CHINA JO-JO DRUGSTORES, INC.
Form 10-Q
February 17, 2015

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, 2014**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ____________________

Commission File Number: **001-34711**

CHINA JO-JO DRUGSTORES, INC.
(Exact name of registrant as specified in its charter)

Nevada	**98-0557852**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
1st Floor, Yuzheng Plaza, No. 76,	
Yuhuangshan Road, Hangzhou, Zhejiang Province	**310002**

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 9, 2015, the registrant had 15,385,504 shares of common stock, par value $0.001 per share, outstanding.

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TO QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2014

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, 2014	March 31, 2014
ASSETS		
CURRENT ASSETS		
Cash	$ 1,734,392	$ 4,445,276
Restricted cash	9,989,227	3,114,543
Notes receivable	108,329	-
Trade accounts receivable, net	7,111,594	6,734,536
Inventories	9,777,878	7,047,397
Other receivables, net	988,640	149,546
Advances to suppliers, net	3,666,492	4,577,194
Other current assets	1,614,095	1,663,102
Total current assets	34,990,647	27,731,594
PROPERTY AND EQUIPMENT, net	9,378,160	9,412,688
OTHER ASSETS		
Farmland assets	1,376,806	1,371,735
Long term deposits, landlord	2,576,118	2,786,437
Other noncurrent assets	2,767,155	3,036,930
Intangible assets, net	3,140,358	1,569,443
Total other assets	9,860,437	8,764,545
Total assets	$ 54,229,244	$ 45,908,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loan payable	$ 32,580	$ 162,300
Accounts payable, trade	13,366,998	14,554,726
Notes payable	14,939,135	7,820,718
Other payables	2,862,395	1,282,211
Other payables - related parties	1,972,931	2,384,294
Loan from third parties	215,843	294,042
Customer deposits	3,693,298	3,185,885

Taxes payable	450,340	373,501
Accrued liabilities	678,751	1,208,242
Total current liabilities	38,212,271	31,265,919
Purchase option and warrant liability	329,990	278,916
Total liabilities	38,542,261	31,544,835
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock; $0.001 par value; 10,000,000 shares authorized; nil issued and outstanding as of December 31, 2014 and March 31, 2014	-	-
Common stock; $0.001 par value; 250,000,000 shares authorized; 15,385,504 and 14,416,022 shares issued and outstanding as of December 31, 2014 and March 31, 2014	15,386	14,416
Additional paid-in capital	18,824,368	17,355,555
Statutory reserves	1,309,109	1,309,109
Accumulated deficit	(8,517,159)	(8,260,767)
Accumulated other comprehensive income	4,016,336	3,905,136
Total stockholders' equity	15,648,040	14,323,449
Noncontrolling interests	38,943	40,543
Total equity	15,686,983	14,363,992
Total liabilities and stockholders' equity	$ 54,229,244	$ 45,908,827

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

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CHINA JO-JO DRUGSTORES, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	For the three months ended December 31,		For the nine months ended December 31,	
	2014	2013	2014	2013
REVENUES, NET	$21,320,039	$17,833,072	$56,223,336	$50,025,012
COST OF GOODS SOLD	18,138,006	17,653,988	47,765,427	43,296,356
GROSS PROFIT	3,182,033	179,084	8,457,909	6,728,656
SELLING EXPENSES	2,184,184	5,338,404	5,886,541	9,998,377
GENERAL AND ADMINISTRATIVE EXPENSES	622,113	3,700,466	2,449,489	6,833,265
TOTAL OPERATING EXPENSES	2,806,297	9,038,870	8,336,030	16,831,642
INCOME (LOSS) FROM OPERATIONS	375,736	(8,859,786)	121,879	(10,102,986)
OTHER INCOME (LOSS), NET	(106,773)	130,426	(275,301)	127,034
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITIES	(127,431)	(41,944)	(51,074)	(50,328)
INCOME (LOSS) BEFORE INCOME TAXES	141,532	(8,771,304)	(204,496)	(10,026,280)
PROVISION FOR INCOME TAXES	14,007	(35,887)	52,828	43,222
NET INCOME (LOSS)	127,525	(8,735,417)	(257,324)	(10,069,502)
LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	(987)	187	932	694
NET INCOME (LOSS) ATTRIBUTABLE TO CHINA JO-JO DRUGSTORES, INC.	126,538	(8,735,230)	(256,392)	(10,068,808)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	52,740	259,814	111,200	1,019,605
COMPREHENSIVE INCOME (LOSS)	$179,278	$(8,475,416)	$(145,192)	$(9,049,203)
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	15,199,092	13,959,003	14,867,218	13,730,742
Diluted	15,596,554	13,959,003	14,867,218	13,730,742
LOSS PER SHARES:				
Basic	$0.01	$(0.64)	$(0.02)	$(0.73)
Diluted	$0.01	$(0.64)	$(0.02)	$(0.73)

