

CHINA JO-JO DRUGSTORES, INC.  
Form 10-Q  
February 12, 2016

**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, 2015**

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**  
(State or other jurisdiction of  
incorporation or organization)

**98-0557852**  
(I.R.S. Employer  
Identification No.)

**1st Floor, Yuzheng Plaza, No. 76,**

**310002**

**Yuhuangshan Road, Hangzhou, Zhejiang Province**

**People's Republic of 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, 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

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 12, 2016, the registrant had 17,735,504 shares of common stock, par value \$0.001 per share, outstanding.

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## **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, 2015	March 31, 2015
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 4,339,272	\$ 4,023,581
Financial assets available for sale	-	1,307,200
Restricted cash	12,743,153	8,992,101
Notes receivable	35,443	138,952
Trade accounts receivable, net	8,751,355	9,237,743
Inventories	10,261,025	10,538,591
Other receivables, net	1,441,827	1,130,264
Advances to suppliers, net	5,479,954	4,717,352
Other current assets	1,421,842	2,200,838
Total current assets	44,473,871	42,286,622
PROPERTY AND EQUIPMENT, net	5,719,417	7,056,781
<b>OTHER ASSETS</b>		
Long-term investment	107,870	-
Farmland assets	1,683,586	1,704,359
Long term deposits	2,436,953	2,584,025
Other noncurrent assets	2,579,146	2,734,798
Intangible assets, net	2,918,279	3,142,003
Total other assets	9,725,834	10,165,185
Total assets	\$ 59,919,122	\$ 59,508,588
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term loan payable	\$ -	\$ 32,680
Accounts payable, trade	14,919,756	15,915,915
Notes payable	17,068,740	15,752,969
Other payables	2,812,922	2,931,869
Other payables - related parties	2,489,592	2,729,740
Customer deposits	2,440,184	3,759,050
Taxes payable	482,234	328,111
Accrued liabilities	554,819	509,537

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Total current liabilities	40,768,247	41,959,871
Purchase option and warrant liability	141,817	315,327
Total liabilities	40,910,064	42,275,198

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock; \$0.001 par value; 10,000,000 shares authorized; nil issued and outstanding as of December 31, 2015 and March 31, 2015	-	-
Common stock; \$0.001 par value; 250,000,000 shares authorized; 17,735,504 and 15,650,504 shares issued and outstanding as of December 31, 2015 and March 31, 2015	17,736	15,651
Additional paid-in capital	22,512,969	19,301,233
Statutory reserves	1,309,109	1,309,109
Accumulated deficit	(7,759,951 )	(7,404,210 )
Accumulated other comprehensive income	2,929,195	3,972,543
Total stockholders' equity	19,009,058	17,194,326
Noncontrolling interests	-	39,064
Total equity	19,009,058	17,233,390
Total liabilities and stockholders' equity	\$ 60,485,334	\$ 59,508,588

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 (LOSS) INCOME

(UNAUDITED)

	For the three months ended December 31,		For the nine months ended December 31,	
	2015	2014	2015	2014
REVENUES, NET	\$24,708,046	\$21,320,039	\$68,596,964	\$56,223,336
COST OF GOODS SOLD	19,860,713	18,138,006	55,396,941	47,765,427
GROSS PROFIT	4,847,333	3,182,033	13,200,023	8,457,909
SELLING EXPENSES	3,286,637	2,184,184	9,801,761	5,886,541
GENERAL AND ADMINISTRATIVE EXPENSES	1,868,448	622,113	3,628,520	2,449,489
TOTAL OPERATING EXPENSES	5,155,085	2,806,297	13,430,281	8,336,030
(LOSS) INCOME FROM OPERATIONS	(307,752 )	375,736	(230,258 )	121,879
OTHER EXPENSES, NET	(290,122 )	(106,773 )	(219,771 )	(275,301 )
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITIES	15,444	(127,431 )	173,510	(51,074 )
(LOSS) INCOME BEFORE INCOME TAXES	(582,430 )	141,532	(276,519 )	(204,496 )
PROVISION FOR INCOME TAXES	35,099	14,007	79,224	52,828
NET (LOSS) INCOME	(617,529 )	127,525	(355,743 )	(257,324 )
NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	(987 )	-	932
NET (LOSS) INCOME ATTRIBUTABLE TO CHINA JO-JO DRUGSTORES, INC.	(617,529 )	126,538	(355,743 )	(256,392 )
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustments	(268,795 )	52,740	(1,043,348 )	111,200
COMPREHENSIVE (LOSS) INCOME	\$(886,324 )	\$179,278	\$(1,399,091 )	\$(145,192 )
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	17,180,830	15,199,092	16,459,195	14,867,218
Diluted	17,180,830	15,596,554	16,459,195	14,867,218

(LOSS) INCOME PER SHARES:

Basic	\$ (0.04	) \$ 0.01	\$ (0.02	) \$ (0.02	)
Diluted	\$ (0.04	) \$ 0.01	\$ (0.02	) \$ (0.02	)

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,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(355,743 )	\$(257,324 )
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,163,994	1,240,323
Stock-based compensation	520,953	527,357
Bad debt provision	(1,369,786 )	(3,126,039 )
Inventory reserve	-	277,603
Change in fair value of purchase option derivative liability	(173,510 )	51,074
Change in operating assets:		
Accounts receivable, trade	243,666	1,566,629
Notes receivable	99,199	(108,096 )
Inventories	(413,472 )	(2,976,220 )
Other receivables	(142,734 )	(619,695 )
Advances to suppliers	(413,238 )	1,916,591
Other current assets	678,339	55,012
Long term deposit	-	220,146
Other noncurrent assets	-	280,399
Change in operating liabilities:		
Accounts payable, trade	(93,695 )	(1,236,808 )
Other payables and accrued liabilities	277,298	390,535
Customer deposits	(1,146,504 )	494,570
Taxes payable	205,734	75,296
Net cash used in operating activities	(919,499 )	(1,228,647 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(171,314 )	(898,522 )
Decrease in Financial assets available for sale	1,279,200	-
Acquisition of business, net	-	(936,288 )
Investment in a joint venture	(111,930 )	-
Payments on construction-in-progress	-	(96,636 )
Additions to leasehold improvements	-	(189,143 )
Net cash provided by (used in) investing activities	995,956	(2,120,589 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term bank loan	23,115	32,510
Repayment of short-term bank loan	(55,095 )	(162,550 )
Repayment of third parties loan	-	(79,116 )

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Change in restricted cash	(4,423,287 )	(6,848,423 )
Repayments of notes payable	(15,415,543)	(14,132,390)
Proceeds from notes payable	17,711,172	21,206,663
(Repayment of) Proceeds from other payables-related parties	(179,934 )	529,115
Proceeds from equity financing	2,699,500	-
Net cash provided by financing activities	359,928	545,809
EFFECT OF EXCHANGE RATE ON CASH	(120,694 )	92,543
INCREASE IN CASH	315,691	(2,710,884 )
CASH, beginning of period	4,023,581	4,445,276
CASH, end of period	\$4,339,272	\$1,734,392
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$151,258	\$4,621
Cash paid for income taxes	\$48,424	\$59,755
Issuance of common stocks in exchange of debts	\$-	\$941,613
Non-cash financing activities:		
Issuance of stock purchase options to an investment bank	\$147,728	\$-

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

**CHINA JO-JO DRUGSTORES, INC., AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**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”) and Hangzhou Jiutong Medical Technology Co., Ltd (“Jiutong Medical”), its wholly-owned subsidiaries.

The Company is a retail, both online and offline, 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.

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.

