CHINA JO-JO DRUGSTORES, INC.
Form 10-Q
February 08, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended: December 31, 2009

Or

¨ Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from ______________ to _______________

CHINA JO-JO DRUGSTORES, INC.

(Exact name of registrant as specified in Charter)

Nevada	333-147698	98-0557852
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employee Identification No.)

Room 507-513, 5th Floor A Building, Meidu Plaza
Gongshu District, Hangzhou, Zhejiang Province, P.R. China

(Address of Principal Executive Offices)

+86 (571) 88077078

(Registrant's Telephone number)

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 x No ¨

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date: 20,000,000 issued and outstanding as of February 4, 2010.

Transitional Small Business Disclosure Form (Check one): Yes x No ¨

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QUARTERLY REPORT ON FORM 10-Q
FOR NINE MONTHS ENDED DECEMBER 31, 2009

CAUTION REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Quarterly Report on Form 10-Q ("Form 10-Q") for China Jo-Jo Drugstores, Inc., 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
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND MARCH 31, 2009

A S S E T S		December 30, 2009 (Unaudited)		March 31, 2009
CURRENT ASSETS				
Cash	$	1,226,929	$	996,302
Restricted cash		362,349		-
Accounts receivable, trade		1,922,664		1,265,110
Inventories		3,527,071		2,793,101
Other receivables		364,574		67,079
Other receivables - related parties		-		2,432
Advances to suppliers		6,813,318		5,485,113
Advances to supplier - related party		2,190,826		1,797,104
Other current assets		1,455,707		564,379
Total current assets		17,863,438		12,970,620
PROPERTY AND EQUIPMENT, net		911,001		979,432
OTHER ASSETS:				
Long term deposit		2,326,829		2,015,149
Total assets	$	21,101,268	$	15,965,201
L I A B I L I T I E S A N D S H A R E H O L D E R S' E Q U I T Y				
CURRENT LIABILITIES				
Short term loans	$	1,467,000	$	1,465,000
Notes payable		720,816		-
Accounts payable, trade		3,217,895		5,939,237
Other payables		1,158,763		404,731
Other payables - related party		333,029		326,715
Taxes payable		1,125,652		811,316
Accrued liabilities		248,481		360,655
Total liabilities		8,271,636		9,307,654
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY				
Common stock; $0.001 par value; 75,000,000 shares authorized;				

20,000,000 and 15,800,000 shares issued and outstanding				
as of December 31, 2009 and March 31, 2009, respectively		20,000		15,800
Paid-in capital		867,884		661,800
Statutory reserves		1,309,109		1,309,109
Retained earnings		10,982,385		5,033,275
Accumulated other comprehensive loss		(349,746)		(362,437)
Total shareholders' equity		12,829,632		6,657,547
Total liabilities and shareholders' equity	$	21,101,268	$	15,965,201

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

CHINA JO-JO DRUGSTORES, INC AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THREE AND NINE MONTHS ENDED DECEMBER 31, 2009 AND 2008
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
REVENUES	$14,923,706	$11,562,762	$38,863,743	$33,096,321
COST OF GOODS SOLD	10,156,871	8,238,078	27,574,136	24,139,585
GROSS PROFIT	4,766,835	3,324,684	11,289,607	8,956,736
SELLING EXPENSES	912,312	487,395	1,986,471	1,280,838
GENERAL & ADMINISTRATIVE EXPENSES	441,861	111,386	1,372,205	614,987
OPERATING EXPENSES	1,354,173	598,781	3,358,676	1,895,825
INCOME FROM OPERATIONS	3,412,662	2,725,903	7,930,931	7,060,911
OTHER INCOME (EXPENSE), NET	31,557	6,448	41,800	(9,190)
INCOME BEFORE INCOME TAXES	3,444,219	2,732,351	7,972,731	7,051,721
PROVISION FOR INCOME TAXES	797,866	736,828	2,023,621	1,738,462
NET INCOME	2,646,353	1,995,523	5,949,110	5,313,259
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	1,520	(5,042)	12,691	32,730
COMPREHENSIVE INCOME	$2,647,873	$1,990,481	$5,961,801	$5,345,989
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	20,000,000	15,800,000	17,409,489	15,800,000
BASIC AND DILUTED EARNING PER SHARE	$0.13	$0.13	$0.34	$0.34