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

CHINA JO-JO DRUGSTORES, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(257,324)	$(10,069,502)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,240,323	1,646,066
Stock compensation	527,357	477,284
Bad debt recovery	(3,126,039)	(692,883)
Inventory reserve	277,603	-
Change in fair value of purchase option and warrant liability	51,074	86,379
Change in operating assets:		
Accounts receivable, trade	1,566,629	2,278,341
Notes receivable	(108,096)	-
Inventories	(2,976,220)	(9,330,835)
Other receivables	(619,695)	(259,339)
Advances to suppliers	1,916,591	10,706,963
Other current assets	55,012	(1,009,632)
Long term deposit	220,146	-
Other noncurrent assets	280,399	133,648
Change in operating liabilities:		
Accounts payable, trade	(1,236,808)	5,099,673
Other payables and accrued liabilities	390,535	1,074,755
Customer deposits	494,570	(909,992)
Taxes payable	75,296	82,942
Net cash used in operating activities	(1,228,647)	(686,132)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(898,522)	(457,609)
Increase in long-term deposits for land use right	-	(1,355,290)
Acquisition of business, net	(936,288)	-
Additions to leasehold improvements	(189,143)	(25,112)
Payments on construction-in-progress	(96,636)	-
Net cash used in investing activities	(2,120,589)	(1,838,011)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term bank loan	32,510	162,280
Repayment of short-term bank loan	(162,550)	-
Repayment of third parties loan	(79,116)	-
Change in restricted cash	(6,848,423)	(999,814)
Repayments of notes payable	(14,132,390)	659,246
Issuance of notes payable	21,206,663	-

Change in other payables-related parties	529,115	909,954
Net cash provided by financing activities	545,809	731,666
EFFECT OF EXCHANGE RATE ON CASH	92,543	375,042
DECREASE IN CASH	(2,710,884)	(1,417,435)
CASH, beginning of period	4,445,276	4,524,094
CASH, end of period	$1,734,392	$3,106,659
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$4,621	$-
Cash paid for income taxes	$59,755	$9,529
Issuance of common stock in settlement of debts	$941,613	$-

The accompanying notes are an integral part of these unaudited 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) is, 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 and wholesale distributor of pharmaceutical and other healthcare products in the People’s Republic of China (“China” or the “PRC”). The Company’s 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. One drugstore previously operated by Hangzhou Quannuo Grand Pharmacy Co., Ltd. (“Hangzhou Quannuo”) which closed as of March 31, 2013; however, as of December 31, 2014, Hangzhou Quannuo has not been dissolved although it had no operation. Hangzhou Quannuo is the wholly-owned subsidiary of Zhejiang Quannuo Internet Technology Co., Ltd. (“Quannuo Technology”), which is wholly-owned by Shouantang Technology.

The Company’s retail business also includes two 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. In addition, Jiuzhou Service established Hangzhou Shouantang Health Management Co. Ltd (“Shouantang Health”) in December 2013 and holds 51% equity interests in Shouantang Health.

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").

On October 9, 2014, the Company, through Jiuzhou Pharmacy, acquired Sanhao Grand Pharmacy Chain Co., Ltd. ("Sanhao Pharmacy"), a local drugstore chain located in Hangzhou, for $1.56 million (RMB9.6 million).

On October 11, 2014, the Company, through Shouantang Technology, formed Shouantang Bio-technology Co., Ltd. ("Shouantang Bio") by contributing $0.16 million (RMB1 million) as its register capital. Shouantang Technology is formed to sell nutritional supplements under its own brand name, Shouantang.

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

Entity Name	Background	Ownership
Renovation	Incorporated in Hong Kong SAR on September 2, 2008	100%
	Established in the PRC on October 14, 2008	
Jiuxin Management	Deemed a wholly foreign owned enterprise ("WFOE") under PRC law	100%
	Registered capital of $4.5 million fully paid	
	Established in the PRC on July 16, 2010 by Renovation	
	Registered capital of $20 million	
Shouantang Technology	Registered capital requirement reduced by the SAIC to $11 million in July 2012 and is fully paid	100%
	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	
Qianhong Agriculture	Registered capital of RMB 10 million fully paid	100%
	Carries out herb farming business	
Quannuo Technology	Established in the PRC on July 7, 2009	100%

	Registered capital of RMB 10 million fully paid	
	Acquired by Shouantang Technology in November 2010	
	Operates the Company's online pharmacy website and provide software and technical support	
	Established in the PRC on July 8, 2010 by Quannuo Technology	
Hangzhou Quannuo	Registered capital of RMB 800,000 fully paid	100%
	Currently has no operation and has closed and dissoluted	

Entity Name	Background	Ownership
Jiuzhou Pharmacy (1)	Established in the PRC on September 9, 2003 Registered capital of RMB 5 million fully paid Operates the "Jiuzhou Grand Pharmacy" stores in Hangzhou	VIE by contractual arrangements (2)
Jiuzhou Clinic (1)	Established in the PRC as a general partnership on October 10, 2003 Operates a medical clinic adjacent to one of Jiuzhou Pharmacy's stores	VIE by contractual arrangements (2)
Jiuzhou Service (1)	Established in the PRC on November 2, 2005 Registered capital of RMB 500,000 fully paid Operates a medical clinic adjacent to one of Jiuzhou Pharmacy's stores	VIE by contractual arrangements (2)
Jiuxin Medicine	Established in PRC on December 31, 2003 Acquired by Jiuzhou Pharmacy in August 2011 Registered capital of RMB 10 million fully paid	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

