CHINA GEWANG BIOTECHNOLOGY, INC.
Form 10-Q
July 15, 2016

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 May 31, 2016

[ ]

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	42-1769584
(State or Other Jurisdiction of incorporation or organization)	(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 [X] 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 [X] No [ ]

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

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 [X]_ _

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:

July 14, 2016 Common Voting Stock: 75,000,000

CHINA GEWANG BIOTECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE FISCAL QUARTER ENDED MAY 31, 2016

TABLE OF CONTENTS

2

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (IN U.S. $)

ASSETS	**May 31, 2016 (Unaudited)**	November 30, 2015
Current assets:		
Cash	**$ 16,691,199**	$ 8,669,034
Accounts receivable	**3,598,376**	267,868
Inventory	**22,244**	156,778
Prepaid expenses	**1,547,652**	201,369
Total current assets	**21,859,471**	9,295,049
Property, plant and equipment, net	**117,433**	65,860
Other assets:		
Equity investment	**1,874,927**	-
TOTAL ASSETS	$ **23,851,831**	$ 9,360,909

See accompanying notes to the consolidated financial statements

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED) (IN U.S. $)

LIABILITIES AND STOCKHOLDERS EQUITY	**May 31, 2016 (Unaudited)**	November 30, 2015
Current liabilities:		
Accounts payable	**$ 1,235,947**	$ -
Taxes payable	**406,607**	64,153
Accrued expenses and other payables	**40,925**	175,086
Loans from stockholder	**218,069**	166,106
Other payable - equity investment	**1,000,000**	-
Total current liabilities	**2,901,548**	405,345
Stockholders equity:		
Common stock - $0.001 par value, 75,000,000 shares authorized, 75,000,000 and 45,500,000 shares issued and outstanding as of May 31, 2016 and November 30, 2015, respectively	**75,000**	45,500
Additional paid-in capital	**16,811,095**	6,525,743
Retained earnings	**4,016,081**	2,270,416
Statutory reserve fund	**443,757**	281,766
Other comprehensive (loss)	**(561,982)**	(252,022)
Stockholders equity before noncontrolling interests	**20,783,951**	8,871,403
Noncontrolling interests	**166,332**	84,161
Total stockholders equity	**20,950,283**	8,955,564
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 23,851,831**	$ 9,360,909

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 SIX MONTHS ENDED MAY 31, 2016 AND 2015 (UNAUDITED) (IN U.S. $)

	Three Months ended May 31,		Six Months ended May 31,	
	2016	2015	**2016**	2015
Revenue	**$ 5,437,183**	$ 1,045,750	**$ 6,655,281**	$ 2,006,612
Cost of goods sold	**(3,025,001)**	(284,699)	**(3,367,609)**	(547,058)
Gross profit	**2,412,182**	761,051	**3,287,672**	1,459,554
Operating expenses:				
Selling and marketing	**649,302**	174,677	**919,973**	328,645
General and administrative	**122,978**	131,230	**259,939**	188,253
Total operating expenses	**772,280**	305,907	**1,179,912**	516,898
Operating income	**1,639,902**	455,144	**2,107,760**	942,656
Other income:				
Interest income	**6,327**	1,431	**11,095**	3,871
Other non-operating income	**-**	-	**1,490**	-
Total other income	**6,327**	1,431	**12,585**	3,871
Income before provision for income taxes	**1,646,229**	456,575	**2,120,345**	946,527
Provision for income taxes	$ **416,553**	$ 114,623	**$ 539,969**	$ 237,610

See accompanying notes to the consolidated financial statements

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2016 AND 2015 (UNAUDITED) (IN U.S. $)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2016	2015	**2016**	2015
Equity in income of investee	**$ 408,275**	$ -	**$ 408,275**	**$ -**
Net income before noncontrolling interests	**1,637,951**	341,952	**1,988,651**	708,917
Noncontrolling interests	**(62,483)**	(15,474)	**(80,995)**	(32,077)
Net income attributable to common stockholders	**1,575,468**	326,478	**1,907,656**	676,840
Earnings per common share	**$ 0.03**	$ 0.01	**$ 0.03**	$ 0.02
Weighted average shares outstanding	**60,543,478**	37,456,522	**55,882,514**	36,489,011
Comprehensive income				
Net income before noncontrolling interests	**$ 1,637,951**	$ 341,952	**$ 1,988,651**	$ 708,917
Foreign currency translation adjustment	**(122,371)**	25,735	**(308,784)**	5,558
Total comprehensive income	**1,515,580**	367,687	**1,679,867**	714,475
Comprehensive income attributable to noncontrolling interests	**(72,978)**	(16,760)	**(82,171)**	(32,355)
Net comprehensive income attributable to common stockholders	**$ 1,442,602**	$ 350,927	**$ 1,597,696**	$ 682,120

See accompanying notes to the consolidated financial statements

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED MAY 31, 2016 (UNAUDITED) (IN U.S. $)