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

CHINA JO-JO DRUGSTORES, INC AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock			Retained Earnings		Accumulated other	
	Number of shares	Amount	Paid-in capital	Statutory reserves	Unrestricted	comprehensive income/(loss)	Totals
BALANCE, March 31, 2008	15,800,000	$ 15,800	$ 661,800	$ 606,665	$ (1,077,797)	$ (390,125)	$ (183,657)
Net income					5,313,259		5,313,259
Adjustment of statutory reserves				531,326	(531,326)		-
Foreign currency translation adjustments						32,730	32,730
BALANCE, December 31, 2008 (unaudited)	15,800,000	$ 15,800	$ 661,800	$ 1,137,991	$ 3,704,136	$ (357,395)	$ 5,162,332
Net income					1,500,257		1,500,257
Adjustment of statutory reserves				171,118	(171,118)		-
Foreign currency translation adjustments						(5,042)	(5,042)
BALANCE, March 31, 2009	15,800,000	$ 15,800	$ 661,800	$ 1,309,109	$ 5,033,275	$ (362,437)	$ 6,657,547
Shares issued for reorganization on September 17, 2009	4,200,000	4,200	(4,200)				-
Stock-based compensation			202,120				202,120
Net income					5,949,110		5,949,110
Shareholder contribution			8,164				8,164
Foreign currency translation adjustments						12,691	12,691
BALANCE, December 31, 2009 (unaudited)	20,000,000	$ 20,000	$ 867,884	$ 1,309,109	$ 10,982,385	$ (349,746)	$ 12,829,632

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

CHINA JO-JO DRUGSTORES, INC AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2009 AND 2008
(Unaudited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,949,110	$ 5,313,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	389,809	331,582
Loss on fixed assets disposal	-	321
Stock compensation	126,325	-
Change in operating assets		
Accounts receivable, trade	(655,559)	(516,212)
Inventories	(729,858)	(814,081)
Other receivables	(297,283)	(386,195)
Other receivables - related parties	2,435	165,592
Advances to suppliers	(1,320,177)	(3,269,792)
Advances to suppliers - related parties	(391,108)	(641,987)
Other current assets	(889,536)	126,672
Long term deposit	(308,803)	-
Change in operating liabilities		
Accounts payable, trade	(2,007,814)	(322,498)
Other payables and accrued liabilities	716,512	(25,221)
Other payables-related parties	5,866	(7,278)
Taxes payable	313,101	325,495
Net cash provided by operating activities	903,020	279,657
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(57,110)	(22,944)
Additions to leasehold improvements	(263,619)	(246,402)
Net cash used in investing activities	(320,729)	(269,346)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	(362,349)	-
Payments on short-term loans	(1,466,400)	(508,060)
Proceeds from short-term loans	1,466,400	508,060
Net cash used in financing activities	(362,349)	-
EFFECT OF EXCHANGE RATE ON CASH	10,685	24,082
INCREASE IN CASH	230,627	34,393
CASH, beginning of period	996,302	878,948
CASH, end of period	$ 1,226,929	$ 913,341

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

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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 HK”), and Renovation HK became a wholly-owned subsidiary of the Company. On the closing date, the Company issued 15,800,000 of its common stock to Renovation HK’s stockholders in exchange for 100% of the capital stock of Renovation HK. Prior to the share exchange transaction, the Company had 4,200,000 shares of common stock issued and outstanding. After the share exchange transaction, the Company had 20,000,000 shares of common stock outstanding and Renovation HK’s stockholders owned 79% of the issued and outstanding shares. The management members of Renovation HK became the directors and officers of the Company. 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) is, in substance, those of Renovation HK (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. As the share exchange transaction was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. The carrying values of assets, liabilities, and equity of Renovation HK did not change. In reporting earnings per share for periods prior to September 17, 2009, the Company used 15,800,000 shares, or the shares issued to Renovation HK’s stockholders in exchange for 100% of the capital stock of Renovation HK.

Renovation HK was incorporated on September 2, 2008, under the laws of Hong Kong Special Administrative Region (“Hong Kong”). Renovation HK has no substantive operations of its own except for its holding of Zhejiang Jiuxin Investment Management Co., Ltd. (“Jiuxin Management”), its wholly-owned subsidiary. Through Jiuxin Management, the Company controls three companies that operate a chain of pharmacies in the People’s Republic of China (“PRC” or “China”), namely, Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine (“Jiuzhou Clinic”) and Hangzhou Jiuzhou Medical and Public Health Service Co., Ltd. (“Jiuzhou Service”, and collectively with Jiuzhou Pharmacy and Jiuzhou Clinic as “HJ Group”).