The Company's online pharmacy license remains with Jiuzhou Pharmacy and its online retail pharmacy business was primarily conducted through Zhejiang Quannuo Internet Technology Co., Ltd. ("Quannuo Technology"), which provided technical, sales and logistic support. 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 named Hangzhou JiuYi Medical Technology Co. Ltd. ("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  Established in the PRC on October 14, 2008	100%
Jiuxin Management	Deemed a wholly foreign owned enterprise (“WFOE”) under PRC law  Registered capital of \$4.5 million fully paid  Established in the PRC on July 16, 2010 by Renovation with registered capital of \$20 million	100%
Shouantang Technology	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  Established in the PRC on August 10, 2010 by Jiuxin Management	100%
Qianhong Agriculture	Registered capital of RMB 10 million fully paid  Carries out herb farming business  Established in the PRC on July 8, 2010 by Quannuo Technology	100%
Hangzhou Quannuo	Registered capital of RMB 800,000 fully paid  Currently has no operation and has closed, pending dissolution	100%

VIE by contractual arrangements (2)

Jiuzhou Pharmacy (1)	<p>Established in the PRC on September 9, 2003</p> <p>Registered capital of RMB 5 million fully paid</p> <p>Operates the “Jiuzhou Grand Pharmacy” stores in Hangzhou</p>
Jiuzhou Clinic (1)	<p>Established in the PRC as a general partnership on October 10, 2003</p> <p>VIE by contractual arrangements (2)</p> <p>Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores</p>
Jiuzhou Service (1)	<p>Established in the PRC on November 2, 2005</p> <p>VIE by contractual arrangements (2)</p> <p>Registered capital of RMB 500,000 fully paid</p> <p>Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores</p>
Jiuxin Medicine	<p>Established in PRC on December 31, 2003</p> <p>Acquired by Jiuzhou Pharmacy in August 2011</p> <p>VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)</p> <p>Registered capital of RMB 10 million fully paid</p> <p>Carries out pharmaceutical distribution services</p>
Jiutong Medical	<p>Established in the PRC on December 20, 2011 by Renovation</p> <p>Registered capital of \$2.6 million fully paid<sup>100%</sup></p> <p>Currently has no operation</p>
Shouantang Bio	<p>Established in the PRC in October, 2014 by Shouantang Technology</p> <p>VIE by contractual arrangements as a controlled entity of Jiuzhou Service (2)</p> <p>100% held by Shouantang Technology</p> <p>Registered capital of RMB 1,000,000 fully paid</p>

Sells nutritional supplements under its own brand name

Established in the PRC in May 2015

Jianshun Network      35% held by Jiuzhou Pharmacy      Joint Venture 50% owned by Jiuzhou Pharmacy

Manages sales on official website of the online pharmacy

Established in the PRC on September 10, 2015

Jiuyi Technology      100% held by Renovation      100%

Technical support to online pharmacy

Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service have been under the common control of 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 agreement. Based on such voting agreement, the Company has determined that common control exists among these three companies. Operationally, (1) 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, as is Shouantang Health as a subsidiary of Jiuzhou Service and Jianshun 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: consulting services agreement, operating agreement, equity pledge agreement, voting rights agreement and option agreement. As a result of these agreements, which obligate Jiuxin Management to absorb all of the risks of loss from the activities (2) of 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 all three companies (as well as one subsidiary 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 (Shouantang Health), are consolidated into the financial statements of the Company.

## **Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Basis of presentation and consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“US GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. These condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company’s annual report on Form 10-K for the fiscal year ended March 31, 2015 filed with the SEC on June 29, 2015. Operating results for the three and nine months ended December 31, 2015 may not be necessarily indicative of the results expected for the full year.

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



Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income or cash flows as previously reported.

### 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 the Voting Rights Proxy 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 vendors or landlords.

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 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 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 loans currently available to the Company (Level 2) (See Note 12). The carrying amount of the Company's warrants is recorded at fair value and is determined based on observable inputs that are corroborated by market data (Level 2). As of December 31, 2015 and March 31, 2015, the fair values of our derivative instruments were carried at fair value (See Note 16).

### 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 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 return of certain merchandises without reasons within seven days after customer's receipts of 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 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 from 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 is determined 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 trend.

In the Company's online pharmacy business, accounts receivables primarily consist of amounts due from non-bank third party payment instruments such as Alipay from certain e-commerce platforms. To purchase pharmaceutical products from the e-commerce platforms such as Tmall, customers are required to pay to certain non-bank third party payment instruments such as Alipay, which, in turn, will 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.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by 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. 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 costs, 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.



### Intangibles

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 right	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 was no additional impairment occurred during fiscal 2015.

### 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 records income taxes pursuant to the accounting standards for income taxes. These 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 and the net change in deferred taxes. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

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, 2015 and 2014.

### 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 subjected 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.

### Stock based compensation

The Company follows the provisions of ASC 718, "Compensation — Stock Compensation," which establishes accounting standards for non-employee and employee stock-based awards. Under the provisions of 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 \$156,911 and \$158,686 for three months ended December 31, 2015 and 2014, respectively, and \$354,964 and \$289,925 for the nine months ended December 31, 2015 and 2014, 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-cancelable 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 8 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, 2015 and March 31, 2015 were translated at 1 RMB to \$0.1541 USD and at 1 RMB to \$0.1634 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the nine months ended December 31, 2015 and 2014 were at 1 RMB to \$0.1599 USD and at 1 RMB to \$0.1626 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 77,050) per bank. As of December 31, 2015 and March 31, 2015, the Company had deposits totaling \$16,525,351 and \$12,563,579 that were covered by such an insurance in China, respectively. To date, the Company has not experienced any losses in such accounts.

For the three months ended December 31, 2015, one largest vendors accounted for 17.6% of the Company's total purchases and two vendors accounted for 25.1% of total advances to suppliers. For the three months ended December 31, 2014, the two largest vendors accounted for 33% of the Company's total purchases and one vendor accounted for 21% of total advances to suppliers.

For the nine months ended December 31, 2015, one largest vendors accounted for 16.7% of the Company's total purchases and two vendors accounted for 25.1% of total advances to suppliers. For the nine months ended December 31, 2014, one vendor accounted for approximately 30% of the Company's total purchases and another vendor accounted for more than 21% of total advances to suppliers.

For the three months ended December 31, 2015, no customer accounted for more than 10% of the Company's total sales or accounts receivable. For the three months ended December 31, 2014, no customer accounted for more than 10% of the Company's total sales or accounts receivable.

For the nine months ended December 31, 2015, no customer accounted for more than 10% of the Company's total sales or accounts receivable. For the nine months ended December 31, 2014, no customer accounted for more than 10% of the Company's total sales or accounts receivable.

### Recent Accounting Pronouncements

In June 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-10, "Technical Corrections and Improvements" ("ASU 2015-10"). The amendments in ASU 2015-10 cover a wide range of Topics in the Accounting Standards Codification (the "ASC"). The amendments in ASU 2015-10 represent

changes to clarify the ASC, correct unintended application of guidance, or make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, some of the amendments will make the ASC easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the ASC. Transition guidance varies based on the amendments in ASU 2015-10. The amendments in ASU 2015-10 that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of ASU 2015-10. We are currently in the process of evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). The amendments in this update require an entity to measure inventory within the scope of ASU 2015-11 (the amendments in ASU 2015-11 do not apply to inventory that is measured using last-in, first-out or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out or average cost) at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out or the retail inventory method. The amendments in ASU 2015-11 more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards (“IFRS”). ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently in the process of evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”, which defers the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Currently, the Company is evaluating the impact of our pending adoption of ASU 2014-09 and ASU 2015-14 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard in year 2018.

### **NOTE 3 – TRADE ACCOUNTS RECEIVABLE**

Trade accounts receivable consisted of the following:

	December 31, 2015	March 31, 2015
Accounts receivable	\$ 10,645,139	\$ 12,108,561

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Less: allowance for doubtful accounts	(1,893,784)	(2,870,818)
Trade accounts receivable, net	\$8,751,355	\$9,237,743

For the three months ended December 31, 2015 and 2014, \$41,671 and \$64,087 in accounts receivable were directly written off respectively. For the nine months ended December 31, 2015 and 2014, \$133,544 and \$193,581 in accounts receivable were directly written off respectively.

#### Note 4 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	December 31, 2015	March 31, 2015
Prepaid rental expenses (1)	\$ 960,843	\$ 1,712,018
Prepays and other current assets	470,273	488,820
Total	\$ 1,421,842	\$ 2,200,838

Represents store rental expenses that were usually prepaid and amortized over the prepayment period. The decline (1) in the prepaid rental expenses partly reflects the prepayments made at early 2015, which were amortized over the nine months ended December 31, 2015.

#### Note 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2015	March 31, 2015
Building	\$ 1,652,271	\$ 1,751,986
Leasehold improvements	12,163,325	12,792,714
Farmland development cost	1,842,942	1,954,165
Office equipment and furniture	5,506,236	5,949,193
Motor vehicles	630,358	667,428
Total	21,795,132	23,115,486
Less: Accumulated depreciation	(13,762,648)	(13,606,043)
Impairment*	\$(2,313,067 )	(2,452,662 )
Property and equipment, net	\$ 5,719,417	\$ 7,056,781



\*The variance of impairment from March 31, 2015 to December 31, 2015 is solely caused by exchange rate variance.

Total depreciation expense for property and equipment was \$218,022 and \$427,986 for the three months ended December 31, 2015 and 2014, respectively, and \$966,040 and \$1,258,750 for the nine months ended December 31, 2015 and 2014, respectively. There were no fixed assets impaired in the three and nine months ended December 31, 2015. For the year ended March 31, 2015, \$1,053,765 of fixed assets in Jiuyingtang was impaired due to the estimated fair value being lower than the carrying value.

