

CHINA JO-JO DRUGSTORES, INC.
Form 10-Q
February 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the quarterly period ended **December 31, 2017**

or

Transition Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: **001-34711**

CHINA JO-JO DRUGSTORES, INC.

(Exact name of registrant as specified in its charter)

Nevada **98-0557852**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Hai Wai Hai Tongxin Mansion Floor 6

Gong Shu District, Hangzhou City **310008**

Zhejiang Province

P. R. China
(Address of principal executive offices) (Zip Code)

+86 (571) 88077078

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 13, 2018, the registrant had 25,214,678 shares of common stock, par value \$0.001 per share, outstanding.

TABLE OF CONTENTS

TO QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED December 31, 2017

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	1
Unaudited condensed consolidated balance sheets as of December 31, 2017 and March 31, 2017	1
Unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended December 31, 2017 and 2016	2
Unaudited condensed consolidated statements of cash flows for the three and nine months ended December 31, 2017 and 2016	3
Notes to unaudited condensed consolidated financial statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	36
PART II OTHER INFORMATION	
Item 6. Exhibits	37
Signatures	38

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Quarterly Report on Form 10-Q (“Form 10-Q”) for the registrant, other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect” and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties that may cause actual results to differ materially.

Such risks include, among others, the following: national and local general economic and market conditions; our ability to sustain, manage or forecast our growth; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

	December 31, 2017	March 31, 2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$8,396,060	\$18,364,424
Restricted cash	15,822,446	9,431,386
Financial assets available for sale	230,472	87,068
Notes receivable	187,759	253,394
Trade accounts receivable	12,840,099	8,561,596
Inventories	13,500,428	9,923,101
Other receivables, net	2,793,851	2,269,193
Advances to suppliers	5,564,703	5,504,141
Other current assets	1,086,982	1,566,155
Total current assets	60,422,800	55,960,458
PROPERTY AND EQUIPMENT, net	3,823,681	4,263,157
OTHER ASSETS		
Long-term investment	47,550	46,152
Farmland assets	761,058	718,787
Long term deposits	3,797,139	2,294,848
Other noncurrent assets	1,310,513	1,177,005
Intangible assets, net	3,933,234	2,712,611
Total other assets	9,849,494	6,949,403
Total assets	\$74,095,975	\$67,173,018
LIABILITIES AND STOCK HOLDERS' EQUITY		

CURRENT LIABILITIES

Accounts payable, trade	21,451,969	19,441,195
Notes payable	19,383,898	12,691,575
Other payables	2,989,453	2,916,283
Other payables - related parties	680,834	927,052
Customer deposits	3,226,095	2,675,030
Taxes payable	496,229	681,939
Accrued liabilities	683,743	679,350
Total current liabilities	48,912,221	40,012,424
Purchase option and warrants liability	75,607	496,217
Total liabilities	48,987,828	40,508,641

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Common stock; \$0.001 par value; 250,000,000 shares authorized; 25,214,678 and 25,214,678 shares issued and outstanding as of December 31, 2017 and March 31, 2017	25,215	25,215
Preferred stock; \$0.001 par value; 10,000,000 shares authorized; nil issued and outstanding as of December 31, 2017 and March 31, 2017	-	-
Additional paid-in capital	37,558,064	36,581,248
Statutory reserves	1,309,109	1,309,109
Accumulated deficit	(16,815,100)	(12,601,257)
Accumulated other comprehensive income	3,030,858	1,350,062
Total stockholders' equity	25,108,146	26,664,377
Total liabilities and stockholders' equity	\$ 74,095,974	\$ 67,173,018

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	For the three months ended December 31,		For the nine months ended December 31,	
	2017	2016	2017	2016
REVENUES, NET	\$26,812,242	\$20,610,024	\$71,973,653	\$61,706,774
COST OF GOODS SOLD	21,240,629	16,426,153	56,666,782	48,688,092
GROSS PROFIT	5,571,613	4,183,871	15,306,871	13,018,682
SELLING EXPENSES	5,020,971	3,570,182	13,288,602	9,276,225
GENERAL AND ADMINISTRATIVE EXPENSES	2,737,782	1,451,849	7,318,780	4,752,981
TOTAL OPERATING EXPENSES	7,758,753	5,022,031	20,607,382	14,029,206
(LOSS) FROM OPERATIONS	(2,187,140)	(838,160)	(5,300,511)	(1,010,524)
INTEREST INCOME	76,266	54,003	479,509	339,460
INTEREST EXPENSE	-	(415)	-	(1,285)
OTHER INCOME (LOSS), NET	301,292	(99,485)	263,241	5,139
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITIES	221,859	67,296	420,610	125,389
(LOSS) BEFORE INCOME TAXES	(1,587,723)	(816,761)	(4,137,151)	(541,821)
PROVISION FOR INCOME TAXES	38,106	18,045	76,691	63,963
NET (LOSS) INCOME	(1,625,829)	(834,806)	(4,213,842)	(605,784)
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustments	588,543	(1,768,854)	1,680,796	(1,741,706)
COMPREHENSIVE (LOSS) INCOME	\$(1,037,286)	\$(2,603,660)	\$(2,533,046)	\$(2,347,490)
WEIGHTED AVERAGE NUMBER OF SHARES:				

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

Basic	19,941,439	19,941,439	25,214,678	19,188,867
Diluted	19,941,439	19,941,439	25,214,678	19,188,867

EARNINGS PER SHARES:

Basic	\$ (0.07	) \$ (0.04	) \$ (0.17	) \$ (0.03)
Diluted	\$ (0.07	) \$ (0.04	) \$ (0.17	) \$ (0.03)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	nine months ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	(4,213,842)	(605,784)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation and amortization	1,063,170	891,542
Stock-based compensation	976,816	1,907,582
Bad debt provision	1,948,887	(505,117)
Change in fair value of purchase option derivative liability	(420,610)	(125,441)
Change in operating assets:		
Accounts receivable, trade	(4,830,933)	(1,130,490)
Notes receivable	79,250	(29,484)
Inventories	(2,945,926)	(555,388)
Other receivables	(149,447)	64,419
Advances to suppliers	(990,309)	(683,980)
Other current assets	562,148	(76,656)
Other noncurrent assets	(63,263)	(330,217)
Long term deposit	(1,345,486)	
Change in operating liabilities:		
Accounts payable, trade	853,598	(1,119,770)
Other payables and accrued liabilities	(127,969)	296,298
Customer deposits	387,458	64,508
Taxes payable	(222,207)	150,910
Net cash (used in) provided by operating activities	(9,438,665)	(1,787,068)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of financial assets available for sale	-	449,403
Purchase of financial assets available for sale	(136,074)	
Purchase of equipment	(237,108)	(115,463)
Purchase of intangible assets	(1,125,110)	
Termination of a joint venture		69,802
Investment in a joint venture	(9,601)	(74,900)
Additions to leasehold improvements	(249,097)	(200,428)

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

Net cash (used in) provided by investing activities	(1,756,990)	128,414
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	(5,743,155)	3,939,366
Repayments of notes payable	(22,501,743)	(24,600,434)
Proceeds from notes payable	28,352,683	20,309,469
Change in other payables-related parties	(278,691)	375,395
Net cash (used in) provided by financing activities	(170,906)	23,796
EFFECT OF EXCHANGE RATE ON CASH	1,398,197	(393,666)
DECREASE IN CASH	(9,968,364)	(2,028,524)
CASH, beginning of period	18,364,424	6,671,873
CASH, end of period	\$8,396,060	\$4,643,349
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$-	\$1,348
Cash paid for income taxes	\$27,856	\$57,688
Issuance of common stocks in exchange of debts	-	1,603,810

The accompanying notes are an integral part of these condensed consolidated financial statements.

Note 1 – DESCRIPTION OF BUSINESS AND ORGANIZATION

China Jo-Jo Drugstores, Inc. (“Jo-Jo Drugstores” or the “Company”), was incorporated in Nevada on December 19, 2006, originally under the name “Kerrisdale Mining Corporation”. On September 24, 2009, the Company changed its name to “China Jo-Jo Drugstores, Inc.” in connection with a share exchange transaction as described below.

On September 17, 2009, the Company completed a share exchange transaction with Renovation Investment (Hong Kong) Co., Ltd. (“Renovation”), whereby 7,900,000 shares of common stock were issued to the stockholders of Renovation in exchange for 100% of the capital stock of Renovation. The completion of the share exchange transaction resulted in a change of control. The share exchange transaction was accounted for as a reverse acquisition and recapitalization and, as a result, the consolidated financial statements of the Company (the legal acquirer) are, in substance, those of Renovation (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the share exchange transaction. Renovation has no substantive operations of its own except for its holdings of Zhejiang Jiuxin Investment Management Co., Ltd. (“Jiuxin Management”), Zhejiang Shouantang Medical Technology Co., Ltd. (“Shouantang Technology”), Hangzhou Jiutong Medical Technology Co., Ltd (“Jiutong Medical”), and Hangzhou Jiuyi Medical Technology Co. Ltd. (“Jiuyi Technology”), its wholly-owned subsidiaries.

The Company is an online and offline retailer and wholesale distributor of pharmaceutical and other healthcare products in the People’s Republic of China (“China” or the “PRC”). The Company’s offline retail business is comprised primarily of pharmacies, which are operated by Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), a company that the Company controls through contractual arrangements. On March 31, 2017, Jiuxin Management established a subsidiary, Lin’ An Jiuzhou Pharmacy Co., Ltd (“Lin’ An Jiuzhou”) to operate drugstores in Lin’an City. During the nine months ending December 31, 2017, Jiuzhou Pharmacy established the following companies, each of which operates a drugstore in Hangzhou City:

Entity Name	Date Established
Hangzhou Jiuben Pharmacy Co., Ltd (“Jiuben Pharmacy”)	April 27, 2017
Hangzhou Jiuli Pharmacy Co., Ltd (“Jiuli Pharmacy”)	May 22, 2017
Hangzhou Jiuxiang Pharmacy Co., Ltd (“Jiuxiang Pharmacy”)	May 26, 2017
Hangzhou Jiuheng Pharmacy Co., Ltd (“Jiuheng Pharmacy”)	June 6, 2017
Hangzhou Jiujiu Pharmacy Co., Ltd (“Jiujiu Pharmacy”)	June 8, 2017
Hangzhou Jiuyi Pharmacy Co., Ltd (“Jiuyi Pharmacy”)	June 8, 2017

Hangzhou Jiuyuan Pharmacy Co., Ltd (“Jiuyuan Pharmacy”) July 13, 2017

Hangzhou Jiumu Pharmacy Co., Ltd (“Jiumu Pharmacy”) July 21, 2017

Hangzhou Jiurui Pharmacy Co., Ltd (“Jiurui Pharmacy”) August 4, 2017

The Company’s offline retail business also includes three medical clinics through Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine (“Jiuzhou Clinic”) and Hangzhou Jiuzhou Medical and Public Health Service Co., Ltd. (“Jiuzhou Service”), both of which are also controlled by the Company through contractual arrangements. On December 18, 2013, Jiuzhou Service established, and held 51% of, Hangzhou Shouantang Health Management Co., Ltd. (“Shouantang Health”), a PRC company licensed to sell health care products. Shouantang Health was closed in April 2015. In May 2016, Hangzhou Shouantang Bio-technology Co., Ltd. (“Shouantang Bio”), a wholly-owned subsidiary of Shouantang Technology, set up and held 49% of Hangzhou Kahamadi Bio-technology Co., Ltd. (“Kahamadi Bio”), a joint venture specialized in brand name development for nutritional supplements.

The Company currently conducts its online retail pharmacy business through Jiuzhou Pharmacy, which holds the Company’s online pharmacy license. Prior to November 2015, the Company primarily conducted its online retail pharmacy business through Zhejiang Quannuo Internet Technology Co., Ltd. (“Quannuo Technology”). In May 2015, the Company established Zhejiang Jianshun Network Technology Co. Ltd, a joint venture with Shanghai Jianbao Technology Co., Ltd. (“Jianshun Network”), in order to develop its online pharmaceutical sales from large commercial medical insurance companies. On September 10, 2015, Renovation set up a new entity Jiuyi Technology to provide additional technical support such as webpage development to our online pharmacy business. In November 2015, the Company sold all of the equity interests of Quannuo Technology to six individuals for approximately \$17,121 (RMB107,074). After the sale, its technical support function has been transferred back to Jiuzhou Pharmacy, which hosts our online pharmacy.

The Company’s wholesale business is primarily conducted through Zhejiang Jiuxin Medicine Co., Ltd. (“Jiuxin Medicine”), which is licensed to distribute prescription and non-prescription pharmaceutical products throughout China. Jiuzhou Pharmacy acquired Jiuxin Medicine on August 25, 2011.