	Common Stock	AdditionalPaid-in Capital	Retained Earnings	Noncon- trolling Interests	Statutory Reserve Fund	Other Compre- hensive Income (Loss)	Total
Balance, November 30, 2015	**45,500**	**6,525,743**	**2,270,416**	**84,161**	**281,766**	**(252,022)**	**8,955,564**
Issuance of common stock	29,500	9,818,700	-	-	-	-	9,848,200
Equity in excess of purchase price of investee under common control	-	466,652	-	-	-	-	466,652
Net income	-	-	1,907,656	80,995	-	-	1,988,651
Statutory reserve	-	-	(161,991)	-	161,991	-	-
Other comprehensive income (loss)	-	-	-	1,176	-	(309,960)	(308,784)
Balance, May 31, 2016 (Unaudited)	**75,000**	**16,811,095**	**4,016,081**	**166,332**	**443,757**	**(561,982)**	**20,950,283**

See accompanying notes to the consolidated financial statements

7

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED MAY 31, 2016 AND 2015 (UNAUDITED) (IN U.S. $)

	2016	2015
Cash flows from operating activities:	$	$
Net income	**1,988,651**	708,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**24,761**	13,915
(Income) from equity investment	**(408,275)**	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	**(3,330,508)**	(222,905)
Decrease (increase) in inventory	**134,534**	(46,444)
(Increase) in prepaid expenses	**(1,346,283)**	(35,401)
Increase (decrease) in accounts payable	**1,235,947**	(7,225)
(Decrease) in advances from customers	**-**	(56,930)
Increase in taxes payable	**342,454**	13,908
(Decrease) increase in accrued expenses and other payables	**(82,198)**	75,053
Net cash (used in) provided by operating activities	**(1,440,917)**	(442,888)
Cash flows from investing activities:		
Purchase of equipment	**(78,677)**	(24,550)
Net cash (used in) investing activities	**(78,677)**	(24,550)
Cash flows from financing activities:		
Proceeds from stockholder loans	**-**	38,106
Proceeds from sale of common stock	**9,848,200**	-
Net cash provided by financing activities	**9,848,200**	38,106
Effect of exchange rate changes on cash	**(306,441)**	5,558
Net change in cash	**8,022,165**	462,002
Cash, beginning	**8,669,034**	3,012,812
Cash, end	$ **16,691,199**	$ 3,474,814

See accompanying notes to the consolidated financial statements

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED MAY 31, 2016 AND 2015 (UNAUDITED) (IN U.S. $)

	Six Months Ended May 31	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ 264,032	$ 229,218
Noncash investing activities:		
Payable for purchase of equity investment	$ 1,000,000	$ -
Additional paid-in capital - equity in excess of purchase price of investee under common control	$ 466,652	$ -
Noncash financing activities:		
Payment of accrued expenses and other payables by shareholder	$ 52,190	$ 40,797

See accompanying notes to the consolidated financial statements

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2016 AND 2015

(UNAUDITED) (IN U.S. $)

1.

ORGANIZATION

Majority-owned subsidiary: Gewang Selenium

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. From 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.

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 between Guangdong Gewang and 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$1,600 (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, to vote 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 Gewang Selenium or its designated entities acquire 100% ownership of Guangdong Gewang.

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.

Equity investment: Guangdong Tianmei

On April 28, 2016, the Company's wholly-owned subsidiary, Biotechnology International, entered into an investment agreement with Guangdong Tianmei. Guangdong Tianmei was organized in May 2015, and is engaged in the business of distributing selenium-rich bottled water and also functions as a placement agent for a variety of products from various manufacturers, all within the PRC. The investment agreement provided that Biotechnology International would pay US$1,000,000 to acquire a 30% interest in an Australian corporation to be formed, which would indirectly own all of the equity in Guangdong Tianmei.

The acquisition by Biotechnology International of 30% of Tianmei Beverage Group Corporation Limited, an Australian corporation ("Tianmei Australia") was completed in May 2016, at which time Tianmei Australia acquired ownership, through subsidiaries, of Guangdong Tianmei. The investment agreement provided that payment of the $1,000,000 purchase price was due on June 20, 2016, which was paid on June 17, 2016.

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 May 31, 2016, and for the three and six months ended May 31, 2016 and 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 annual 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 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 six months ended May 31, 2016 and 2015 are not necessarily indicative of the results to be expected for future quarters or for the year ending November 30, 2016.

The Company uses the equity method of accounting for its equity investments. The investments are under common control and can be significantly influenced. Under the equity method, investments are carried at cost and increased or decreased by the Company s pro-rata share of earnings or losses. The carrying costs of these investments are also increased or decreased to reflect additional contributions or withdrawals of capital. Any difference in the book equity and the Company s pro-rata share of the net assets of the investment will be reported as gain or loss at the liquidation of the investment. Losses in excess of the investments are recorded when the Company is committed to provide additional financial support. The Company uses the equity method for investment of 30% because the Company has the ability to exercise significant influence over these entities.