Jiuxin Management was established in the PRC by Renovation HK on October 14, 2008, as a wholly foreign owned enterprise (“WFOE”), with registered capital of $4,500,000. Renovation HK is required by the PRC company law to pay 15% of the registered capital by December 31, 2009 and the balance to be paid within two years. Jiuxin Management has no substantive operations of its own except for entering into certain exclusive agreements with HJ Group and performing its obligations thereunder.

Jiuzhou Pharmacy is a PRC limited liability company established in Zhejiang Province on September 9, 2003 with registered capital of $605,000 (RMB 5,000,000). It is engaged in the retail sales of prescription and non prescription drugs, traditional Chinese medicine and general merchandise in the PRC.

Jiuzhou Clinic is a PRC general partnership established in Zhejiang Province on October 10, 2003. It is engaged in providing both traditional and western medical services in the PRC.

Jiuzhou Service is a PRC limited liability company established in Zhejiang Province on November 2, 2005 with registered capital of $60,500 (RMB 500,000). It is engaged in providing medical-related management consulting services in the PRC.

All three HJ Group companies are under the common control of the same three owners (the “Owners”). Each HJ Group company holds the licenses and approvals necessary to operate its business in China.

The paid-in capital of all three HJ Group companies was funded by individuals who were the majority shareholders of Renovation HK prior to the share exchange transaction with the Company. PRC law currently has limits on foreign ownership of companies in certain industries, including those of HJ Group. To comply with these foreign ownership restrictions, on August 1, 2009, Jiuxin Management entered into the following exclusive agreements with HJ Group and the Owners (collectively the "Contractual Arrangements"):

(1) Consulting Services Agreement, through which Jiuxin Management has the right to advise, consult, manage and operate all three HJ Group companies, and collect and own all of their net profits;

(2) Operating Agreement, through which Jiuxin Management has the right to recommend director candidates and appoint the senior executives of HJ Group, approve any transactions that may materially affect the assets, liabilities, rights or operations of HJ Group, and guarantee the contractual performance by HJ Group of any agreements with third parties, in exchange for a pledge by each HJ Group company of its accounts receivable and assets;

(3) Proxy Agreement, under which the Owners have vested their collective voting control over the three HJ Group companies to Jiuxin Management and will only transfer their respective equity interests in HJ Group to Jiuxin Management or its designee(s);

(4) Option Agreement, under which the Owners have granted Jiuxin Management the irrevocable right and option to acquire all of their equity interests in HJ Group; and

(5) Equity Pledge Agreement, under which the Owners have pledged all of their rights, titles and interests in HJ Group to Jiuxin Management to guarantee the performance of their obligations under the Consulting Services Agreement.

On October 27, 2009, the Company was made a party to a series of amendments to the contractual arrangements with HJ Group. Specifically, four of the five agreements comprising the contractual arrangements – namely, the consulting services agreement, the operating agreement, the option agreement and the voting rights proxy agreement – were amended to remove a provision which terminated these agreements on May 1, 2010 unless the Company completed a financing of at least $25 million and listed its common stock on The NASDAQ Capital Market by such date. As amended:

- the consulting services agreement shall remain in effect for the maximum period of time permitted by law, unless sooner terminated by Jiuxin Management or if either Jiuxin Management or an HJ Group company becomes bankrupt or insolvent, or otherwise dissolves or ceases business operations;

- the operating agreement shall remain in effect unless terminated by Jiuxin Management;

- the option agreement shall remain in effect for the maximum period time permitted by law; and

- the voting rights proxy agreement shall remain in effect for the maximum period of time permitted by law.

As a result of the Contractual Arrangements and amendments thereto, which obligate the Company to absorb all of the risk of loss from HJ Group's activities and enables the Company to receive all of HJ Group's expected residual returns, the Company accounts for each HJ Group company as a variable interest entity ("VIE") under Financial Accounting Standards Board (FASB)'s accounting standard. Accordingly, the financial statements of HJ Group are consolidated into the financial statements of the Company.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The reporting entities

The Company's consolidated financial statements of reflect the activities of the Company and the following subsidiary and VIEs:

Subsidiaries	Incorporated in	Percentage of Ownership
Renovation HK	Hong Kong	100.00%
Jiuxin Management	PRC	100.00%
Jiuzhou Pharmacy	PRC	VIE by Contractual Arrangements
Jiuzhou Clinic	PRC	VIE by Contractual Arrangements
Jiuzhou Service	PRC	VIE by Contractual Arrangements

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. The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiary and its VIEs. All significant inter-company transactions and balances between the Company, its subsidiary and VIEs are eliminated upon consolidation.