#### **Note 6 – ADVANCES TO SUPPLIERS**

Advances to suppliers consist of deposits with or advances to outside vendors for future inventory purchases. Some 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, 2015 and March 31, 2015, advance to suppliers consist of the following:

	December 31, 2015	March 31, 2015
Advance to suppliers	\$6,002,873	\$5,942,866
Less: allowance for doubtful accounts	(522,919 )	(1,225,514)
Advance to suppliers, net	\$5,479,954	\$4,717,352

For both the three and nine months ended December 31, 2015 and 2014, none of the advances to suppliers were written off against previous allowance for doubtful accounts, respectively.

#### **Note 7 – INVENTORY**

Inventory consisted of finished goods, which were \$10,261,025 and \$10,538,591 as of December 31, 2015 and March 31, 2015, respectively. The Company constantly monitors its potential obsolete products and is allowed to return products close to expiration dates to its suppliers. Any loss on damaged items is immaterial and will be recognized immediately. As a result, no reserves were made as of December 31, 2015 and March 31, 2015.

**Note 8 – FARMLAND ASSETS**

Farmland assets are ginkgo trees planted in 2012 and expected to be harvested and sold in several years. As of December 31, 2015 and March 31, 2015, farmland assets consisted of the following:

	December 31, 2015	March 31, 2015
Farmland assets	\$2,462,761	\$2,530,558
Less: impairments*	(779,175 )	(826,199 )
Farmland assets, net	\$1,683,586	\$1,704,359

\* The estimated fair value is estimated to be lower than its investment value in fiscal 2014 and 2015. The slight decrease in the impairment amount from March 31, 2015 to December 31, 2015 is caused by exchange rate variance.

**Note 9 – LONG TERM DEPOSITS, LANDLORDS**

Long term deposits were \$2,436,953 and \$2,584,025 as of December 31, 2015 and March 31, 2015, respectively. Long term deposits are money deposited with 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 nine months' rent being paid upfront plus additional deposits.

**Note 10 – OTHER NONCURRENT ASSETS**

Other noncurrent assets consisted of prepayment for lease of land use right, which were \$2,579,146 and \$2,734,798 as of December 31, 2015 and March 31, 2015, respectively.

The prepayment for lease of land use right is a payment made to a local government in connection with entering into a 30-year operating land lease agreement. The land is currently used to cultivate Ginkgo trees. This prepayment includes a deposit of \$1,078,700, which will be refundable on the due date. Based on expected output from planted Ginkgo trees such as expected fruit production and tree market value, the fair value of the lease prepayment was lower than carrying cost. As a result, the Company recorded impairment on the lease prepayment.

The amortization of the prepayment for the lease of land use right was approximately \$16,137 and \$16,827 for the three months ended December 31, 2015 and 2014, respectively. The amortization of the prepayment for the lease of land use right was approximately \$49,524 and \$50,344 for the nine months ended December 31, 2015 and 2014, respectively.

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

Years ending December 31,	Amount
2016	\$66,032
2017	66,032
2018	66,032
2019	66,032
2020	66,032
Thereafter	1,274,864

#### Note 11 – INTANGIBLE ASSETS

Net intangible assets consisted of the following at:

	December 31, 2015	March 31, 2015
License (1)	\$1,480,900	\$1,570,274
Goodwill (2)	-	23,623
Land use rights (3)	1,502,714	1,593,403
Software	-	477,302
Total other intangible assets	2,983,614	3,664,602
Less: accumulated amortization	(65,335 )	(522,599 )
Intangible assets, net	\$2,918,279	\$3,142,003

Amortization expense of intangibles amounted to \$6,720 and \$9,210 for the three months ended December 31, 2015 and 2014, respectively, and \$22,541 and \$25,710 for the nine months ended December 31, 2015 and 2014, respectively.

This represents the fair value of the licenses of insurance applicable drugstores acquired from Sanhao Pharmacy.

- (1) The licenses allow patients to pay by the insurance card at stores and the stores can get reimbursed from the Human Resource and Social Security Department of Hangzhou City.
- (2) This represents Goodwill on acquisition of Sanhao Pharmacy, which was dissolved after transferring almost all of its licensed stores into Jiuzhou Pharmacy in November 2015.

In July 2013, the Company purchased the land use right of a plot of farmland in Lin'An, Hangzhou, intended for the (3) 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 near future.

## Note 12 – NOTES PAYABLE

The Company has credit facilities with Hangzhou United Bank (“HUB”), Bank of Hangzhou (“BOH”) and Industrial and Commercial Bank of China (“ICBC”) that provided working capital in the form of the following bank acceptance notes at December 31, 2015 and March 31, 2015:

Beneficiary	Endorser	date	Origination date	Maturity date	December 31, 2015	March 31, 2015
Jiuzhou Pharmacy(1)	HUB	08/05/14	08/04/15	-		1,634,000
Jiuzhou Pharmacy(1)	HUB	10/09/14	04/09/15	-		784,320
Jiuzhou Pharmacy(1)	HUB	10/09/14	04/09/15	-		1,187,918
Jiuzhou Pharmacy(1)	HUB	12/05/14	06/05/15	-		1,329,651
Jiuzhou Pharmacy(1)	HUB	12/26/14	06/26/15	-		1,601,320
Jiuzhou Pharmacy(1)	HUB	03/04/15	09/04/15	-		1,470,600
Jiuzhou Pharmacy(1)	HUB	03/13/14	09/13/15	-		604,580
Jiuzhou Pharmacy(2)	BOH	11/06/14	05/06/15	-		2,908,520
Jiuzhou Pharmacy(2)	BOH	02/09/15	08/09/15	-		1,993,480
Jiuzhou Pharmacy(3)	ICBC	12/26/14	06/25/15	-		2,238,580
Jiuzhou Pharmacy(1)	HUB	04/22/15	04/21/16	1,541,000	-	-
Jiuzhou Pharmacy(1)	HUB	04/29/15	04/28/16	3,313,150	-	-
Jiuzhou Pharmacy(1)	HUB	08/05/15	02/05/16	1,747,494	-	-
Jiuzhou Pharmacy(1)	HUB	09/06/15	03/06/16	1,865,242	-	-
Jiuzhou Pharmacy(1)	HUB	10/09/15	04/09/16	1,698,182	-	-

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Jiuzhou Pharmacy(1) HUB	11/02/15	05/02/162,538,027	-
Jiuzhou Pharmacy(2) BOH	11/27/15	05/27/161,582,607	-
Jiuzhou Pharmacy(1) HUB	12/28/15	06/28/162,724,488	-
Jiuzhou Pharmacy(1) HUB	12/29/15	06/29/1658,550	-
Total		17,068,740	\$15,752,969

As of March 31, 2015, the Company had \$8,612,389 (RMB52,707,400) of notes payable from HUB. The Company is required to hold restricted cash of \$4,763,309 (RMB 29,151,220) with HUB as collateral against these (1) bank notes. As of December 31, 2015, the Company had \$15,486,133 (RMB100,494,050) of notes payable from HUB. The Company is required to hold restricted cash of \$12,219,213 (RMB79,294,050) with HUB as collateral against these bank notes.

As of March 31, 2015, the Company had \$4,902,000 (RMB30,000,000) of notes payable from BOH. The land use right of the farmland in Lin' An, Hangzhou is pledged as collateral for these bank acceptance notes (see Note 11). The Company is required to hold restricted cash of \$2,287,600 (RMB 14,000,000) with BOH as collateral against (2) these bank notes. As of December 31, 2015, the Company had \$1,582,607 (RMB 10,270,000) of notes payable from BOH. The land use right of the farmland in Lin' An, Hangzhou is pledged as collateral for these bank acceptance notes (see Note 11). The Company is required to hold restricted cash of \$477,710 (RMB 3,100,000) with BOH as collateral for these bank notes.

As of March 31, 2015, the Company had \$2,238,580 (RMB 13,700,000) of notes payable from ICBC, with (3) restricted cash of \$671,574 (RMB 4,110,000) held at the bank. As of December 31, 2015, the Company had \$0 of notes payable from ICBC, with restricted cash of \$0 held at the bank.