The Company’s herb farming business is conducted by Hangzhou Qianhong Agriculture Development Co., Ltd. (“Qianhong Agriculture”), a wholly-owned subsidiary of Jiuxin Management, which operates a cultivation project of herbal plants used for traditional Chinese medicine (“TCM”).

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities:

Entity Name	Background	Ownership
Renovation	Incorporated in Hong Kong SAR on September 2, 2008	100%
Jiuxin Management	Established in the PRC on October 14, 2008 Deemed a wholly foreign owned enterprise (“WFOE”) under PRC law Registered capital of \$14.5 million fully paid	100%
Shouantang Technology	Established in the PRC on July 16, 2010 by Renovation with registered capital of \$20 million Registered capital requirement reduced by the SAIC to \$11 million in July 2012 and is fully paid Deemed a WFOE under PRC law Invests and finances the working capital of Quannuo Technology	100%
Qianhong Agriculture	Established in the PRC on August 10, 2010 by Jiuxin Management Registered capital of RMB 10 million fully paid Carries out herb farming business	100%
Jiuzhou Pharmacy ⁽¹⁾	Established in the PRC on September 9, 2003 Registered capital of RMB 5 million fully paid Operates the “Jiuzhou Grand Pharmacy” stores in Hangzhou	VIE by contractual arrangements ⁽²⁾
Jiuzhou Clinic ⁽¹⁾	Established in the PRC as a general partnership on October 10, 2003 Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores	VIE by contractual arrangements ⁽²⁾
Jiuzhou Service ⁽¹⁾	Established in the PRC on November 2, 2005 Registered capital of RMB 500,000 fully paid Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores	VIE by contractual arrangements ⁽²⁾
Jiuxin Medicine	Established in PRC on December 31, 2003 Acquired by Jiuzhou Pharmacy in August 2011 Registered capital of RMB 10 million fully paid Carries out pharmaceutical distribution services	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾

Jiutong Medical

Established in the PRC on December 20, 2011 by
Renovation
Registered capital of \$2.6 million fully paid
Currently has no operation

100%

Entity Name	Background	Ownership
Shouantang Bio	Established in the PRC in October, 2014 by Shouantang Technology 100% held by Shouantang Technology Registered capital of RMB 1,000,000 fully paid Sells nutritional supplements under its own brand name	100%
Jiuyi Technology	Established in the PRC on September 10, 2015 100% held by Renovation Registered capital of USD 5,000,000 (USD 2,500,000 paid) Technical support to online pharmacy	100%
Kahamadi Bio	Established in the PRC in May 2016 49% held by Shouantang Bio Registered capital of RMB 10 million Develop brand name for nutritional supplements	49%
Lin'An Jiuzhou	Established in the PRC in March 31, 2017 100% held by Jiuxin Management Registered capital of RMB 5 million (RMB 550,000 paid) Explore retail pharmacy market in Lin'An City	100%
Jiuben Pharmacy	Established in the PRC in April 27, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾
Jiumu Pharmacy	Established in the PRC in July 21, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾
Jiuheng Pharmacy	Established in the PRC in June 6, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾
Jiujiu Pharmacy	Established in the PRC in June 8, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾
Jiuli Pharmacy	Established in the PRC in May 22 ,2017	

	100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾
Jiurui Pharmacy	Established in the PRC in August 4, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾
JiuxiangPharmacy	Established in the PRC in May 26, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾

Entity Name	Background	Ownership
Jiuyi Pharmacy	Established in the PRC in June 8, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾
Jiuyuan Pharmacy	Established in the PRC in July 13, 2017 100% held by Jiuzhou Pharmacy Registered capital of RMB 100,000 Operates a retail pharmacy drugstore in Hangzhou City	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy ⁽²⁾

Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service have been under the common control of Mr. Lei Liu, Mr. Chong'an Jin and Ms. Li Qi, the three shareholders of Renovation (the "Owners") since their respective establishment dates, pursuant to agreements among the Owners to vote their interests in concert as memorialized in a voting (1) rights agreement. Based on such voting rights agreement, the Company has determined that common control exists among these three companies. The Owners have operated these three companies in conjunction with one another since each company's respective establishment date. Jiuxin Medicine is also deemed under the common control of the Owners as a subsidiary of Jiuzhou Pharmacy.

To comply with certain foreign ownership restrictions of pharmacy and medical clinic operators, Jiuxin Management entered into a series of contractual arrangements with Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service on August 1, 2009. These contractual arrangements are comprised of five agreements: a consulting services agreement, operating agreement, equity pledge agreement, voting rights agreement and option agreement. Because such agreements obligate Jiuxin Management to absorb all of the risks of loss from the activities of (2) Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, and enable the Company (through Jiuxin Management) to receive all of their expected residual returns, the Company accounts for each of the three companies (as well as subsidiaries of Jiuzhou Pharmacy) as a variable interest entity ("VIE") under the accounting standards of the Financial Accounting Standards Board ("FASB"). Accordingly, the financial statements of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, as well as the subsidiary under the control of Jiuzhou Pharmacy, Jiuxin Medicine and Shouantang Bio are consolidated into the financial statements of the Company.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries and VIEs. All significant inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation.

Consolidation of variable interest entities

In accordance with accounting standards regarding consolidation of variable interest entities, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

The Company has concluded, based on the contractual arrangements, that Jiuzhou Pharmacy (including its subsidiaries and controlled entities), Jiuzhou Clinic and Jiuzhou Service are each a VIE and that the Company’s wholly-owned subsidiary, Jiuxin Management, absorbs a majority of the risk of loss from the activities of these companies, thereby enabling the Company, through Jiuxin Management, to receive a majority of their respective expected residual returns.

Additionally, as Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service are under common control, the consolidated financial statements have been prepared as if the transactions had occurred retroactively as to the beginning of the reporting period of these consolidated financial statements.

Control and common control are defined under the accounting standards as “an individual, enterprise, or immediate family members who hold more than 50 percent of the voting ownership interest of each entity.” Because the Owners collectively own 100% of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, and have agreed to vote their interests in concert since the establishment of each of these three companies as memorialized in the voting rights agreement, the Company believes that the Owners collectively have control and common control of the three companies. Accordingly, the Company believes that Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service were

constructively held under common control by Jiuxin Management as of the time the Contractual Agreements were entered into, establishing Jiuxin Management as their primary beneficiary. Jiuxin Management, in turn, is owned by Renovation, which is owned by the Company.

Risks and Uncertainties

The operations of the Company are located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political, regulatory and social conditions in the PRC. Although the Company has not experienced losses from these situations and believes that it is in compliance with existing laws and regulations including its organization and structure disclosed in Note 1, this may not be indicative of future results.

The Company has significant cash deposits with suppliers in order to obtain and maintain inventory. The Company's ability to obtain products and maintain inventory at existing and new locations is dependent upon its ability to post and maintain significant cash deposits with its suppliers. In the PRC, many vendors are unwilling to extend credit terms for product sales that require cash deposits to be made. The Company does not generally receive interest on any of its supplier deposits, and such deposits are subject to loss as a result of the creditworthiness or bankruptcy of the party who holds such funds, as well as the risk from illegal acts such as conversion, fraud, theft or dishonesty associated with the third party. If these circumstances were to arise, the Company would find it difficult or impossible, due to the unpredictability of legal proceedings in China, to recover all or a portion of the amount on deposit with its suppliers.

Members of the current management team own controlling interests in the Company and are also the Owners of the VIEs in the PRC. The Company only controls the VIEs through contractual arrangements which obligate it to absorb the risk of loss and to receive the residual expected returns. As such, the controlling shareholders of the Company and the VIEs could cancel these agreements or permit them to expire at the end of the agreement terms, as a result of which the Company would not retain control of the VIEs.

Use of estimates

The preparation of unaudited condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant estimates made in the preparation of the accompanying unaudited condensed consolidated financial statements relate to the assessment of the carrying values of accounts receivable, advances to suppliers and related allowance for doubtful accounts, useful lives of property and equipment, inventory reserve and fair value of its purchase option derivative liability. Because of the use of estimates inherent in the financial reporting process, actual results could materially differ from those estimates.

Fair value measurements

The Company has adopted FASB ASC Topic 820, “Fair Value Measurement and Disclosure,” which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. It does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. It establishes a three-level valuation hierarchy of valuation techniques based on observable and unobservable inputs, which may be used to measure fair value and include the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company's financial assets and liabilities, which include financial instruments as defined by FASB ASC 820, include cash and cash equivalents, accounts receivable, accounts payable, long-term debt and derivatives. The carrying amounts of cash and cash equivalents, financial assets available for sales, accounts receivable, notes receivables, and accounts payable are a reasonable approximation of fair value due to the short maturities of these instruments (Level 1). The carrying amount of notes payable approximates fair value based on borrowing rates of similar bank loan currently available to the Company (Level 2) (See Note 13). The carrying amount of the Company's derivative instruments is recorded at fair value and is determined based on observable inputs that are corroborated by market data (Level 2). As of December 31, 2017, the fair values of our derivative instruments that were carried at fair value (See Note 17).

	Active Market for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Carrying Value
Cash and cash equivalents	8,396,060	-	\$ -	8,396,060
Notes payable	-	19,383,898	-	19,383,898
Warrants liability	-	75,607	\$ -	75,607
Total	8,396,060	19,459,505	\$ -	27,855,565

Revenue recognition

Revenue from sales of prescription medicine at drugstores is recognized when the prescription is filled and the customer picks up and pays for the prescription.

Revenue from sales of other merchandise at drugstores is recognized at the point of sale, which is when a customer pays for and receives the merchandise. Usually the majority of our merchandise, such as prescription and OTC drugs, are not allowed to be returned after the customers leave the counter. Return of other products, such as sundry products, are minimal. Sales of drugs reimbursed by the local government medical insurance agency and receivables from the agency are recognized when a customer pays for the drugs at a store. Based on historical experience, a reserve for potential loss from denial of reimbursement on certain unqualified drugs is made to the receivables from the government agency.

Revenue from medical services is recognized after the service has been rendered to a customer.

Revenue from online pharmacy sales is recognized when merchandise is shipped to customers. While most deliveries take one day, certain deliveries may take longer depending on a customer's location. Any loss caused in a shipment will be reimbursed by the Company's courier company. Our sales policy allows for the return of certain merchandises without reason within seven days after customer's receipt of the applicable merchandise. A proper sales reserve is made to account for the potential loss from returns from customers. Historically, sales returns seven days after merchandise receipts have been minimal.

Revenue from sales of merchandise to non-retail customers is recognized when the following conditions are met: (1) persuasive evidence of an arrangement exists (sales agreements and customer purchase orders are used to determine the existence of an arrangement); (2) delivery of goods has occurred and risks and benefits of ownership have been transferred, which is when the goods are received by the customer at its designated location in accordance with the sales terms; (3) the sales price is fixed or determinable; and (4) collectability is probable. Historically, sales returns have been minimal.

The Company's revenue is net of value added tax ("VAT") collected on behalf of PRC tax authorities in respect to the sales of merchandise. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the accompanying consolidated balance sheets until it is paid to the relevant PRC tax authorities.

Restricted cash

The Company's restricted cash consists of cash and long-term deposits in a bank as security for its notes payable. The Company has notes payable outstanding with the bank and is required to keep certain amounts on deposit that are subject to withdrawal restrictions. The notes payable are generally short term in nature due to their short maturity period of six to nine months; thus, restricted cash is classified as a current asset.

Accounts receivable

Accounts receivable represents the following: (1) amounts due from banks relating to retail sales that are paid or settled by the customers' debit or credit cards, (2) amounts due from government social security bureaus and commercial health insurance programs relating to retail sales of drugs, prescription medicine, and medical services that are paid or settled by the customers' medical insurance cards, (3) amounts due from non-bank third party payment

instruments such as Alipay and certain e-commerce platforms and (4) amounts due from non-retail customers for sales of merchandise.

Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts, as necessary. In the Company's retail business, accounts receivable mainly consist of reimbursements due from the government insurance bureaus and commercial health insurance programs and are usually collected within two or three months. The Company directly writes off delinquent account balances, which it determines to be uncollectible after confirming with the appropriate bureau or program each month. Additionally, the Company also makes estimated reserves on related outstanding accounts receivable based on historical trends.

In the Company's online pharmacy business, accounts receivable primarily consist of amounts due from non-bank third party payment instruments such as Alipay and certain e-commerce platforms. To purchase pharmaceutical products from an e-commerce platforms such as Tmall, customers are required to submit payment to certain non-bank third party payment instruments, such as Alipay, which, in turn, reimburse the Company within seven days to a month. Except for customer returns of sold products, the receivables from these payments instruments are rarely uncollectible.