	Carries out pharmaceutical distribution services Established in the PRC on December 20, 2011 by Renovation	
Jiutong Medical	Registered capital of $2.6 million fully paid Currently has no operation Established in the PRC on December 18, 2013 by Jiuzhou Service	100%
Shouantang Health	Registered capital of RMB 500,000 fully paid 51% held by Jiuzhou Service Currently has no operations	VIE by contractual arrangements as a controlled entity of Jiuzhou Service (2)
Sanhao Pharmacy	Established in the PRC on March 3, 2012 Acquired by Jiuzhou Pharmacy on October 9, 2014 100% held by Jiuzhou Pharmacy Currently has no operations	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
Shouantang Bio	Established in the PRC in October, 2014 by Shouantang Technology	100%

100% held by Shouantang Technology

Sells nutritional supplements with its own brand name

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(1) Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service have been under the common control of Renovation (the "Owner") since their respective establishment dates, pursuant to agreements amongst the Owner 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, the Owner has 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 Owner as a subsidiary of Jiuzhou Pharmacy, as is Shouantang Health as a subsidiary of Jiuzhou Service.

(2) 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 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 the two subsidiaries of Jiuzhou Pharmacy) as a variable interest entity ("VIE") under the accounting standards of the Financial Accounting Standards Board ("FASB"). Accordingly, the financial statements of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, as well as Shouantang Health, the subsidiaries and entity under the control of Jiuzhou Service, are consolidated into the financial statements of the Company.

Note 2 – LIQUIDITY

Our accounts have been prepared in accordance with U.S. GAAP on a going concern basis. The going concern basis assumes that assets are realized and liabilities are extinguished in the ordinary course of business at amounts disclosed in the financial statements. Our ability to continue as a going concern depends upon aligning our sources of funding (debt and equity) with our expenditure requirements and repayment of the short-term debts as and when they become due.

The drug retail business is a highly competitive industry in PRC. Several large drugstore chains and a variety of single stores operate in Hangzhou City and Zhejiang Province. The Company closed unprofitable stores, including those in Shanghai in fiscal 2013 and 2014. The remaining existing drugstores have historically been profitable and are not expected to require additional financing. In addition, the Company has relocated and remodeled eight stores acquired from Sanhao Pharmacy to new commercial area. With the licenses to accept government medical insurance payment, the eight new stores that have made good debut sales in their openings in January 2014 and are expected to generate positive cash flow in the near future.

The Company's principal sources of liquidity consist of existing cash, bank facilities from local banks as well as personal loans from its principal shareholders if necessary. The Company has three credit line agreements from three local banks as displayed in detail in Note 13. The three credit lines from Hangzhou United Bank ("HUB"), Bank of Hangzhou ("BOH") and Industrial and Commercial Bank of China ("ICBC") allow the Company to borrow up to $3.6

million in sum. Any borrowing therefrom is guaranteed by a third-party guarantor company, and secured by the Company's assets pursuant to a collateral agreement, as well as personal guarantees of some of its principal shareholders.

The Company has taken measures to reduce its losses and generate positive cash flow by accelerating cash or goods collections from suppliers against advances, and attracting talent to improve and enhance traditional retail pharmacy plus in-store clinic business. In its retail sector, the Company has closed unprofitable pharmacies last fiscal year and is looking to open additional in-store clinics to attract customer traffic. The remaining stores are considered profitable and are currently generating positive cash flow. The drug wholesale industry is usually marked with low profit margin. However, as the Company is strengthening its customer and supplier credit policy and ceased extremely low profit margin transactions that cannot cover related overhead, it does not expect a significant loss in the future. The Company has gradually settled and collected certain aged accounts during the nine months ended December 31, 2014. The wholesale business is not expected to contribute a significant gross margin for the remaining of fiscal 2015, and sales have not been projected to increase in the future unless we are able to gain sales access to large local hospitals. Farming business is not expected to have any sales and may incur limited operating costs. Retail drugstores have been projected to increase as compared to the prior year with lower profit margins. During the nine months ended December 31, 2014, the drugstore sales have increased by 20.1% over the same period of last year. The rising sales contributed to our positive operating cash flow from operation. During the nine months ended December 31, 2014, the online pharmacy sales have increased by 100.3% over the same period of last year. As of December 31, 2014, approximately $3.63 million bank credit line has not been used and is still available for further borrowing. Management believes that the foregoing measures collectively will provide sufficient liquidity for the Company to meet its future liquidity and capital obligations in the next twelve months.

However, in the event the banks withdraw their credit lines with the Company, or the Company's existing store performance suddenly deteriorate due to unexpected government policy change, or its operating license is cancelled as a result of violation of industry regulation, the Company may or may not obtain alternative financing resources to support its continuing operation. At that time, the Company may not be able to continue to present itself on a going concern basis.

Note 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of presentation and consolidation</u>

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, 2014 filed with the SEC on June 27, 2014. Operating results for the three and nine months ended December

31, 2014 may not be necessarily indicative of the results that may be 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.

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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. 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 delivered 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. In addition, a proper sales discount is made to account for the potential loss from returns from customers. Historically, sales returns 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, and (3) 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 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. The Company also reviews historical trend and will provide additional allowance if it determines a particular account has become uncollectible. The ability to collect is attributed to the steps taken prior to extending credit to customers. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. To accommodate for potential loss in accounts receivable, the Company puts up a reserve for what we do not believe to be collectible, and most aged receivables have been reserved. 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.

In its 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.