As of December 31, 2015, the Company had a credit line of approximately \$9.53 million in the aggregate from HUB, BOH and ICBC. By putting up the restricted cash of \$12.74 million deposited in the banks, the total credit line was \$22.27 million. As of December 31, 2015, the Company had approximately \$17.07 million of bank notes payable and approximately \$5.20 million bank credit line was still available for further borrowing. The bank notes are also secured by buildings owned by the Company's major shareholders, land use rights of Jiutong Medical, shops of Jiuzhou Pharmacy, guaranteed by Jiuxin Medical and Zhejiang JinQiao Guarantee Company.

At December 31, 2015, the fair value of the Company's notes payable was estimated, using Level 2 inputs, to be \$17,001,320 compared to a carrying amount of \$17,068,740. At March 31, 2015, the fair value of the Company's notes payable was estimated, using Level 2 inputs, to be \$15,743,000 compared to a carrying amount of \$15,752,969. The fair values were estimated using an income approach by applying market interest rates on comparable instruments.

### Note 13 – TAXES

#### Income tax

For the three and nine months ended December 31, 2015 and 2014, the income tax provisions were as follow:

	Three months ended December 31,		Nine months ended December 31,	
	2015	2014	2015	2014
Income tax	\$35,099	\$14,007	\$79,224	\$52,828

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, 2015 and 2014:

	For the three months ended December 31,		For the nine months ended December 31,	
	2015	2014	2015	2014
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 )	(15.1 )	(25.0 )	(55.3 )
Non-deductible expenses-permanent difference (2)	(5.7 )	0.0	(22.3 )	4.5
Effective tax rate	(5.7 )%	9.9 %	22.3 %	(25.8)%

(1) It represents non-taxable expense reversal due to overall decrease in allowance for accounts receivables and advance to suppliers.

(2) The 5.7% and 0% rate adjustments for the three months ended December 31, 2015 and 2014, and the (22.3)% and 4.5% rate adjustments for the nine months ended December 31, 2015 and 2014 represent expenses primarily included stock option expense, 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 three and nine months ended December 31, 2015 and 2014. As of December 31, 2015, 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 limited operating history and continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at December 31, 2015. There was no net change in the valuation allowance for the three and nine months ended December 31, 2015 and 2014. Management reviews this valuation allowance periodically and makes adjustments as necessary.

Taxes payable at December 31, 2015 and March 31, 2015 consisted of the following:

December	March
31,	31,
2015	2015

VAT	\$362,393	\$301,149
Income tax	27,540	8,007
Others	92,301	18,955
Total taxes payable	\$482,234	\$328,111

The Company has adopted 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 self-assessment and the Company's liability for income taxes includes the 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, 2015 and March 31, 2015, 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 three months and nine months ended December 31, 2015 and 2014, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

#### **Note 14 – 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 \$299,424 and \$234,401 in employment benefits and pension for the three months ended December 31, 2015 and 2014, respectively, and \$767,829 and \$634,672 in employment benefits and pension for the nine months ended December 31, 2015 and 2014, respectively.



**Note 15 – RELATED PARTY TRANSACTIONS AND ARRANGEMENTS**

Amounts payable to related parties are summarized as follows:

	December 31, 2015	March 31, 2015
Due to cofounders (1):	\$576,818	\$576,818
Due to a director and CEO (2):	1,912,774	2,152,922
Total	\$2,489,592	\$2,729,740

As of December 31, 2015 and March 31, 2015, amount due to cofounders represents contributions from the (1) Owners to Jiuxin Management to enable Jiuxin Management to meet its approved PRC registered capital requirements.

(2) 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, 2015 and March 31, 2015, notes payable totaling \$4,403,269 and \$5,790,471 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 will expire in September 2016. Rent expense amounted to \$4,257 and \$24,383 for the three months ended December 31, 2015 and 2014, respectively, and \$52,767 and \$73,075 for the nine months ended December 31, 2015 and 2014. The rent for the three months ended December 31, 2015 has not been paid to Mr. Liu as of December 31, 2015.

**Note 16 – WARRANTS LIABILITIES**

On September 26, 2013, as annual compensation for its financial advisory service, the Company issued a warrant to a financial consulting firm to purchase up to 150,000 shares of common stock at \$1.20 per share. The warrant is exercisable from September 26, 2013 to September 25, 2016.

The warrant does not trade in an active securities market, and as such, the Company estimates its fair value using the Black-Scholes Model on the date that the warrant was originally issued and as of December 31, 2015 using the following assumptions:

	Common Stock Warrants December 31, 2015 (1)	
Stock price	\$ 1.91	
Exercise price	\$ 1.20	
Annual dividend yield	0	%
Expected term (years)	0.74	
Risk-free interest rate	0.65	%
Expected volatility	78.24	%

(1) As of December 31, 2015, the warrant had not been exercised.

On September 26, 2013, the issuance date of the warrant, the Company classified its fair value as a liability of \$33,606. The Company recognized a gain of \$15,444 and \$173,510 from the change in fair value of the warrant liability for the three and nine months ended December 31, 2015, respectively. The Company recognized a loss of \$122,128 and \$94,134 from the change in fair value of the warrant liability for the three and nine months ended December 31, 2014, respectively.

## Note 17 – STOCKHOLDERS' EQUITY

### Common Stock

On July 24, 2015, the Company closed a registered direct offering of 1.2 million shares of common stock at \$2.50 per share with gross proceeds of approximately \$3 million from its effective shelf registration statement on Form S-3.

### 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 expense over the requisite service periods in the Company's consolidated statements of operations. Share-based awards are attributed to expense 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 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 November 25, 2015, the Company agreed to grant a total of 150,000 shares of restricted common stock to a financial consulting firm for its financial advisory services. The term of the service agreement is one year. The trading value of the Company's common stock on November 25, 2015 was \$1.77. For the three and nine months ended December 31, 2014, \$7,545 was recorded as a consulting expense.

On November 27, 2015, the Company granted a total of 735,000 shares of restricted common stock to its directors, officers and certain employees under the Company's 2010 Equity Incentive Plan, as amended (the "Plan"). The trading value of the Company's common stock on November 27, 2015 was \$1.76. For the three months and nine months ended December 31, 2015, \$134,676 was recorded as service compensation expense.

### 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 in three years 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 and nine months ended December 31, 2015, \$124,033 and \$372,099 was recorded as compensation expense. As of December 31, 2015, there was approximately \$0.93 million of total unrecognized compensation costs related to stock option compensation arrangements granted which is expected to be recognized over the remaining weighted-average period of 1.88 years.

### Warrants

In connection with the registered direct offering closed on July 24, 2015, the Company issued to an investor warrants to purchase up to 600,000 shares of common stock at an exercise price of \$3.10 per share. The options are exercisable

commencing on January 19, 2016 and will expire on January 18, 2021. In connection with the Offering, the Company also issued warrants to its placement agent of this Offering, which can purchase an aggregate of up to 6% of the aggregate number of shares of common stock sold in the Offering, i.e. 72,000 shares. These warrants have the same terms as the warrants issued to purchaser in the Offering. The fair value of these shares amounted to \$1,231,067 and \$147,728, respectively, which are classified as equity at the date of issuance.

The fair value of the warrants issued was estimated by using the binominal pricing model with the following assumptions:

Terms of warrants	5 years
Expected volatility	105.05 %
Risk-free interest rate	1.72 %
Expected dividend yield	- %

The Company applied judgment in estimating key assumptions in determining the fair value of the warrants on the date of issuance. The Company used historical data to estimate stock volatilities and expected dividend yield. The risk-free rates are consistent with the terms of the warrants and are based on the United States Treasury yield curve in effect at the time of issuance.

A summary of stock warrant activities is as below:

	Nine months ended December 31, 2015		Nine months ended December 31, 2014	
	Number	Weight average exercise price	Number	Weight average exercise price
Outstanding and exercisable at beginning of the period	-	\$ -	-	\$ -
Issued during the period	672,000	3.10	-	-
Exercised during the period	-	-	-	-
Cancelled or expired during the period	-	-	-	-
Outstanding and exercisable at end of the period	672,000	\$ 3.10	-	\$ -
Range of exercise price	-	3.10	-	-

The weighted average fair value of warrants granted for the period ended December 31, 2015 was \$1.20 per share. No warrants were exercised, canceled or expired during the period ended December 31, 2015. As of December 31, 2015, the aggregated intrinsic value of warrants outstanding and exercisable was \$807,081.