In its wholesale business, the Company uses the aging method to estimate the allowance for anticipated uncollectible receivable balances. Under the aging method, bad debt percentages are determined by management, based on historical experience and the current economic climate, are applied to customers' balances categorized by the number of months the underlying invoices have remained outstanding. At each reporting period, the allowance balance is adjusted to reflect the amount computed as a result of the aging method. When facts subsequently become available to indicate that the allowance provided requires an adjustment, a corresponding adjustment is made to the allowance account as a change in estimate.

Advances to suppliers

Advances to suppliers consist of prepayments to our vendors, such as pharmaceutical manufacturers and other distributors. Since the acquisition of Jiuxin Medicine, we have transferred almost all logistics services of our retail drugstores to Jiuxin Medicine. Jiuzhou Pharmacy only directly purchases certain non-medical products, such as certain nutritional supplements. As a result, almost all advances to suppliers are made by Jiuxin Medicine.

Advances to suppliers for our drug wholesale business consist of prepayments to our vendors, such as pharmaceutical manufacturers and other distributors. We typically receive products from vendors within three to nine months after making prepayments. We continuously monitor delivery from, and payments to, our vendors while maintaining a provision for estimated credit losses based upon historical experience and any specific supplier issues, such as discontinuing of inventory supply, that have been identified. If we have difficulty receiving products from a vendor, we take the following steps: cease purchasing products from such vendor, ask for return of our prepayment promptly, and if necessary, take legal action. If all of these steps are unsuccessful, management then determines whether the

prepayments should be reserved or written off.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the first in first out (FIFO) method. Market value is the lower of replacement cost or net realizable value. The Company carries out physical inventory counts on a monthly basis at each store and warehouse location. Herbs that the Company farms are recorded at their cost, which includes direct costs such as seed selection, fertilizer, labor costs that are spent in growing herbs on the leased farmland, and indirect costs such as amortization of farmland development cost. All costs are accumulated until the time of harvest and then allocated to harvested herbs costs when the herbs are sold. The Company periodically reviews its inventory and records write-downs to inventories for shrinkage losses and damaged merchandise that are identified. The Company provides a reserve for estimated inventory obsolescence or excess quantities on hand equal to the difference, if any, between the cost of the inventory and its estimated realizable value.

Farmland assets

Herbs that the Company farms are recorded at their cost, which includes direct costs such as seed selection, fertilizer, and labor costs that are spent in growing herbs on the leased farmland, and indirect costs such as amortization of farmland development costs. Since April 2014, amortization of farmland development costs has been expensed instead of allocated into inventory due to unpredictable future market value of planted ginkgo trees.

All related costs described in the above are accumulated until the time of harvest and then allocated to harvested herbs when they are sold.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation or amortization. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, taking into consideration the assets' estimated residual value. Leasehold improvements are amortized over the shorter of lease term or remaining lease period of the underlying assets. Following are the estimated useful lives of the Company's property and equipment:

	Estimated Useful Life
Leasehold improvements	3-10 years
Motor vehicles	3-5 years
Office equipment & furniture	3-5 years

Buildings 35 years

Maintenance, repairs and minor renewals are charged to expenses as incurred. Major additions and betterment to property and equipment are capitalized.

Intangible assets

Intangible assets are acquired individually or as part of a group of assets, and are initially recorded at their fair value. The cost of a group of assets acquired in a transaction is allocated to the individual assets based on their relative fair values.

The estimated useful lives of the Company's intangible assets are as follows:

	Estimated Useful Life
Land use rights	50 years
Software	3 years

The Company evaluates intangible assets for impairment whenever events or changes in circumstances indicate that the assets might be impaired.

Impairment of long lived assets

The Company evaluates long lived tangible and intangible assets for impairment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability is measured by comparing the assets' net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. There were no fixed assets and farmland assets impaired for the nine months ended December 31, 2017.

Notes payable

During the normal course of business, the Company regularly issues bank acceptance bills as a payment method to settle outstanding accounts payables with various material suppliers. The Company records such bank acceptance bills as notes payable. Such notes payable are generally short term in nature due to their short maturity period of six to nine months.

Income taxes

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

The Company has adopted FASB ASC Topic 740-10-25, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must 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 are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company performed a self-assessment and the Company's liability for income taxes includes liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of December 31, 2017 and March 31, 2017, the management of the Company considered that the Company had no additional liabilities for uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in the future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the three and nine months ended December 31, 2017 and 2016, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities, the most significant of which is the China Tax Authority.

Value added tax

Sales revenue represents the invoiced value of goods, net of VAT. All of the Company's products are sold in the PRC and are subject to a VAT on the gross sales price. The VAT rates range up to 17%, depending on the type of products sold. The VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products. The Company recorded a VAT payable net of payments in the accompanying financial statements.

The accounting standards clarify the accounting and disclosure requirements for uncertain tax positions and prescribe a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. The accounting standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. No significant penalties, uncertain tax provisions or interest relating to income taxes were incurred during the periods ended December 31, 2017 and 2016.

Stock based compensation

The Company follows the provisions of FASB ASC 718, "Compensation — Stock Compensation," which establishes accounting standards for non-employee and employee stock-based awards. Under the provisions of FASB ASC 718, the fair value of stock issued is used to measure the fair value of services received as the Company believes such approach is a more reliable method of measuring the fair value of the services. For non-employee stock-based awards, fair value is measured based on the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is calculated and then recognized as compensation expense over the requisite performance period. For employee stock-based awards, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight-line basis over the requisite service period for the entire award.

Advertising and promotion costs

Advertising and promotion costs are expensed as incurred and amounted to \$197,326 and \$121,140 for the three months ended December 31, 2017 and 2016, respectively, and \$518,060 and \$303,626 for the nine months ended December 31, 2017 and 2016, respectively. Such costs consist primarily of print and promotional materials such as flyers to local communities.

Operating leases

The Company leases premises for retail drugstores, offices and wholesale warehouse under non-cancellable operating leases. Operating lease payments are expensed over the term of lease. A majority of the Company's retail drugstore leases have a 3 to 10 year term with a renewal option upon the expiration of the lease; the wholesale warehouse lease has a 10-year term with a renewal option upon the expiration of the lease. The Company has historically been able to renew a majority of its drugstores leases. Under the terms of the lease agreements, the Company has no legal or contractual asset retirement obligations at the end of the lease. In addition, land leased from the government is amortized on a straight-line basis over a 30-year term.

Foreign currency translation

The Company uses the United States dollar (“U.S. dollars” or “USD”) for financial reporting purposes. The Company’s subsidiaries and VIEs maintain their books and records in their functional currency the Renminbi (“RMB”), the currency of the PRC.

In general, for consolidation purposes, the Company translates the assets and liabilities of its subsidiaries and VIEs into U.S. dollars using the applicable exchange rates prevailing at the balance sheet date, and the statements of income and cash flows are translated at average exchange rates during the reporting period. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Equity accounts are translated at historical rates. Adjustments resulting from the translation of the financial statements of the subsidiaries and VIEs are recorded as accumulated other comprehensive income.

The balance sheet amounts, with the exception of equity, at December 31, 2017 and at March 31, 2017 were translated at 1 RMB to 0.1536 USD and at 1 RMB to 0.1451 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the nine months ended December 31, 2017 and 2016 were at 1 RMB to 0.1512 USD and 1 RMB to 0.1498 USD, respectively.

Concentrations and credit risk

Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash and restricted cash. The Company has cash balances at financial institutions located in Hong Kong and PRC. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board’s insured limits. Since March 31, 2015, balances at financial institutions and state-owned banks within the PRC are covered by insurance up to RMB 500,000 (USD 76,824) per bank. As of December 31, 2017 and March 31, 2017, the Company had deposits totaling \$23,944,009 and \$27,357,785 that were covered by such limited insurance, respectively. Any balance over RMB 500,000 (USD 76,824) per bank in PRC will not be covered. To date, the Company has not experienced any losses in such accounts.

For the three months ended December 31, 2017, three largest vendors accounted for 31.0% of the Company’s total purchases and one vendor accounted for 13.6% of the Company’s total advances to suppliers. For the three months ended December 31, 2016, two largest vendors accounted for 46.5% of the Company’s total purchases and one vendor accounted for 10.9% of the Company’s total advances to suppliers.

For the nine months ended December 31, 2017, two largest vendors accounted for 26.1% of the Company's total purchases and one vendor accounted for 18.1% of the Company's total advances to suppliers. For the nine months ended December 31, 2016, two largest vendors accounted for 41.0% of the Company's total purchases and one vendor accounted for 10.9% of the Company's total advances to suppliers.

For the three months and nine months ended December 31, 2017 and December 31, 2016, no customer accounted for more than 10% of the Company's total sales or accounts receivable.

Recent Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which removes Step 2 from the goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. Public business entity that is a U.S. Securities and Exchange Commission filer should adopt the amendments in this ASU for its annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of the adoption of ASU 2017-04 on our consolidated financial statements.

Revenue Recognition

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Gross versus Net)," clarifying the principal versus agent guidance in the new revenue recognition standard, by revising the indicators to focus on evidence that the Company is a principal.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," reducing the complexity when applying the guidance for identifying performance obligations and clarifying how to determine whether revenue related to a performance obligation for an intellectual property license is recognized over time or at a point in time.

In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” clarifying certain core recognition principles including collectability, sales tax presentation, noncash consideration, contract modifications and completed contracts at transition.

These ASUs are effective for the Company beginning in the first quarter of the fiscal year of 2019, allow for early adoption in the first quarter of 2017 and may be applied using either a full retrospective approach or a modified retrospective approach. The Company is planning to adopt the new accounting standard ASC 606 and all related amendment using a modified retrospective approach. Revenue from sales at drugstores continues to be recognized at the point of sale, which is when a customer pays for and receives the merchandise. Revenue from online pharmacy sales is recognized when merchandise is shipped to customers. Revenue from sales of merchandise to non-retail customers is recognized upon delivery of goods. The Company does not expect the adoption of the new revenue standard to have material impact on its net income on an ongoing basis. Its interpretation is subject to change as a result of future change in market conditions or product offering.

Note 3 – FINANCIAL ASSETS AVAILABLE FOR SALE

As of December 31, 2017 and March 31, 2017, financial assets available for sale amounted to \$230,472 (RMB 1,500,000) and \$87,068 (RMB 600,000), respectively. In the year ended March 31, 2017, the Company invested as a limited partner (LP) in a private equity fund, which is intended to invest in retail pharmaceutical business. The company has signed an investment agreement with the private equity fund and agreed to invest a total of \$300,720 (RMB 2,000,000).

Note 4 – TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following:

	December 31, 2017	March 31, 2017
Accounts receivable	\$ 15,233,885	\$ 9,977,101
Less: allowance for doubtful accounts	(2,393,786)	(1,415,505)
Trade accounts receivable, net	\$ 12,840,099	\$ 8,561,596

For the three months ended December 31, 2017 and 2016, \$33,738 and \$75,126 in accounts receivable were directly written off respectively. For the nine months ended December 31, 2017 and 2016, \$158,721 and \$138,508 in accounts

receivable were directly written off respectively. As of December 31, 2017 and March 31, 2017, no trade accounts receivables were pledged as collateral for borrowings from financial institutions.

Note 5 – OTHER RECEIVABLE

Other receivable consisted of the following:

	December 31, 2017	March 31, 2017
Deposit*	\$ 1,665,043	\$855,755
Advance to employees	303,219	652,436
Accrued supplier rebate**	313,994	321,993
Others	539,742	465,593
Less: allowance for doubtful accounts	(28,147)	(26,584)
Other receivable, net	\$ 2,793,851	\$2,269,193

*It refers to various advances deposits made to service providers and commercial platforms such as Alibaba's Tmall, in order to carry business via these service providers and platforms.

**It refers to supplier rebate receivables, which are computed based on our sales volume of the suppliers' products.

Note 6 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	December 31 2017	March 31, 2017
Prepaid rental expenses ⁽¹⁾	\$ 668,529	\$1,171,472
Prepaid and other current assets	418,453	394,683
Total	\$ 1,086,982	\$ 1,566,155

⁽¹⁾ Represents store and office rental expenses that were usually prepaid and amortized over the prepayment period. The increase reflects additional prepaid rental for new stores.