Consolidation of variable interest entities

In accordance with the accounting standard, 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 that Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service are each a VIE and that the Company's wholly owned subsidiary, Jiuxin Management, absorb a majority of the risk of loss from the activities of these three companies, and enable the Company, through Jiuxin Management, to receive a majority of their respective expected residual returns. Accordingly, the Company accounts for each of these three companies as a VIE.

Additionally, as the three HJ Group companies 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 is defined under the accounting standard as "an individual, enterprise, or immediate family members who hold more than 50 percent of the voting ownership interest of each entity." Because Lei Liu, Li Qi, and Chong'an Jin collectively own 100% of HJ Group, the Company believes that these three individuals collectively have control of HJ Group in accordance the accounting standard. 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 HK.

Although the Company recognizes the consolidation of VIEs standard but does not provide for retroactive accounting treatment, HJ Group in substance were controlled by the same three individuals on September 9, 2003, October 10, 2003 and November 2, 2005, the establishment dates of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, respectively. Such common control condition resulted in the share exchange transaction to be a capital transaction in substance, reflected as a recapitalization, and the Company has accordingly recorded the consolidation of Renovation

HK at its historical cost.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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. For example, the Company estimates its allowance for doubtful accounts and useful lives of plant and equipment. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Fair values of financial instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosures requirements for fair value measures. The carrying amounts reported in the balance sheets for current receivables, payables and short term loans qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The Company did not identify any assets or liabilities that are required to be presented on the balance sheet at fair value.

Revenue recognition

Revenue from sales of prescription medicine at the 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 the drugstores is recognized at the point of sale, which is when the customer pays for and receives the merchandise.

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

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 immaterial.

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

Cash

Cash consists of cash on hand, cash in the drugstores, and cash at banks.

Restricted cash

The Company's restricted cash consists of cash 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.

Accounts receivable

Accounts receivable represent amounts due from banks relating to retail sales that are paid or settled by the customers' debit or credit cards, amounts due from government social security bureaus relating to retail sales of drugs, prescription medicine, and medical services that are paid or settled by the customers' medical insurance cards, and amounts due from non-retail customers for sales of merchandise.

Management regularly reviews aging of receivables and changes in payment trends by its customers, and records a reserve when they believe collection of amounts due are at risk. Accounts considered uncollectible are written off. Historically, the amount of bad debt write-off has been immaterial and the Company has been able to collect substantially all amounts due from these parties. As of December 31, 2009 and March 31, 2009, management concluded all amounts are collectible and allowance for doubtful accounts deemed not necessary.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average cost method. Market 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 to ensure that the amounts reflected in the consolidated financial statements at each reporting period are properly stated and valued. The Company records write-downs to inventories for shrinkage losses and damaged merchandise that are identified during the inventory counts.

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 following estimated useful lives of the assets, taking into consideration the assets' estimated residual value. Leasehold improvements are amortized over the shorter of 5 years or the lease term of the underlying assets. Following are the estimated useful lives of the Company's other property and equipment:

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

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

Impairment of long lived assets

The Company evaluates long lived tangible and intangible assets for impairment, at least annually, but more often 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 asset's 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.

Based on its review, the Company believes that, as of December 31, 2009 and March 31, 2009, there was no impairment.

Income taxes

The Company records income taxes pursuant to the accounting standards for income taxes. The accounting standards require the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due plus deferred taxes.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The accounting standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. The adoption had no affect on the Company’s financial statements. There are no deferred tax amounts at December 31, 2009 and March 31, 2009.

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when related items are credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Value Added Tax (VAT)

Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company’s products that are sold in the PRC are subject to a Chinese value-added tax on the gross sales price. The value-added tax rate varies from 9% to 17%, depending on the type of products sold. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished products. The Company recorded VAT payable and VAT receivable net of payments in the accompanying financial statements. The VAT tax return is filed offsetting the payables against the receivables.