#### 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 dividend 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, 2015 and 2014, the Company did not make appropriations to the 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 18 – (LOSS) INCOME 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 earnings per share computation:

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	Three months ended December 31,		Nine months ended December 31,	
	2015	2014	2015	2014
Net (loss) income attributable to controlling interest	\$(617,529 )	\$126,538	\$(355,743 )	\$(256,392 )
Weighted average shares used in basic computation	17,180,830	15,199,092	16,459,195	14,867,218
Diluted effect of purchase options and warrants	-	221,310	-	-
Diluted effect of restricted shares	-	176,152	-	-
Weighted average shares used in diluted computation	17,180,830	15,596,554	16,459,195	14,867,218
(loss) Income per share – Basic:				
Net (loss) income before noncontrolling interest	\$(0.04 )	\$0.01	\$(0.02 )	\$(0.02 )
Add: Net loss attributable to noncontrolling interest	\$-	\$-	\$-	\$-
Net (loss) income attributable to controlling interest	\$(0.04 )	\$0.01	\$(0.02 )	\$(0.02 )
Loss per share – Diluted:				
Net (loss) income before noncontrolling interest	\$(0.04 )	\$0.01	\$(0.02 )	\$(0.02 )
Add: Net loss attributable to noncontrolling interest	\$-	\$-	\$-	\$-
Net (loss) income attributable to controlling interest	\$(0.04 )	\$0.01	\$(0.02 )	\$(0.02 )

For the three and nine months ended December 31, 2015 and 2014, the 967,000 shares underlying employee stocks options and 600,000 shares underlying outstanding purchase options to an investors, 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 19 – 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 supplement, medical devices, and sundry items to retail customers. Online pharmacy sells OTC drugs, dietary supplement, medical devices and sundry items to customers through Alibaba’s Tmall and its 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 they require different operations and markets to distinct classes of customers.



The following table presents summarized information by segment of the continuing operation for the three months ended December 31, 2015:

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$12,928,472	\$8,645,534	\$3,134,040	\$-	\$24,708,046
Cost of goods	10,133,873	6,805,106	2,921,734	-	19,860,713
Gross profit	\$2,794,599	\$1,840,428	\$212,306	\$-	\$4,847,333
Selling expenses	2,830,717	327,155	128,765	-	3,286,637
General and administrative expenses	1,227,158	227,676	498,001	*(84,387)*	1,868,448
(Loss) income from operations	\$(1,263,276)	\$1,285,597	\$(414,460)	\$84,387	\$(307,752)
Depreciation and amortization	\$266,444	\$-	\$135,498	\$1,787	\$400,155
Total capital expenditures	\$60,282	\$4,832	\$	\$-	\$65,114

\* includes the accounts receivable and advance to suppliers allowance reversal of \$62,935.

The following table presents summarized information of the continuing operations by segment for the three months ended December 31, 2014:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$13,286,909	\$4,395,501	\$3,637,629	\$-	\$21,320,039
Cost of goods	10,964,550	3,769,723	3,403,733	-	18,138,006
Gross profit	\$2,322,359	\$625,778	\$233,896	\$-	\$3,182,033
Selling expenses	1,699,422	369,348	115,414	-	2,184,184
General and administrative expenses	1,516,194	201,861	(1,184,567)*	88,625	622,113
(Loss) income from operations	\$(893,257)	\$54,569	\$1,303,049	\$(88,625)	\$375,736
Depreciation and amortization	\$291,295	\$518	\$34,525	\$81,415	\$407,753
Total capital expenditures	\$922,331	\$2,862	\$526	\$-	\$925,719

\* includes the accounts receivable and advance to suppliers allowance reversal of \$1,490,787.

The following table presents summarized information of the continuing operation by segment for the nine months ended December 31, 2015:



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	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$38,202,495	\$21,169,709	\$9,224,760	\$-	\$68,596,964
Cost of goods	29,349,756	17,486,701	8,560,484	-	55,396,941
Gross profit	\$8,852,739	\$3,683,008	\$664,276	\$-	\$13,200,023
Selling expenses	8,636,171	785,867	379,723	-	9,801,761
General and administrative expenses	3,518,712	673,606	30,776	* (594,574)*	3,628,520
(Loss) income from operations	\$(3,302,144 )	\$2,223,535	\$253,777	\$594,574	\$(230,258 )
Depreciation and amortization	\$(596,171 )	\$-	\$409,107	\$158,716	\$1,163,994
Total capital expenditures	\$153,485	\$11,501	\$6,328	\$	\$171,314

\* include the accounts receivable and advance to suppliers allowance reversal of \$ 1,679,630.

The following table presents summarized information of the continuing operation by segment for the nine months ended December 31, 2014:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$36,288,706	\$9,917,434	\$10,017,196	\$-	\$56,223,336
Cost of goods	29,946,958	8,400,439	9,418,030	-	47,765,427
Gross profit	\$6,341,748	\$1,516,995	\$599,166	\$-	\$8,457,909
Selling expenses	5,164,919	370,014	351,608	-	5,886,541
General and administrative expenses	4,192,386	501,421	(2,508,006 )*	263,688	2,449,489
(Loss) income from operations	\$(3,015,557 )	\$645,560	\$2,755,564	\$(263,688 )	\$121,879
Depreciation and amortization	\$784,141	\$4,056	\$210,106	\$242,020	\$1,240,323
Total capital expenditures	\$1,064,131	\$6,375	\$76,784	\$-	\$1,147,290

\* include the accounts receivable and advance to suppliers allowance reversal of \$3,125,674.

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 stores by main products is as follows:

	Three months ended		nine months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Prescription drugs	\$5,286,711	\$5,489,897	\$14,722,094	\$14,867,900
Over-the-counter drugs	4,841,875	5,451,117	15,174,868	13,685,649
Nutritional supplements	1,211,700	536,306	3,151,830	1,707,449
Traditional Chinese medicine	1,056,527	1,287,598	3,469,524	4,474,344
Sundry products	245,419	388,561	849,129	1,248,344
Medical devices	286,240	133,429	835,050	305,020
Total	\$12,928,472	\$13,286,908	\$38,202,495	\$36,288,706

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,	
	2015	2014	2015	2014
Over-the-counter drugs	\$1,912,560	\$1,422,863	\$5,522,887	\$2,942,461
Nutritional supplements	607,556	195,227	1,680,690	537,119
	-	-	-	-
Sundry products	3,790,430	646,640	7,604,553	1,422,131
Medical devices	2,334,988	2,130,771	6,361,579	5,015,722
Total	\$8,645,534	\$4,395,501	\$21,169,709	\$9,917,434

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,	
	2015	2014	2015	2014
Prescription drugs	\$1,953,731	\$2,184,711	\$5,665,095	\$6,446,695
Over-the-counter drugs	981,250	1,389,880	3,256,020	3,338,309
Nutritional supplements	83,843	35,320	127,774	69,270
Traditional Chinese medicine	-	121	-	89,389
Sundry products	110,292	11,791	116,706	18,568
Medical devices	4,925	15,806	59,165	54,965

Total	\$3,143,041	\$3,637,629	\$9,224,760	\$10,017,196
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**Note 20 – COMMITMENTS AND CONTINGENCIES**Operating lease commitments

The Company recognizes lease expense 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
2015	\$2,906,011	\$ 94,981	\$ 75,975	\$ -	\$3,076,967
2016	2,225,951	94,981	68,141	-	2,389,073
2017	1,872,366	58,923	68,141	-	1,999,430
2018	1,450,593	55,645	68,141	-	1,574,379
2019	558,628	55,645	34,071	-	648,344
Thereafter	80,259	13,911	-	-	94,170

Total rent expense amounted to \$918,619 and \$1,287,473 for the three months ended December 31, 2015 and 2014, respectively, and \$3,346,163 and \$3,685,249 for the nine months ended December 31, 2015 and 2014, respectively.

**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, 2015 and filed with the SEC on June 29, 2015. 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, and medical devices, as well as 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. We currently have 59 pharmacies in Hangzhou under the store brand of "Jiuzhou Grand Pharmacy." During the nine months ended December 31, 2015, we have neither opened nor closed 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 all over China. In fiscal year 2016, we plan to primarily grow sales through our own platform significantly by closely cooperating with commercial insurance companies and selling products to customers who have bought medical insurance from these commercial insurance companies. Additionally, in order to keep top rankings in certain third-party platforms such as Tmall, we plan to spend reasonable resources in marketing our products through these third-party platforms.

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 incurred sales in the quarter ended December 31, 2015.

### **Recent Developments**

On September 10, 2015, Renovation set up a new entity named Hangzhou JiuYi Medical Technology Co. Ltd, ("Jiuyi Technology") with a registered capital of five million USD, to provide additional technical support such as webpage development to our online pharmacy business. Jiuyi Technology is located in Hangzhou, China.

In November 2015, we sold all of the equity interests of Quannou Technology to six individuals for approximately \$17,121 (RMB107,074). Quannou Technology used to perform technical supports to our online pharmacy and incurred accumulated loss over last five years. After the sale, its technical support function has been transferred back to Jiuzhou Pharmacy, which hosts our online pharmacy.