Note 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2017	March 31, 2017
Building	\$ 1,647,425	\$ 1,555,923
Leasehold improvements	11,166,592	11,783,611
Farmland development cost	1,837,537	1,735,475
Office equipment and furniture	5,333,374	5,339,005
Motor vehicles	486,717	585,769
Total	20,471,645	20,999,783
Less: Accumulated depreciation	(14,597,802)	(14,489,479)
Impairment*	(2,050,162)	(2,247,147)
Property and equipment, net	\$ 3,823,681	\$ 4,263,157

* The variance of impairment from March 31, 2017 to December 31, 2017 is solely caused by exchange rate variance.

Depreciation expenses for property and equipment totaled \$406,048 and \$425,127 for the three months ended December 31, 2017 and 2016, respectively. Depreciation expenses for property and equipment totaled \$982,202 and \$878,106 for the nine months ended December 31, 2017 and 2016, respectively. There were no fixed assets impaired in the nine months ended December 31, 2017.

Note 8 – ADVANCES TO SUPPLIERS

Advances to suppliers consist of deposits, with or advances to, outside vendors for future inventory purchases. Most of the Company's suppliers require a certain amount of money to be deposited with them as a guarantee that the Company will receive its purchase on a timely basis. This amount is refundable and bears no interest. As of December 31, 2017 and March 31, 2017, advance to suppliers consist of the following:

	December 31, 2017	March 31, 2017
Advance to suppliers	\$ 8,424,823	\$ 7,006,396
Less: allowance for doubtful accounts	(2,860,120)	(1,502,255)
Advance to suppliers, net	\$ 5,564,703	\$ 5,504,141

* In order to collect a larger rebate for certain merchandise, such as *Colla corii asini* (donkey-hide gelatin), from certain suppliers, the Company made a significant cash advance to such suppliers.

For the nine months ended December 31, 2017 and 2016, none of the advances to suppliers were written off against previous allowances for doubtful accounts, respectively.

Note 9 – INVENTORY

Inventory consisted of finished goods, valued at \$13,500,428 and \$9,923,101 as of December 31, 2017 and March 31, 2017, respectively. The Company constantly monitors its potential obsolete products and is allowed to return products close to their expiration date to its suppliers. Any loss on damaged items is immaterial and will be recognized immediately. As a result, no reserves were made for inventory as of December 31, 2017 and March 31, 2017.

Note 10 – FARMLAND ASSETS

Farmland assets consist of ginkgo trees planted in 2012 and expected to be harvested and sold in several years. As of December 31, 2017 and March 31, 2017, farmland assets are valued as follows:

	December 31, 2017	March 31, 2017
Farmland assets	\$ 2,324,919	\$ 2,195,787
Less: Impairment*	(1,563,861)	(1,477,000)
Farmland assets, net	\$ 761,058	\$ 718,787

* The estimated fair value is estimated to be lower than its investment value as of December 31, 2017 and March 31, 2017.

Note 11 – LONG TERM DEPOSITS, LANDLORDS

As of December 31, 2017 and March 31, 2017, long term deposits amounted to \$3,797,139 and \$2,294,848, respectively. Long term deposits are money deposited with, or advanced to, landlords for the purpose of securing retail store leases that the Company does not anticipate being returned within the next twelve months. Most of the Company's landlords require a minimum payment of nine months' rent, paid upfront, plus additional deposits. In the nine months ended December 31, 2017, in order to quickly expand its network, the Company signed quite a few new store lease agreements and made additional leasehold deposits.

Note 12 – OTHER NONCURRENT ASSETS

Other noncurrent assets consisted of the following:

	December 31, 2017	March 31, 2017
Forest land use rights*	\$ 1,075,536	\$ 1,177,005
Others**	234,977	-
Total	\$ 1,310,513	\$ 1,177,005

The prepayment for lease of forest land use rights is made to a local government in connection with an operating *land lease agreement. The land is currently used to cultivate Ginkgo trees. The forest rights certificate from the local village extends the life of the lease to January 31, 2060.

The amortization of the prepayment for the lease of forest land use right was approximately \$7,765 and \$15,107 for the three months ended December 31, 2017 and 2016, respectively. The amortization of the prepayment for the lease of forest land use right was approximately \$21,653 and \$46,396 for the nine months ended December 31, 2017 and 2016, respectively.

The Company's amortizations of the prepayment for lease of land use right for the next five years and thereafter are as follows:

For the year ending December 31, Amount

2018	\$28,409
2019	28,409
2020	28,409
2021	28,409
2022	28,409
Thereafter	1,104,178

** Represents certain long-term prepaid expenses such as long-term advertisement expenditures.

Note 13 – INTANGIBLE ASSETS

Net intangible assets consisted of the following at:

	December 31, 2017	March 31, 2017
License ⁽¹⁾	\$ 1,937,501	\$ 1,394,546
SAP software	682,436	-
Land use rights ⁽²⁾	1,498,306	1,415,086
Total intangible assets	4,118,243	2,809,632
Less: accumulated amortization	(185,009)	(97,021)
Intangible assets, net	\$ 3,933,234	\$ 2,712,611

Amortization expense of intangibles amounted to \$38,412 and \$7,542 for the three months ended December 31, 2017 and 2016, respectively, and \$52,876 and \$21,133 for the nine months ended December 31, 2017 and 2016, respectively.

This represents the fair value of the licenses of insurance applicable drugstores acquired from Sanhao Pharmacy, a drugstore chain Jiuzhou Pharmacy acquired in 2014. The licenses allow patients to pay by using insurance cards at stores. The stores are reimbursed from the Human Resource and Social Security Department of Hangzhou City. In September 2017, the Company acquired several new stores for the purpose of the Municipal Social Medical Reimbursement Qualification Certificates. The owners of these acquired drugstores agreed to cease their stores' business and liquidate all of the stores' accounts before Jiuzhou Pharmacy acquired them. As a result, Jiuzhou Pharmacy has not obtained any assets or liabilities from the stores, but was able to transfer the certificates to our new stores opened at the same time.

(2) In 2017, we have installed a leading ERP system, SAP from Germany. SAP is a well-known management system used by many fortune 500 companies. As of December 31, 2017, the system has been completely installed and running for two months in the Company. By automatically connecting commodity flow data with accounting recording, the system minimizes the manual errors made by accounting staff. Additionally, the system provides a view of overall and instant cash information by electronically linking local banking systems with SAP. Additional benefits include automatically-generated customized monthly company performance report, instant inventory

monitoring and reporting, and punctual customer and suppliers accounts maintaining.

In July 2013, the Company purchased the land use rights of a plot of farmland in Lin'an, Hangzhou, intended for (3) the establishment of an herb processing plant in the future. However, as our farming business in Lin'an has not grown, the Company does not expect completion of the plant in the near future.

Note 14 – NOTES PAYABLE

The Company has credit facilities with Hangzhou United Bank (“HUB”), Bank of Hangzhou (“BOH”), Industrial and Commercial Bank of China (“ICBC”), Zhejiang Tailong Commercial Bank (“ZTCB”) and China Merchants Bank (“CMB”) that provided working capital in the form of the following bank acceptance notes at December 31, 2017 and March 31, 2017:

Beneficiary	Endorser	Origination date	Maturity date	December 31, 2017	March 31, 2017
Jiuzhou Pharmacy (1)	HUB	10/09/16	04/09/17	-	1,755,879
Jiuzhou Pharmacy (1)	HUB	10/09/16	04/09/17	-	341,676
Jiuzhou Pharmacy (1)	HUB	11/08/16	05/08/17	-	1,637,419
Jiuzhou Pharmacy (1)	HUB	11/11/16	05/11/17	-	314,897
Jiuzhou Pharmacy (1)	HUB	12/05/16	06/05/17	-	1,508,042
Jiuzhou Pharmacy (1)	HUB	12/29/16	06/29/17	-	1,205,419
Jiuzhou Pharmacy (1)	HUB	12/29/16	06/29/17	-	1,030,309
Jiuzhou Pharmacy (2)	ZTCB	12/27/16	06/27/17	-	580,456
Jiuzhou Pharmacy (1)	HUB	02/06/17	08/06/17	-	2,253,804
Jiuzhou Pharmacy (1)	HUB	03/07/17	09/07/17	-	117,542
Jiuzhou Pharmacy (1)	HUB	03/07/17	09/07/17	-	267,651
Jiuzhou Pharmacy (1)	HUB	03/07/17	09/07/17	-	1,678,481
Jiuzhou Pharmacy (1)	HUB	08/09/17	02/09/18	1,388,247	
Jiuzhou Pharmacy (1)	HUB	09/05/17	03/05/18	2,345,219	
Jiuzhou Pharmacy (1)	HUB	10/10/17	01/10/18	57,498	
Jiuzhou Pharmacy (1)	HUB	10/10/17	04/10/18	2,434,514	
Jiuzhou Pharmacy (1)	HUB	11/06/17	02/06/18	54,760	
Jiuzhou Pharmacy (1)	HUB	11/06/17	05/06/18	3,428,718	
Jiuzhou Pharmacy (1)	HUB	11/24/17	02/24/18	41,070	
Jiuzhou Pharmacy (1)	HUB	11/24/17	05/24/18	21,203	
Jiuzhou Pharmacy (1)	HUB	12/05/17	06/05/18	364,146	
Jiuzhou Pharmacy (1)	HUB	12/05/17	06/05/18	1,869,896	
Jiuzhou Pharmacy (1)	HUB	12/29/17	03/29/18	54,760	
Jiuzhou Pharmacy (1)	HUB	12/29/17	06/29/18	1,152,360	
Jiuzhou Pharmacy (1)	HUB	12/29/17	06/29/18	1,393,054	
Jiuzhou Pharmacy (1)	HUB	12/29/18	06/29/18	1,628,669	
Jiuxin Medicine(3)	CMB	11/02/17	01/04/18	3,149,784	
Total				\$ 19,383,898	\$ 12,691,575

(1) As of March 31, 2017, the Company had \$12,111,119 (RMB 81,459,343.5) of notes payable from HUB. The Company is required to hold restricted cash in the amount of \$1,328,098 (RMB 9,152,104) with HUB as collateral against these bank notes. Additionally, a total of \$7,687,073 three-year deposit (RMB 56,972,647) was deposited

into HUB as a collateral for current and future notes payable from HUB. As of December 31, 2017, the Company had \$16,234,113 (RMB 105,657,827.3) of notes payable from HUB. The Company is required to hold restricted cash in the amount of \$1,883,780 (RMB 12,260,358) with HUB as collateral against these bank notes.

Additionally, a total of \$10,774,205 deposit (RMB 70,122,647), which matures in three years, was deposited into HUB as a collateral for current and future notes payable from HUB.

As of March 31, 2017, the Company had \$580,456 (RMB 4,000,000) of notes payable from ZTCB, with restricted (2) cash in the amount of \$290,228 (RMB 2,000,000) held at the bank. As of December 31, 2017, the Company had no notes payable from ZTCB.

(3) As of December 31, 2017, the Company had \$3,149,784 (RMB 20,500,000) of notes payable from CMB, with restricted cash in the amount of \$3,149,784 (RMB 20,500,000) held at the bank.

As of December 31, 2017, the Company had a credit line of approximately \$15.84 million in the aggregate from HUB, BOH, ICBC, ZTCB and CMB. By putting up the restricted cash of \$5.03 million deposited in the banks, the total credit line was \$20.87 million. As of December 31, 2017, the Company had approximately \$19.38 million of bank notes payable and approximately \$1.49 million bank credit line was still available for further borrowing. The bank notes are secured by buildings owned by the Company's major shareholders and by a shop of Jiuzhou Pharmacy, and are guaranteed by Jiuxin Medical.

Note 15 – TAXESIncome tax

For the three and nine months ended December 31, 2017 and 2016, the income tax provisions were as follow:

	Three months ended December 31,		nine months ended December 31,	
	2017	2016	2017	2016
Income tax	\$38,106	\$18,045	\$76,691	\$63,963

The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled.

Entity	Income Tax Jurisdiction
Jo-Jo Drugstores	United States
Renovation	Hong Kong, PRC
All other entities	Mainland, PRC

The following table reconciles the U.S. statutory tax rates with the Company's effective tax rate for the three and nine months ended December 31, 2017 and 2016:

	For the three months ended December 31,		For the nine months ended December 31,	
	2017	2016	2017	2016
U.S. Statutory rates	34.0 %	34.0 %	34.0 %	34.0 %
Foreign income not recognized in the U.S.	(34.0)	(34.0)	(34.0)	(34.0)
China income taxes	25.0	25.0	25.0	25.0
Change in valuation allowance (1)	(25.0)	(25.0)	(25.0)	(25.0)
Non-deductible expenses-permanent difference (2)	(2.4)	(2.2)	(1.9)	(11.8)
Effective tax rate	(2.4)%	(2.2)%	(1.9)%	(11.8)%

- (1) Represents a full valuation allowance on the tax benefit of the net loss has been provided because it is more likely than not that the benefit will not be realized.

