

CHINA GEWANG BIOTECHNOLOGY, INC.  
Form 10-Q  
October 20, 2015

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

FORM 10-Q

[X]  
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended August 31, 2015

[ ]  
TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-54451

**CHINA GEWANG BIOTECHNOLOGY, INC.**

(Exact Name of Registrant in its Charter)

Nevada  
(State or Other Jurisdiction of  
incorporation or organization)

42-1769584  
(I.R.S. Employer I.D. No.)

Xita 23C, Star International, No. 8 Jinsui Road, Pearl River New Town,

Guangzhou Province, P.R. China 510623  
(Address of Principal Executive Offices)

Issuer's Telephone Number: 86-024-2397-4663

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 shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One)

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

**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:

October 20, 2015 Common Voting Stock: 45,500,000

**CHINA GEWANG BIOTECHNOLOGY, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE FISCAL QUARTER ENDED AUGUST 31, 2015**  
**TABLE OF CONTENTS**

**Page No**

***Part I***

***Financial Information***

Item 1.

Financial Statements (unaudited):

Consolidated Balance Sheets August 31, 2015 and November 30, 2014

3

Consolidated Statements of Income and Comprehensive Income - for the

Three and Nine Month Periods Ended August 31, 2015 and 2014

4

Consolidated Statements of Changes in Stockholders Equity for the

Nine Months Ended August 31, 2015

5

Consolidated Statements of Cash Flows - for the Nine Months Ended August 31, 2015

and 2014

6

Notes to Consolidated Financial Statements

7

3

Item 2.

Management's Discussion and Analysis of Financial Condition and  
Results of Operations

25

Item 3

Quantitative and Qualitative Disclosures about Market Risk

30

Item 4.

Controls and Procedures

30

## **Part II**

### **Other Information**

Item 1.

Legal Proceedings

31

Items 1A.

Risk Factors

31

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

31

Item 3.

Defaults upon Senior Securities

31

Item 4.

Mine Safety Disclosures

4

	31
Item 5.	
Other Information	31
Item 6.	
Exhibits	31

**CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AUGUST 31, 2015 (UNAUDITED) AND NOVEMBER 30, 2014 (IN U.S. \$)**

<b>ASSETS</b>	<b>August 31, 2015 (Unaudited)</b>	<b>November 30, 2014</b>
<b>Current assets:</b>		
Cash	\$ 8,256,492	\$ 3,012,812
Accounts receivable	292,594	-
Inventory	157,249	53,996
Prepaid expenses	243,047	105,200
Total current assets	8,949,382	3,172,008
<b>Property, plant and equipment, net</b>	<b>58,047</b>	<b>48,184</b>
<b>TOTAL ASSETS</b>	<b>\$ 9,007,429</b>	<b>\$ 3,220,192</b>
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Advance from customers	\$ -	\$ 56,930
Accounts payable	-	7,225
Taxes payable	51,133	47,329
Payroll payable	93,780	-
Accrued expenses and other payable	25,727	3,839
Loans from stockholder	60,285	6,417
Total current liabilities	230,925	121,740
<b>Stockholders equity:</b>		
Common stock (\$0.001 par value, 75,000,000 shares authorized, 45,500,000 shares issued and outstanding as of August 31, 2015 and 35,500,000 shares issued and outstanding as of November 30, 2014)	45,500	35,500
Additional paid-in capital	6,525,743	1,539,275
Retained earnings	2,168,616	1,316,225
Statutory reserve fund	245,900	144,454
Other comprehensive (loss) income	(246,527)	62,998
Sub-total	8,739,232	3,098,452
Noncontrolling interests	37,272	-
Total stockholders equity	8,776,504	3,098,452
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 9,007,429</b>	<b>\$ 3,220,192</b>

See accompanying notes to the consolidated financial statements

## CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

## FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2015 AND 2014 (UNAUDITED)

(IN U.S. \$)

	Three Months ended		Nine Months ended	
	August 31,		August 31,	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
<b>Revenue</b>	<b>1,066,381</b>	657,701	<b>3,072,993</b>	1,684,596
<b>Cost of goods sold</b>	<b>(350,488)</b>	(194,575)	<b>(897,546)</b>	(524,853)
<b>Gross profit</b>	<b>715,893</b>	463,126	<b>2,175,447</b>	1,159,743
<b>Operating expenses:</b>				
Selling and marketing	<b>212,242</b>	109,567	<b>540,887</b>	329,114
General and administrative	<b>120,383</b>	27,833	<b>308,637</b>	81,528
Total operating expenses	<b>332,625</b>	137,400	<b>849,524</b>	410,642
<b>Operating income</b>	<b>383,268</b>	325,726	<b>1,325,923</b>	749,101
<b>Other income:</b>				
Interest income	<b>4,316</b>	2,160	<b>8,187</b>	5,939
<b>Income before provision for income taxes</b>	<b>387,584</b>	327,886	<b>1,334,110</b>	755,040
<b>Provision for income taxes</b>	<b>100,544</b>	81,971	<b>338,154</b>	188,760
<b>Net income before noncontrolling interests</b>	<b>287,040</b>	245,915	<b>995,956</b>	566,280
<b>Noncontrolling interests</b>	<b>(13,574)</b>	(12,296)	<b>(45,651)</b>	(22,339)
	\$		<b>950,305</b>	543,941
<b>Net income attributable to common stockholders</b>	<b>273,466</b>	233,619		
	\$	\$	\$	\$
Earnings per common share	<b>0.01</b>	0.01	<b>0.02</b>	0.02
Weighted average shares outstanding	<b>45,500,000</b>	35,500,000	<b>39,514,598</b>	35,500,000



**Comprehensive Income (loss):**

	\$	\$	\$	\$
Net income before noncontrolling interests	<b>287,040</b>	245,915	<b>995,956</b>	566,280
Foreign currency translation adjustment	<b>(314,805)</b>	7,935	<b>(317,904)</b>	(11,850)
<b>Comprehensive (loss) Income</b>	<b>(27,765)</b>	253,850	<b>678,052</b>	554,430
Comprehensive (loss) income attributable to noncontrolling interests	<b>(4,916)</b>	418	<b>37,272</b>	2,622
	\$	\$	\$	\$
<b>Net Comprehensive (loss) income attributable to common stockholders</b>	<b>(22,849)</b>	253,432	<b>640,780</b>	551,808