### **Critical Accounting Policies and Estimates**

In preparing our unaudited condensed 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 3 to our unaudited condensed consolidated financial statements accompanying in this report. We have not made any material changes in the methodology used in our accounting policies that are inconsistent with those discussed in our annual report on Form 10-K for the year ended March 31, 2015.

## Results of Operations

### *Comparison of three months ended December 31, 2015 and 2014*

The following table summarizes our results of operations for the three months ended December 31, 2015 and 2014:

	Three months ended December 31, 2015		2014			
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Revenue	\$24,708,046	100.0	%	\$21,320,039	100.0	%
Gross profit	\$4,847,333	19.6	%	\$3,182,033	14.9	%
Selling expenses	\$3,286,637	13.3	%	\$2,184,184	10.2	%
General and administrative expenses	\$1,868,448	7.7	%	\$622,113	2.9	%
(Loss) income from operations	\$(307,752 )	(1.2	)%	\$375,736	1.8	%
Other expense, net	\$(290,122 )	(1.2	)%	\$(106,773 )	(0.5	)%
Change in fair value of purchase option derivative liability	\$(15,444 )	(0.1	)%	\$(127,431 )	(0.6	)%
Income tax expense	\$35,099	0.1	%	\$14,007	0.1	%
Net (loss) income attributable to controlling interest	\$(617,529 )	(2.5	)%	\$126,538	0.6	%
Net (loss) attributable to noncontrolling interest	\$-	-	%	\$(987 )	(0.0	)%

### *Revenue*

Primarily due to the quick expansion of our online pharmacy business, revenue increased by \$3,388,007 or 15.9% for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014, partially offset by decline in our wholesale business. The following table breaks down the revenue for our four business segments for the three months ended December 31, 2015 and 2014:



**Quarterly Revenue by Segment**

The following table breaks down the revenue for our four business segments for the three months ended December 31, 2015 and 2014:

	Three months ended December 31, 2015		2014		Variance by amount	% of change
	Amount	% of total revenue	Amount	% of total revenue		
Revenue from retail drugstores	\$12,928,472	52.3	% \$13,286,909	62.3	% \$(358,437 )	(2.7 )%
Revenue from online sales	8,645,534	35.0	% 4,395,501	20.6	% 4,250,033	96.7 %
Revenue from wholesale business	3,134,040	12.7	% 3,637,629	17.1	% (503,589 )	(13.8 )%
Revenue from farming business	-	-	% -	-	% -	- %
Total revenue	\$24,708,046	100.0	% \$21,320,039	100.0	% \$3,388,007	15.9 %

Retail drugstores sales, which accounted for approximately 52.3% of total revenue for the three months ended December 31, 2015, decreased by \$358,437, or 2.7%, to \$12,928,472. The slight decrease is primarily due to the US dollar appreciation against RMB. Same-store sales decreased by approximately \$1,242,670 or 9.8%, while new stores contributed approximately \$808,080 in revenue in the three months ended December 31, 2015. The same-store sales decrease was offset by increase in sales revenue attributed to growth in clinic sales and our self-branded nutritional supplements sales. The decrease in same-store sales reflects stricter budget control from the government health insurance program. The Chinese government is completing its national health insurance network which covers almost all of its population. However, the government budget cannot keep up with the increasing healthcare products and service demand. As a result, the government announced stricter drug reimbursement qualification policies such as reducing the allowed dose of drugs for each purchase and extending the time interval between purchases, forbidding sale promotion of certain drugs, in hope for deceleration of healthcare products and services expenditure. In cope with the situation, we implemented certain operational strategies such as increasing product adaptability to community demand, attracting younger customers with mobile device products search, close monitoring of chronicle disease customers, and close cooperation with certain large reputable vendors to promote sales of their brand name products. Although the same store sales declined recently, we expect the same store sales will grow in long run due to the growing healthcare spending in China. Our store count decreased to 59 as of December 31, 2015, from 60 as of December 31, 2014, primarily because we closed Sanhao Pharmacy's remaining stores without government insurance coverage in Hangzhou. In the long run, we plan to open or acquire new stores.

Our online pharmacy sales increased by approximately \$4,250,033, or 96.7% for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. We have expanded cooperation with business-to-consumer online vendors, including Taobao, JD and Amazon, by posting our products on their online platforms, which direct customers back to our website. Such arrangements have exposed our online presence to a wider consumer base. We actively explore the potential cooperation with different online and mobile vendors in China. In addition to launching an online payment service ("Alipay Service") based on a service agreement with Alipay (China) Internet Technology Ltd. ("Alipay"), we launched stores on Tencent's We Chat platform, China's dominant mobile messaging app and social network with over 500 million active users. In order to increase the popularity of our products, we have spent considerable efforts identifying popular products that can drive sales, while we keep close watch on the cost. We are actively searching for talents specialized in this area. In the future, potential Chinese government's authorization on online sales of prescription drugs may further increase our online pharmacy sales.

Our own official website sales in the three months ended December 31, 2015 has increased by 535.3% as compared to three months ended December 31, 2014, primarily as a result of the active cooperation with large insurance companies in China such as The People's Insurance Company (Group) Of China Limited, to sell online products to their customers who have purchased health insurance from them. Commercial health insurance has expanded quickly in recent years in China, especially after the government started to control its Social Health Insurance ("SHI") budget. In June 2015, we have organized an operation team to direct the sales from commercial insurance to our own website. In addition, we have retained pharmaceutical e-commerce talents from certain well-known local e-commerce companies. We expect this cooperation will drive up our online sales and profit margin in the future.

Wholesale revenue decreased by \$503,589 or 13.8% for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014, primarily as a result of discontinuing volume-driven sales strategy. At present, the majority of drug sales still occur at hospitals in China. Local hospitals usually have stronger ties with their existing suppliers. We have not been able to make significant progress in becoming a major supplier to local hospitals. Until we can establish a new customer base and are granted a status to serve as provincial or national exclusive sale agent for certain popular drugs, we do not expect our wholesale business to expand in the immediate future.

In the three months ended December 31, 2015 and 2014, 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 to 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 three months ended December 31, 2015, we have been evaluating feasibility of planting other herbs with short period of growth. We anticipate that we will continue growing trees and start cultivating other herbs in the future.

***Gross Profit***

Gross profit increased by \$1,665,300 or 52.3% period over period primarily as a result of an increase in gross margin of retail drugstores and online pharmacy, and an increase in online pharmacy sale. At the same time, gross margin increased from 14.9% to 19.6% due to higher retail profit margins. The average gross margins for each of our four business segments are as follows:

	Three months ended December 31,	
	2015	2014
Average gross margin for retail drugstores	21.6%	17.5%
Average gross margin for online sales	21.3%	14.2%
Average gross margin for wholesale business	6.8 %	6.4 %
Average gross margin for farming business	N/A	N/A

Retail gross margin increased primarily because of more vendor rebates attributable to our focused marketing efforts in promoting brand-name products with large pharmaceutical suppliers such as SANOFI, continuous efforts to renegotiate prices with our suppliers periodically, and our recent sales strategy to raise our profit margin. Instead of labeling our own products, we focused on promoting brand name products. We believe selling brand name products will increase our store popularity and customer loyalty. As a result, we achieved significant sales volume with certain brand pharmaceutical suppliers and received their considerable rebates. Additionally, we have been searching for ways to improve our profit margin. From time to time, we compared existing products among our suppliers to squeeze lower cost. We also micro-adjusted up our sales prices of targeted products while minimizing the effect on sales volume.

Gross margin of online pharmacy sales increased primarily because of the rise of our online sale through our own official online pharmacy website, which usually brought higher profit margin. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website, [www.dada360.com](http://www.dada360.com). In order to drive sales in competition for online customers on e-commerce platforms, we lowered our sale prices on these e-commerce platforms. We may have to keep low sales prices on these e-commerce platforms in the long run while we keep watching on our bottom line profit. On the other side, we have strengthened our cooperation with certain large insurance companies in China such as The People's Insurance Company (Group) Of China Limited, to sell online products to their insured customers. As these customers' commercial insurances are usually the premium packages on top of their National Basic Social Health Insurance ("SHI"), they tend to purchase premium health products having high profit margin. In the three months ended December 31, 2015, our sales volume through our own website is almost five times higher than the same period a year ago. As a result of the net effects, we had an overall higher online profit margin.

