CHINA GEWANG BIOTECHNOLOGY, INC.
Form 10-Q
April 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 February 29, 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:

April 14, 2016 Common Voting Stock: 57,500,000

CHINA GEWANG BIOTECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE FISCAL QUARTER ENDED FEBRUARY 29, 2016

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CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (IN U.S. $)

ASSETS	**February 29, 2016 (Unaudited)**	November 30, 2015
Current assets:		
Cash	**$ 14,180,591**	$ 8,669,034
Accounts receivable	**294,594**	267,868
Inventory	**40,157**	156,778
Prepaid expenses	**269,339**	201,369
Total current assets	**14,784,681**	9,295,049
Property, plant and equipment, net	**132,530**	65,860
TOTAL ASSETS	$ **14,917,211**	$ 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	**February 29, 2016 (Unaudited)**	November 30, 2015
Current liabilities:		
Taxes payable	**$ 73,601**	$ 64,153
Accrued expenses and other payables	**64,644**	175,086
Loans from stockholder	**185,917**	166,106
Total current liabilities	**324,162**	405,345
Stockholders equity:		
Common stock - $0.001 par value, 75,000,000 shares authorized, 57,500,000 and 45,500,000 shares issued and outstanding as of February 29, 2016 and November 30, 2015, respectively	**57,500**	45,500
Additional paid-in capital	**11,986,943**	6,525,743
Retained earnings	**2,565,577**	2,270,416
Statutory reserve fund	**318,791**	281,766
Other comprehensive (loss)	**(429,116)**	(252,022)
Stockholders equity before noncontrolling interests	**14,499,695**	8,871,403
Noncontrolling interests	**93,354**	84,161
Total stockholders equity	**14,593,049**	8,955,564
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 14,917,211**	$ 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 MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

(UNAUDITED) (IN U.S. $)

		2016		2015
Revenue	**$**	**1,218,098**	$	960,862
Cost of goods sold		**(342,608)**		(262,358)
Gross profit		**875,490**		698,504
Operating expenses:				
Selling and marketing		**270,671**		153,968
General and administrative		**136,961**		57,023
Total operating expenses		**407,632**		210,991
Operating income		**467,858**		487,513
Other income:				
Interest income		**4,768**		2,440
Other non-operating income		**1,488**		-
Total other income		**6,256**		2,440
Income before provision for income taxes		**474,114**		489,953
Provision for income taxes		**123,416**		122,987
Net income before noncontrolling interests		**350,698**		366,966
Noncontrolling interests		**(18,512)**		(18,448)
Net income attributable to common stockholders	**$**	**332,186**	$	348,518
Earnings per common share	**$**	**0.01**	$	0.01
Weighted average shares outstanding		**51,170,330**		35,500,000

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 MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

(UNAUDITED) (IN U.S. $)

	2016	2015
Comprehensive income:	**$**	$
Net income before noncontrolling interests	**350,698**	366,966
Foreign currency translation adjustment	**(186,413)**	(20,177)
Comprehensive income	**145,773**	348,789
Comprehensive (loss) attributable to noncontrolling interests	**(9,193)**	(17,439)
Net comprehensive income attributable to common stockholders	**$ 136,580**	$ 329,350

See accompanying notes to the consolidated financial statements.

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE THREE MONTHS ENDED FEBRUARY 29, 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	12,000	5,461,200	-	-	-	-	5,473,200
Net income	-	-	332,186	18,512	-	-	350,698
Statutory reserve	-	-	(37,025)	-	37,025	-	-
Other comprehensive (loss)	-	-	-	(9,319)	-	(177,094)	(186,413)
Balance, February 29, 2016 (Unaudited)	**$ 57,500**	**$ 11,986,943**	**$ 2,565,577**	**$ 93,354**	**$ 318,791**	**$ (429,116)**	**$ 14,593,049**

See accompanying notes to the consolidated financial statements.

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

(UNAUDITED) (IN U.S. $)

	2016	2015
Cash flows from operating activities:	**$**	$
Net income	**350,698**	366,966
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**10,108**	6,347
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	**(26,726)**	(275,003)
Decrease (Increase) in inventory	**116,621**	(22,412)
(Increase) in prepaid expenses	**(67,970)**	(111,690)
(Decrease) in advances from customers	**-**	(56,930)
Increase in taxes payable	**9,448**	39,931
(Decrease) increase in accrued expenses and other liabilities	**(90,631)**	23,499
Net cash provided by (used in) operating activities	**301,548**	(29,292)
Cash flows from investing activities:		
Purchase of equipment	**(78,567)**	(732)
Net cash (used in) investing activities	**(78,567)**	(732)
Cash flows from financing activities:		
Proceeds from sale of common stock	**5,473,200**	-
Net cash provided by financing activities	**5,473,200**	-
Effect of exchange rate changes on cash	**(184,624)**	(17,980)
Net change in cash	**5,511,557**	(48,004)
Cash, beginning	**8,669,034**	3,012,812
Cash, end	**$ 14,180,591**	$ 2,964,808

See accompanying notes to the consolidated financial statements.