See accompanying notes to the consolidated financial statements

## CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED AUGUST 31, 2015 (UNAUDITED) (IN U.S. \$)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Noncon- trolling Interests	Statutory Reserve Fund	Other Compre- hensive Income (loss)	Total
Balance, November 30, 2014	35,500	1,539,275	1,316,225	-	144,454	62,998	3,098,452
Reverse merger adjustment	-	(3,532)	3,532	-	-	-	-
Issuance of Common Stock	10,000	4,990,000	-	-	-	-	5,000,000
Net income	-	-	950,305	45,651	-	-	995,956
Statutory reserve	-	-	(101,446)	-	101,446	-	-
Other comprehensive income	-	-	-	(8,379)	-	(309,525)	(317,904)
<b>Balance, August 31, 2015 (Unaudited)</b>	<b>45,500</b>	<b>6,525,743</b>	<b>2,168,616</b>	<b>37,272</b>	<b>245,900</b>	<b>(246,527)</b>	<b>8,776,504</b>

See accompanying notes to the consolidated financial statements



**CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED AUGUST 31, 2015 AND 2014 (UNAUDITED) (IN U.S. \$)**

	<b>Nine Months ended August 31, 2015 (Unaudited)</b>	<b>2014 (Unaudited)</b>
	\$	\$
<b>Cash flows from operating activities:</b>		
Net income	<b>995,956</b>	566,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	<b>22,656</b>	19,352
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	<b>(292,594)</b>	-
(Increase) in inventory	<b>(103,253)</b>	(18,822)
(Increase) in prepaid expenses	<b>(137,847)</b>	(115,433)
(Decrease) in accounts payable	<b>(7,225)</b>	-
(Decrease) increase in advances from customers	<b>(56,930)</b>	13,298
Increase in taxes payable	<b>13,908</b>	29,486
Increase (decrease) in accrued liabilities and other payables	<b>115,668</b>	(64)
Net cash provided by operating activities	<b>540,235</b>	498,478
<b>Cash flows from investing activities:</b>		
Purchase of equipment	<b>(34,991)</b>	-
Net cash (used in) investing activities	<b>(34,991)</b>	-
<b>Cash flows from financing activities:</b>		
Proceeds from sale of common stock	<b>5,000,000</b>	-
Proceeds from stockholder loans	<b>56,415</b>	-
Net cash provided by financing activities	<b>5,056,415</b>	-
<b>Effect of exchange rate changes on cash</b>	<b>(317,979)</b>	(9,004)
<b>Net change in cash</b>	<b>5,243,680</b>	489,474
<b>Cash, beginning</b>	<b>3,012,812</b>	2,289,218
	\$	\$
<b>Cash, end</b>	<b>8,256,492</b>	2,778,692

**Supplemental disclosure of cash flow information:**

	\$	\$
Cash paid for interest	-	-
	\$	\$
Cash paid for income taxes	<b>338,735</b>	158,038
<b>Noncash financing activities:</b>		
	\$	\$
Payment of accrued expenses and other payables by shareholders	<b>56,415</b>	-

See accompanying notes to the consolidated financial statements

## **CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED AUGUST 31, 2015 AND 2014 (UNAUDITED) (IN U.S. \$)**

#### **1.**

##### **ORGANIZATION**

China Gewang Biotechnology, Inc. (the Company), formerly known as Rich Star Development, was incorporated under the laws of the State of Nevada on May 29, 2009. Since its inception until the closing of the reverse merger described below, the Company was a development-stage Company in the business of distributing designer clothing and footwear from established brands to customers around the world.

On April 20, 2015, the Company completed a reverse merger transaction through a share exchange with the stockholders of Biotechnology International Holding Ltd. ( Biotechnology International ), whereby the Company acquired 100% of the outstanding shares of Biotechnology International in exchange for 32,000,000 shares of its common stock, representing 90.14% of the issued and outstanding shares of common stock. As a result of the reverse merger, Biotechnology International became the Company's wholly-owned subsidiary and the former Biotechnology International Stockholders became our controlling stockholders. The share exchange transaction was treated as a reverse acquisition, with Biotechnology International as the acquirer and the Company as the acquired party for accounting purposes.

On January 8, 2015, the Company filed a certificate of amendment to its articles of incorporation to change its name from Rich Star Development to China Gewang Biotechnology, Inc. (the Name Change).

As a result of the transaction with Biotechnology International, the Company owns all of the issued and outstanding common stock of Hong Kong Gewang Holdings Group Limited ( Hong Kong Gewang ), a wholly-owned subsidiary of Biotechnology International, which in turn owns all of the issued and outstanding common stock of Gewang Selenium Enrichment Information Consulting (Shenzhen) Co., Ltd. ( Gewang Selenium ). In addition, the Company effectively and substantially controls Guangdong Gewang Biotechnology Co., Ltd. ( Guangdong Gewang ) through a series of captive agreements with Gewang Selenium.

The Company conducts its operations through its controlled consolidated variable interest entity ( VIE ), Guangdong Gewang. Guangdong Gewang, incorporated under the laws of the People s Republic of China ( PRC ) on June 2010, is primarily engaged in the sale of selenium supplements within the PRC. It is a member of the Chinese Selenium Supplements Association.

On April 6, 2015, Gewang Selenium (the WFOE), a wholly-owned subsidiary of Hong Kong Gewang, entered into a series of contractual arrangements (the VIE agreements). The VIE agreements include (i) an Exclusive Technical Service and Business Consulting Agreement; (ii) a Proxy Agreement, (iii) Share Pledge Agreement and, (iv) Call Option Agreement with the stockholders of Guangdong Gewang.

*Exclusive Technical Service and Business Consulting Agreement:* Pursuant to the Exclusive Technical Service and Business Consulting Agreement, the WFOE provides technical support, consulting, training, marketing and operational consulting services to Guangdong Gewang. In consideration for such services, Guangdong Gewang has agreed to pay an annual service fee to the WFOE of 95% of Guangdong Gewang's annual net income with an additional payment of approximately US\$1,624 (RMB 10,000) each month. The Agreement has an unlimited term and only can be terminated upon written notice agreed to by both parties.