Wholesale gross margin increased primarily as a result of different products we carried and sold to certain pharmaceutical vendors. Although we tried marketing our products to major local hospitals and other pharmacies, we had not been able to make significant progress. Until we are able to obtain status as provincial or national exclusive sale agent for certain popular drugs or have sales access to large local hospitals, we may have to keep low profit margin in order to drive sales.

### ***Selling and Marketing Expenses***

Sales and marketing expenses increased by \$1,102,453 or 50.5% period over period. The increase in absolute dollars is primarily attributable to increase in labor cost, increase in service fee based on percentage of sales volume from e-commerce platforms, and increase in service charges from certain commercial health insurance providers which direct insured sales to our own official website. As a result, such expenses as a percentage of our revenue increased to 13.3%, from 10.2% for the same period a year ago. We expect future sales and marketing expenses to grow as our online pharmacy business continue to expand.

### ***General and Administrative Expenses***

General and administrative expenses increased by \$1,246,335 or 200.3% period over period. Such expenses as a percentage of revenue increased to 7.6% from 2.9% for the same period a year ago. The variance in absolute dollars of general and administrative expenses reflects accounts receivable and advances to vendors allowance reversal of approximately \$1.4 million in the three months ended December 31, 2014. Excluding such an effect, general and administrative expense actually decreased, which reflects stricter expense control in the three months ended December 31, 2015. We expect future general and administrative expenses to remain at its current levels.

### ***(Loss) Income from Operations***

As a result of the above, we had loss from operations of \$307,752, as compared to income from operations of \$375,736 a year ago. Our operating margin for the three months ended December 31, 2015 and 2014 was (1.2)% and 1.8%, respectively.

### ***Income Taxes***

Our income tax expense decreased by \$21,092 period over period.

### ***Change In Fair Value Of Purchase Option Derivative Liability***

As a result of lower stock prices in this quarter, we recorded a gain of \$15,444 from evaluation of stock warrants (Note 16) in this quarter

### *Net (Loss) Income*

As a result of the foregoing, net income decreased by \$745,054 period over period.

### *Comparison of nine months ended December 31, 2015 and 2014*

The following table summarizes our results of operations for the nine months ended December 31, 2015 and 2014:

	nine months ended December 31, 2015		2014	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
Revenue	\$68,596,964	100.0 %	\$56,223,336	100.0 %
Gross profit	\$13,200,023	19.2 %	\$8,457,909	15.0 %
Selling expenses	\$9,801,761	14.3 %	\$5,886,541	10.5 %
General and administrative expenses	\$3,628,520	5.3 %	\$2,449,489	4.4 %
(Loss) income from operations	\$(230,258 )	(0.3 )%	\$121,879	(0.2 )%
Other expense, net	\$(219,771 )	(0.3 )%	\$(275,301 )	(0.5 )%
Change in fair value of purchase option derivative liability	\$173,510	0.3 %	\$(51,074 )	(0.1 )%
Income tax expense	\$79,224	0.1 %	\$52,828	0.1 %
Net (loss) attributable to controlling interest	\$(355,743 )	(0.5 )%	\$(256,392 )	(0.5 )%
Net (loss) attributable to noncontrolling interest	\$-	(0.0 )%	\$(932 )	(0.0 )%

**Revenue**

Primarily due to the quick expansion of our online pharmacy business, revenue increased by \$12,373,628 or 22.0% for the nine months ended December 31, 2015, as compared to the nine months ended December 31, 2014, partially offset by decline in our wholesale business. The following table breaks down the revenue for our four business segments for the nine months ended December 31, 2015 and 2014:

**Quarterly Revenue by Segment**

The following table breaks down the revenue for our four business segments for the nine months ended December 31, 2015 and 2014:

	nine months ended December 31,				Variance by amount	% of change
	2015	2014	Amount	% of total revenue		
Revenue from retail drugstores	\$38,202,495	55.7 %	\$36,288,706	64.5 %	\$1,913,789	5.3 %
Revenue from online sales	21,169,709	30.9 %	9,917,434	17.6 %	11,252,275	113.5 %
Revenue from wholesale business	9,224,760	13.4 %	10,017,196	17.8 %	(792,436 )	(7.9 )%
Revenue from farming business	-	- %	-	-	-	- %
Total revenue	\$68,596,964	100.0 %	\$56,223,336	100.0 %	\$12,373,628	22.0 %

Retail drugstores sales, which accounted for approximately 55.7% of total revenue for the nine months ended December 31, 2015, increased by \$1,913,789, or 5.3%, to \$38,202,495. Same-store sales decreased by approximately \$758,296, or 2.2%, while new stores contributed approximately \$2,377,789 in revenue in the nine months ended December 31, 2015. Other increase in sales revenue is attributed to growth in clinic sales and our self-branded nutritional supplements sales. As elaborated in the above, due to government budget control, our same stores sales growth has been impeded in the recent quarters, and the same store sales are expected to grow due to increasing healthcare products demand in long run. In order to promote our sales, we implemented certain operational strategies such as increasing product adaptability to community demand, attracting younger customers with mobile device products search, close monitoring of chronicle disease customers, and close cooperation with certain large reputable vendors to promote sales of their brand name products. Although the same store sales declined recently, we expect the same store sales will grow in long run due to the growing healthcare spending in China. Our store count decreased to 59 as of December 31, 2015, from 60 as of December 31, 2014, primarily because we closed Sanhao Pharmacy's remaining stores without government insurance coverage in Hangzhou. In the long run, we plan to open or acquire new stores.



Our online pharmacy sales increased by approximately \$11,252,275, or 113.5% for the nine months ended December 31, 2015, as compared to the nine months ended December 31, 2014. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. We have expanded cooperation with business-to-consumer online vendors, including Taobao, JD and [www.yhd.com](http://www.yhd.com), by posting our products information on their online platforms, which direct customers back to our website. Such arrangements have exposed our online presence to a wider consumer base. As described in the above, we are expanding our cooperation with different online platform vendors, searching for products suitable for the market, and hiring specialized talents. Our own official website sales in the nine months ended December 31, 2015 has increased by 456.9% as compared to nine months ended December 31, 2014, primarily as a result of active cooperation with large insurance companies in China such as The People's Insurance Company (Group) Of China Limited, to sell online products to their customers who have purchased health insurance from them. Commercial health insurance has expanded quickly in recent years in China, especially after the government has started controlling its Social Health Insurance ("SHI") budget. We expect this cooperation will drive up our online sales and profit margin in the future.

Wholesale revenue decreased by \$792,436 or 7.9% primarily as a result of discontinuing volume-driven sales strategy. At present, the majority of drug sales still occur at hospitals in China. Local hospitals usually have stronger ties with their existing suppliers. We have not been able to make significant progress in becoming a major supplier to local hospitals. Until we can establish a new customer base and are granted a status to serve as provincial or national exclusive sale agent for certain popular drugs, we do not expect our wholesale business to expand in the immediate future.

In the nine months ended December 31, 2015 and 2014, 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 to 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, 2015, we have been evaluating feasibility of planting other herbs with short period of growth. We anticipate that we will continue growing trees and start cultivating other herbs in the future.

***Gross Profit***

Gross profit increased by \$4,742,114 or 56.1% period over period primarily as a result of an increase in gross margin of retail drugstores and online pharmacy, and an increase in online pharmacy sale. At the same time, gross margin increased from 15.0% to 19.2% due to higher retail profit margins. The average gross margins for each of our four business segments are as follows:

	nine months ended December 31,	
	2015	2014
Average gross margin for retail drugstores	23.2%	17.5%
Average gross margin for online sales	17.4%	15.3%
Average gross margin for wholesale business	7.2 %	6.0 %
Average gross margin for farming business	N/A	N/A

Retail gross margin increased primarily because of more vendor rebates attributable to our focused marketing efforts in promoting brand-name products with large pharmaceutical suppliers, continuous efforts to renegotiate prices with our suppliers periodically, and our recent sales strategy to raise our profit margin. Instead of labeling our own products, we focused on promoting brand name products. We believe selling brand name products will increase our store popularity and customer loyalty. As a result, we achieved significant sales volume with certain brand pharmaceutical suppliers and received their considerable rebates. Additionally, we have been searching for ways to improve our profit margin. From time to time, we compared existing products among our suppliers to squeeze lower cost. We also micro-adjusted up our sales prices of targeted products while minimizing the effect on sales volume.