- (2) The (2.4)% and (2.2)% rate adjustments for the three months ended December 31, 2017 and 2016, and the (1.9)% and (11.8)% rate adjustments for the nine months ended December 31, 2017 and 2016 represent expenses primarily including stock option expenses, legal, accounting and other expenses incurred by the Company that were not deductible for PRC income tax.

Jo-Jo Drugstores is incorporated in the U.S. and incurred a net operating loss for income tax purposes for the nine months ended December 31, 2017 and 2016. As of December 31, 2017, the estimated net operating loss carry forwards for U.S. income tax purposes amounted to \$1,503,000, which may be available to reduce future years' taxable income. These carry forwards will expire if not utilized by 2032. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at December 31, 2017. There was no net change in the valuation allowance for the nine months ended December 31, 2017 and 2016. Management reviews this valuation allowance periodically and makes adjustments as necessary.

Taxes payable at December 31, 2017 and March 31, 2017 consisted of the following:

	December 31 2017	March 31, 2017
VAT	\$ 443,860	\$ 615,067
Income tax	44,789	19,416
Others	7,580	47,456
Total taxes payable	\$ 496,229	\$ 681,939

The Company has adopted FASB ASC Topic 740-10-05, "Income Taxes." To date, the adoption of this interpretation has not impacted the Company's financial position, results of operations, or cash flows. The Company performed a self-assessment and the Company's liability for income taxes includes liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of December 31, 2017 and December 31, 2016, management considered that the Company had no uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the nine months ended December 31, 2017 and 2016, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities, the most significant of which is the China Tax Authority.

Note 16 – POSTRETIREMENT BENEFITS

Regulations in the PRC require the Company to contribute to a defined contribution retirement plan for all permanent employees. The contribution for each employee is based on a percentage of the employee's current compensation as required by the local government. The Company contributed \$312,701 and \$311,202 in employment benefits and pension for the three months ended December 31, 2017 and 2016, respectively. The Company contributed \$872,435 and \$781,834 in employment benefits and pension for the nine months ended December 31, 2017 and 2016, respectively.

Note 17 – RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts payable to related parties are summarized as follows:

	December 31, 2017	March 31, 2017
Due to a director and CEO (1) :	680,834	927,052

(1) Due to foreign exchange restrictions, the Company's director and CEO, Mr. Lei Liu personally lent U.S. dollars to the Company to facilitate its payments of expenses in the United States.

As of December 31, 2017 and March 31, 2017, notes payable totaling \$4,246,474 and \$3,974,193 were secured by the personal properties of certain of the Company's shareholders, respectively.

The Company leases from Mr. Lei Liu a retail space; the lease expires in September 2018. Rent expenses totaled \$4,536 and \$3,867 for the three months ended December 31, 2017 and 2016, respectively. Rent expenses totaled \$13,607 and \$12,959 for the nine months ended December 31, 2017 and 2016, respectively. The amounts owed under the lease for the three and nine months ended December 31, 2017 were not paid to Mr. Liu as of December 31, 2017.

Note 18 – WARRANTS

In connection with the registered direct offering closed on July 19, 2015, the Company issued to an investor a warrant to purchase up to 600,000 shares of common stock at an exercise price of \$3.10 per share. The warrant became exercisable on January 19, 2016 and will expire on January 18, 2021. In connection with the offering, the Company also issued a warrant to its placement agent of this offering, pursuant to which the agent may purchase up to 6% of the aggregate number of shares of common stock sold in the offering, i.e. 72,000 shares. Such warrant has the same terms as the warrant issued to investor in the offering.

The fair value of the warrants issued to purchase 672,000 shares as described above was estimated by using the binominal pricing model with the following assumptions:

	Common Stock Warrants December 31, 2017 (1)	Common Stock Warrants March 31, 2017		
Stock price	\$ 1.24	\$ 1.80		
Exercise price	\$ 3.10	\$ 3.10		
Annual dividend yield	-	% -	%	%
Expected term (years)	3.05	3.80		
Risk-free interest rate	1.98	% 0.87	%	%
Expected volatility	68.66	% 90.73	%	%

(1) As of December 31, 2017, the warrants had not been exercised.

Upon evaluation, the warrants meet the definition of a derivative under FASB ASC 815, as the Company cannot avoid a net cash settlement under certain circumstances. Accordingly, the fair value of the warrants was classified as a liability of \$496,217 as of March 31, 2017. For the three and nine months ended December 31, 2017, the Company recognized a gain of \$328,705 and \$148,427 for the investor warrant and placement agent warrant, from the change in fair value of the warrant liability, respectively. As a result, the warrant liability is carried on the consolidated balance sheets at the fair value of \$167,512 for the investor warrant and placement agent warrant, collectively, as of December 31, 2017.

Note 19 – STOCKHOLDER’S EQUITY

Common stock

On January 23, 2017, the Company closed a private offering with one institutional investor (the “Investor”) pursuant to which the Company sold to the Investor, and the Investor purchased from the Company, an aggregate of 4,840,000 shares of the common stock, par value \$0.001 per share, of the Company, at a purchase price of \$2.20 per share, for aggregate gross proceeds to the Company of \$10,648,000 (the “Private Placement”).

Stock-based compensation

The Company accounts for share-based payment awards granted to employees and directors by recording compensation expense based on estimated fair values. The Company estimates the fair value of share-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company’s consolidated statements of operations. Share-based awards are attributed to expenses using the straight-line method over the vesting period. The Company determines the value of each option award that contains a market condition using a Monte Carlo Simulation valuation model, while all other option awards are valued using the Black-Scholes valuation model as permitted under FASB ASC 718 “Compensation - Stock Compensation.” The assumptions used in calculating the fair value of share-based payment awards represent the Company’s best estimates. The Company’s estimates of the fair values of stock options granted and the resulting amounts of share-based compensation recognized may be impacted by certain variables including stock price volatility, employee stock option exercise behaviors, additional stock option modifications, estimates of forfeitures, and the related income tax impact.

On June 3, 2016, the Company granted a total of 1,630,000 shares of restricted common stock to its key employees in its retail drugstores and online pharmacy under the Company’s 2010 Equity Incentive Plan, as amended. The stock awards vests in three years from the date of the grant. The trading value of the Company’s common stock on June 3,

2016 was \$1.62. For the three months ended December 31, 2017 and 2016, \$221,859 and \$221,859 was recorded as service compensation expense, respectively. For the nine months ended December 31, 2017 and 2016, \$663,164 and \$508,828 was recorded as service compensation expense, respectively.

Stock option

On November 18, 2014, the Company granted a total of 967,000 shares of stock options under the Plan to a group of a total of 46 grantees including directors, officers and employees. The exercise price of the stock option is \$2.50. The option vests on November 18, 2017, provided that the grantees are still employed by the Company on such a date. The options will be exercisable for five years from the vesting date, or November 18, 2017 until November 17, 2022. For the three months ended December 31, 2017 and 2016, \$65,585 and \$124,033 was recorded as compensation expense. For the nine months ended December 31, 2017 and 2016, \$313,651 and \$372,100 was recorded as compensation expense. As of December 31, 2017, all compensation costs related to stock option compensation have been amortized.

Statutory reserves

Statutory reserves represent restricted retained earnings. Based on their legal formation, the Company is required to set aside 10% of its net income as reported in their statutory accounts on an annual basis to the Statutory Surplus Reserve Fund (the “Reserve Fund”). Once the total amount set aside in the Reserve Fund reaches 50% of the entity’s registered capital, further appropriations become discretionary. The Reserve Fund can be used to increase the entity’s registered capital upon approval by relevant government authorities or eliminate its future losses under PRC GAAP upon a resolution by its board of directors. The Reserve Fund is not distributable to shareholders, as cash dividends or otherwise, except in the event of liquidation.

Appropriations to the Reserve Fund are accounted for as a transfer from unrestricted earnings to statutory reserves. During the three and nine months ended December 31, 2017 and 2016, the Company did not make appropriations to statutory reserves.

There are no legal requirements in the PRC to fund the Reserve Fund by transfer of cash to any restricted accounts, and the Company does not do so.

Note 20 – (LOSS) PER SHARE

The Company reports earnings per share in accordance with the provisions of the FASB’s related accounting standard. This standard requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution, but includes vested restricted stocks and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

The following is a reconciliation of the basic and diluted (loss) earnings per share computation:

	Three months ended December 31,		nine months ended December 31,	
	2017	2016	2017	2016
Net income attributable to controlling interest	\$ (1,625,829)	\$ (834,806)	\$ (4,213,842)	\$ (605,784)

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

Weighted average shares used in basic computation	25,214,678	19,941,439	25,214,678	19,188,867
Diluted effect of purchase options and warrants	-	-	-	-
Diluted effect of restricted shares	-	-	-	-
Weighted average shares used in diluted computation	25,214,678	19,941,439	25,214,678	19,188,867
Income per share – Basic:				
Net income before noncontrolling interest	\$(0.07	) \$(0.04	) \$(0.17	) \$(0.03
Add: Net loss attributable to noncontrolling interest	\$-	\$-	\$-	\$-
Net income attributable to controlling interest	\$(0.07	) \$(0.04	) \$(0.17	) \$(0.03
Loss per share – Diluted:				
Net income before noncontrolling interest	\$(0.07	) \$(0.04	) \$(0.17	) \$(0.03
Add: Net income attributable to noncontrolling interest	\$-	\$-	\$-	\$-
Net income attributable to controlling interest	\$(0.07	) \$(0.04	) \$(0.17	) \$(0.03

For the three and nine months ended December 31, 2017, 967,000 shares underlying employee stock options and 600,000 shares underlying outstanding purchase options to an investor, and 72,000 shares underlying outstanding purchase option to an investment placement agent were excluded from the calculation of diluted loss per share as the options were anti-dilutive.

Note 21 – SEGMENTS

The Company operates within four main reportable segments: retail drugstores, online pharmacy, drug wholesale and herb farming. The retail drugstores segment sells prescription and over-the-counter (“OTC”) medicines, TCM, dietary supplements, medical devices, and sundry items to retail customers. The online pharmacy sells OTC drugs, dietary supplements, medical devices and sundry items to customers through several third-party platforms such as Alibaba’s Tmall, JD.com and Amazon.com, and the Company’s own platform all over China. The drug wholesale segment includes supplying the Company’s own retail drugstores with prescription and OTC medicines, TCM, dietary supplement, medical devices and sundry items (which sales have been eliminated as intercompany transactions), and also selling them to other drug vendors and hospitals. The Company’s herb farming segment cultivates selected herbs for sales to other drug vendors. The Company is also involved in online sales and clinic services that do not meet the quantitative thresholds for reportable segments and are included in the retail drugstores segment. The segments’ accounting policies are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before interest and income taxes not including nonrecurring gains and losses.

The Company’s reportable business segments are strategic business units that offer different products and services. Each segment is managed separately because each requires different operations and markets to distinct classes of customers.

The following table presents summarized information by segment of the continuing operations for the three months ended December 31, 2017.

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$18,288,222	\$3,395,047	5,128,973	-	26,812,242
Cost of goods	13,686,969	3,134,767	4,418,893	-	21,240,629
Gross profit	\$4,601,253	\$260,280	710,080	-	5,571,613
Selling expenses	3,509,018	572,397	939,556	-	5,020,971
General and administrative expenses*	930,689	174,865	1,615,560	16,668	2,737,782
Income (Loss) from operations	\$161,546	\$(486,982)	(1,845,036)	(16,668)	(2,187,140)
Depreciation and amortization	\$(525,203)	\$-	4,649	-	(520,554)
Total capital expenditures	\$8,9495	\$-	4,711	-	94,206

*Includes additional accounts receivable and advance to suppliers allowance of \$816,988.

The following table presents summarized information by segment of the continuing operations for the three months ended December 31, 2016.

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$14,121,567	\$3,437,371	\$3,051,086	\$-	\$20,610,024
Cost of goods	10,494,940	3,078,509	2,852,704	-	16,426,153
Gross profit	\$3,626,627	\$358,862	\$198,382	\$-	\$4,183,871
Selling expenses	2,455,591	291,598	822,993	-	3,570,182
General and administrative expenses*	1,655,433	-	(210,757)*	7,173	1,451,849
(Loss) income from operations	\$(484,397)	\$67,264	\$(413,854)	\$(7,173)	\$(838,160)
Depreciation and amortization	\$467,852	\$-	\$(43,906)	\$-	\$423,946
Total capital expenditures	\$157,805	\$-	\$6,229	\$-	\$164,034

*Includes accounts receivable and advance to suppliers allowance reversal of \$331,180.