*Proxy Agreement:* Pursuant to the Proxy Agreement, the stockholders of Guangdong Gewang agreed to irrevocably entrust the WFOE to designate a qualified person acceptable under PRC law and foreign investment policies, all of the equity interests in Guangdong Gewang held by the stockholders of Guangdong Gewang. The Agreement has an unlimited term and only can be terminated upon written notice agreed to by both parties.

*Call Option Agreement:* Pursuant to the Call Option agreement, the WFOE has an exclusive option to purchase, or to designate a purchaser, to the extent permitted by PRC law and foreign investment policies, part or all of the equity interests in Guangdong Gewang held by each of the stockholders. To the extent permitted by PRC laws, the purchase price for the entire equity interest is approximately US\$0.16 (RMB1.00) or the minimum amount required by PRC law or government practice. This Agreement remains effective until all the call options under the Agreement have been exercised by Gewang Selenium or its designated entities or natural persons.

*Share Pledge Agreement:* Pursuant to the Share Pledge agreement, each of the stockholders pledged their shares in Guangdong Gewang to the WFOE, to secure their obligations under the Exclusive Technical Service and Business Consulting Agreement. In addition, the stockholders of Guangdong Gewang agreed not to transfer, sell, pledge, dispose of or create any encumbrance on their interests in Guangdong Gewang that would affect the WFOE's interests. This Agreement remains effective until the obligations under the Exclusive Technical Service and Business Consulting Agreement, Call Option Agreement and Proxy Agreement have been fulfilled or terminated.

As a result of the entry into the foregoing agreements, the Company has a corporate structure which is set forth as follows:





**2.**

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Accounting and Presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include those of the Company, its wholly owned subsidiaries and the VIE, Guangdong Gewang. The Company is the primary beneficiary of the VIE. All significant intercompany accounts and transactions have been eliminated in consolidation.



The unaudited interim consolidated financial statements of the Company as of August 31, 2015, and for the three and nine month periods ended August 31, 2015 and 2014, have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission (the "SEC") which apply to interim financial statements. Accordingly, they do not include all of the information and footnotes normally required by accounting principles generally accepted in the United States of America for interim financial statements. The interim consolidated financial information should be read in conjunction with the consolidated financial statements and the notes thereto, included in the Company's Form 10-K and Form 8-K filed with the SEC. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. The results of operations for the three and nine months ended August 31, 2015 are not necessarily indicative of the results to be expected for future quarters or for the year ending November 30, 2015.

All consolidated financial statements and notes to the consolidated financial statements are presented in United States dollars ( "US Dollar" or "US\$" or "\$").

### **Variable Interest Entity**

Pursuant to Financial Accounting Standards Board ( "FASB" ) Accounting Standards Codification ( "ASC" ) 810, *Consolidation* ( "ASC 810" ), the Company is required to include in its consolidated financial statements, the financial statements of its variable interest entities ( "VIEs" ). ASC 810 requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss for the VIE or is entitled to receive a majority of the VIE's residual returns. VIEs are those entities in which a company, through contractual arrangements, bears the risk of, and enjoys the rewards normally associated with ownership of the entity, and therefore the company is the primary beneficiary of the entity.

Under ASC 810, a reporting entity has a controlling financial interest in a VIE, and must consolidate that VIE, if the reporting entity has both of the following characteristics: (a) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance; and (b) the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. The reporting entity's determination of whether it has this power is not affected by the existence of kick-out rights or participating rights, unless a single enterprise, including its related parties and de facto agents, have the unilateral ability to exercise those rights. Guangdong Gewang's actual stockholders do not hold any kick-out rights that affect the consolidation determination.



Through the VIE agreements disclosed in Note 1, the Company is deemed the primary beneficiary of Guangdong Gewang. Accordingly, the results of Guangdong Gewang have been included in the accompanying consolidated financial statements. Guangdong Gewang has no assets that are collateral for or restricted solely to settle their obligations. The creditors of Guangdong Gewang do not have recourse to the Company's general credit.

The following financial statement amounts and balances of Guangdong Gewang have been included in the accompanying consolidated financial statements:

	<b>August 31,</b> <b>2015</b> <b>(Unaudited)</b>	November 30, 2014
<b>TOTAL ASSETS</b>	<b>\$ 9,006,739</b>	\$ 3,220,192
<b>TOTAL LIABILITIES</b>	<b>\$ 5,004,657</b>	\$ 114,515

	Three Months Ended August 31,		Nine Months Ended August 31,	
	<b>2015</b> <b>(Unaudited)</b>	2014 (Unaudited)	<b>2015</b> <b>(Unaudited)</b>	2014 (Unaudited)
<b>Net income</b>	<b>\$ 315,980</b>	\$ 245,915	<b>\$ 1,082,115</b>	\$ 566,280

### Use of Estimates

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

### **Foreign Currency Translations**

All Company assets are located in the PRC. The functional currency for the Company's operations is the Renminbi ( RMB ). The Company uses the United States Dollar ( US Dollar or US\$ or \$ ) for financial reporting purposes. financial statements of the Company have been translated into US dollars in accordance with Financial FASB ASC Section 830, *Foreign Currency Matters*.

All asset and liability accounts have been translated using the exchange rate in effect at the balance sheet date. Equity accounts have been translated at their historical exchange rates when the capital transactions occurred. Statements of income (loss) and comprehensive income (loss), changes in stockholders' equity and cash flows have been translated using the average exchange rate for the periods presented. Adjustments resulting from the translation of the Company's financial statements are recorded as other comprehensive income (loss).

