

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
(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 [X] No []

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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:

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

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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		Six Months ended	
	2016	2015	2016	2015
	May 31,		May 31,	
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		Six Months Ended	
	2016	May 31, 2015	2016	May 31, 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	Additional Paid-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

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	
	<u>2016</u>	<u>2015</u>
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.