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. 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 gingko trees. All costs are accumulated until the time of harvest and then allocated to harvested herbs when they are sold. The Company periodically reviews its inventory and records write-downs to inventories for shrinkage losses and damaged merchandise that are identified. The Company provides a reserve for estimated inventory obsolescence or excess quantities on hand equal to the difference between the cost of the inventory and its estimated realizable value.

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
Licenses	Indefinite

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

Goodwill

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. Goodwill is tested for impairment at the reporting unit level on an annual basis in the fourth quarter or more frequently if there are indications of impairment. The Company has elected to early adopt the provisions of Accounting Standards Update ("ASU") 2011-08. Testing Goodwill for Impairment. Under this ASU, The Company may first assess qualitative factors to determine whether it is necessary to perform the two-step goodwill test. Calculating the fair value of the reporting units requires significant estimates and assumption by management. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, there is an indication that the reporting unit goodwill may be impaired and a second step of the impairment test is performed to determine the amount of the impairment to be recognized, if any. After evaluating all qualitative factors, the Company has determined that the fair value of the indefinite lived intangible assets, including goodwill, is more than its carrying amount, and therefore no impairment was recorded.

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.

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, 2014 and 2013.

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 $158,686 and $3,542,412 for three months ended December 31, 2014 and 2013, respectively, and $289,925 and $3,598,945 for the nine months ended December 31, 2014 and 2013, 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 7 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, 2014 and March 31, 2014 were translated at 1 RMB to $0.1629 USD and at 1 RMB to $0.1623 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the nine months ended December 31, 2014 and 2013 were at 1 RMB to $0.1626 USD and at 1 RMB to $0.1623 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. Balances at financial institutions and state-owned banks within the PRC are not covered by insurance. As of December 31, 2014 and March 31, 2014, the Company had deposits totaling $11,272,978 and $7,204,626 that were not covered by insurance, respectively. To date, the Company has not experienced any losses in such accounts.

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 three months ended December 31, 2013, three vendors accounted for 33% of the Company's total purchases and no vendor accounted for more than 10% of total advances to suppliers.

For the nine months ended December 31, 2014, the two largest vendors accounted for 30% of the Company's total purchases and one vendor accounted for 21% of total advances to suppliers. For the nine months ended December 31, 2013, one vendor accounted for approximately 13%of the Company's total purchases and another vendor accounted for more than 18% of total advances to suppliers.

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 three months ended December 31, 2013, no customer accounted for more than 10% of the Company's total sales and no customer accounted for more than 10% of total 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. For the nine months ended December 31, 2013, no customer accounted for more than 10% of the Company's total sales, and no customer accounted for more than 10% of total accounts receivable.

Noncontrolling interest

As of December 31, 2014, Yi Wang, an individual, owned 49% of the equity interests of Shouantang Health, which was not under the Company's control.

Business combinations

The Company accounts for business combinations using the acquisition method of accounting. The acquisition method requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date.

Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU No. 2014-08"). Under ASU No. 2014-08, only disposals representing a strategic shift in operations should be presented as discontinued operations. ASU No. 2014-08 also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in ASU No. 2014-08 are effective in the first quarter of 2015 for public business entities with annual periods beginning on or after December 15, 2014. Early adoption is permitted. The Company does not expect that the adoption of ASU No. 2014-08 will have a significant impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization’s contracts with customers. This ASU is effective for fiscal years, and interim periods within those years beginning after December 15, 2016 for public companies and 2017 for non-public entities. Management is evaluating the effect, if any, on the Company’s financial position and results of operations.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern”, which requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity’s ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. Management is evaluating the effect, if any, on the Company’s financial position and results of operations.

In November 2014, FASB issued Accounting Standards Update No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force).The amendments permit the use of the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate, or OIS) as a benchmark interest rate for hedge accounting purposes. Public business entities are required to implement the new requirements in fiscal years (and interim periods within those fiscal years) beginning after December 15, 2015. All other types of entities are required to implement the new requirements in fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016. The Company does not expect the adoption of ASU 2014-16 to have material impact on the Company's consolidated financial statement.

Note 4 – TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following:

	December 31, 2014	March 31, 2014
Accounts receivable	$ 10,089,999	$ 11,869,866
Less: allowance for doubtful accounts	(2,978,405)	(5,135,330)
Trade accounts receivable, net	$ 7,111,594	$ 6,734,536

For the three months ended December 31, 2014 and 2013, $64,087 and $100,847 in accounts receivable were directly written off respectively. For the nine months ended December 31, 2014 and 2013, $193,581 and $448,243 in accounts receivable were written off to expense.

Note 5 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	December 31, 2014	March 31, 2014
Prepaid rental expenses	$ 1,126,770	$ 1,165,633
Lease rights transfer fees (1)	-	11,939
Prepaids and other current assets	487,325	485,530
Total	$ 1,614,095	$ 1,663,102

(1) Lease rights transfer fees are paid by the Company to secure store rentals in coveted areas. These additional costs of acquiring the right to lease new store locations are capitalized and amortized over the period of the initial lease term.