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) Section 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 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:

	May 31, 2016 (Unaudited)	November 30, 2015
TOTAL ASSETS	**$ 21,976,575**	$ 9,360,262
TOTAL LIABILITIES	**$ 16,185,970**	$ 5,240,643

	Three Months Ended May 31,		Six Months Ended May 31,	
	2016 (Unaudited)	2015 (Unaudited)	**2016** (Unaudited)	2015 (Unaudited)
Net income	**$ 1,250,901**	$ 356,884	**$ 1,619,907**	$ 766,135

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

Almost all of the 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 report purposes. The financial statements of the Company have been translated into US Dollars in accordance with 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:

	May 31, 2016 (Unaudited)	November 30, 2015
Balance sheet items, except for stockholders equity, as of periods end	**0.1519**	0.1561

	Three Months Ended	
	May 31, 2016 (Unaudited)	May 31, 2015 (Unaudited)
Amounts included in the statements of income and comprehensive income, changes in stockholders equity and cash flows for the periods presented	**0.1537**	0.1631

	Six Months Ended	
	May 31, 2016 (Unaudited)	May 31, 2015 (Unaudited)
Amounts included in the statements of income and comprehensive income, changes in stockholders equity and cash flows for the periods presented	**0.1535**	0.1629

Foreign currency translation adjustments of $(122,371) and $25,735 for the three months ended May 31, 2016 and 2015, respectively, and $(308,784) and $5,558 for the six months ended May 31, 2016 and 2015, respectively, have been reported as other comprehensive income (loss). Other comprehensive income (loss) of the Company consists entirely of foreign currency translation adjustments.

Although PRC 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. In August 2015, the PRC devalued its currency by approximately 3.5%; in January 2016 the PRC devalued its currency by an additional 0.5%. Further devaluations of its currency could occur.

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 for the three and six months ended May 31, 2016 and 2015 were comprised as follows:

	Three Months Ended May 31,		**Six Months Ended May 31,**	
	2016 (Unaudited)	2015 (Unaudited)	**2016 (Unaudited)**	2015 (Unaudited)
Wholesale	**$ 4,949,592**	$ 670,393	**$ 5,778,677**	$ 1,298,376
Retail	**487,591**	375,357	**876,604**	708,236
	$ 5,437,183	$ 1,045,750	**$ 6,655,281**	$ 2,006,612

Shipping costs

Shipping costs incurred by the Company are recorded as selling expenses. Shipping costs for the three and six months ended May 31, 2016 and 2015 were $24,427 and $10,160, respectively, and $39,453 and $19,480, respectively.

Advertising costs

Advertising costs are charged to operations when incurred. For the three and six months ended May 31, 2016 and 2015, advertising expenses were $23,057 and $22,019, respectively, and $44,519 and $39,096, 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 and, 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 from 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.

As of May 31, 2016 and November 30, 2015, accounts receivable was $3,598,376 and $267,868, respectively. The Company believes that its accounts receivable are fully collectable and determined that an allowance for doubtful accounts was not necessary.

Inventory

Inventory, comprised principally of boxed selenium capsules, selenium-glossy ganoderma capsules and selenium powder, is 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 May 31, 2016 and November 30, 2015.

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 and cash equivalents, accounts receivable, inventory, prepaid expenses, equity investment, accounts payable, payable for equity investment, taxes payable, accrued liabilities and other payables, and loan from stockholder, approximated their fair values due to the short nature of these financial instruments. There were no changes in methods or assumptions during the periods presented.

Prepaid expenses

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

Prepaid promotion expenses represent payments made to promotion companies for distributing products to retail stores. In March 2016, the Company entered into agreements with 4 promotion companies. Prepaid promotion expenses as of May 31, 2016 and November 30, 2015 were $1,391,200 and $0, respectively.

On January 5, 2011, the Company entered into a license agreement for the technology utilized for the manufacture of its products from an unrelated third party for five years from January 2011 to December 2015. On December 30, 2015, the Company renewed the license agreement for another five years to December 2020 at $91,137 (RMB 600,000) each year. The related prepaid licensing fees of $53,163 and $7,805 were included in prepaid expenses on the balance sheets as of May 31, 2016 and November 30, 2015, respectively. The license provides for renewal options. Since this agreement requires the advance payment of the annual licensing fee, there were no payments remaining under this agreement as of May 31, 2016 and November 30, 2015.

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 six months ended May 31, 2016 and 2015.

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 statutory reserve fund was $443,757 and $281,766 as of May 31, 2016 and November 30, 2015, 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.

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 May 31, 2016 and November 30, 2015, 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.

The income tax laws of various jurisdictions in which the Company and its subsidiaries operate are summarized as follows:

United States

The Company is subject to United States tax at graduated rates from 15% to 35%. No provisions for income tax in the United States have been made as the Company had no U.S. taxable income for the three and six months ended May 31, 2016 and 2015.

British Virgin Islands (BVI)

Biotechnology International is incorporated in the BVI and is governed by the income tax laws of the BVI. According to current BVI income tax law, the applicable income tax rate for the Company is 0%.

Hong Kong

Hong Kong Gewang is incorporated in Hong Kong. Pursuant to the income tax laws of Hong Kong, the Company is not subject to tax on non-Hong Kong source income.

The People's Republic of China (PRC)

Gewang Selenium and Guangdong Gewang are subject to an Enterprise Income Tax at 25% and file their own tax returns.

