 15, 2010 China SXAN Biotech acquired the outstanding capital stock of SNX Organic Fertilizers, Inc., a Delaware corporation (“SNX Organic”). SNX Organic is a holding company that owns all of the registered capital of Beijing Shennongxing Technology Co., Ltd. (“Beijing Shennongxing”), a corporation organized under the laws of The People’s Republic of China. Beijing Shennongxing is engaged in the business of manufacturing and marketing organic fertilizer through its subsidiaries in China. All of Beijing Shennongxing’s business is currently in China. On April 7, 2010 the name of the parent company was changed from China SXAN Biotech, Inc. to China Organic Fertilizer, Inc.

The acquisition took place through a merger of SNX Organic into a wholly-owned subsidiary of China SXAN Biotech (the “Merger”). In connection with the closing of the Merger, China SXAN Biotech issued to the shareholders of SNX Organic 4,000,000 shares of common stock and 3,600 shares of Series C Preferred Stock, which will be convertible into 36,000,000 shares of China SXAN Biotech common stock.

China SXAN Biotech assigned all of its pre-Merger business and assets to American SXAN Biotech, Inc., its wholly-owned subsidiary, and American SXAN Biotech assumed responsibility for all of the liabilities of China SXAN Biotech that existed prior to the Merger. Subsequently China SXAN Biotech assigned American SXAN Biotech to the former management of China SXAN Biotech.

Beijing Shennongxing Technology, Ltd.Co. (BSNX) was established in June 2002 .The company's registered capital is five hundred thousand (500,000) RMB. In January 2005, the company had amended its charter and changed name to Beijing Shennongxing Technology, Ltd.Co. BSNX increased registered capital to one million (1,000,000) RMB (appromixingly \$124,355 US Dollar). In March 2006, BSNX became a foreign owned company which approved by Haidian Business Bureau in Beijing. The major operations of BSNX are manufacturing organic fertilizer and studying organic agricultural products.

BSNX established Beijing Shennongxing Huanan Xiangyu Green Fertilizer Ltd, Co. (Huanan Xiangyu) on Feb 5th, 2005. Its major products are biology organic fertilizer, organic leaves fertilizer, and organic composite fertilizer. Huanan Xiangyu is located in Huanan county of Heilongjiang province. Huanan Xiangyu closed on June 29th, 2006. BSNX sign managing contract with Huanan county and paid 2.2 million RMB (equivalent to \$265,492 USD) to obtain the operating right of Xiangyu Fertilizer Company of Huanan County (XFH). Using XFH's plant equipment and other related intangible assets for 20 years. (XFH had transferred the assets to BSNX when XFH closed).

On April 18th, 2007, SNX invested 1.7 million RMB (equivalent to \$239,670 USD) to establish Daqing Shennongxing Xiangyu Technology CO., Ltd (DSNX). DSNX's business scopes are manufacturing complex mixing fertilizer, biology fertilizer, organic fertilizer, and marketing microbe fertilizer. DSNX located in Daqing City, Heilongjiang province.

Heilongjiang Xiangyu Organic Fertilizer Co. Ltd (HSNX) was established on September 15, 2006. HSNX's registered capital was 5.2 million RMB (equivalent to \$762,467 USD), invested by Baoxiang Wang and Baofang Wang, Baofang Wang and Baoxiang Wang's shares was 60% and 40% respectively. At September 19, 2007, the shareholders have changed to SNX organic fertilizer Co, Ltd. In August 12th 2008 SNX has paid 2,084,232.34 RMB equivalent to \$304,986 to Baoxiang Wang and to Baofang Wang 3,133,325.75RMB equivalent to \$457,481 USD . On August 25, 2008, HSNX's business scope is producing complex mixing fertilizer, organic fertilizer. HSNX's business facility location is in Jiamusi city, Heilongjiang province of China.

Note 2 - Summary of Significant Accounting Policies

UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying unaudited consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and generally accepted accounting principles for interim financial reporting. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K. The results of the six months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year ending March 31, 2011.

Principles of consolidation

The consolidated financial statements included the accounts of the Company and its wholly-owned subsidiaries, Beijing Shennongxing Technology Co.Ltd, Beijing Shennongxing Wanshouju subsidiary, Beijing Shennongxing Huanan Xiangyu Green Fertilizer Co., Ltd, Daqing Shennongxing Xiangyu Technology Co., Ltd, Heilongjiang Shennongxing Xiangyu Organic Fertilizer Co., Ltd. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. The Company recognizes revenue net of an allowance for estimated returns, at the time the merchandise is sold or services performed. The allowance for sales returns is estimated based on the Company's historical experience. Sales taxes are presented on a net basis (excluded from revenues and costs). Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Foreign currency translation and other comprehensive income

For the subsidiaries whose functional currencies are other than the US dollar, all assets and liabilities accounts were translated at the exchange rate on the balance sheet date; stockholder's equity is translated at the historical rates and items in the statement of operations and cash flow statements are translated at the average rate for the year. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders' equity. The resulting translation gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

RMB is not a fully convertible currency. All foreign exchange transactions involving RMB must take place either through the People's Bank of China (the "PBOC") or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC, which are determined largely by supply and demand. Translation of amounts from RMB into US dollar has been made at the following exchange rates for the respective years:

September 30, 2010

|  |                         |
|--|-------------------------|
| Balance sheet                                      | RMB 6.6800 to US \$1.00 |
| Statement of income and other comprehensive income | RMB 6.6800 to US \$1.00 |

March, 2010

|  |                         |
|--|-------------------------|
| Balance sheet                                      | RMB 6.8166 to US \$1.00 |
| Statement of income and other comprehensive income | RMB 6.8194 to US \$1.00 |

#### Fair value of financial instruments

The carrying amounts of the Company's financial instruments (including accounts receivable and payable, payables to related parties and bank loan) approximate fair value due to the relatively short period to maturity of these instruments.

#### Risks of losses

The Company is potentially exposed to risks of losses that may result from business interruptions, injury to others (including employees) and damage to property. These losses may be uninsured, especially due to the fact that the Company's operations are in China, where business insurance is not readily available. If: (i) information is available before the Company's financial statements are issued or are available to be issued indicates that such loss is probable and (ii) the amount of the loss can be reasonably estimated, an estimated loss will be accrued by a charge to income. If such loss is probable but the amount of loss cannot be reasonably estimated, the loss shall be charged to the income of the period in which the loss can be reasonably estimated and shall not be charged retroactively to an earlier period. As of September 30, 2010 and March 31, 2010, the Company has not experienced any uninsured losses from injury to others or other losses.

#### Subsequent events

The Company has evaluated subsequent events that have occurred through the date of this financial statement issuance and has determined that there were no material events since the balance sheet of this report.

#### Cash and concentration of risk

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents for cash flow statement purposes. Cash includes cash on hand and demand deposits in accounts maintained with state owned banks within the PRC. Certain financial instruments, which subject to concentration of credit risk, consist of cash. Balances at financial institutions or state owned banks within the PRC are not covered by insurance. As of September 30, 2010 and March 31, 2010, the Company had deposits totaling \$145,489 and \$138,345 that are not covered by insurance, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