Note 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2014	March 31, 2014
Building	$1,746,625	$1,139,412
Leasehold improvements	12,136,854	11,849,753
Farmland improvements	1,041,046	1,037,212
Office equipment and furniture	5,700,493	5,535,667
Motor vehicles	644,238	579,834
Total	21,269,256	20,141,878
Construction-in-Progress	96,844	-
Less: Accumulated depreciation	(11,987,940)	(10,729,190)
Property and equipment, net	$9,378,160	$9,412,688

Total depreciation expense for property and equipment was $427,986 and $461,196 for the three months ended December 31, 2014 and 2013, respectively, and $1,258,750 and $1,522,951 for the nine months ended December 31, 2014 and 2013, respectively.

Note 7 – ADVANCES TO SUPPLIERS

Advances to suppliers consist of deposits with or advances to outside vendors for future inventory purchases. Most of the Company's vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive its purchases on a timely basis. This amount is refundable and bears no interest. As of December 31, 2014 and March 31, 2014, advance to suppliers consist of the following:

	December 31, 2014	March 31, 2014
Advance to suppliers	$9,283,317	$11,162,767
Less: allowance for doubtful accounts	(5,616,825)	(6,585,573)
Advance to suppliers, net	$3,666,492	$4,577,194

For the three months ended December 31, 2014 and 2013, none of advances to suppliers were written off against the allowance for doubtful accounts, respectively. For the nine months ended December 31, 2014 and 2013, $0 and $452,246 of advances to suppliers were written off against the allowance for doubtful accounts, respectively.

Note 8 – INVENTORY

Inventory consisted of the following:

	December 31, 2014	March 31, 2014
Finished goods	$ 10,833,648	$ 7,822,102
Less: reserve for inventory	(1,055,770)	(774,705)
Inventory, net	$ 9,777,878	$ 7,047,397

Note 9 – FARMLAND ASSETS

Farmland assets are gingko trees planted in 2012 and expected to be harvested and sold in two or three years. As of December 31 and March 31, 2014, farmland assets consist of the following:

	December 31, 2014	March 31, 2014
Farmland assets	$ 2,200,477	$ 2,192,372
Less: impairments	(823,671)	(820,637)
Farmland assets, net	$ 1,376,806	$ 1,371,735

Note 10 – LONG TERM DEPOSITS, LANDLORDS

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 11 – OTHER NONCURRENT ASSETS

Other noncurrent assets consisted of the following:

	December 31, 2014	March 31, 2014
Prepayment for lease of land use right – noncurrent, net (1)	$ 2,767,155	$2,878,687
Long term prepaid expense	-	158,243
Total	$ 2,767,155	$3,036,930

(1) This 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 $1,137,500, which will be refundable on the due date. Based on expected output from planted Gingko 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 an impairment of $2,475,688 on the lease prepayment in fiscal 2014.

The amortization of the prepayment for the lease of land use right was approximately $16,827 and $40,840 for the three months ended December 31, 2014 and 2013, respectively. The amortization of the prepayment for the lease of land use right was approximately $50,344 and $121,725 for the nine months ended December 31, 2014 and 2013, respectively.

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

Periods ending December 31,	Amount
2015	$67,270
2016	67,270
2017	67,270
2018	67,270
2019	67,270
Thereafter	$1,290,503

Note 12– INTANGIBLE ASSETS

As of December 31, 2014, the intangible assets with indefinite life consisted of the following, which were generated through acquisition of Sanhao Pharmacy (see note 21- Business Combination). There is no intangible asset with indefinite life as of March 31, 2014.

	Preliminary Fair value	Currency translation adjustment	Net carrying value
Licenses (1)	$1,566,046	$ (577)	$1,565,469
Goodwill on acquisition of Sanhao Pharmacy	23,560	(9)	23,551
	$1,589,606	$ (586)	$1,589,020

(1) This represents the preliminary fair value of licenses of insurance applicable drugstores acquired from Sanhao Pharmacy. The license allows 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.

Other intangible assets consisted of the following at:

	December 31, 2014	March 31, 2014
Land use rights (2)	$ 1,588,528	$1,582,677
Software	475,841	474,088
Total other intangible assets	2,064,369	2,056,765
Less: accumulated amortization	(513,031)	(487,322)
Other intangible assets, net	$ 1,551,338	$1,569,443

Amortization expense of other intangibles amounted to $9,210 and $44,284 for the three months ended December 31, 2014 and 2013, respectively, and $25,710 and $123,115 for the nine months ended December 31, 2014 and 2013, respectively.

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

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Note 13 – 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 and March 31, 2014:

Beneficiary	Endorser	Origination date	Maturity date	December 31, 2014	March 31, 2014
Jiuzhou Pharmacy(1)	ICBC	12/27/13	06/26/14	$ -	$ 1,351,959
Jiuzhou Pharmacy(1)	ICBC	10/11/13	04/11/14	-	730,350
Jiuzhou Pharmacy(2)	HUB	10/08/13	04/08/14	-	486,900
Jiuzhou Pharmacy(2)	HUB	11/05/13	05/05/14	-	1,720,380
Jiuzhou Pharmacy(2)	HUB	12/26/13	06/26/14	-	117,960
Jiuzhou Pharmacy(2)	HUB	02/07/14	05/07/14	-	649,200
Jiuzhou Pharmacy(2)	HUB	02/07/14	08/07/14	-	985,161
Jiuzhou Pharmacy(2)	HUB	03/06/14	09/06/14	-	1,778,808
Jiuzhou Pharmacy(3)	HUB	08/04/14	02/04/15	1,482,390	-
Jiuzhou Pharmacy(3)	HUB	08/05/14	08/04/15	1,629,000	-
Jiuzhou Pharmacy(3)	HUB	09/03/14	03/03/15	1,808,190	
Jiuzhou Pharmacy(3)	HUB	10/09/14	04/09/15	781,920	
Jiuzhou Pharmacy(3)	HUB	10/09/14	04/09/15	1,184,283	
Jiuzhou Pharmacy(3)	HUB	12/05/14	06/05/15	1,325,582	
Jiuzhou Pharmacy(3)	HUB	12/26/14	06/26/15	1,596,420	
Jiuzhou Pharmacy(4)	BOH	11/06/14	05/06/15	2,899,620	
Jiuzhou Pharmacy(1)	ICBC	12/26/14	06/25/15	2,231,730	-
Total				$ 14,939,135	$ 7,820,718