Stock Based Compensation

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with the Financial Accounting Standards Board's accounting standards regarding accounting for stock-based compensation and accounting for equity instruments that are issued to other than employees for acquiring or in conjunction with selling goods or services. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably determinable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services as defined by these accounting standards. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

Advertising and promotion costs

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs amounted to $185,551 and $104,198 for the three months ended December 31, 2009 and 2008, respectively. Advertising and promotion costs amounted to $311,659 and $160,188 for the nine months ended December 31, 2009 and 2008, respectively. Advertising costs consist primarily of print and television advertisements.

Pre-opening costs

Expenditures related to the opening of new drugstores, other than expenditures for property and equipment, are expensed as incurred.

Vendor allowances

The Company accounts for vendor allowances according to FASB's accounting standard. Vendor allowances reduce the carrying value of inventories and subsequently transferred to cost of goods sold when the inventories are sold, unless those allowances are specifically identified as reimbursements for advertising, promotion and other services, in which case they are recognized as a reduction of the related advertising and promotion costs.

For the three months ended December 31, 2009 and 2008, the Company recognized vendor allowances of $81,498 and $231,685 in cost of goods sold, respectively. For the nine months ended December 31, 2009 and 2008, the Company recognized vendor allowances of $188,278 and $344,693 in cost of goods sold, respectively.

Distribution costs

Distribution costs represent the costs of transporting the merchandise from warehouses to stores. These costs are expensed as incurred and are included in sales, marketing and other operating expenses.

Operating leases

The Company leases premises for retail drugstores, warehouses and offices under non-cancelable operating leases. Operating lease payments are expensed on a straight-line basis over the term of lease. A majority of the Company's retail drugstore leases have a 3 to 5-year term with a renewal option upon the expiry 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.

Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Historically, the Company has experienced no product liability or malpractice claims.

Foreign currency translation

The Company uses the United States dollar ("U.S. dollars" or "USD") for financial reporting purposes. The Company's subsidiary and VIEs maintain their books and records in their functional currency, being the primary currency of the economic environment in which their operations are conducted.

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 statement 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 subsidiaries' and VIEs' financial statements are recorded as accumulated other comprehensive income.

The accounting standard, "Reporting Comprehensive Income", requires disclosure of all components of comprehensive income and loss on an annual and interim basis. Comprehensive income and loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's accumulated other comprehensive income only consist of changes in foreign currency exchange rates. Accumulated other comprehensive loss in the statement of shareholders' equity amounted to $349, 746 and $362,437 as of December 31, 2009 and March 31, 2009, respectively. The balance sheet amounts with the exception of equity at December 31, 2009 and March 31, 2009 were translated at 1 RMB to $0.1467 USD and at 1 RMB to $0.1465 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the nine months ended December 31, 2009 and 2008 were at 1 RMB to $0.14664 USD and at 1 RMB to $0.14559 USD, respectively.

Concentrations and credit risk

The Company's operations are all carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash. Balances at financial institutions or state owned banks within the PRC are not covered by insurance. As of December 31, 2009 and March 31, 2009, the Company had deposits totaling $1,549,521 and $995,448 that are not covered by insurance, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

For the three months and nine months ended December 31, 2009 and 2008, all of the Company's sales and purchases arose in the PRC. No major customers accounted for more than 10% of the Company's total revenues for the three months and nine months ended December 31, 2009 and 2008, respectively.

For the three months ended December 31, 2009, two vendors accounted for 13% and 11% of the Company's total purchases and 32% of the total accounts payable and 16% of total purchase deposit, respectively. For the nine months ended December 31, 2008, one vendor accounted for 20% of the Company's purchase and 7% of total accounts payable at December 31, 2008.

For the nine months ended December 31, 2009 and 2008, one vendor accounted for 17% of the Company's total purchases and 15% of the total accounts payable; and 20% of the Company's total purchases and 7% of the total accounts payable, respectively.

Recently issued accounting pronouncements

In April 2009, the FASB issued an accounting standard that requires disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this accounting standard, fair values for these assets and liabilities were only disclosed annually. This standard applies to all financial instruments within its scope and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This standard does not require disclosures for earlier periods presented for comparative purposes at initial adoption, but in periods after the initial adoption, this standard requires comparative disclosures only for periods ending after initial adoption. On July 1, 2009, the Company adopted this accounting standard, but it did not have a material impact on the disclosures related to its consolidated financial statements.

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In June 2009, the FASB issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This accounting standard requires greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and changes the requirements for derecognizing financial assets. In addition, it eliminates the concept of a qualifying special-purpose entity ("QSPE"). This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2009, and the Company does not expect this standard to have a material effect on its consolidated financial statements.

