

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 |
|--|---|-------------------|
| <b>Current Assets:</b>   |   |                   |
| 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           |
| <b>Total Current Assets</b>  | <b>1,525,922</b>                        | <b>1,461,109</b>  |
| Property, Plant & Equipment, net   | 1,754,100                               | 1,756,857         |
| Intangible Assets, net   | 467,012                                 | 457,654           |
| <b>Total Assets</b>  | <b>3,747,034</b>                        | <b>3,675,620</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |                   |
| <b>Current Liabilities:</b>  |   |                   |
| 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           |
| <b>Total Current Liabilities</b>   | <b>1,947,912</b>                        | <b>1,726,762</b>  |
| <b>Long-Term Liabilities:</b>  |   |                   |
| Long Term Loan   | 1,921,186                               | 1,882,656         |
| <b>Total Long-Term Liabilities</b>   | <b>1,921,186</b>                        | <b>1,882,656</b>  |
| <b>Total Liabilities</b>   | <b>3,869,098</b>                        | <b>3,609,418</b>  |
| <b>Stockholders' Equity:</b>   |   |                   |
| 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<br>shares authorized and 3,600 issued and outstanding<br>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<br>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.

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 US and China, and by the general state of China's economy. The Company's operations in China are subject to specific considerations and significant risks not typically associated with companies in the North America. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected 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.

#### Accounts receivables and allowance for doubtful accounts

Management regularly reviews aging of the receivables and changes in payment trends by its customers, and records a reserve when they believe collection of amounts due are at risk. Accounts considered uncollectible are written off. The Company had trade accounts receivable of \$71,449 and \$70,017 as of September 30, 2010 and March 31, 2010, respectively.

#### Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a weighted average method. Cost of work in progress and finished goods comprises direct material, direct production cost and an allocated portion of production overheads. Management compares the cost of inventory with the market value and an allowance is made for writing down the inventory to its market value, if lower.

Although historically an immaterial concern due to the high inventory turnover in the Chinese organic fertilizer industry, the Company reviews its inventory regularly for possible obsolescence. The Company recorded no reserves for inventory obsolescence as of September 30, 2010 and March 31, 2010.

## Property, Plant and equipment, net

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; while additions, renewals and betterments are capitalized. When the property and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

|                         | Estimated Useful Life |
|-------------------------|-----------------------|
| Building                | 30-40 years           |
| Machinery and equipment | 10-20 years           |
| Other equipment         | 5 years               |
| Vehicles                | 5-7 years             |

## Intangibles

Goodwill and other intangible assets are accounted for in accordance with the FASB of ASC 350, “Goodwill and Other Intangible Assets.” Under ASC 350, goodwill, including any goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have indefinite useful lives are not amortized rather goodwill and such indefinite-lived intangible assets are assessed for impairment at least annually based on comparisons of their respective fair values to their carrying values.

## Impairment of long lived assets

Finite-lived intangible assets are amortized over their respective useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with ASC 360, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

In evaluating long-lived assets for recoverability, including finite-lived intangibles and property and equipment, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with ASC 360. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

#### Income taxes

The Company utilizes ASC 740, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

#### Value Added Tax (VAT)

Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company's Organic fertilizers and bio-fertilizers that are sold in the PRC are subject to a Chinese value-added tax at a rate of 13% or 17% of the gross sales price, respectively. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished products. The Company recorded VAT payable and VAT receivable net of payments in the consolidated financial statements. The VAT tax return is filed to offset the payables against the receivables.



#### Recently issued accounting pronouncements

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU did not have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51.” If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2010, FASB issued ASU No. 2010-9 Subsequent Events (Topic 855) –Amendments to Certain Recognition and Disclosure Requirements. This update addresses certain implementation issues related to an entity’s requirement to perform and disclose subsequent-events procedures, removes the requirement that public companies disclose the date of their financial statements in both issued and revised financial statements. According to the FASB, the revised statements include those that have been changed to correct an error or conform to a retrospective application of U.S. GAAP. The amendments were effective upon issuance of the update, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In March 2010, FASB issued ASU No. 2010-10 –Amendments for Certain Investment Funds. This update defers the effective date of the amendments to the consolidation requirements made by FASB Statement 167 to a reporting entity’s interest in certain types of entities. The deferral will mainly impact the evaluation of reporting enterprises’ interests in mutual funds, private equity funds, hedge funds, real estate investment entities that measure their investment at fair value, real estate investment trusts, and venture capital funds. The ASU also clarifies guidance in Statement 167 that addresses whether fee arrangements represent a variable interest for all service providers and decision makers. The ASU is effective for interim and annual reporting periods in fiscal year beginning after November 15, 2009. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In March 2010, FASB issued ASU No. 2010-11 –Scope Exception Related to Embedded Credit Derivatives. Embedded credit-derivative features related only to the transfer of credit risk in the form of subordination of one financial instrument to another are not subject to potential bifurcation and separate accounting as clarified by recently issued FASB guidance. Other embedded credit-derivative features are required to be analyzed to determine whether they must be accounted for separately. This update provides guidance on whether embedded credit-derivative features in financial instruments issued by structures such as collateralized debt obligations (CDOs) and synthetic CDOs are subject to bifurcation and separate accounting. The guidance is effective at the beginning of a company’s first fiscal quarter beginning after June 15, 2010. The Company does not expect the adoption of this ASU to have a material impact on the Company’s consolidated financial statements.