(1) As of March 31, 2014, the Company had a total of $2,082,309 (RMB12,830,000) in notes payable from ICBC. A third party, Hangzhou Small and Medium sized Guarantee CO., Ltd. signed loan guarantee agreements with the bank to guarantee these borrowings. In addition, the Company is required to hold 30% of amounts borrowed as restricted cash with ICBC as additional collateral against these bank notes. All the outstanding notes payable have been repaid upon maturity. As of December 31, 2014, the Company had $2,231,730 (RMB 13,700,000) note payable from ICBC, with restricted cash of $669,519 (RMB 4,110,000) held at bank.

(2) As of March 31, 2014, the Company had $5,738,409 (RMB35,356,800) notes payable from HUB. The Company is required to hold restricted cash of $2,489,851 (RMB15,341,040) with HUB as collateral against these bank notes. All the outstanding notes payable have been repaid upon maturity.

(3) As of December 31, 2014, the Company had $9,807,785 (RMB60,207,400) notes payable from HUB. The Company is required to hold restricted cash of $5,263,498 (RMB32,311,220) with HUB as collateral against these bank notes.

(4) As of December 31, 2014, the Company had $2,899,620 (RMB17,800,000) 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 12). The Company is required to hold restricted cash of $1,449,810 (RMB8,900,000) with BOH as collateral against these bank notes.

As of December 31, 2014, the Company had a credit line of approximately $8.63 million (RMB 52.98 million) in the aggregate from HUB, BOH and ICBC. By putting up the restricted cash of $9.94 million deposited in the bank, the total credit line was increased to $18.57 million. As of December 31, 2014, we have approximately $14.94 million bank notes payable, and approximately $3.63 million bank credit line is still available for further borrowing. The bank notes are also secured by buildings owned by our major shareholders with a value of approximately $3,824,892 (RMB23,480,000) personally guaranteed by our major shareholders and guaranteed by Zhejiang JinQiao Guarantee Company.

Note 14 – TAXES

Income tax

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

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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, 2014 and 2013:

	For the three months ended December 31,		For the nine months ended December 31,	
	2014	2013	2014	2013
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)	(15.1)	(25.0)	(55.3)	(25.0)
Non-deductible expenses-permanent difference (2)	0.0	0.4	4.5	(0.4)
Effective tax rate	9.9 %	0.4 %	(25.8)%	(0.4)%

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

(2) The 0% and 0.4% rate adjustments for the three months ended December 31, 2014 and 2013, and the 4.5% and (0.4)% rate adjustments for the nine months ended December 31, 2014 and 2013 represents expenses primarily included 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 three and nine months ended December 31, 2014 and 2013. As of December 31, 2014, the estimated net operating loss carryforwards for U.S. income tax purposes amounted to $1,430,000 which may be available to reduce future years' taxable income. These carryforwards 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, 2014. There was no net change in the valuation allowance for the three and nine months ended December 31, 2014 and 2013. Management reviews this valuation allowance periodically and makes adjustments as necessary.

Taxes payable at December 31, 2014 and March 31, 2014 consisted of the following:

	December 31, 2014	March 31, 2014

VAT	$ 399,637	$344,329
Income tax	7,983	7,851
Others	42,720	21,321
Total taxes payable	$ 450,340	$373,501

Note 15– 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 $234,401 and $236,397 in employment benefits and pension for the three months ended December 31, 2014 and 2013, respectively, and $634,672 and $558,344 in employment benefits and pension for the nine months ended December 31, 2014 and 2013, respectively.

Note 16– RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts payable to related parties are summarized as follows:

	December 31, 2014	March 31, 2014
Due to cofounders (1):	$ 578,951	$576,818
Due to a director and CEO (2):	1,393,980	1,807,476
Total	$ 1,972,931	$2,384,294

(1) As of December 31, 2014 and March 31, 2014, amount due to cofounders represents contributions from the 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. On July 2, 2014, the Company issued a total of 619,482 shares of common stock to Lei Liu, at $1.52 per share, the fair market value, or the closing stock price on Nasdaq on July 1, 2014, to offset the debts of $941,613 owed to Mr. Liu.

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As of December 31, 2014 and March 31, 2014, notes payable totaling $2,922,002 and $5,738,409 were secured by the personal properties of certain of the Company's shareholders, respectively.