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

(UNAUDITED) (IN U.S. $)

	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ -**	$ -
Cash paid for income taxes	**$ 113,712**	$ 87,941
Noncash financing activities:		
Payment of accrued expenses and other payables by shareholder	**$ 20,000**	$ 25,417

See accompanying notes to the consolidated financial statements.

CHINA GEWANG BIOTECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

(UNAUDITED) (IN U.S. $)

1.

ORGANIZATION

China Gewang Biotechnology, Inc. (the Company), formerly known as Rich Star Development, was incorporated under the laws of the State of Nevada on May 29, 2009. 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.

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 February 29, 2016, and for the three months ended February 29, 2016 and February 28, 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 months ended February 29, 2016 are not necessarily indicative of the results to be expected for future quarters or for the year ending November 30, 2016.

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

Variable Interest Entity

Pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (ASC 810), the Company is required to include in its consolidated financial statements, the financial statements of its variable interest entities (VIEs). ASC 810 requires a VIE to be consolidated 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:

	February 29, 2016 (Unaudited)		November 30, 2015	
TOTAL ASSETS	**$**	**14,916,613**	$	9,360,262
TOTAL LIABILITIES	**$**	**10,577,321**	$	5,240,643

	For the Three Months Ended			
	February 29, 2016 (Unaudited)		February 28, 2015 (Unaudited)	
Net income	**$**	**370,246**	$	368,966

Use of Estimates

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

Foreign Currency Translations

All 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).

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

	February 29, 2016 (Unaudited)	November 30, 2015
Balance sheet items, except for stockholders equity, as of periods end	**0.1526**	0.1561

	Three Months Ended February 29, 2016 (Unaudited)	February 28, 2015 (Unaudited)
Amounts included in the statements of income and comprehensive income, changes in stockholders equity and cash flows for the periods presented	**0.1533**	0.1626

For the three months ended February 29, 2016 and February 28, 2015, foreign currency translation adjustments of $(186,413) and $(20,177), respectively, have been reported as other comprehensive (loss). Other comprehensive income (loss) of the Company consists entirely of foreign currency translation adjustments.

Although government regulations now allow convertibility of the RMB for current account transactions, significant restrictions still remain. Hence, such translations should not be construed as representations that the RMB could be converted into US Dollars at that rate or any other rate.

The value of the RMB against the US Dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC s political and economic conditions. Any significant revaluation of the RMB may materially affect the Company s financial condition in terms of US Dollar reporting. In August 2015, the PRC devalued its currency by approximately 3.5%. 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 months ended February 29, 2016 and February 28, 2015 were comprised as follows:

	2016 (Unaudited)	2015 (Unaudited)
Wholesale	**$ 829,085**	$ 627,983
Retail	**389,013**	332,879
	$ 1,218,098	$ 960,862

Shipping Costs

Shipping costs incurred by the Company are recorded as selling expenses. Shipping costs for the three months ended February 29, 2016 and February 28, 2015 were $15,026 and $9,135, respectively.

Advertising Costs

Advertising costs are charged to operations when incurred. For the three months ended February 29, 2016 and February 28, 2015, advertising expenses were $21,462 and $17,073 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. The Company does not have any off-balance-sheet credit exposure related to its customers.

The Company required a 30% advance from customers through December 31, 2014. Commencing in January 2015, an advance from customers is no longer required. As of February 29, 2016 and November 30, 2015, accounts receivable was $294,594 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 February 29, 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, accounts payable, 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 rent, advertising expenses and licensing fees.

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 $91,560 (RMB 600,000) each year. The related prepaid licensing fees of $76,300 and $7,805 were included in prepaid expenses on the balance sheets as of February 29, 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 minimum payments remaining under this agreement as of February 29, 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 months ended February 29, 2016 and February 28, 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 $318,791 and $281,766 as of February 29, 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 February 29, 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 months ended February 29, 2016 and February 28, 2015.

Bratish 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.

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 $185,917 as of February 29, 2016 and $166,106 as of November 30, 2015 are reflected as loans from stockholder.

5.

LEASES

The Company leases its warehouse and office space under a one-year operating lease, which expires on July 1, 2016, from an unrelated third party, The lease required the Company to prepay the total rent of $91,980 (RMB 600,000) in advance for one year. 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 also leases its Xiamen store from an unrelated third party. The lease expires on June 1, 2016 and has a renewal option. The lease required the Company to prepay the rent of $55,188 (RMB 360,000) in advance for one year. Since these leases require the advance payment of the annual rent, there are no minimum payments remaining under these leases.

Rent expense for the three months ended February 29, 2016 and February 28, 2015 was $66,686 and $31,219, respectively.

6.

FIXED ASSETS

Fixed assets as of February 29, 2016 and November 30, 2015 are summarized as follows:

	2016 (Unaudited)	2015
Electronic equipment	**$ 86,206**	$ 68,733
Motor vehicles	**127,345**	69,714
Office equipment	**12,646**	12,936
	226,197	151,383
Less: accumulated depreciation	**(93,667)**	(85,523)
Fixed Assets - net		