## Note 3 – Other Receivables

Other receivables consist of rent deposit, telephone deposit, employees advances and among others, other receivable as of September 30, 2010 and March 31, 2010 is \$639,991 and \$648,170, respectively. The receivables are interest free and unsecured.

## Note 4 – Inventories

Inventories as of September 30, 2010 and March 31, 2010 consist of the following:

|                 | September 30, 2010 | March 31,<br>2010 |
|-----------------|--------------------|-------------------|
| Raw materials   | \$ 29,885          | \$ 29,286         |
| Work in process | 22,010             | 21,568            |
| Finished goods  | 401,286            | 390,017           |
| Totals          | \$ 453,181         | \$ 440,871        |

## Note 5 – Property and equipment

Property and equipment at September 30, 2010 and March 31, 2010 consist of the following:

|                               | September 30, 2010 | March 31, 2010 |
|-------------------------------|--------------------|----------------|
| Buildings                     | \$ 202,255         | \$ 198,201     |
| Machinery and equipment       | 1,168,748          | 962,949        |
| Vehicle                       | 47,620             | 46,666         |
| Office Equipment              | 49,185             | 48,199         |
| Construction in Process       | 659,798            | 736,279        |
| Sub- Totals                   | 2,127,606          | 1,992,294      |
| Less accumulated depreciation | (363,668 )         | (235,437 )     |
| Totals                        | \$ 1,754,100       | \$ 1,756,857   |

The Company had depreciation expense of \$128,231 for six months periods ended September 30, 2010.

## Note 6 – Intangibles

Intangibles assets at September 30, 2010 and March 31, 2010 consist of the following:

|                                | September 30,<br>2010 | March 31,<br>2010 |
|--------------------------------|-----------------------|-------------------|
| Trade mark                     | \$ 137,672            | \$ 134,913        |
| Land use right                 | 329,340               | 322,740           |
| Total intangible assets        | 467,012               | 457,653           |
| Less: Accumulated amortization | -                     | -                 |
| Net value of intangible assets | \$ 467,012            | \$ 457,653        |

As of September, 30, 2010 and March 31, 2010, the land leased by a subsidiary of Beijing ShenNongXing Technology Company and the trade mark of XiangYu subsidiary of Beijing ShenNongXing Technology Company haven't been utilized. Therefore, the Company has not taken the amortization for those assets.

## Note 7 - Advances to suppliers

Advances to suppliers are monies deposited or advanced to outside vendors for future inventory purchases. Most of Company's vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive their purchase on a timely basis. As of September 30, 2010 and March 31, 2010, advance to suppliers is \$66,722 and \$17,604, respectively.

## Note 8 – Accounts payable

The Company has accounts payable related to the purchase of inventory. This amount represents the accounts payable by the Company to the suppliers of \$671,685 and \$658,224 as of September 30, 2010 and March 31, 2010, respectively.

Note 9 –Other current liabilities

Other current liabilities consist of the following:

|                 | September 30, 2010 | March 30, 2010 |
|-----------------|--------------------|----------------|
| Other payable   | \$ 740,835         | \$564,151      |
| Accrued expense | 308,642            | 300,371        |
| Total           | \$1,049,477        | \$864,522      |
|                 | =====              | =====          |

Note 10- Loan from shareholder

As of September 30, 2010 and March 31, 2010 the amount of the loan from a major shareholder was \$1,921,186 and \$1,882,656. It is an interest free loan and payable on demand.

Note 11 - Income taxes

Under the existing Income Tax Laws of the PRC, the Company is subject to an income tax at an effective rate of 33% (30% national income taxes plus 3% local income taxes) on taxable income, which is based on the net income reported in the statutory financial statements after appropriate tax adjustments. The statutory rate has been changed to 25%, effective January 1, 2008. The Company has not paid any income taxes for the past years, due to losses from operations.

Note 12- Earnings (loss) per share

Basic earnings (loss) per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There are 419,696,014 common stock equivalents available in the computation of earnings (loss) per share at September 30, 2010 and March 31, 2010.