3.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, the Financial Accounting Standards Board ("FASB) issued Accounting Standards Update ("ASU") ASU 2016-02 Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our financial statements.

In July 2015, the FASB issued ASU 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 FASB issued 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 FASB issued 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 $218,069 as of May 31, 2016 and $166,106 as of November 30, 2015 are reflected as loans from stockholder.

The Company entered into a promotion agreement with Guangdong Tianmei Selenium-Rich Beverage Chain Co., LTD, a related party (Tianmei). Prepaid promotion expenses as of May 31, 2016 and November 30, 2015 were $26,576 and $0, respectively.

The Company entered into an agreement with Tianmei on June 10, 2015 to license the usage of the Company s trademark for 10 years. Trademark revenue recorded for the three and six months ended May 31, 2016 and 2015 were $0, $1,490, $0, and $0, respectively. The future commitment is approximately $1,500 each year.

Equity investment

On April 28, 2016 the Company's wholly-owned subsidiary, Biotechnology International, entered into an investment agreement with Guangdong Tianmei. At that time, 88% of the equity in Guangdong Tianmei was owned by two individuals who together own 22% of the Company's outstanding shares. The investment agreement provided that

Biotechnology International would pay US$1,000,000 to acquire a 30% interest in an Australian corporation to be formed, which would indirectly own all of the equity in Guangdong Tianmei.

The acquisition by Biotechnology International of 30% Tianmei Australia was completed in May 2016, at which time Tianmei Australia acquired ownership, through subsidiaries, of Guangdong Tianmei. The investment agreement provided that payment of the $1,000,000 purchase price was due on June 20, 2016, which was paid in full on June 17, 2016.

The net worth of Guangdong Tianmei at the time of the acquisition was $4,888,840, 30% of which is $1,466,652. Because the Company and Guangdong Tianmei were under common control at the time of the acquisition, the $466,652 by which the Company's share of the net worth of Guangdong Tianmei exceeded the purchase price has been recorded as an increase to additional paid-in capital.

The changes in the equity investment are summarized as follows:

	May 31, 2016 (Unaudited)	November 30, 2015
Initial investment	$ 1,466,652	$ -
Pro rata share of net income	408,275	-
Investment, end of period/year	$ 1,874,927	$ -

The following is a summary of results of operations of the investee for the period from April 29, 2016 to May 31, 2016:

Revenue	$ 3,084,190
Cost of revenue	$ 869,244
Expenses	$ 854,030
Net income	$ 1,360,916

5.

LEASES

The Company leases its warehouse and office space from an unrelated third party under a one-year operating lease, which expired on July 1, 2016. The lease required the Company to prepay the total rent of $91,137 (RMB 600,000) in advance for one year. On June 29, 2016, the Company renewed the lease, which recommenced on July 2, 2016 and expires on July 1, 2017. The Company leases its Chancheng store from an unrelated third party. The lease, which expired on August 31, 2015, required the Company to prepay the rent of $42,311 (RMB 276,000) in advance for one year. The Company renewed this lease to August 31, 2016 and prepaid the rent of $55,188 (RMB 360,000) in advance for one year. The Company leases its Xiamen store from an unrelated third party. The lease expired on June 1, 2016 and had a renewal option. The Company decided not to renew the lease. The lease required the Company to prepay the rent of $55,188 (RMB 360,000) in advance for one year. The Company also leases its Changsha store form an unrelated third party. The lease, which expires on October 7, 2018, required the Company to prepay the rent of $63,798 (RMB 420,000) in advance for one year. On May 26, 2016, the Company terminated the lease with a $0 settlement fee. 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 and six months ended May 31, 2016 and 2015 was $66,872 and $31,334, respectively, and $133,557 and $62,554, respectively.

6.

FIXED ASSETS

Fixed assets as of May 31, 2016 and November 30, 2015 are summarized as follows:

		2016 (Unaudited)		2015
Electronic equipment	**$**	**85,807**	$	68,733
Motor vehicles		**126,757**		69,714
Office equipment		**12,588**		12,936
		225,152		151,383
Less: accumulated depreciation		**(107,719)**		(85,523)
Fixed assets - net	**$**	**117,433**	$	65,860

For the three and six months ended May 31, 2016 and 2015, depreciation expense was $14,653 and $7,465, respectively, and $24,761 and $13,915, respectively.

7.

INCOME TAXES

The provision for income taxes for the three and six months ended May 31, 2016 and 2015 consisted of the following:

	Three Months Ended May 31,				Six Months Ended May 31,			
		2016 (Unaudited)		2015 (Unaudited)		**2016 (Unaudited)**		2015 (Unaudited)
Current	$	**416,553**	$	114,623	**$**	**539,969**	$	237,610
Deferred		**-**		-		**-**		-
	$	**416,553**	$	114,623	**$**	**539,969**	$	237,610

No provisions for income taxes in the United States have 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 may have engaged in through May 31, 2016. 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. The tax years ended November 30, 2015, December 31, 2014, and 2013 remain open to examination by the IRS.