The Company has a lease with Mr. Lei Liu for a retail space which expires in September 2015 and had a lease for corporate office which has expired in December 2013. Since the Company has moved its headquarter to a new location in Hangzhou in January 2014, the corporate office lease with Mr. Liu was terminated. Rent expense amounted to $24,383 and $48,702 for the three months ended December 31, 2014 and 2013, respectively, and $73,075 and $97,062 for the nine months ended December 31, 2014 and 2013. None was paid to Mr. Liu for the three and nine months ended December 31, 2014 and 2013.

Note 17– PURCHASE OPTION DERIVATIVE LIABILITY

In connection with the public offering of the Company's common stock that closed on April 28, 2010, the Company issued to its underwriters, Madison Williams and Company and Rodman & Renshaw, LLC, an option for $100 to purchase up to a total of 105,000 shares of common stock (3% of the shares sold in the public offering) at $6.25 per share (125% of the price of the shares sold in the public offering). The option is exercisable commencing on October 23, 2010 and expires on April 22, 2015.

The Company is treating the common shares underlying the option as a derivative liability as the strike price of the option is denominated in U.S. dollars, a currency other than the Company's functional currency, the Chinese RMB. As a result, the option is not considered indexed to the Company's own stock, and as such, all future changes in the fair value of the option are recognized currently in earnings until such time as the option is exercised or expired.

On April 22, 2010, the issue date of the option, the Company classified the fair value of this option as a liability resulting in a decrease of additional paid-in capital of $402,451 and the establishment of a $402,451 in liability to recognize the option's fair value. The Company recognized a gain of $5,303 and $53,666 from the change in fair value of the option liability for the three and nine months ended December 31, 2014. The Company recognized a loss of $10,768 from the change in fair value of the option liability for the three months ended December 31, 2013, and a gain of $861 for the nine months ended December 31, 2013.

This option does not trade in an active securities market, and as such, the Company estimates its fair value using the Black-Scholes Option Pricing Model (the "Black-Scholes Model") on the date that the option was originally issued and as of December 31, 2014 using the following assumptions:

	Underwriter Purchase Option December 31, 2014 (1)	
Stock price	$ 2.90	
Exercise price	$ 6.25	
Annual dividend yield	0	%
Expected term (years)	0.30	
Risk-free interest rate	0.04	
Expected volatility	103.02	%

(1) As of December 31, 2014, the option to purchase 105,000 shares of common stock had not been exercised.

Expected volatility is based on historical volatility. Historical volatility is computed using daily pricing observations for recent periods that correspond to the term of the option. The Company believes this method produces an estimate that is representative of future volatility over the expected term of this option. The expected life is based on the remaining term of the option. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the option.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Depending on the product and the terms of the transaction, the fair values of option liability are modeled using a series of techniques, including closed-form analytic formula such as the Black-Scholes Model, which does not entail material subjectivity because the methodology employed does not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets.

The fair value of the 105,000 shares underlying the option outstanding as of December 31, 2014 was determined using the Black-Scholes Model, with certain inputs significant to the valuation methodology as level 2 inputs, and the Company recorded the change in fair value in earnings. As a result, the option liability is carried on the consolidated balance sheets at fair value.

Note 18 – WARRANTS

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.

Because the warrant is denominated in U.S. dollars and the Company’s functional currency is the RMB, it does not meet the requirements of the accounting standard to be indexed only to the Company’s stock. Accordingly, it is accounted for at fair value as derivative liabilities and marked to market price each period.

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, 2014 using the following assumptions:

	Common Stock Warrants December 31, 2014 (1)	
Stock price	$ 2.90	
Exercise price	$ 1.20	
Annual dividend yield	0	%
Expected term (years)	1.74	
Risk-free interest rate	0.67	%
Expected volatility	125.95	%

(1) As of December 31, 2014, the warrant had not been exercised.

On September 26, 2013, the issue date of the warrant, the Company classified its fair value as a liability of $33,606. 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. The Company recognized a loss of $31,777 and $51,190 from the change in fair value of the warrant liability for the three and nine months ended December 31, 2013.

Note 19 – STOCKHOLDERS’ EQUITY

Stock-based compensation

On September 26, 2013, the Company agreed to grant a total of 350,000 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 September 26, 2013 was $0.51. For the three and nine months ended December 31, 2014, $0 and $87,049 was recorded as a service compensation expense. For the three months and nine months ended December 31, 2013, $2,445 was recorded as service compensation expense.

On January 16, 2012, the Company granted a total of 297,000 shares of restricted common stock under the Plan to a group of 46 employees. These restricted shares will vest on January 16, 2015, provided that the employees are still employed by the Company on such date. $19,612 was charged to general and administrative expense and $6,636 was charged to selling expense for the three months ended December 31, 2014, and $ 58,623 and $ $10,268 for the nine months ended December 31, 2014, respectively. $19,612 and $7,226 were charged to general and administrative expense and selling expense, respectively, for the three months ended December 31, 2013, and $39,224 and $15,452 for the nine months ended December 31, 2013, respectively.

On November 18, 2014, the Company granted a total of 350,000 shares of restricted common stock to its directors and officers under the Plan.

The trading value of the Company's common stock on November18, 2014 was $1.89. All such shares vested on February 18, 2015, and for the three months and nine months ended December 31, 2014, $661,500 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 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 employees are still employed by the Company on such 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, 2014, $58,449 was recorded as compensation expense.