In June 2009, the FASB also issued an accounting standard amending the accounting and disclosure requirements for the consolidation of variable interest entities ("VIEs"). The elimination of the concept of a QSPE, as discussed above, removes the exception from applying the consolidation guidance within this accounting standard. Further, this accounting standard requires a company to perform a qualitative analysis when determining whether or not it must consolidate a VIE. It also requires a company to continuously reassess whether it must consolidate a VIE. Additionally, it requires enhanced disclosures about a company's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the company's financial statements. Finally, a company will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2009, and the Company is currently assessing the impact of adoption this standard.

In August 2009, the FASB issued an Accounting Standards Update ("ASU") regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. The Company adopted this accounting standard, but it did not have a material impact on the disclosures related to its consolidated financial statements.

In October 2009, FASB issued an ASU regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company is currently assessing the impact of this ASU on its consolidated financial statements, but the Company does not expect this standard to have a material effect on its consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140.The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In December, 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 regarding accounting and reporting for decreases in ownership of a subsidiary. Under this guidance, an entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, and entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. This ASU clarifies the scope of the decrease in ownership provisions, and expands the disclosures about the deconsolidation of a subsidiary or de-recognition of a group of assets. This ASU is effective for beginning in the first interim or annual reporting period ending on or after December 31, 2009. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Note 3 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid for the three months ended December 31, 2009 and 2008, amounted to $24,185 and $10,648, respectively. Interest paid for the nine months ended December 31, 2009 and 2008, amounted to $53,519 and $31,985, respectively.

Income taxes paid for the three months ended December 31, 2009 and 2008 amounted to $652,717 and $678,892, respectively. Income taxes paid for the nine months ended December 31, 2009 and 2008 amounted to $1,817,371 and $1,676,147, respectively.

Non-cash financing activities includes $720,816 of notes payable issued to pay off accounts payable for the nine months ended December 31, 2009.

Note 4 – ADVANCES TO SUPPLIERS

Advances to suppliers are money deposited with or advanced to outside vendors or related parties on future inventory purchases. Most of the Company's vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive its purchases on a timely basis.

This amount is refundable and bears no interest. As of December 31, 2009 and March 31, 2009, advances to suppliers, including advances to related parties, amounted to $9,004,144 and $7,282,217, respectively.

Note 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2009 (Unaudited)	March 31, 2009
Leasehold improvements	$2,324,428	$2,057,892

Furniture and equipment	360,329	304,709
Motor Vehicles	164,591	162,443
Total	2,849,348	2,525,044
Less: Accumulated depreciation and amortization	1,938,347	1,545,612
Property and equipment, net	$911,001	$979,432

Total depreciation expense for property and equipment for the three months ended December 31, 2009 and 2008 was $141,062 and $152,281, respectively. Total depreciation expense for property and equipment for the nine months ended December 31, 2009 and 2008 was $389,809 and $331,582, respectively. No depreciation expense was included in cost of goods sold for the financial statement periods presented because the Company's business does not involve manufacturing of merchandise and the amount of depreciation of property and equipment utilized in acquiring, warehousing and transporting the merchandise to locations ready for sale is not material.

Note 6 – OTHER ASSETS

Other assets consist of the following:

	December 31, 2009 (unaudited)	March 31, 2009
Prepaid rental expenses	$ 867,220	$ 475,864
Lease rights transfer fees (1)	342,934	-
Prepaid advertisement expenses	123,461	14,721
Prepaids and other assets	122,092	73,794
Total	$ 1,455,707	$ 564,379

(1) Lease rights transfer fee is money paid to original store leases for the Company to secure store rentals in coveted areas. The activities involved in originating or acquiring leases are not substantively different from the activities involved in lending arrangements and, therefore, the cost for acquiring the right to lease the new stores are capitalized and amortized over the period of the lease term.

Note 7 – LONG TERM RENTAL DEPOSITS

Long term rental deposits are money deposited or advanced to landlords for securing retail store leases for which the Company does not anticipate applying or being returned within the next twelve months. Most of the Company's landlords require a minimum of six months' rent being paid up front plus additional deposits. As of December 31, 2009 and March 31, 2009, the long term rental deposit amounted to $2,326,829 and $2,015,149, respectively.