Gross margin of online pharmacy sales increased primarily because of the rise of our online sale through our own official online pharmacy website, which usually brought higher profit margin, especially in the second and third quarter of fiscal 2016. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website, [www.dada360.com](http://www.dada360.com). In order to drive sales in competition for online customers on e-commerce platforms, we lowered our sale prices on these e-commerce platforms. We may have to keep low sales prices on these e-commerce platforms in the long run while we keep watch on our bottom line profit. On the other side, we have strengthened our cooperation with certain large insurance companies in China such as The People's Insurance Company (Group) Of China Limited, to sell online products to their insured customers. As these customers' commercial insurances are usually the premium packages on top of their National Basic Social Health Insurance ("SHI"), they tend to purchase premium health products having high profit margin. In the nine months ended December 31, 2015, our sales volume through our own website is more than four times higher than the same period a year ago. As a result of the net effects, we had an overall higher online profit margin.

Wholesale gross margin increased primarily as a result of different products we carried and sold to certain pharmaceutical vendors. Although we tried marketing our products to major local hospitals and other pharmacies, we had not been able to make significant progress. Until we are able to obtain status as provincial or national exclusive sale agent for certain popular drugs or have sales access to large local hospitals, we may have to keep low profit margin in order to drive sales.

### ***Selling and Marketing Expenses***

Sales and marketing expenses increased by \$3,915,220 or 66.5% period over period. The increase in absolute dollars is primarily attributable to labor cost increase, increase in service fee based on percentage of sales volume from e-commerce platforms, and increase in service charges from certain commercial health insurance providers which direct insured sales to our own official website. As a result, such expenses as a percentage of our revenue increased to 14.3%, from 10.5% for the same period a year ago. We expect future sales and marketing expenses to grow as our online pharmacy business continue to expand.

### ***General and Administrative Expenses***

General and administrative expenses increased by \$1,179,031 or 48.1% period over period. Such expenses as a percentage of revenue increased to 5.3% from 4.4% for the same period a year ago. The variance in absolute dollars of general and administrative expenses reflects accounts receivable and advances to vendors allowance reversal of approximately \$1.7 million in the nine months ended December 31, 2015 as compared to reversal of \$3.1 million in the nine months ended December 31, 2014. Excluding such an effect, general and administrative expense actually decreased, which reflects stricter expense control in the nine months ended December 31, 2015. We expect future general and administrative expenses to remain at its current levels.

### ***(Loss) Income from Operations***

As a result of the above, we had loss from operations of \$230,258, as compared to income from operations of \$121,879 a year ago. Our operating margin for the nine months ended December 31, 2015 and 2014 was (0.3)% and 0.2%, respectively.

### ***Income Taxes***

Our income tax expense increased by \$26,396 period over period due to overall increase in operation income in Jiuzhou Pharmacy.

### ***Change In Fair Value Of Purchase Option Derivative Liability***

As a result of lower stock prices in this quarter, we recorded a gain of \$173,510 from evaluation of stock warrants (see Note 16) in the nine months ended December 31, 2015.

### *Net (Loss) Income*

As a result of the foregoing, net income decreased by \$98,419 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 (our distributors) 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	\$3,520,597	\$2,851,169	\$1,060,868	\$-	\$7,432,634
4- 6 months	56,522	27,623	375,519	-	459,664
7- 12 months	75,209	89,888	1,432,509	-	1,597,606
Over one year	101,853	313	1,051,836	1,233	1,155,235
Allowance for doubtful accounts	(175,250 )	(66,161 )	(1,651,140)	(1,233 )	(1,893,784)
Total accounts receivable	\$3,578,931	\$2,902,832	\$2,269,592	\$-	\$8,751,355

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, 2015, we wrote off an approximately \$41,671 and \$133,544 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 2013, and it tightened its customer credit policy and strengthened monitoring of uncollected receivables. Furthermore, the new management team expended significant efforts in clearing outstanding balances with certain customers and suppliers. In the nine months ended December 31, 2015, we were able to continually collect certain aged accounts. As a result, we reversed approximately \$977,034 in allowance.

Subsequent to December 31, 2015 and through January 31, 2016, we collected approximately \$ 3.00 million in receivables relating to our drugstore business, approximately \$0.64 million in receivables relating to our online pharmacy business, approximately \$0.34 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	\$ 543,936	\$ -	\$ 1,657,041	\$ -	\$ 2,200,977
4- 6 months	-	-	3,198,164	-	3,198,164
7- 12 months	-	-	467,936	-	467,936
Over one year	-	-	135,796	-	135,796
Allowance for doubtful accounts	(23,470 )	-	(499,449 )	-	(522,919 )
Total advances to suppliers	\$ 520,466	\$ -	\$ 4,959,488	\$ -	\$ 5,479,954

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 purchase on certain non-medical products such as sundry. As a result, our retail chain had little advances to suppliers as of December 31, 2015.

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 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 actions. 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 accounting 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 2013, and since then we have tightened our customer credit policy and strengthened monitoring of uncollected receivables. During the nine months ended December 31, 2015, we were able to continually collect and sell goods from certain suppliers which we made advances in the past. As a result, we reversed approximately \$702,595 in allowance. We do not expect a significant increase in bad debts going forward.

### Liquidity and Capital Resources

Our cash flows for the periods indicated are as follows:

	Nine months ended	
	December 31	
	2015	2014
Net cash (used in) operating activities	\$(919,499)	\$(1,228,647)
Net cash provided by (used in) investing activities	\$910,169	\$(2,120,589)
Net cash provided by financing activities	\$359,928	\$545,810

For the nine months ended December 31, 2015, cash used in operating activities amounted to \$919,499, as compared to \$1,228,647 a year ago. The change is primarily attributable to a decrease in cash provided by advances to suppliers of \$2,329,829, a decrease in cash provided by accounts receivable of \$1,322,963 decrease in cash provided by customer deposit of \$1,641,074, offset by a decrease in cash used in inventory of \$2,562,748, a decrease in cash used in accounts payable of \$1,143,113.

For the nine months ended December 31, 2015, net cash provided by investing activities amounted to \$910,169, as compared to \$2,120,589 used in investing activities a year ago. The change is attributable to the pay back of financial assets available for sale in the nine months ended December 31, 2015.

For the nine months ended December 31, 2015, net cash provided by financing activities amounted to \$359,928, as compared to \$545,809 a year ago.

As of December 31, 2015, we had cash of approximately \$4,339,272. Our total current assets as of December 31, 2015, were \$44,473,871 and total current liabilities were \$40,768,247, which resulted in a net working capital of \$3,705,624.

On July 23, 2015, we completed a registered direct placement with a single health-care focused institutional investor for the purchase of an aggregate of \$3 million of its common stock at a price of \$2.50 per share and net proceeds of approximately \$2.7 million after deducting commissions and all other expenses. Additionally, Due to our fast increasing monthly purchase demand caused by online pharmacy growth, vendors are willing to advance us larger inventory quantity and give us longer credit period. 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:



Periods ending December 31,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2015	\$2,906,012	\$ 94,981	\$ 75,975	\$ -	\$3,076,967
2016	2,225,951	94,981	68,141	-	2,389,073
2017	1,872,365	58,923	68,141	-	1,999,430
2018	1,450,592	55,645	68,141	-	1,574,379
2019	558,628	55,645	34,071	-	648,344
Thereafter	80,259	13,911	-	-	94,170

*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 unaudited condensed consolidated financial statements or otherwise disclosed in this report were as follows:

	<b>December 31 2015</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Balance sheet items, except for the registered and paid-up capital, as of end of period/year	USD1: RMB 0.1541	USD1: RMB 0.1623	USD1: RMB 0.1629
Amounts included in the statement of Operations and statement of cash flows for the period/ year ended	USD1: RMB 0.1599	USD1: RMB 0.1626	USD1: RMB 0.1626

**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.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

As of December 31, 2015, 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 weaknesses in internal control over financial reporting as following:

the significance of the audit adjustments' impact on the overall financial statements; and how adequately we complied with U.S. GAAP on transactions.

Accounting and Finance Personnel Weaknesses - As noted in Item 9A of our annual reports on Form 10-K for the preceding three 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 significant internal control deficiencies can be detected or prevented.

Management anticipates that our disclosure controls and procedures will remain ineffective until such material weakness is remediated.

#### **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.**

The exhibits required by this item are set forth in the Exhibit Index attached hereto.

**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 12, 2016 By: /s/ Lei Liu  
Lei Liu

Chief Executive Officer

Date: February 12, 2016 By: /s/ Ming Zhao  
Ming Zhao  
Chief Financial Officer

## EXHIBIT INDEX

Exhibit Number	Description
31.1	Section 302 Certification by the Corporation's Chief Executive Officer
31.2	Section 302 Certification by the Corporation's Chief Financial Officer
32.1	Section 906 Certification by the Corporation's Chief Executive Officer
32.2	Section 906 Certification by the Corporation's Chief Financial Officer
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