The exchange rates used to translate amounts in RMB into US dollars for the purposes of preparing the financial statements are as follows:

	<b>August 31,</b>	November 30, 2014
	<b>2015</b>	
Balance sheet items, except for stockholders' equity, as of period end	<b>0.1563</b>	0.1631
	<b>Nine Months</b>	
	<b>Ended August 31,</b>	
	<b>2015</b>	2014

Amounts included in the statements of income (loss) and comprehensive income (loss), changes in stockholders' equity and cash flows for the periods presented

	<b>0.1624</b>	0.1627
	<b>Three Months</b>	
	<b>Ended August 31,</b>	
	<b>2015</b>	2014

Amounts included in the statements of income (loss) and comprehensive income (loss), changes in stockholders' equity and cash flows for the periods presented



**0.1618**

0.1622

For the three months ended August 31, 2015 and 2014, foreign currency translation adjustments of \$(314,805) and \$7,935, respectively, and for the nine months ended August 31, 2015 and 2014, foreign currency translation adjustment of \$(317,904) and \$ (11,850), respectively, have been reported as other comprehensive income (loss). Other comprehensive income (loss) of the Company consists entirely of foreign currency translation adjustments.

Although government regulations now allow convertibility of the RMB for current account transactions, significant restrictions still remain. Hence, such translations should not be construed as representations that the RMB could be converted into US dollars at that rate or any other rate. The value of the RMB against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions.

Any significant revaluation of the RMB may materially affect the Company's financial condition in terms of US dollar reporting.

### Revenue Recognition

Revenues are primarily derived from selling selenium related products to contract distributors, and from our retail stores. The Company's revenue recognition policies comply with FASB ASC 605 *Revenue Recognition*. The Company recognizes product revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price paid by the customer is fixed or determinable and (iv) collection of the resulting account receivable is reasonably assured. The Company recognizes revenue for product sales upon transfer of title to the customer. Customer purchase orders and/or contracts are generally used to determine the existence of an arrangement. Shipping documents and the completion of any customer acceptance requirements, when applicable, are used to verify product delivery. The Company assesses whether a price is fixed or determinable based upon the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. The Company has no product returns or sales discounts and allowances because goods delivered and accepted by customers are normally not returnable.

The Company's revenues are comprised as follows:

	Three Months Ended		Nine Months Ended	
	August 31,		August 31,	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Wholesale	\$ 875,340	\$ 510,792	\$ 2,173,717	\$ 1,411,976
Retail	191,041	146,909	899,276	272,620
	\$ 1,066,381	\$ 657,701	\$ 3,072,993	\$ 1,684,596



### **Shipping Costs**

Shipping costs incurred by the Company are recorded as selling expenses. Shipping costs for the three months ended August 31, 2015 and 2014 were \$11,357 and \$7,004, respectively; for the nine months ended August 31, 2015 and 2014 were \$30,837 and \$20,663, respectively.

### **Advertising Costs**

Advertising costs are charged to operations when incurred. For the three months ended August 31, 2015 and 2014, advertising expenses were \$21,804 and \$14,568 respectively; for the nine months ended August 31, 2015 and 2014 were \$60,900 and \$55,318, respectively.

### **Cash and Cash Equivalents**

The Company considers all demand and time deposits and all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### **Accounts Receivable**

Accounts receivable are recorded at the contract amount after deduction of trade discounts, allowances, if any, and do not bear interest. The allowance for doubtful accounts, when necessary, is the Company's best estimate of the amount of probable credit losses of accounts receivable. The Company determines the allowance based on historical write-off experience, customer specific facts and economic conditions.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

The Company required a 30% advance from customers through December 31, 2014. Commencing in January 2015, an advance from customers is no longer required. As of August 31, 2015 and November 30, 2014, accounts receivable was \$292,594 and \$0, respectively. The Company believes that its accounts receivable are fully collectable and has determined that an allowance for doubtful accounts is not necessary.

### **Inventories**

Inventories, comprised principally of boxed selenium capsules, selenium-glossy ganoderma capsules and selenium powder, are valued at the lower of cost or market. The value of inventory is determined using the first-in, first-out method.

The Company periodically estimates an inventory allowance for estimated unmarketable inventories when necessary. Inventory amounts are reported net of such allowances, if any. There were no allowances for inventory as of August 31, 2015 and November 30, 2014.

### **Fair Value of Financial Instruments**

FASB ASC 820, *Fair Value Measurement* specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). In accordance with ASC 820, the following summarizes the fair value hierarchy:

**Level 1 Inputs** Unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.

**Level 2 Inputs** Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

**Level 3 Inputs** Inputs based on valuation techniques that are both unobservable and significant to the overall fair value measurements.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company did not identify any assets or liabilities that are required to be presented at fair value on a recurring basis. Carrying values of non-derivative financial instruments, including cash, accounts receivable, prepaid expenses, accrued expenses, and other payables, and stockholder loans, approximated their fair values due to the short maturity of these financial instruments. There were no changes in methods or assumptions during the periods presented.

**Prepaid Expenses**

Prepaid expenses primarily consist of rent, consulting fees, advertising expenses and licensing fees.

On January 5, 2011, the Company entered into a license agreement with a third party for the technology utilized for the manufacture of the Company's products. Under the terms, the Company is required to pay a fee of \$97,440 (RMB 600,000) in advance each year for five years from January 2011 to December 2015. The related prepaid licensing fees of \$31,260 and \$8,155 were included in prepaid expenses on the balance sheets as of August 31, 2015 and November 30, 2014, respectively. The license provides for renewal options. Since this agreement requires the advance payment of the annual licensing fee, there are no minimum payments remaining under this agreement.

### **Advance from Customers**

There are no advances from customers as of August 31, 2015. For the year ended November 30, 2014, the advance from customers consists of a payment received from an unrelated third party on a sales contract entered into on November 30, 2014. The contract was completed upon delivery of products to the customer in December 2014.

### **Impairment of Long-Live Assets**

The Company applies FASB ASC 360, *Property, Plant and Equipment*, which addresses the financial accounting and reporting for the recognition and measurement of impairment losses for long-lived assets. In accordance with ASC 360, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will recognize the impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to those assets. No impairment of long-lived assets was recognized for the three and nine months ended August 31, 2015 and 2014.

### **Statutory Reserve Fund**

Pursuant to corporate law of the PRC, the Company is required to transfer 10% of its net income, as determined under PRC accounting rules and regulations, to a statutory reserve fund until such reserve balance reaches 50% of the Company's registered capital. The statutory reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or used to increase registered capital, provided that the remaining reserve balance after use is not less than 25% of registered capital. The required statutory reserve fund was \$245,900 and \$144,454 as of August 31, 2015 and November 30, 2014, respectively.





## Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes* ( ASC 740 ), which requires the recognition of deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred tax assets and liabilities represent the future tax consequences for those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. As of August 31, 2015, and November 30, 2014, the Company has no deferred tax assets or liabilities.

ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, and accounting for interest and penalties associated with tax positions. As of August 31, 2015 and November 30, 2014, the Company does not have a liability for any unrecognized tax benefits. The Company's tax filings are subject to examination by the tax authorities. The tax years of 2013 to 2014 remain open to examination by tax authorities in the PRC.

3.

## RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2015, the FASB issued ASU No. 2015-11 (Subtopic 330) - Simplifying the Measurement of Inventory, which provides guidance to companies who account for inventory using either the first-in, first-out ( FIFO ) or average cost methods. The guidance states that companies should measure inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. This accounting standard update is not expected to have a material impact on the Company's consolidated financial statements.



In March 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2015-03 Interest Imputation of Interest (Subtopic 835-30). This ASU addressed the simplification and presentation of debt issuance costs by presenting them in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts or premiums. This accounting standard update is not expected to have a material impact on the Company's consolidated financial statements.

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2015-01 Income Statement Extraordinary and Unusual Items (Subtopic 225-20). This ASU addressed the simplification of income statement presentation by eliminating the concept of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This accounting standard update is not expected to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued authoritative guidance that requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and requires additional disclosures if certain criteria are met. This guidance is effective for fiscal periods ending after December 15, 2016, with early adoption permitted. This accounting standard update is not expected to have a material impact on the Company's consolidated financial statements.

#### 4.

#### **RELATED PARTY TRANSACTIONS**

The Company obtained demand loans from one of its stockholders which are non-interest bearing. The loans of \$60,285 as of August 31, 2015 and \$6,417 as of November 30, 2014 are reflected as loans from stockholder.

## 5.

**LEASES**

The Company leases its warehouse and office space from an unrelated third party under a one-year operating lease, which expires on July 1, 2016, and which required the Company to prepay the total rent of \$97,440 (RMB 600,000) in advance for one year. The Company leases its Chancheng store from an unrelated third party. The lease expired on August 31, 2015 and has a renewal option. The lease required the Company to prepay the rent of \$45,016 (RMB 276,000) in advance for one year. The Company renewed this lease to August 31, 2016 and paid the total rent of \$58,464 (RMB 360,000) in advance for one year. The Company also leases its Xiamen store from unrelated third party. The lease expires on June 1, 2016 and has a renewal option. The lease required the Company to prepay the rent of \$58,464 (RMB 360,000) in advance for one year. Since these leases require the advance payment of the annual rent, there are no minimum payments remaining under these leases.

Rent expense for the three months ended August 31, 2015 and 2014 was \$55,186 and \$8,301, respectively. For the nine months ended August 31, 2015 and 2014 rent expense was \$117,740 and \$13,229, respectively.

## 6.

**FIXED ASSETS**

Fixed assets are summarized as follows:

	<b>August 31,</b>	November 30,
	<b>2015</b>	2014
	<b>(Unaudited)</b>	
Electronic Equipment	\$ 56,181	\$ 25,410
Motor vehicles	69,804	72,840
Office Equipment	8,316	6,752
	<b>134,301</b>	105,002
Less: accumulated depreciation	<b>(76,254)</b>	(56,818)

Fixed Assets - net	<b>\$ 58,047</b>	\$ 48,184
--------------------	------------------	-----------

For the three months ended August 31, 2015 and 2014, depreciation expense was \$8,741 and \$6,427, respectively. For the nine months ended August 31, 2015 and 2014, depreciation expense was \$22,656 and \$19,352, respectively.

7.

**INCOME TAXES**

The provision for income taxes consisted of the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
Current	\$ <b>100,544</b>	\$ 81,971	\$ <b>338,154</b>	\$ 188,760
Deferred	-	-	-	-
	\$ <b>100,544</b>	\$ 81,971	\$ <b>338,154</b>	\$ 188,760

No provision for income taxes in the United States has been made. The Company did not generate any income in the United States or otherwise have any U.S. taxable income. The Company does not believe that it has any U.S. Federal income tax liabilities with respect to any transactions that the Company or any of its subsidiaries have engaged in through August 31, 2015. However, there can be no assurance that the IRS will agree with this position, and therefore the Company ultimately could be liable for U.S. Federal income taxes, interest and penalties.

8.

**CONCENTRATION OF CREDIT AND BUSINESS RISKS****Cash and cash equivalents**

Substantially all of the Company's assets and bank accounts are in banks located in the PRC and are not covered by protection similar to that provided by the FDIC on funds held in United States banks.

**Major customers**

For the nine months ended August 31, 2015, there were five customers which in aggregate accounted for 56% of total revenues. For the nine months ended August 31, 2014, four customers provided 43% of total revenue. As of May 31, 2015, five customers were responsible for 77% of the accounts receivable. There was no accounts receivable as of November 30, 2014.



### **Vulnerability Due to Operations in PRC**

The Company's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than twenty years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

The Company believes that Gewang Consulting's contractual agreements with Guangdong Gewang and its stockholders are in compliance with PRC law and are legally enforceable. The stockholders of Guangdong Gewang are also the senior management of the Company and therefore the Company believes that they have no current interest in seeking to act contrary to the contractual agreements. However, Guangdong Gewang and its stockholders may fail to take certain actions required for the Company's business or to follow the Company's instructions despite their contractual obligations to do so. Furthermore, if Guangdong Gewang or its stockholders do not act in the best interests of the Company under the contractual agreements or any dispute relating to these contractual agreements remains unresolved, the Company will have to enforce its rights through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system.

All of these contractual agreements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. As a result, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual agreements, which could make it difficult to exert effective control over Guangdong Gewang, and its ability to conduct the Company's business may be adversely affected.

9.

**PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

The following is the condensed financial information of China Gewang Biotechnology, Inc., the US parent, including balance sheets as of August 31, 2015 and November 30, 2014, statements of income for the three and nine months ended August 31, 2015 and 2014, and statements of cash flows for the nine months ended August 31, 2015 and 2014:

**Condensed Balance Sheets**

	<b>August 31,</b>	November 30,
<b>ASSETS</b>	<b>2015</b>	2014
	<b>(Unaudited)</b>	
Investments in subsidiaries and VIE	\$ 8,799,517	\$ 3,104,869
<b>TOTAL ASSETS</b>	<b>\$ 8,799,517</b>	<b>\$ 3,104,869</b>
<b>LIABILITIES AND STOCKHOLDERS</b>		
<b>EQUITY</b>		
<b>Current liabilities:</b>		
Accrued expenses	\$ -	\$ -
Stockholder loans	60,285	6,417
<b>Total current liabilities</b>	<b>60,285</b>	<b>6,417</b>
<b>Stockholders equity:</b>		
Common stock, \$0.001 par value, 75,000,000 shares authorized, 45,500,000 shares issued and outstanding as of August 31, 2015 and 35,000,000 shares issued and outstanding as of November 30, 2014	45,500	35,500
Additional paid-in capital	6,525,743	1,539,275
Statutory reserve fund	245,900	144,454
Other comprehensive (loss) income	(246,527)	62,998
Retained earnings	2,168,616	1,316,225

<b>Total stockholder s equity</b>	<b>8,739,232</b>	3,098,452
<b>TOTAL LIABILITIES AND</b>		
<b>STOCKHOLDERS EQUITY</b>	<b>\$ 8,799,517</b>	<b>\$ 3,104,869</b>

**Condensed Statements of Income (Unaudited)**

	<b>Three Months Ended August 31,</b>		<b>Nine Months Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>August 31,</b>	<b>2014</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>				
Share of earnings from	\$	\$	\$	\$
investments in				
subsidiaries and VIE	<b>287,812</b>	245,915	<b>1,017,957</b>	566,280
<b>Operating expenses:</b>				
General and		-		
administrative	<b>14,348</b>		<b>67,652</b>	-
	\$	\$	\$	\$
<b>Net income</b>	<b>273,464</b>	245,915	<b>950,305</b>	566,280

**Condensed Statements of Cash Flows (Unaudited)**

	<b>Nine Months Ended</b>	
	<b>August 31</b>	<b>2014</b>
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ <b>950,305</b>	\$ 566,280
Adjustments to reconcile net income to net cash		
provided by (used in) operating activities		
Share of earnings from investment in		
subsidiaries and VIE	<b>(1,017,957)</b>	(566,280)
Increase in accrued expenses and other payables	<b>67,652</b>	

Net cash provided by (used in) operating activities	-	-
<b>Net change in cash</b>	-	-
<b>Cash, beginning of period</b>	-	-
<b>Cash, end of period</b>	\$ -	\$ -
<b>Noncash financing activities:</b>		
Payment of accrued expenses and other payables		
by shareholder	\$ 56,415	\$ -

## **Basis of Presentation**

The Company records its investment in its subsidiaries and VIE under the equity method of accounting. Such investments are presented as Investments in subsidiaries and VIE on the condensed balance sheets and the subsidiaries and VIE profits are presented as Share of earnings from investments in subsidiaries and VIE in the condensed statements of income.

Certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted. The parent only financial information has been derived from the Company's consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements.

There were no cash transactions in the US parent company during the three and nine months ended August 31, 2015 and 2014.

## **Restricted Net Assets**

Under PRC laws and regulations, the Company's PRC subsidiaries and VIE are restricted in their ability to transfer certain of their net assets to the Company in the form of dividend payments, loans or advances. The restricted net assets of the Company's PRC subsidiaries and the VIE amounted to \$8,799,517 and \$3,104,869 as of August 31, 2015 and November 30, 2014, respectively.

The Company's operations and revenues are conducted and generated in the PRC, and all of the Company's revenues being earned and currency received are denominated in RMB. RMB is subject to the foreign exchange control regulations in China, and, as a result, the Company may be unable to distribute any dividends outside of China due to PRC foreign exchange control regulations that restrict the Company's ability to convert RMB into US Dollars.

Schedule I of Article 5-04 of Regulation S-X requires the condensed financial information of the parent company to be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the Company's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by its subsidiaries in the form of loans, advances or cash dividends without the consent of a third party. The condensed parent company only financial statements have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X as the restricted net assets of the Company's PRC subsidiaries and VIE exceed 25% of

the consolidated net assets of the Company.

**ITEM 2.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Accounting for Variable Interest**

China Gewang is a holding company whose only asset is an indirect 100% ownership interest in Gewang Selenium Enrichment Information Consulting (Shenzhen) Co., Ltd. ("Gewang Selenium"), a Wholly Foreign Owned Entity organized under the laws of the People's Republic of China on March 12, 2015. On April 6, 2015, Gewang Selenium entered into four agreements with Guangdong Gewang Biotechnology Co., Ltd. ("Guangdong Gewang") and with the equity owners in Guangdong Gewang. A summary of the terms of these "VIE Agreements" appears in Note 1: "Organization" in the Notes to the Consolidated Financial Statements. Collectively, the VIE agreements provide Gewang Selenium exclusive control over the business of Guangdong Gewang.

The accounting effect of the VIE Agreements between Gewang Selenium and Guangdong Gewang is to cause the balance sheets and financial results of Guangdong Gewang to be consolidated with those of Gewang Selenium, with respect to which Guangdong Gewang is now a variable interest entity. Since the parties to the VIE Agreements were both controlled by Shili Zhang, who is CEO of both Gewang Selenium and Guangdong Gewang, the financial statements included in this report reflect the consolidation of the results of operations and cash flows of Guangdong Gewang since its inception.

**Results of Operations**

The following table sets forth key components of our results of operations during the three months ended August 31, 2015 and 2014, and the percentage changes between 2015 and 2014.