Note 8 – SHORT TERM LOANS

Short term loans represent amounts due to various banks and are due on demand or normally within one year. These loans generally can be renewed with the banks. Short term bank loans at December 31, 2009 and March 31, 2009, consisted of the following:

	December 31, 2009 (Unaudited)	March 31, 2009
Hangzhou Bank, due February 2, 2010 annual interest at 4.86%, secured by the personal properties of some of the Company's directors	$ 880,200	$ 879,000
Hangzhou Bank, due March 13, 2010 annual interest at 4.86%, secured by the personal properties of some of the Company's directors	$ 586,800	$ 586,000
Total	$ 1,467,000	$ 1,465,000

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Interest expense for the three months ended December 31, 2009 and 2008 amounted to $18,009 and $10,647, respectively. Interest expense for the nine months ended December 31, 2009 and 2008 amounted to $53,519 and $31,985, respectively.

Note 9 - TAXES

Income Tax

The Company is registered in Nevada whereas its subsidiary, Renovation HK, is registered in Hong Kong, and all of the Company's business operations are conducted through Renovation HK's subsidiary, Jiuxin Management and the three PRC VIEs, Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service. Jiuxin Management and the VIEs are subject to PRC tax laws.

Beginning January 2008, the Chinese Enterprise Income Tax ("EIT") law replaced China's former income tax laws. The standard EIT rate of 25% replaced the 33% rate previously applicable to enterprises. Therefore, starting from January 2008 Jiuzhou Pharmacy has been subject to an effective tax rate of 25%.

Jiuzhou Clinic and Jiuzhou Service are subject to the regular income tax rate of 25% in calendar year 2008 and 2009.

The following table reconciles the US statutory rates to the Company's effective tax rate for the nine months ended December 31, 2009 and 2008, unaudited:

	2009		2008	
U.S. Statutory rates	34	%	34	%
Foreign income not recognized in USA	(34	)	(34	)
China income taxes	25		25	
Other(a)	-		(2	)
Effective tax rate	25	%	23	%

(a) The 2% represents the expenses (income) incurred by the Company that are not subjected to PRC income tax.

Value Added Tax

Sales of birth control related products are not subject to VAT, while Chinese herbs are subject to 13% VAT and all other sales are subject to 17% VAT. VAT on sales and on purchases amounted to $2,379,548 and $1,672,385 for the three months ended December 31, 2009, respectively, and $1,855,268 and $1,392,682 for the three months ended December 31, 2008, respectively. VAT on sales and on purchases amounted to $6,213,137 and $4,524,153 for the nine months ended December 31, 2009, respectively, and $5,394,740 and $3,788,586 for the nine months ended December 31, 2008December 31, 2008, respectively.

Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Taxes payable at December 31, 2009 and March 31, 2009 consisted of the following:

		December 31, 2009 (Unaudited)		March 31, 2009
VAT	$	283,357	$	196,784
Income tax		804,831		588,681
Others		37,464		25,851

Total taxes payable	$	1,125,652	$	811,316

Note 10 - RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts receivable from and payable to related parties are summarized as follows:

	December 31, 2009 (Unaudited)	March 31, 2009
Amounts due from directors (1):	$ -	$ 2,432
Amount due to director (2):	$ 333,029	$ 326,715
Advances to supplier (3):	$ 2,190,826	$ 1,797,104

(1) Represents interest free loans to two directors of the Company, Li Qi and Chong'an Jin. The loans are due upon demand.

(2) Represents leasehold improvement expenses and other expenses paid by a director of the Company, Lei Liu, on behalf of the Company. The amount is interest free and due upon demand.

(3) Represents prepayment for inventory purchase made to a supplier, which was formerly owned by some of the Company's directors. The Company will collect inventory from the supplier which will reduce the advance.

The Company's purchases from the related party supplier amounted to $1,254,749 and $108,045 for the three months ended December 31, 2009 and 2008, respectively, and $2,255,817 and $909,314 for the nine months ended December 31, 2009 and 2008, respectively.

The Company also leases retail and office space from a director (see Note 15 below).

Note 11 – EARNINGS PER SHARE

The Company reports earnings per share in accordance with the 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 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 earnings per share computation:

	2009 (Unaudited)	2008 (Unaudited)
For the three months ended December 31,		
Net income for earnings per share	$2,646,353	$1,995,523
Weighted average shares used in basic computation		
Basic and Diluted	20,000,000	15,800,000
Earnings per share		
Basic and Diluted	$0.13	$0.13

2009 (Unaudited)	2008 (Unaudited)