Note 13 -Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents. As of September 30, 2010 and March 31, 2010 substantially all of the Company's cash and cash equivalents were held by major banks located in the PRC which the Company's management believes are of high credit quality. With respect to accounts receivable, the Company extends credit based on an evaluation of the customer's financial condition and customer payment practices to minimize collection risk on account receivable.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

### Results of Operations

Beijing Shennongxing remains in a pre-market stage of its operations. During the past few years we have focused on developing our technology and product offering, then on establishing marketing channels, including developing access to agribusiness clients. Sales have been incidental to these activities and, therefore, limited. During the quarter ended September 30, 2010 we did not generate revenue. During the same period last year we recorded 0 in revenue. During the 6 months ended September 30, 2010 we did not generate revenue. During the same period last year we recorded \$36,400 in revenue. These sales were made to a small number of farms and plantations, generally at cost, and primarily for the purpose of initiating distribution for testing purposes. Primarily because the cost of goods sold recorded on our Statements of Operations includes an allocation of indirect production costs (such as utilities) and an allocation of indirect labor (such as assembly and packaging), in each period we realized no or negative gross margin.

An additional reason for our negative margins has been recent increases in the cost of the specialized raw materials that we use in our fertilizer. Specifically, the cost of carbamide, which serves as an important raw material for our products, increased by 20.6% to RMB 1750 per ton in 2009 from RMB 1450 per ton a year earlier. In addition, the costs of monoammonium, potassium, and potassium chloride have increased significantly during 2009. Our prospects for profitable operations in the future will depend, in part, on how the international market for these raw materials develops in the next few years. Similarly, because the cost of transportation represents a significant portion of our cost of goods sold, the international market for oil will also influence our profitability in future periods.

Our general and administrative expenses principally include:

- Office staff salaries and benefits;
- Traveling and entertainment expenses;
- Other associated fees.

Our general and administrative expenses were \$56,534 for the quarter ended September 30, 2010, and were slightly decreased as compared to \$61,530, in the same quarter last year. And for the 6 months ended September 30, 2010, our general and administrative expenses were \$157,861, an increase of \$24,735 as compared to \$133,126. The increase is primarily attributable to expenses incurred in the 2010 and 2009 fiscal years in connection with (a) product acquisition and development, and (b) efforts by the Company to become publicly listed in the United States. In addition, if we are able to secure the funds needed to implement our marketing program, general and administrative expenses will grow along with the expansion of our business operations. When funded, we intend to open new manufacturing facilities and hire additional personnel, all of which will increase our general and administrative expenses.

Due to the low level of our revenues, our operating expenses were approximately equal to our net loss in all of the periods reported on in this Report: \$71,797 for the quarter ended September 30, 2010, \$61,530 for the quarter ended September 30, 2009. And \$186,456 for the 6 months ended September 30, 2010, \$194,494 for the 6 months ended September 30, 2009.

Our business operates in Chinese Renminbi, but we 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 statement of stockholders equity 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.



## Liquidity and Capital Resource

Since Beijing Shennongxing was organized, its operations have been funded primarily by loans from our shareholders. As of September 30, 2010, therefore, the balance due to our shareholders was \$421,990. This is recorded on our balance sheet as loan from stockholders, because the creditors are members of the management of Beijing Shennongxing, and they have committed that they will not seek repayment of the loan during the next fiscal year and not until the Company can afford to repay the loan without damage to its business prospects.

As of September 30, 2010, SNX had a working capital deficit of \$421,990. Included in our current assets at September 30, 2010 are "other account receivable" of \$639,991. The greater portion of this item represents funds advanced to middlemen for future purchases of raw materials. The accounts will be amortized as raw materials are received.

The second largest item in our current liabilities is denoted "accrued expenses and other payable." As of September 30, 2010 this item totaled \$1,049,477. Included in this item is \$740,830 related to the conversion of the facilities of the XiangYu Fertilizer Company for use in our operations. The item includes amounts owed (but, in most cases, not yet payable) for services by contractors, and also includes refundable contract deposits and bidding deposits given to Beijing Shennongxing in connection with the construction process.

In order to fully implement our business plan, we will require working capital far in excess of our current asset value. Our expectation, therefore, is that we will seek to access the capital markets in both the U.S. and China to obtain the funds we require. At the present time, however, we do not have commitments of funds from any source.

## Off-Balance Sheet Arrangements

Neither SNX Organic nor Beijing Shennongxing 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

### ITEM 4. EVALUATION OF CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

#### (b) Changes in Internal Controls

The term "internal control over financial reporting" (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated any changes in the Company's internal control over financial reporting that occurred during the fiscal quarter covered by this quarterly report, and they have concluded that there was no change to the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The company is not party to any material legal proceeding.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

None.

ITEM 5. 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 Organic Fertilizer, Inc.

Date : November 22,  
2010

/s/Chen Yu

Chen Yu, Chief Executive Officer  
and Chief Financial Officer