The following table presents summarized information of the continuing operation by segment for the nine months ended December 31, 2017:

Total

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	
Revenue	\$46,356,207	\$9,595,752	16,021,694	-	71,973,653
Cost of goods	34,227,630	8,644,564	13,794,588	-	56,666,782
Gross profit	\$12,128,577	\$951,188	2,227,106	-	15,306,871
Selling expenses	8,510,663	1,547,569	3,230,370	-	13,288,602
General and administrative expenses*	4,942,902	352,770	1,996,393	26,715	7,318,780
(Loss) from operations	\$(1,324,988)	\$(949,151)	(2,999,657)	(26,715)	(5,300,511)
Depreciation and amortization	\$(854,445)	\$-	209,023	-	(645,422)
Total capital expenditures	\$295,637	\$-	10,927	-	306,564

*Includes additional accounts receivable and advance to suppliers allowance of \$2,336,146.

The following table presents summarized information of the continuing operation by segment for the nine months ended December 31, 2016:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$39,636,796	\$12,292,175	\$9,777,803	\$-	\$61,706,774
Cost of goods	28,619,084	10,879,187	9,189,821	-	48,688,092
Gross profit	\$11,017,712	\$1,412,988	\$587,982	\$-	\$13,018,682
Selling expenses	6,857,520	1,204,510	1,214,195	-	9,276,225
General and administrative expenses*	4,836,381	-	(102,281)	18,881	4,752,,981
(Loss) income from operations	\$(676,189)	\$208,478	\$(523,932)	\$(18,881)	\$(1,010,524)
Depreciation and amortization	\$880,711	\$-	\$9,805	\$-	\$890,516
Total capital expenditures	\$207,103	\$-	\$6,229	\$-	\$213,332

*Includes accounts receivable and advance to suppliers allowance reversal of \$544,508.

The Company does not have long-lived assets located outside the PRC. In accordance with the enterprise-wide disclosure requirements of FASB's accounting standard, the Company's net revenue from external customers through its retail drugstores by main product category for the is as follows:

	Three months ended		nine months ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Prescription drugs	\$5,373,870	\$4,469,589	\$14,860,659	\$12,837,817
Over-the-counter drugs	9,168,708	7,053,888	21,593,385	17,117,444
Nutritional supplements	1,883,020	896,122	4,558,383	3,073,882
Traditional Chinese medicine	1,185,004	1,157,673	3,136,203	3,207,504
Sundry products	180,338	236,152	804,817	714,509
Medical devices	497,282	308,143	1,402,760	2,685,640
Total	\$18,288,222	\$14,121,567	\$46,356,207	\$39,636,796

The Company's net revenue from external customers through online pharmacy by main products is as follows:

	Three months ended		nine months ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Prescription drugs	\$-	\$-	\$-	\$-
Over-the-counter drugs	1,535,383	1,211,013	4,038,674	4,157,448
Nutritional supplements	514,952	407,815	1,365,834	1,852,294
Traditional Chinese medicine	8,802	1,130	18,984	1,130
Sundry products	224,514	438,845	1,065,935	1,510,349
Medical devices	1,111,396	1,378,568	3,106,325	4,770,954
Total	\$3,395,047	\$3,437,371	\$9,595,752	\$12,292,175

The Company's net revenue from external customers through wholesale by main products is as follows:

	Three months ended		nine months ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Prescription drugs	\$2,777,566	\$1,907,318	\$9,252,199	\$5,753,801
Over-the-counter drugs	2,303,726	1,127,918	6,652,879	3,967,959
Nutritional supplements	19,123	15,110	47,660	49,929
Traditional Chinese medicine	20,876	740	21,480	5,193
Sundry products	-	-	-	-
Medical devices	7,682	-	47,476	921

Total	\$5,128,973	\$3,051,086	\$16,021,694	\$9,777,803
-------	-------------	-------------	--------------	-------------

Note 22 – COMMITMENTS AND CONTINGENCIESOperating lease commitments

The Company recognizes lease expenses on a straight line basis over the term of its leases in accordance with the relevant accounting standards. The Company has entered into various tenancy agreements for its store premises and for the land leased from a local government to farm herbs.

The Company's commitments for minimum rental payments under its leases for the next five years and thereafter are as follows:

Periods ending December 31,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2018	4,432,027	\$ 37,193	\$ 74,387	\$ -	\$4,543,607
2019	4,001,871	37,193	74,387	-	4,113,451
2020	3,150,384	37,193	74,387	-	3,261,964
2021	2,507,045	3,099	6,199	-	2,516,343
2022	1,810,277	-	-	-	1,810,277
Thereafter	2,721,674	-	-	-	2,721,674

Total rent expense amounted to \$1,184,452 and \$747,744 for the three months ended December 31, 2017 and 2016, respectively. Total rent expense amounted to \$3,126,462 and \$2,225,186 for the nine months ended December 31, 2017 and 2016, respectively.

NOTE 23 – SUBSEQUENT EVENTS

Based on a joint venture agreement (the "JV") with CareRetail (HK) Holdings Limited ("CareRetail HK") entered into on January 18, 2017, Jiuzhou Pharmacy will set up a JV with CareRetail HK. The JV is intended to be an investment vehicle in acquiring or cooperating with another pharmaceutical chain in China. As certain important terms (such as the amount of capital) require further discussion, as of the date hereof, the JV has not been set up.

ITEM MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 2. OF OPERATIONS.

The following management’s discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this item. In addition to historical information, the following discussion contains certain forward-looking statements within the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as “may,” “will,” “could,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “plan,” “predict,” and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the “Risk Factors” section of our annual report on Form 10-K for the year ended March 31, 2017 and filed with the SEC on June 29, 2017. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

Our financial statements are prepared in U.S. Dollars and in accordance with accounting principles generally accepted in the United States. See “Exchange Rates” below for information concerning the exchanges rates at which Renminbi (“RMB”) were translated into U.S. Dollars (“USD” or “\$”) at various pertinent dates and for pertinent periods.

Overview

We currently operate in four business segments in China: (1) retail drugstores, (2) online pharmacy, (3) wholesale of products similar to those that we carry in our pharmacies, and (4) farming and selling herbs used for traditional Chinese medicine (“TCM”).

Our drugstores offer customers a wide variety of pharmaceutical products, including prescription and over-the-counter (“OTC”) drugs, nutritional supplements, TCM, personal and family care products, medical devices, and convenience products, including consumable, seasonal, and promotional items. Additionally, we have licensed doctors of both western medicine and TCM on site for consultation, examination and treatment of common ailments at scheduled hours. As of December 31, 2017, we had 113 pharmacies in Hangzhou, among which, 95 under the store brand of “Jiuzhou Grand Pharmacy”, 9 under the store brand of “Lin’ An Jiuzhou” and 9 under the various subsidiaries owned by “Jiuzhou Grand Pharmacy.” During the nine months ended December 31, 2017, we opened 51 new pharmacies.

Since May 2010, we have also been selling certain OTC drugs, medical devices, nutritional supplements and other sundry products online. Our online pharmacy sells through several third-party platforms such as Alibaba's Tmall, JD.com and Amazon.com, and the Company's own platform throughout China. In fiscal year 2018, in order to keep top rankings in certain third-party platforms such as Tmall, we have spent reasonable resources on marketing our products through these third-party platforms. Our sales through our own platform are primarily generated by customers who use their private commercial medical insurances package.

We operate a wholesale business through Jiuxin Medicine distributing third-party pharmaceutical products (similar to those carried by our pharmacies) primarily to trading companies throughout China. We also farm certain herbs used in TCM but have not made any sales in the nine months ended December 31, 2017.

Critical Accounting Policies and Estimates

In preparing our audited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, we are required to make judgments, estimates and assumptions that affect: (i) the reported amounts of our assets and liabilities; (ii) the disclosure of our contingent assets and liabilities at the end of each reporting period; and (iii) the reported amounts of revenue and expenses during each reporting period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ materially from those estimates.

We believe that any reasonable deviation from those judgments and estimates would not have a material impact on our financial condition or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of operations and corresponding balance sheet accounts would be necessary. These adjustments would be made in future financial statements.

When reading our financial statements, you should consider: (i) our critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. The critical accounting policies and related judgments and estimates used to prepare our financial statements are identified in Note 2 to our audited consolidated financial statements accompanying in this report.

Results of Operations***Comparison of three months ended December 31, 2017 and 2016***

The following table summarizes our results of operations for the three months ended December 31, 2017 and 2016:

	Three months ended December 31, 2017		2016			
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Revenue	\$26,812,242	100 %	\$20,610,024	100.0 %		
Gross profit	\$5,571,613	20.8 %	\$4,183,871	20.3 %		
Selling expenses	\$5,020,971	18.7 %	\$3,570,182	17.3 %		
General and administrative expenses	\$2,737,782	10.2 %	\$1,451,849	7.0 %		
Loss from operations	\$(2,187,140)	(8.2)%	\$(838,160)	(4.1)%		
Interest income	\$76,266	0.3 %	\$54,003	0.3 %		
Interest expenses	\$-	- %	\$(415)	0.0 %		
Other income (loss), net	\$301,292	1.1 %	\$(99,485)	(0.5)%		
Change in fair value of purchase option derivative liability	\$221,859	0.8 %	\$67,296	0.3 %		
Income tax expense	\$38,106	0.1 %	\$18,045	(0.1)%		
Net (loss)	\$(1,625,829)	(6.1)%	\$(834,806)	(4.1)%		

Revenue

Primarily due to the increase in our retail drugstores and wholesale business, revenue increased by \$6,202,218 or 30.1% for the three months ended December 31, 2017, as compared to the three months ended December 31, 2016, partially offset by the decrease in online pharmacy business. The following table breaks down the revenue for our four business segments for the three months ended December 31, 2017 and 2016:

Quarterly Revenue by Segment

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

The following table breaks down the revenue for our four business segments for the three months ended December 31, 2017 and 2016:

	Three months ended December 31, 2017		2016		Variance by amount	% of change
	Amount	% of total revenue	Amount	% of total revenue		
Revenue from retail drugstores	\$18,288,222	68.2	% \$14,121,567	68.5	% \$4,166,655	29.5 %
Revenue from online sales	3,395,047	12.7	% 3,437,371	16.7	% (42,324)	(1.2)%
Revenue from wholesale business	5,128,973	19.1	% 3,051,086	14.8	% 2,077,887	68.1 %
Revenue from farming business	-	-	% -	-	% -	- %
Total revenue	\$26,812,242	100.0	% \$20,610,024	100.0	% \$6,202,218	30.1 %

Retail drugstores sales, which accounted for approximately 68.2% of total revenue for the three months ended December 31, 2017, increased by \$4,166,655, or 29.5% as compared to the three months ended December 31, 2016, to \$18,288,222. Same-store sales increased by approximately \$2,042,776, or 15.1%, while new stores contributed approximately \$1,939,715 in revenue in the three months ended December 31, 2017. Starting in fiscal year 2017, our new general manager in retail business has been spending significant efforts on commodity selection and purchase price negotiation. A wide choice of suitable health products to customers is a key to a drugstore success. By introducing more quality products at lower prices, we were able to retain more customers visiting our stores. Additionally, in cooperation with brand name suppliers, we continuously implement various marketing activities. For example, we made a strategic alliance with a famous *Colla corii asini* manufacturer to promote its sales in Hangzhou. *Colla corii asini* is a well-known nutritional supplement in China and has a large number of consumers. By promoting the products in our stores, we were able to raise sales of the products while enjoying the supplier's support in the form of a lower purchase price and technical on-site assistance. As a side effect, customers who purchased *Colla corii asini* in our stores also made purchases of other health products. Furthermore, we have been focusing on improving customer services. For example, we have created chronic disease management center in three of our stores. We constantly monitor customers' chronic disease patterns, provide free medical tests such as a blood sugar test and in-store doctor's advices. As a result, these customers became loyal to our stores and made the majority of their purchases for health products at our stores. We opened 51 new stores in fiscal year 2018, and our store count increased to 113 as of December 31, 2017, compared to 62 as of December 31, 2016.

Our online pharmacy sales decreased by approximately \$42,324, or 1.2% for the three months ended December 31, 2017, as compared to the three months ended December 31, 2016. The decrease was mainly caused by decline in our sale via e-commerce platforms, as further explained below, during this quarter. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. Such arrangements with third-party platforms have exposed our online presence to a wider consumer base. In order to increase the popularity of our products, we have made considerable efforts to identify popular products that can drive sales, while keeping a close watch on cost. However, due to the suspension of OTC drug sales on e-commerce platforms such as Alibaba in the second quarter of fiscal year 2017 by the China Food and Drug Administration ("CFDA"), our sales via these e-commerce platforms have been curtailed. As a result, our sales via these e-commerce platforms decreased by 8.5% period over period. We are adding more non-medical health products such as nutritional supplements into our sales menu to counterpart the decline in sale of OTC drug category. For instance, we are opening a *dendrobium candidum* flagship store at Tmall with a local popular brand. The brand has a large customer base in Hangzhou. We expect our e-commerce platform sales will pick up in the future.