The Company did not file its U.S. federal income tax returns, including, without limitation, information returns on Internal Revenue Service (IRS) Form 5471, *Information Return of U.S. Persons with Respect to Certain Foreign Corporations* for the short year tax return ended November 30, 2015 required to be filed as a result of the change in fiscal year. Failure to furnish any income tax returns and information returns with respect to any foreign business entity required, within the time prescribed by the IRS, subjects the Company to certain civil penalties. Management is of the opinion that penalties, if any, that may be assessed would not be material to the consolidated financial statements.

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 three and six months ended May 31, 2016, six customers counted for 74% and three customers counted for 52% of total sales, respectively. As of May 31, 2016, three customers accounted for 80% of accounts receivable, the largest being 34%. As of November 30, 2015, seven customers accounted for 90% of accounts receivable.

Vulnerability Due to Operations in the 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 economy in the PRC has recently started to narrow.

The Company believes that Gewang Selenium s contractual agreements with Guangdong Gewang 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 the PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with the PRC law and any disputes would be resolved in accordance with the 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 the ability of Gewang Selenium to conduct the Company s business may be adversely affected.

9.

ISSUANCE OF COMMON STOCK

On January 18, 2016 the Company sold an aggregate of 12,000,000 shares of common stock to four individuals in a private offering. None of the purchasers were affiliated with the Company. The purchase price for the shares was three RMB (approximately US$0.4561) per share, or a total of 36 million RMB (approximately US$5,473,200). The purchase price was paid by the investors to Guangdong Gewang, which is managed by the Company s wholly-owned subsidiary and accounted for as a variable interest entity.

On May 16, 2016 the Company sold an aggregate of 17,500,000 shares of common stock to two entities in a private offering. Neither of the purchasers were affiliated with the Company. The purchase price for the shares was US$0.25 per share, or a total of US$4,375,000. The purchase price was paid by the investors to Guangdong Gewang, which is managed by a wholly-owned subsidiary of the Company and accounted for as a variable interest entity.

10.

PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The following is the condensed financial information of China Gewang Biotechnology, Inc., the US parent, consisting of balance sheets as of May 31, 2016 and November 30, 2015, statements of income and cash flows for the three and six months ended May 31, 2016 and 2015.

Condensed Balance Sheets

	May 31,	November 30,
ASSETS	**2016** **(Unaudited)**	2015
Other receivable from Guangdong Gewang	**$ 14,848,200**	$ 5,000,000
Investments in subsidiaries and VIE	**5,999,738**	3,977,483
TOTAL ASSETS	**$ 20,847,938**	$ 8,977,483
LIABILITIES AND STOCKHOLDERS		
EQUITY		
Current liabilities:		
Accrued expenses	**$ 20,455**	$ 33,375
Stockholder loans	**209,864**	156,866
Total current liabilities	**230,319**	190,241
Stockholders equity:		
Common stock, $0.001 par value, 75,000,000 shares authorized, 75,000,000 and 45,500,000 shares issued and outstanding as of May 31, 2016 and November 30, 2015, respectively	**75,000**	45,500
Additional paid-in capital	**16,811,095**	6,525,743
Retained earnings	**3,849,749**	2,186,255
Statutory reserve fund	**443,757**	281,766
Other comprehensive (loss) income	**(561,982)**	(252,022)
Total stockholder s equity	**20,617,619**	8,787,242
TOTAL LIABILITIES AND	**$ 20,847,938**	**$** 8,977,483

STOCKHOLDERS EQUITY

24

Condensed Statements of Income

	Three Months Ended May 31,		Six Months Ended May 31,	
	2016 (Unaudited)	2015 (Unaudited)	**2016 (Unaudited)**	2015 (Unaudited)
Revenues:				
Share of earnings from investments in subsidiaries and VIE	**$ 2,061,851**	$ 355,353	**$ 2,413,578**	$ 730,145
Operating expenses:				
General and administrative	**(19,732)**	(28,875)	**(39,270)**	(53,304)
Net income	**$ 2,042,119**	$ 326,478	**$ 2,374,308**	$ 676,841

Condensed Statements of Cash Flows

	Six Months Ended	
	May 31, 2016 (Unaudited)	May 31, 2015 (Unaudited)
Cash flows from operating activities:		
Net income	**$ 2,374,308**	$ 676,841
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Share of earnings from investment in subsidiaries and VIE	**(2,413,578)**	(730,145)
Increase in accrued expenses and other liabilities	**39,270**	53,304
Net cash provided by (used in) operating activities	**-**	-
Net change in cash	**-**	-

Cash, beginning of period		**-**		-
Cash, end of period	**$**	**-**	$	-
Noncash financing activities:				
Payment of accrued expenses and other payables by shareholder	**$**	**52,190**	$	40,797

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 on 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 six months ended May 31, 2016.

Restricted Net Assets

Under the 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 were approximately $20,848,000 and $8,977,000 as of May 31, 2016 and November 30, 2015, 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 the 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.

11. SUBSEQUENT EVENTS

The Company s management has performed subsequent events procedures through July 15, 2016, which is the date the consolidated financial statements were available to be issued. Except for the issues discussed in Note 5, there were no subsequent events requiring adjustment to or disclosure in the consolidated financial statements.

ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Principles of Consolidation

China Gewang Biotechnology, Inc. is a holding company whose assets consist of (a) 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 ("PRC") on March 12, 2015, and (b) an indirect 30% ownership interest in Guangdong Tianmei Selenium-Rich Beverage Chain Co., Ltd. ("Guangdong Tianmei"), a corporation organized under the laws of the PRC in May 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.

In May 2016, our wholly-owned subsidiary, Biotechnology International Holding Ltd. ("Biotechnology International"), purchased 30% of the outstanding shares of Tianmei Beverage Group Corporation Limited, an entity organized under the laws of Australia ("Tianmei Australia"). The purchase price was $1,000,000 payable to Guangdong Tianmei. On May 16, 2016 Tianmei Australia acquired all of the outstanding shares of Tianmei International Beverage Co., Ltd., which is organized in the British Virgin Islands ("Tianmei BVI"). Tianmei BVI, through its wholly owned subsidiary, a Hong Kong holding company, owns all of the equity of a wholly foreign-owned subsidiary organized in PRC, which wholly owns Guangdong Tianmei. Guangdong Tianmei was organized in May 2015, and is engaged in the business of distributing selenium-rich bottled water as well as functioning as a placement agent for products from other manufacturers.

Results of Operations (Three Months)

The following table sets forth key components of our results of operations during the three months ended May 31, 2016 and 2015, and the percentage changes between 2016 and 2015.

	May 31,	May 31,

	2016 (US $)	2015 (US $)	Change %
Revenue	$ 5,437,183	$ $ 1,045,750	$ 420%
Cost of Goods Sold	(3,025,001)	(284,699)	963%
Gross profit	2,412,182	761,051	217%
Selling and marketing expenses	649,302	174,677	272%
General and administrative expenses	122,978	131,230	(6%)
Total operating expenses	772,280	305,907	152%
Income from operations	1,639,902	455,144	260%
Other income	6,327	1,431	342%
Income before provision for income taxes and equity investment	1,646,229	456,575	261%
Provision for income taxes	416,553	114,623	263%
Equity in income of investee	408,275	-	100%
Net income before noncontrolling interests	1,637,951	341,952	379%
Noncontrolling interests	(62,483)	(15,474)	304%
Net income attributable to common stockholders	$ 1,575,468	$ 326,478	76%

27

Sales. Our sales sharply increased to $5,437,183 for the three months ended May 31, 2016 from $1,045,750 for the three months ended May 31, 2015, an increase of $4,391,433 or 420%. During the three months ended May 31, 2016, we signed agreements with four distributors to distribute selenium products to hundreds of retail stores, and we made sales of selenium products totaling $3,660,259 to these four distributors. In addition, the following factors also caused the increase in our sales:

.

Wholesales of selenium supplements/products to established customers by our headquarters marketing personnel increased by $4,312,386, or 643%, primarily due to an increase in the number of sales personnel.

.

The increase of retail sales by $115,047, or 31%, was primarily caused by the opening of a second store in Xiamen in June 2015 and a third store in Changsha in October 2015.

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

	Quarter ended May 31, 2016		Quarter ended May 31, 2015	
	Sales	% of total	Sales	% of total
Headquarters wholesale-Selenium supplements	$ 1,302,289	24%	$ 670,371	64%
Headquarters wholesale-Selenium products	3,680,468	67%	--	--
Headquarters retail store	141,039	3%	167,467	16%
Changcheng retail store	153,258	3%	207,912	20%
Xiamen retail store	107,695	2%	--	--
Changsha retail store	88,434	1%	--	--
	$ 5,473,183	100%	$ 1,045,750	100%

Gross Profit. After increasing over the past two fiscal years, the unit prices that we pay to our manufacturers for the selenium supplements we have sold since entering the market stabilized in the second quarter of fiscal 2016. As a result, our gross margin for selenium supplements was not significantly changed: 71.6% in the three months ended May 31, 2016 compared to 72.8% in the three months ended May 31, 2015. However, we now market other selenium products, which we purchase from different vendors. These new products yielded a gross margin of only 31.6% for the three months ended May 31, 2016. The other selenium products to our sales caused a decrease in total gross margin to 44.4% for the three months ended May 31, 2016 from 72.8% for the three months ended May 31, 2015.

Selling expenses. Our selling expenses increased by 272% or 474,625 to $649,302 for the three months ended May 31, 2016 from $174,677 for the three months ended May 31, 2015. To obtain a strong distribution channel in a short time, we spent $385,213 as a promotion fee, which was classified as a selling expense for the three months ended May 31, 2016. In addition, our selling expenses also include rent, transportation expenses, advertising expenses and salaries incurred for the sales function, all of which will tend to increase as our sales increase. Finally, another reason for the increase in our selling expenses was the opening of our retail stores in Xiamen and Changsha during the second half of fiscal year 2015.

General and administrative expenses. Our general and administrative (G&A) expenses decreased by 6% to $122,978 for the three months ended May 31, 2016 from $131,230 for the three months ended May 31, 2015. The largest components of our G&A expenses are the salaries of administrative personnel and government-mandated benefits provided to all of our staff.