	<b>August 31,</b> <b>2015</b> <b>(US \$)</b>	<b>August 31,</b> <b>2014</b> <b>(US \$)</b>	<b>Change</b> <b>%</b>
\$		\$	
<b>Revenue</b>	1,066,381	657,701	62%
Cost of Sales	(350,488)	(194,595)	80%
<b>Gross profit</b>	715,893	463,126	55%
Selling and marketing expenses	212,242	109,567	94%
General and administrative expenses	120,383	27,833	333%



Edgar Filing: CHINA GEWANG BIOTECHNOLOGY, INC. - Form 10-Q

Total operating expenses	332,625	137,400	142%
<b>Income from operations</b>	383,268	325,726	18%
<b>Other income</b>	4,316	2,160	100%
<b>Income before provision for</b>			
<b>income taxes</b>	387,584	327,886	18%
Provision for income taxes	100,544	81,971	23%
	\$	\$	
<b>Net income</b>	287,040	245,915	17%

The following table sets forth key components of our results of operations during the nine months ended August 31, 2015 and 2014, and the percentage changes between 2015 and 2014.

	<b>August 31, 2015 (US \$)</b>	<b>August 31, 2014 (US \$)</b>	<b>Change %</b>
	\$	\$	
<b>Revenue</b>	3,072,993	1,684,596	82%
Cost of Sales	(897,546)	(524,853)	71%
<b>Gross profit</b>	2,175,447	1,159,743	88%
Selling and marketing expenses	540,887	329,114	64%
General and administrative expenses	308,637	81,528	279%
Total operating expenses	849,524	410,642	107%
<b>Income from operations</b>	1,325,923	749,101	77%
<b>Other income</b>	8,187	5,939	38%
<b>Income before provision for</b>			
<b>income taxes</b>	1,334,110	755,040	77%
Provision for income taxes	338,154	188,760	79%
	\$	\$	
<b>Net income</b>	995,956	566,280	76%

**Sales.** Our sales increased to \$1,066,381 for the three months ended August 31, 2015 from \$657,701 for the three months ended August 31, 2014, an increase of \$408,680 or 62%. Our sales increased to \$3,072,993 for the nine months ended August 31, 2015 from \$1,684,596 for the nine months ended August 31, 2014. In addition to the beneficial effects of our marketing efforts, the primary causes of the increase were:

Increased demand for our products allowed us to implement a 30% increase in our wholesale prices. Our average unit price in and before March 2014 was \$81 (RMB 500) and increased to \$105 (RMB 650) from April 2014; in the nine months ended August 31, 2015 our average unit price was \$106 (RMB 650).

During the first half of fiscal 2014, our sales were made exclusively from the head office, mostly to wholesale customers but with modest retail sales. During the latter part of 2014, we increased retail sales from our head office and opened our first physical store in Chancheng. In June 2015, we opened a second store in Xiamen. Retail sales covered 18% and 29% of total sales for the three and nine months ended August 31, 2015. The retail average unit selling price was \$224 (RMB 1,380).



The following table shows the source of our revenue in the comparable periods:

	Quarter ended Aug. 31, 2015		Quarter ended Aug. 31, 2014	
	Sales% of total		Sales% of total	
Office wholesale	\$ 875,340	82%	\$ 510,792	78%
Office retail	78,899	7%	146,909	22%
Chancheng store retail	92,124	9%	-	0%
Xiamen store retail	20,018	2%	-	0%
	\$ 1,066,381	100%	\$ 657,701	100%

  

	Nine months ended Aug. 31, 2015		Nine months ended Aug. 31, 2014	
	Sales% of total		Sales% of total	
Office wholesale	\$ 2,173,716	71%	\$ 1,411,976	84%
Office retail	389,912	13%	272,620	16%
Chancheng store retail	489,347	16%	-	0%
Xiamen store retail	20,018	1%	-	0%
	\$ 3,072,993	100%	\$ 1,684,596	100%

**Gross Profit.** Our cost of sales has increased during the past two years due to increased unit prices paid to our manufacturers. Happily, although our cost for Organic Selenium Powder increased by 44% from the beginning of fiscal year 2014 to the third quarter of fiscal 2015, the increase in purchase price for our two best selling products was less than the 30% overall increase in our sales price: our unit purchase price for the Xikang Capsule increased by 22% to \$36; the unit purchase price of our Xizhi Capsule increased by 25% to \$32. As a result, although our gross profit margin decreased by 1% to 67.1% for the quarter ended August 31, 2015, our gross profit margin increased by 2% to 70.8% for the nine months ended August 31, 2015.

**Selling expenses.** Our selling expenses increased by 94% and 64% to \$212,242 and \$540,887 for the three and nine months ended August 31, 2015, respectively, from \$109,567 and \$329,114 for the three and nine months ended August 31, 2014, respectively. Our selling expenses will not increase in strict proportion to an increase in sales, because the largest component of our selling expenses is a fixed license fee that we pay to the Shandong Academy of Agriculture for use of the selenium formulae developed by the Academy. On the other hand, our selling expenses include rent, transportation expenses, advertising expenses and salaries incurred for the sales function, all of which will tend to increase as our sales increase. In addition, between the quarter ended August 31, 2014 and the quarter ended August 31, 2015, one specific reason for the increase in our selling expenses was the opening of our retail stores in Foshan and Xiamen.



**General and administrative expenses.** Our general and administrative ( G&A ) expenses increased by 333% and 279%, to \$120,383 and \$308,637, respectively, for the three and nine months ended August 31, 2015 from \$27,833 and \$81,528 for the three and nine months ended August 31, 2014, respectively. The largest components of our G&A expenses are the salaries of administrative personnel and mandated benefits provided to all of our staff. The change in G&A expenses from quarter to quarter occurred primarily as a result of the expansion of our business in the past year, as reflected in the growth of our sales.

**Pre-tax income.** Because our operating expenses increased at a faster rate than our gross profit during the three and nine months ended August 31, 2015, our operating income increased by only 18% and 77%, from \$325,726 and \$749,101 in the three and nine months ended August 31, 2014, respectively, to \$383,268 and \$1,325,923 in the three and nine months ended August 31, 2015, respectively, lagging the 60% and 90% increases in our gross profit.

As we have very little debt, our only other income consisted entirely of interest income earned on our bank balances: \$4,316 and \$2,160 during the three month periods ended August 31, 2015 and 2014, respectively, and \$8,187 and \$5,939 during the nine months ended August 31, 2015 and 2014, respectively. Our pre-tax income, therefore, was \$387,584 and \$ 327,886 for the three months ended August 31, 2015 and 2014 respectively; and \$1,334,110 and \$755,040 for the nine months ended August 31, 2015 and 2014, respectively.