Wholesale revenue increased by \$2,077,887 or 68.1%, primarily as a result of our ability to resell certain products, which our retail stores made large orders on, to other vendors. As our retail drugstores achieved large quantity sales of certain brand name products, we were able to bargain lower purchase prices than the market level on these merchandises. As a result, vendors who were unable to obtain a better price than ours, turned to us for these products, causing the wholesale volume to grow. However, hospitals still act as a major source of drug retailers in China. In the future, we plan to explore sales to hospitals and become a national or provincial agent of certain important products directly from drug manufacturers.

In the three months ended December 31, 2017 and 2016, we have not generated revenue from our farming business. We planted ginkgo and maidenhair trees during the year of 2013. A ginkgo tree may have a growth period of up to twenty years before it is mature enough for harvest. We have not yet harvested our ginkgo or maidenhair trees. Usually, the longer it grows the more valuable it becomes. We plan to continue cultivating the trees in order to maximize their market value in the future. We anticipate that we will continue to grow ginkgo trees and start cultivating other herbs in the future.

Gross Profit

Gross profit increased by \$1,387,742 or 33.2% period over period primarily as a result of an increase in gross margin of wholesale business and increase in retail drugstores sale . At the same time, gross margin increased from 20.3% to 20.8% due to higher wholesale profit margins. The average gross margins for each of our four business segments are as follows:

	Three months ended December 31,	
	2017	2016
Average gross margin for retail drugstores	25.2%	25.7%
Average gross margin for online sales	7.7 %	10.4%
Average gross margin for wholesale business	13.8%	6.5 %
Average gross margin for farming business	N/A	N/A

Retail gross margins decreased primarily due to lower prices in promotional campaigns. In order to boost our sales, we have implemented several marketing campaigns in our stores in the three months ended December 31, 2017. As an effective method to promote sales, we have implemented promotional policies, such as coupon discounts on certain merchandise. As a result, our retail profit margins were diminished. Additionally, we have opened forty-six stores in the nine months ended December 31, 2018. In the stores' opening ceremonies, we usually provided deep-discounted products sales promotion in order to boost new store sales. The sales promotions in the stores' opening ceremonies contributed to the lower profit margin, however, as we have been focusing on product selection and continuous price negotiation with suppliers, as stated above, we expect to raise our sales profit margin in the future.

Gross margin of online pharmacy sales decreased primarily as a result of sales of certain products at low prices. Our online store general manager resigned in July 2017. Certain products have been superseded by newer products or close to expiration dates. In order to cut losses, the successive GM at our online pharmacy sold these products at low prices in certain national black sales dates such as November 11. In the future, we plan to increase our sales while keeping reasonable gross profit margins.

Wholesale gross margin increased primarily as a result of different products we carried and sold to certain pharmaceutical vendors. As we carried sales of certain high margin produces with suppliers rebate in this quarter, our sales profit margins increased.

Selling and Marketing Expenses

Sales and marketing expenses increased by \$1,450,789, or 40.6%, period over period, primarily due to commissions payable to our wholesale sales contractors, rent and expenditures for new retail stores, and reclassification of certain staff's salaries to selling and marketing expense in our wholesale business. In the three months ended December 31, 2017, certain wholesale business was referred by unaffiliated individual medical products traders who earned commissions based on the brokered transaction amount. As a result, we incurred additional selling expenses of approximately \$0.3 million. In the quarter ended December 31, 2017, we accelerated new store opening. As a result, we incurred additional rental costs and other new stores opening expenditures of \$1.0 million. Additionally, as certain members of our wholesale staff provide general customer care and warehouses support that are more related to our sales, we reclassified \$0.1 million expenses as sales and marketing expenses to better reflect their nature. Such increase in expenses, as well as a decrease in overall sales, caused an increase in expenses as a percentage of our revenue to 18.7%, from 17.3% for the same period a year ago.

General and Administrative Expenses

General and administrative expenses increased by \$1,285,933, or 88.6%, period over period. Such expenses as a percentage of revenue increased to 10.2% from 7.0% for the same period a year ago. The increase in absolute dollars reflects additional accounts receivable and advances to vendors allowance of \$0.82 million in the three months ended December 31, 2017 as compared to reversal of \$0.4 million in the nine months ended December 31, 2016. The difference was due to certain aged accounts receivable and advances to suppliers accounts as of December 31, 2017.

(Loss) from Operations

As a result of the above, we had loss from operations of \$2,187,140, as compared to loss from operations of \$838,160 a year ago. Our operating margin for the three months ended December 31, 2017 and 2016 was (8.2)% and (4.1)%, respectively.

Income Taxes

Our income tax expense increased by \$20,061 period over period due to increase in wholesale sales profit.

Net Income(Loss)

As a result of the foregoing, net loss increased by \$791,023 period over period.

Comparison of nine months ended December 31, 2017 and 2016

The following table summarizes our results of operations for the nine months ended December 31, 2017 and 2016:

	nine months ended December 31,					
	2017		2016			
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Revenue	\$71,973,653	100.0 %	61,706,774	100.0 %		
Gross profit	\$15,306,871	21.3 %	13,018,682	21.1 %		
Selling expenses	\$13,288,602	18.5 %	9,276,225	15.0 %		
General and administrative expenses	\$7,318,780	10.2 %	4,752,981	7.7 %		
(Loss) from operations	\$(5,300,511)	(7.4)%	(1,010,524)	(1.6)%		
Interest Income	479,509	0.7 %	339,460	0.6 %		
Interest Expenses	-	- %	(1,285)	0.0 %		
Other revenue (expense), net	\$263,241	0.4 %	5,139	0.0 %		

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

Change in fair value of purchase option derivative liability	\$420,610	0.6	%	125,389	0.2	%
Income tax expense	\$76,691	0.1	%	63,963	0.1	%
Net (loss)	\$(4,213,842)	(5.9)	)%	(605,784)	1.0	%

Revenue

Primarily due to the increase in our retail pharmacy business and wholesale business, our revenue increased by \$10,266,879 or 16.6% for the nine months ended December 31, 2017, as compared to the nine months ended December 31, 2016, partially offset by the increase in our wholesale business. The following table breaks down the revenue for our four business segments for the nine months ended December 31, 2017 and 2016.

Quarterly Revenue by Segment

The following table breaks down the revenue for our four business segments for the nine months ended December 31, 2017 and 2016:

	nine months ended December 31, 2017		2016		Variance by amount	% of change
	Amount	% of total revenue	Amount	% of total revenue		
Revenue from retail drugstores	\$46,356,207	64.4 %	\$39,636,796	64.2 %	\$6,719,411	17.0 %
Revenue from online sales	9,595,752	13.3 %	12,292,175	20.0 %	(2,696,423)	(21.9)%
Revenue from wholesale business	16,021,694	22.3 %	9,777,803	15.8 %	6,243,891	63.9 %
Revenue from farming business	-	- %	-	- %	-	- %
Total revenue	\$71,973,653	100.0 %	\$61,706,774	100.0 %	\$10,266,879	16.6 %

Retail drugstores sales, which accounted for approximately 64.4% of total revenue for the nine months ended December 31, 2017, increased by \$6,719,411, or 17.0% as compared to the nine months ended December 31, 2016, to \$28,067,985. Same-store sales increased by approximately \$4,857,538, or 13.4%, while new stores contributed approximately \$3,329,702 in revenue in the nine months ended December 31, 2017. In contrast, the sale from our clinics decreased by approximately \$1.5 million due to a construction renovation of our Daguang clinic in calendar year 2017. Starting in fiscal year 2017, our new general manager in retail business has been spending significant efforts on commodity selection and purchase price negotiation. A wide choice of suitable health products to customers is a key to a drugstore success. By introducing more quality products at lower prices, we were able to retain more customers visiting our stores. Additionally, in cooperation with brand name suppliers, we continuously implement various marketing activities. For example, we made a strategic alliance with a famous *Colla corii asini* manufacturer to promote its sales in Hangzhou. *Colla corii asini* is a well-known nutritional supplement in China and has a large number of consumers. By promoting the products in our stores, we were able to raise sales of the products while enjoying the supplier's support in the form of a lower purchase price and technical on-site assistance. As a side effect, customers who purchased *Colla corii asini* in our stores also made purchases of other health products. Furthermore, we have been focusing on improving customer services. For example, we have created chronic disease management center in three of our stores. We constantly monitor customers' chronic disease patterns, provide free medical tests such as a blood sugar test and provide in-store doctor's advices. As a result, these customers became loyal to our stores and made the majority of their purchases for health products at our stores. Our store count increased to 113 as of December 31, 2017, compared to 62 stores as of December 31, 2016, as an effect of opening 51 stores in fiscal year 2017.

Our online pharmacy sales decreased by approximately \$2,654,099, or 30.0% for the nine months ended December 31, 2017, as compared to the nine months ended December 31, 2016. The decrease was mainly caused by decline in our sale via e-commerce platforms, as further explained below, during this quarter. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. Such arrangements with third-party platforms have exposed our online presence to a wider consumer base. In order to increase the popularity of our products, we have made considerable efforts to identify popular products that can drive sales, while keeping a close watch on cost. However, due to the suspension of OTC drug sales on e-commerce platforms such as Alibaba in the second quarter of fiscal year 2017 by the China Food and Drug Administration ("CFDA"), our sales via these e-commerce platforms have been curtailed. As a result, our sales via these e-commerce platforms decreased by 28.0% period over period. We are adding more non-medical health products such as nutritional supplements into our sales menu to counteract the decline in sale of OTC drug category. For instance, we are opening a *dendrobium candidum* flagship store at Tmall with a local popular brand. The brand has a large customer base in Hangzhou. We expect our e-commerce platform sales will pick up in the future. Due to the decline in business referred to us from "Yikatong", a popular pharmacy and health insurance benefit card, the sales on our own official website for the nine months ended December 31, 2017 decreased by \$0.53 million or 41.4% as compared to the nine months ended December 31, 2016. Yikatong is run by a Pharmacy Benefit Management ("PBM") provider in China. In fiscal year 2016, we created a strategic alliance with the PBM provider. However, in order to maximize its profit, the PBM provider chose to create its own online pharmacy to sell products referred from Yikatong. In order to grow its own online pharmacy, the PBM provider actively directed Yikatong customers to purchase products on its online pharmacy. As a result, the sales on our own official website declined.

Wholesale revenue increased by \$4,166,004 or 62.0%, primarily as a result of our ability to resell certain products, which our retail stores made large orders on, to other vendors. As our retail drugstores achieved large quantity sales of certain brand name products, we were able to bargain lower purchase prices than the market level on these merchandises. As a result, vendors who were unable to obtain a better price than ours, turned to us for these products, causing the wholesale volume to grow. However, hospitals still act as a major source of drug retailers in China. In the future, we plan to explore sales to hospitals and become a national or provincial agent of certain important products directly from drug manufacturers.

In the nine months ended December 31, 2017 and 2016, we have not harvested and generated revenue from our farming business. We planted ginkgo and maidenhair trees during the year ended March 31, 2013. A ginkgo tree may have a growth period of up to twenty years before it is mature enough for harvest. Usually, the longer it grows the more valuable it becomes. We plan to continue cultivating the trees in order to maximize their market value in the future. During the nine months ended December 31, 2017, we have been evaluating feasibility of planting other herbs with short period of growth. We anticipate that we will continue to grow ginkgo trees and start cultivating other herbs in the future.

Gross Profit

Gross profit increased by \$900,447 or 10.2% period over period primarily as a result of an increase in gross margin of wholesale business and increase in retail drugstores sale. At the same time, gross margin increased from 21.1% to 21.3% due to higher wholesale profit margins. The average gross margins for each of our four business segments are as follows:

	nine months ended December 31,	
	2017	2016
Average gross margin for retail drugstores	26.2%	27.8%
Average gross margin for online sales	9.9 %	11.5%
Average gross margin for wholesale business	13.9%	6.0 %
Average gross margin for farming business	N/A	N/A

Retail gross margins decreased primarily due to lower prices in promotional campaigns. In order to boost our sales, we have implemented several marketing campaigns in our stores in the three months ended December 31, 2017. As an effective method to promote sales, we have implemented promotional policies, such as coupon discounts on certain merchandise. As a result, our retail profit margins were diminished. Additionally, we have opened forty-six stores in the nine months ended December 31, 2018. In the stores' opening ceremonies, we usually provided deep-discounted products sales promotion in order to boost new store sales. The sales promotions in the stores' opening ceremonies contributed to the lower profit margin, however, as we have been focusing on product selection and continuous price negotiation with suppliers, as stated above, we expect to raise our sales profit margin in the future.