Income from operations. Because the sharp increase in our sales generated a material increase in our gross profit, our operating income increased by 260%, to $1,639,902 for the three months ended May 31, 2016, from $455,144 for the three months ended May 31, 2015.

As we have very little debt, our other income for the three months ended May 31, 2016 and 2015 consisted entirely of interest income earned on our bank balances of $6,327 and $1,431, respectively. Our pre-tax income, therefore, was $1,646,229 and $456,575 for the three months ended May 31, 2016 and 2015, respectively.

Net income. Due to increase in net income, our provision for income taxes increased by 263% to $416,553 for the three months ended May 31, 2016 from $114,623 for the three months ended May 31, 2015. In each period, our effective tax rate was the same as the statutory rate of 25%. After deducting the provision for income taxes and adding equity in income of investee, China Gewang reported net income before noncontrolling interests of $1,637,951 and $341,952 for the three months ended May 31, 2016 and 2015, respectively. Because the VIE Agreements assign to Gewang Selenium only 95% of the net income of Guangdong Gewang, we record a deduction for noncontrolling interests, after which our net income attributable to common stockholders was $1,575,468 ($0.03 per share) and $326,478 ($0.01 per share) for the three months ended May 31, 2016 and 2015, respectively.

Results of Operations (Six Months)

The following table sets forth key components of our results of operations during the six months ended May 31, 2016 and 2015, and the percentage changes between 2016 and 2015.

	May 31, 2016 (US $)	**May 31, 2015 (US $)**	**Change %**
Revenue	$ 6,655,281	$ $ 2,006,612	$ 232%
Cost of Sales	(3,367,609)	(547,058)	516%
Gross profit	3,287,672	1,459,554	125%
Selling and marketing expenses	919,973	328,645	180%
General and administrative expenses	259,939	188,253	38%
Total operating expenses	1,179,912	516,898	128%
Income from operations	2,107,760	942,656	124%
Other income	12,585	3,871	225%
Income before provision for income taxes	2,120,345	946,527	124%
Provision for income taxes	539,969	237,610	127%
Equity in income of investee	408,275	-	100%
Net income before noncontrolling interests	1,988,651	708,917	181%
Noncontrolling interests	(80,995)	(32,077)	153%
Net income attributable to common stockholders	$ 1,907,656	$ 676,840	182%

Sales. Our sales sharply increased to $6,665,281 for the six months ended May 31, 2016 from $2,006,612 for the six months ended May 31, 2015, an increase of $4,648,669 or 232%. In March 2016, we entered into agreements with four distributors to distribute selenium products to hundreds of retail stores, and we made total sales of $3,655,116 to those four distributors. In addition, the following factors also caused the increase in our sales:

.

Wholesales of selenium supplements/products to established customers completed by our headquarter marketing personnel increased by $4,480,301 or 345%, primarily due to an increase in the number of sales personnel.

.

Retail sales increased by $168,368, or 24%, primarily because we opened a second store in Xiamen in June 2015and a third store in Changsha in October 2015, The following table shows the source of our revenue in the comparable periods:

	Six Months ended May 31, 2016		Six Months ended May 31, 2015	
	Sales	% of total	Sales	% of total
Headquarters wholesale-selenium supplements	$ 2,123,561	32%	$ 1,298,376	65%
Headquarters wholesale- selenium products	3,655,116	55%	--	--
Headquarters retail store	244,758	4%	311,012	15%
Changcheng retail store	269,234	4%	397,223	20%
Xiamen retail store	199,097	3%	--	--
Changsha retail store	163,515	2%	--	--
	$ 6,655,281	100%	$ 2,006,612	100%

Gross Profit. After increasing over the past two fiscal years, the unit prices that we pay to our manufacturers for the selenium supplements we have sold since entering the market stabilized during the six months ended May 31, 2016.

As a result, our gross margin for those selenium supplements remained stable at 72.7% during both the six months ended May 31, 2016 and the six months ended May 31, 2015. However, we now market other selenium products, which we purchase from different vendors. These new products yielded a gross margin of 31.6% for the six months ended May 31, 2016. The addition of these other selenium products to our sales caused a decrease in total gross margin to 49.4% for the six months ended May 31, 2016.

Selling expenses. Our selling expenses increased by 180% or $591,328 from $328,645 for the six months ended May 31, 2015 to $919,973 for the six months ended May 31, 2016. To obtain the new distribution channels in a short time, we spent approximately $385,000 in promotional fees, which was classified as a selling expense for the six months ended May 31, 2016. In addition, our selling expenses also include rent, transportation expenses, advertising expenses and salaries incurred for the sales function, all of which will tend to increase as our sales increase. Finally, another reason for the increase in our selling expenses was the opening of our retail stores in Xiamen and Changsha during the second half of fiscal year 2015.

General and administrative expenses. Our general and administrative (G&A) expenses increased by 38% to $259,939 for the six months ended May 31, 2016 from $188,253 for the six months ended May 31, 2015. The largest components of our G&A expenses are the salaries of administrative personnel and government-mandated benefits provided to all of our staff. The change in G&A expenses from year to year occurred primarily as a result of the expansion of our business in the past year, as reflected in the growth of our sales.