**Net income.** Due to the 18% and 77% increase in our pre-tax income for three and nine months ended August 31, 2015, our provision for income tax increased to \$100,544 and \$338,154 for the three and nine months ended August 31, 2015, respectively, from \$81,971 and \$188,760 for the three and nine months ended August 31, 2014, representing increases of 23% and 79%, respectively. Our effective tax rate was the same as the statutory rate of 25% for the three and nine months ended August 31, 2015 and 2014. After deducting the provision for income tax, China Gewang reported net income of \$287,040 and \$245,915 for the three months ended August 31, 2015 and 2014, respectively, and \$995,956 and \$566,280 for the three and nine months ended August 31, 2015 and 2014, respectively.

**Foreign Currency Translation Adjustment.** Our reporting currency is the U.S. dollar. Our local currency, Renminbi (RMB), is our functional currency. Results of operations and cash flow are translated at average exchange rates during the period being reported upon, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China on the balance sheet date. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of stockholders' equity. Transaction 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. For the three months ended August 31, 2015 and 2014, foreign currency translation adjustments of \$(314,805) and \$7,935 respectively, for the nine months ended August 31, 2015 and 2014, foreign currency translation adjustments of \$(317,904) and \$(11,850), respectively, have been reported as other comprehensive income in the statements of income and other comprehensive income.



RMB is not freely convertible into the currency of other nations. All such exchange transactions must take place through authorized institutions. There is, therefore, no guarantee the RMB amounts could have been, or could be, converted into US dollars at the rates used in translation.

### **Liquidity and Capital Resources**

To date, we have financed our operations primarily through cash flows from operations and equity contributions by our shareholders. In particular, during the year ended November 30, 2013, we received a contribution of \$797,000 to the registered capital of Guangdong Gewang from our equity owners. The capital contribution was made in order to demonstrate the financial strength of Guangdong Gewang. to potential suppliers and customers. As a result, at August 31, 2015, our only debt consisted of \$60,285 in loans from a stockholder, which consisted of US Dollars loaned to pay our expenses in the U.S.

Our working capital as of August 31, 2015 was \$8,718,457, which represented an increase of \$5,668,189 during the nine months period then ended. At the end of our last fiscal year, on November 30, 2014, our working capital totaled \$3,050, 268, having increased by \$3,108,785 during that fiscal year. For the nine months ended August 31, 2015, the increase in working capital was approximately equal to the sum of our net income for the same period and the proceeds of a private placement of common stock for \$5,000,000. For the nine months ended August 31, 2014, the increase in working capital was approximately equal to the net income only for the same period. The approximation of our net income to the increase in our working capital occurs because our operations, which involve no manufacturing and limited real estate, require very modest capital investments and, as a result, almost all of our assets and all of our liabilities are current. Until we further implement our plan to open a series of dedicated retail stores, which will add depreciable capital assets to our balance sheet, net income will tend to increase our working capital..

Our investing cash flows and financing cash flows were nil during the nine months ended August 31, 2014. For the nine months ended August 31, 2015, our investing activities consisted of the purchase of equipment for \$34, 991. In the same period, our financing activities provided \$5,056,415, consisting of the proceeds of a private placement of \$5,000,000 and loans from a shareholder of \$56,415. Again, as we develop our physical presence by investing in retail stores, cash used in investing activities will increase, and may require expansion of our cash flows from financing activities.

During the nine months period ended August 31, 2015, we recorded net income of \$995,956 but our operations produced only \$540,235 in net cash. This occurred primarily because we ended the quarter with \$292,594 in accounts receivable outstanding - whereas we ended each of the past two fiscal years with no accounts receivable. In addition, we increased our prepaid expenses by \$137,847 during the recent quarter, primarily for large prepayment for



advertising expenses and a prepayment of our technology license fee. Similarly, during the nine months ended August 31, 2014 prepayments of \$115,433 in expenses reduced the cash produced during that period to \$498,478, despite net income of \$566,280.

Because of our ample cash position and the profitability of our operations, we do not anticipate incurring significant additional debt. Therefore, our liquidity should be adequate to sustain the full implementation of our business plan for the foreseeable future.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

### **Recent accounting pronouncements**

There were no recent accounting pronouncements that have or will have a material effect on the Company's financial position or results of operations.

## **ITEM 3**

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## **ITEM 4**

### **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 the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated by the Securities and Exchange Commission) as of August 31, 2015. The evaluation revealed that there are material weaknesses in our disclosure controls, specifically:

The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system.

Our internal financial staff lack expertise in identifying and addressing complex accounting issued under U.S. Generally Accepted Accounting Principles.

Our executive officers are not familiar with the accounting and reporting requirements of a U.S. public company.

We have not developed sufficient documentation concerning our existing financial processes, risk assessment and internal controls.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's system of disclosure controls and procedures was not effective as of August 31, 2015.

*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 the Company's third fiscal quarter 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*

None.

### *Item 1A*

#### *Risk Factors*

There have been no material changes from the risk factors included in our Current Report on Form 8-K filed on April 21, 2015.

### *Item 2.*

#### *Unregistered Sale of Securities and Use of Proceeds*

##### (a) Unregistered sales of equity securities

There were no unregistered sales of equity securities by the Company during the 3rd quarter of fiscal 2015.

##### (c) 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 2015.

### *Item 3.*

#### *Defaults Upon Senior Securities.*

None.

*Item 4.*

*Mine Safety Disclosures*

None.

*Item 5.*

*Other Information.*

None.

*Item 6.*

*Exhibits*

31.1	Rule 13a-14(a) Certification - CEO
31.2	Rule 13a-14(a) Certification - CFO
32	Rule 13a-14(b) Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

**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 GEWANG BIOTECHNOLOGY, INC.

Date: October 20, 2015

By: /s/ Shili Zhang

Shili Zhang, Chief Executive Officer

By: /s/ Fengxia Wu

Fengxia Wu, Chief Financial and Accounting Officer