Gross margin of online pharmacy sales decreased primarily as a result of sales of certain products at low prices. Our online store general manager resigned in July 2017. Certain products have been superseded by newer products or close to expiration dates. In order to cut losses, the successive GM at our online pharmacy sold these products at low prices in certain national black sales dates such as November 11. In the future, we plan to increase our sales while keeping reasonable gross profit margins.

Wholesale gross margin increased primarily as a result of different products we carried and sold to certain pharmaceutical vendors. As we were able to carry sales of certain high margin products with suppliers rebate in this period, our sales profit margin increased.

Selling and Marketing Expenses

Sales and marketing expenses increased by \$4,012,377 or 43.3% period over period, primarily due to commissions payable to our wholesale sales contractors, rent and other expenditures for new retail stores, and reclassification of certain staff's salaries to selling and marketing expense in our wholesale business. In the three months ended December 31, 2017, much of our wholesale business was referred by unaffiliated individuals medical products traders who earned commissions based on the brokered transaction amount. As a result, we incurred additional selling expenses of approximately \$1.0 million. In the quarter ended December 31, 2017, we accelerated new store openings. As a result, we incurred \$1.8 million for additional rental and new store expenditures such as stationery and utility. Additionally, as certain members of our wholesale staff provide general customer care and warehouses support that are more related to our sales, we reclassified \$0.6 million expenses as sales and marketing expenses to better reflect their nature. These increases in expenses, as well as the decrease in overall sales, caused expenses as a percentage of our revenue to increase to 18.5%, from 15.0% for the same period a year ago.

General and Administrative Expenses

General and administrative expenses increased by \$2,565,799 or 54.0% period over period. Such expenses as a percentage of revenue increased to 10.2% from 7.7% for the same period a year ago. The increase in absolute dollars reflects additional accounts receivable and advances to vendors allowance of \$2.34 million in the nine months ended December 31, 2017 as compared to a reversal of \$0.5 million in the nine months ended December 31, 2016. The difference was due to certain aged accounts receivable and advances to suppliers accounts in the three months ended December 31, 2016.

(Loss) from Operations

As a result of the above, we had loss from operations of \$5,300,511, as compared to loss from operations of \$1,010,524 a year ago. Our operating margin for the nine months ended December 31, 2017 and 2016 was (7.4)% and (1.6)%, respectively.

Income Taxes

Our income tax expense decreased by \$12,728 period over period due to overall increase in wholesale profit.

Net (Loss)

As a result of the foregoing, net loss increased by \$3,608,058 period over period.

Accounts receivable

Accounts receivable, which are unsecured, are stated at the amount we expect to collect. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses. To prepare for potential loss in such accounts, we made corresponding reserves.

Our accounts receivable aging was as follows for the periods described below:

From date of invoice to customer	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total amount
1- 3 months	\$8,958,610	463,385	\$1,754,826	\$ -	\$11,176,821
4- 6 months	53,347	655,050	1,040,521	-	1,748,918
7- 12 months	49,380	109,886	41,151	-	200,417
Over one year	40,415	146,683	1,920,630	-	2,107,728
Allowance for doubtful accounts	(159,096)	(228,024)	(2,006,665)	-	(2,393,785)
Total accounts receivable	\$8,942,656	\$1,146,980	\$2,750,463	\$ -	\$12,840,099

Accounts receivable from our retail business mainly consist of reimbursements from government health insurance bureaus and commercial health insurance programs. In the three and nine months ended December 31, 2017 and 2016, we wrote off an approximately \$33,738 and \$75,126 collectible from provincial and Hangzhou City government insurance. In the nine months ended December 31, 2017 and 2016, we wrote off an approximately \$158,721 and \$138,508 collectible from provincial and Hangzhou City government insurance, as such amount has been determined by the health insurance bureaus to be unqualified for reimbursement.

Accounts receivable from our online pharmacy business mainly consist of collectibles from third-party platforms such as Tmall and JD.com where we sell products. Usually the third-party platforms will collect from customers ordering on their platforms and then reimburse us in times ranging from several days to a month after orders are placed.

Accounts receivable from our drug wholesale business and herb farming business consist of receivables from our customers such as pharmaceutical distributors. Our drug wholesale business transitioned away from focusing on sales volume beginning in the second half of fiscal year 2013, and it tightened its customer credit policy and strengthened monitoring of uncollected receivables. However, in the nine months ended December 31, 2016, certain accounts become aged and reserved. As a result, we made an additional \$654,604 in allowance.

Subsequent to December 31, 2017 and through January 31, 2018, we collected approximately \$5.1 million in receivables relating to our drugstore business, approximately \$0.6 million in receivables relating to our online pharmacy business, approximately \$0.15 million relating to our wholesale business, and \$0 relating to our herb farming business.

Advances to suppliers

Advances to suppliers are mainly prepayments to secure certain products or services and favorable pricing. The aging of our advances to suppliers is as follows for the periods described below:

From date of cash prepayment to suppliers	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total amount
1- 3 months	\$273,364	\$ -	\$2,426,602	\$ -	\$2,699,966
4- 6 months	212,706	-	2,575,386	-	2,788,092
7- 12 months	53,392	-	351,680	-	405,072
Over one year	239,598	-	2,292,094	-	2,531,692
Allowance for doubtful accounts	(274,319)	-	(2,585,800)	-	(2,860,119)
Total advances to suppliers	\$504,214	\$ -	\$5,059,962	\$ -	\$5,564,703

Since the acquisition of Jiuxin Medicine, we have gradually transferred almost all logistics services of our retail drugstores to Jiuxin Medicine. Jiuzhou Pharmacy only makes purchases on certain non-medical products such as sundry. As a result, our retail chain had limited advances to suppliers as of December 31, 2017.

Advances to suppliers for our drug wholesale business consist of prepayments to our vendors such as pharmaceutical manufacturers and other distributors. We typically receive products from vendors within three to nine months after making prepayments. We continuously monitor delivery from and payments to our vendors while maintaining a provision for estimated credit losses based upon historical experience and any supplier-specific issues such as discontinuing of inventory supply that have been identified. If we are having difficulty receiving products from a vendor, we take the following steps: cease purchasing products from the vendor, ask for return of our prepayment promptly, and if necessary, take legal action. If all of these steps are unsuccessful, management then determines whether or not the prepayments should be reserved or written off. To facilitate its initial expansion, Jiuxin Medicine made significant prepayments to certain vendors. Lack of timely supplier account reconciliation caused by several sales staff rotations delayed the monitoring of such accounts. To accommodate potential loss in advances to suppliers, we made reserve for amounts considered to be uncollectible. As previously discussed, Jiuxin Medicine transitioned away from focusing on sales volume beginning in the second half of fiscal year 2013, and since then we have tightened our customer credit policy and strengthened monitoring of uncollected receivables.

Liquidity and Capital Resources

Our cash flows for the periods indicated are as follows:

	nine months ended	
	December 31,	
	2017	2016
Net cash (used in) operating activities	\$(9,438,665)	\$(1,787,068)
Net cash (used in) provided by investing activities	\$(1,756,990)	\$128,414
Net cash (used in) provided by financing activities	\$(170,906)	\$23,796

For the nine months ended December 31, 2017, cash used in operating activities amounted to \$9,801,402, as compared to \$1,787,068 cash used in operating activities a year ago. The change is primarily attributable to a increase of \$3,606,058 in net loss, an increase of \$2,390,538 in cash used in inventory and biological assets, and an increase of \$3,700,443 in cash used in accounts receivable, offset by an increase of \$1,973,368 in cash provided by accounts payable, and an increase of \$2,454,004 of bad debt provision.

For the nine months ended December 31, 2017, net cash used in investing activities amounted to \$1,756,990 as compared to \$128,414, provided by investing activities a year ago. The change is attributable to purchase of intangible assets such as social medical reimbursement certificate and increase in SAP (see Note 7) system implementation in the nine months ended December 31, 2017.

For the nine months ended December 31, 2017, net cash used in financing activities amounted to \$170,906, as compared to \$23,796 provided by financing activities a year ago.

As of December 31, 2017, we had cash of approximately \$8,396,060. Our total current assets as of December 31, 2017, were \$60,422,800 and total current liabilities were \$48,912,221, which resulted in a working capital of \$11,510,579.

On January 23, 2017, we completed a private placement with a single healthcare-focused institutional investor for the purchase of an aggregate of 4,840,000 of our common stock at a price of \$2.20 per share and gross proceeds of approximately \$10,648,000. As of December 31, 2017, we had approximately \$5.30 million in our credit line available for further borrowing. We believe that the foregoing sources will collectively provide sufficient liquidity for us to meet our liquidity and capital obligations for the next twelve months. However, if we are to acquire additional businesses or further expand our operations, we may need additional capital.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

When we open store locations, we typically enter into lease agreements that are generally between three to ten years. Our commitments for minimum rental payments under our leases for the next five years and thereafter are as follows:

Edgar Filing: CHINA JO-JO DRUGSTORES, INC. - Form 10-Q

Periods ending December 31,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2018	4,432,027	\$ 37,193	\$ 74,387	\$ -	\$4,543,607
2019	4,001,871	37,193	74,387	-	4,113,451
2020	3,150,384	37,193	74,387	-	3,261,964
2021	2,507,045	3,099	6,199	-	2,516,343
2022	1,810,277	-	-	-	1,810,277
Thereafter	2,721,674	-	-	-	2,721,674

Off-balance Sheet Arrangements

We do not have any outstanding financial guarantees or commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Exchange Rates

Our subsidiaries and affiliated companies in the PRC maintain their books and records in RMB, the lawful currency of the PRC. In general, for consolidation purposes, we translate their assets and liabilities into USD using the applicable exchange rates prevailing at the balance sheet date, and the statement of income is translated at average exchange rates during the reporting period. Adjustments resulting from the translation of their financial statements are recorded as accumulated other comprehensive income.

The exchange rates used to translate amounts in RMB into USD for the purposes of preparing the audited consolidated financial statements or otherwise disclosed in this report were as follows:

	December 31, 2017	March 31, 2017
Balance sheet items, except for the registered and paid-up capital, as of end of period	USD1: RMB 0.1536	USD1: RMB 0.1451
Amounts included in the statement of Operations and statement of cash flows for the period ended	USD1: RMB 0.1512	USD1: RMB 0.1487

Inflation

We believe that inflation has not had a material effect on our operations to date.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

35

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon such evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were ineffective at the reasonable assurance level. Such conclusion is based on the presence of the following material weakness in internal control over financial reporting as described in our annual report on Form 10-K for the year ended March 31, 2017:

Accounting and Finance Personnel Weaknesses - As noted in Item 9A of our annual reports on Form 10-K for the preceding fiscal years, management concluded that in light of the inexperience of our accounting staff with respect to the requirements of U.S. GAAP-based reporting and SEC rules and regulations, we did not maintain effective controls and did not implement adequate and proper supervisory review to ensure that material misstatements are prevented or detected on a timely basis.

We have been continually making progress in improving internal controls. In 2017, we installed a leading ERP system, SAP from Germany. SAP is a well-known management system used by many fortune 500 companies. Per the contract with the local SAP system provider, the total fee for SAP customized installation and training adds up to more than 1 million USD in this year. By automatically connecting commodity flow data with accounting recording, the system minimizes the manual errors made by accounting staff. Additionally, the system provides a view of overall and instant cash information by electronically linking local banking systems with SAP. Additional benefits include automatically-generated customized monthly company performance reports, instant inventory monitoring and reporting, and punctual customer and suppliers accounts maintenance. In addition, we plan to introduce talented managers who are able to better utilize the system. We expect to continually improve our internal control system.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 6. EXHIBITS.

EXHIBIT INDEX

Exhibit Number	Description
31.1	<u>Section 302 Certification by the Corporation's Chief Executive Officer</u>
31.2	<u>Section 302 Certification by the Corporation's Chief Financial Officer</u>
32.1	<u>Section 906 Certification by the Corporation's Chief Executive Officer and Chief Financial Officer</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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 JO-JO
DRUGSTORES, INC.**
(Registrant)

Date: February 14, 2018 By: /s/ Lei Liu
Lei Liu

Chief Executive Officer

Date: February 14, 2018 By: /s/ Ming Zhao
Ming Zhao
Chief Financial Officer