Income from operations. As a result of the sharp increase in our sales generating a material increase in our gross profit, our operating income increased by 124%, to $2,107,760 during the six months ended May 31, 2016, from $942,656 during the six months ended May 31, 2015.

As we have very little debt, our other income for the six months ended May 31, 2016 consisted of interest income earned on our bank balances of $11,095 and income from a trademark lease of $1,490. Our other income consisted entirely of interest income earned on our bank balances of $3,871 for the six months ended May 31, 2015. Our pre-tax income, therefore, was $2,120,345 and $946,527 for the six months ended May 31, 2016 and 2015, respectively.

Net income. Due to increase in net income, our provision for income taxes increased by 127% to $539,969 for the six months ended May 31, 2016 from $237,610 for the six months ended May 31, 2015. In each period, our effective tax rate was the same as the statutory rate of 25%. After deducting the provision for income taxes and adding pro-rata income from equity investment, China Gewang reported net income before noncontrolling interests of $1,988,651 and $708,917 for the six months ended May 31, 2016 and 2015, respectively. Because the VIE Agreements assign to Gewang Selenium only 95% of the net income of Guangdong Gewang, we record a deduction for noncontrolling interests, after which our net income attributable to common stockholders was $1,907,656 ($0.03 per share) and $676,840 ($0.0 per share) for the six months ended May 31, 2016 and 2015, respectively.

Foreign Currency Translation Adjustment. Our reporting currency is the U.S. dollar. Our local currency, the 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 statements 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 and six months ended May 31, 2016 and 2015, foreign currency translation adjustments of $(122,371) and $25,735, respectively, and $(308,784) and $5,558, respectively, have been reported as other comprehensive loss in the consolidated statement of changes in stockholders equity. The material negative adjustment during three and six months ended May 31, 2016 was primarily due to devaluation of the PRC currency of approximately 3.5% in August 2015 and a further devaluation of 0.5% in January 2016. Further devaluations could occur.

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. Substantially all of our assets are located in the PRC which makes it difficult for any funds to be utilized outside the PRC.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flows from operations and sale of our common stock. As a result, at May 31, 2016, our only debt consisted of (a) $218,069 in loans from a stockholder, which consisted of US Dollars loaned to pay our expenses in the U.S., and (b) the $1,000,000 purchase price of our interest in Guangdong Tianmei, which was payable on June 20, 2016

For the six months ended May 31, 2016, the increase in working capital was approximately equal to the sum of our net income for the period and the proceeds of two private placements of common stock for a total of$ 9,848,200. Our working capital as of May 31, 2016 was $18,957,923, which represented an increase of $10,068,219 during the six months then ended. 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 should continue to increase our working capital.

For the six months ended May 31, 2016, our investing activities consisted of the purchase of equipment for $78,677. Our investing cash flows for the six months ended May 31, 2015 consisted of the purchase of fixed assets for $24,550. 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.

For the six months ended May 31, 2016, our financing activities provided $9,848,200, which represented the proceeds of two private placements of our common stock. Our financing activities provided $38,106 which represented the proceeds from stockholder loan for the six months ended May 31, 2015.

During the six months ended May 31, 2016, although we recorded net income of $1,988,651, our operations used $1,440,917 in net cash. This difference occurred primarily due to the increase in our accounts receivable and prepaid expenses by $3,330,508 and $1,346,128, respectively. In addition, our accounts payable also increased by $1,235,947. Similarly, during the six months ended May 31, 2015 the increase in prepaid expenses of $35,401 and the increase in accounts receivable of $222,905 reduced the cash produced during that period to $442,888, despite net income of $708,917.

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 at least the next twelve months and 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

In February 2016, the Financial Accounting Standards Board ("FASB) issued Accounting Standards Update ("ASU") ASU 2016-02 Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our financial statements.

Except for the foregoing ASU, 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 Rule13a-15(e) promulgated by the Securities and Exchange Commission) as of May 31, 2016. 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 May 31, 2016.

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 second 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 Annual Report on Form 10-K for the year ended November 30, 2015.

Item 2.

Unregistered Sale of Securities and Use of Proceeds

(a) Unregistered sales of equity securities

On May 16, 2016 the Company sold an aggregate of 17,500,000 shares of common stock to two entities in a private offering. Neither of the purchasers was affiliated with the Company. The purchase price for the shares was US$0.25 per share, or a total of US$4,375,000. The purchase price was paid by the investors to Guangdong Gewang Biotechnology Co., Ltd., which is managed by a wholly-owned subsidiary of the Company and accounted for as a variable interest entity with respect to the Company.

The shares were sold to individuals who are accredited investors and were purchasing for their own accounts. The offering, therefore, was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) and Section 4(5) of the Securities Act. The offering was also sold in compliance with the exemption from registration provided by Regulation S, as all of the purchasers are residents of the People s Republic of China.

(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 2nd quarter of fiscal 2016.

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

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: July 15, 2016

By: /s/ Li Wang

Li Wang, Chief Executive Officer

By: /s/ Ming Cheng

Ming Cheng, Chief Financial and Accounting Officer