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, 2014 and 2013, 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 20 – EARNINGS 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:

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Net income (loss) attributable to controlling interest	$126,538	$(8,735,230)	$(256,392)	$(10,068,808)
Weighted average shares used in basic computation	15,199,092	13,959,003	14,867,218	13,730,742
Diluted effect of purchase options and warrants	221,310	-	-	-
Diluted effect of restricted shares	176,152	-	-	-
Weighted average shares used in diluted computation	15,596,554	13,959,003	14,867,218	13,730,742
Income (loss) per share – Basic:				
Net income (loss) before noncontrolling interest	$0.01	$(0.64)	$(0.02)	$(0.73)
Add: Net income (loss) attributable to noncontrolling interest	$-	$-	$-	$-
Net income (loss) attributable to controlling interest	$0.01	$(0.64)	$(0.02)	$(0.73)
Earnings (loss) per share – Diluted:				
Net income (loss) before noncontrolling interest	$0.01	$(0.64)	$(0.02)	$(0.73)
Add: Net income (loss) attributable to noncontrolling interest	$-	$-	$-	$-
Net income (loss) attributable to controlling interest	$0.01	$(0.64)	$(0.02)	$(0.73)

For the three and nine months ended December 31, 2014 and 2013, the 105,000 and 150,000 shares, underlying outstanding purchase options and a warrant, respectively, were excluded from the calculation of diluted loss per share as the options and the warrant were anti-dilutive.

Note 21 - BUSINESS COMBINATION

Sanhao Pharmacy

On October 9, 2014, Jiuzhou Pharmacy completed its acquisition of Sanhao Pharmacy. The Pharmacy is a local drugstore chain of eleven stores located in Hangzhou. Jiuzhou Pharmacy acquired all assets and assumed all liabilities of Sanhao Pharmacy. The consideration of the transaction included a cash payment of $1,564,416 (RMB 9,600,000), with the excess amount of cash payment over the fair value capitalized by the Company as goodwill of $ $23,551. Per the agreement, the Company is required to pay 20% in three business days after the Contract takes effect and to pay 40% after the registration of the change of ownership in the Administration for Industry and Commerce is completed. As of December 31, 2014, the Company had paid a total of 60%, or $938,650 (RMB 5,760,000). The remaining amount is expected to pay within next few months. In January 2015, eight stores of Sanhao Pharmacy were relocated to new locations (See Note 23 Subsequent Events).

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed at the date of acquisition:

Total purchase price	$1,564,416
Allocation of the purchase price to assets and liabilities at fair value:	
Cash and cash equivalents	$31,930
Accounts receivable, net	5,597
Inventories	53,587
Advances on inventory purchases	473
Property, plant and equipment, net	541
Licenses	1,566,046
Total assets	1,658,174
Accounts payable	37,215
Tax receivable	(1,019)
Accrued liabilities and other liabilities, current	81,122
Total liabilities	117,318
Net assets acquired at fair value	$1,540,856

Goodwill	$23,560

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Note 22 – SEGMENTS

The Company operates within four main reportable segments: retail drugstores, online pharmacy, drug wholesale and herb farming. Online pharmacy sells OTC drugs, dietary supplements, medical devices and sundry items to customers through several third-party platforms such as Alibaba's Tmall, JD.com and Amazon.com, and the Company's own platform all over China. The retail drugstores segment sells prescription and over-the-counter ("OTC") medicines, TCM, dietary supplements, medical devices, and sundry items to retail customers. 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, 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

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

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The following table presents summarized information of the continuing operations by segment for the three months ended December 31, 2013:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	$11,122,297	$2,087,432	$4,623,343	$-	$17,833,072
Cost of goods	9,018,873	1,751,150	6,883,965	-	17,653,988
Gross profit	$2,103,424	$336,282	$(2,260,622)	$-	$179,084
Selling expenses	5,146,496	86,175	105,733	-	5,338,404
General and administrative expenses	1,736,862	125,940	1,796,785	40,879	3,700,466
Loss from operations	$(4,656,137)	$370	$(4,163,140)	$(40,879)	$(8,859,786)
Depreciation and amortization	$354,156	$17,135	$133,927	$262	$505,480
Total capital expenditures	$227,586	$-	$64,375	$-	$291,961

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) gain 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 following table presents summarized information of the continuing operation by segment for the nine months ended December 31, 2013:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	$30,222,568	$4,952,493	$14,849,951	$-	$50,025,012
Cost of goods	23,327,091	4,115,147	15,854,118	-	43,296,356

Gross profit	$6,895,477	$837,346	$(1,004,167)	$-	$6,728,656
Selling expenses	8,479,008	2,014	1,517,355	-	9,998,377
General and administrative expenses	4,347,125	347,526	1,992,349	146,265	6,833,265
(Loss) gain from operations	$(5,722,447)	$279,597	$(4,513,871)	$(146,265)	$(10,102,986)
Depreciation and amortization	$1,221,994	$17,135	$406,152	$785	$1,646,066
Total capital expenditures	$1,730,792	$308	$81,799	$-	$1,812,899

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 December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Prescription drugs	$5,489,897	$5,348,544	$14,867,900	$15,272,807
Over-the-counter drugs	5,451,117	3,885,467	13,685,649	10,623,206
Nutritional supplements	536,306	603,541	1,707,449	1,355,712
Traditional Chinese medicine	1,287,598	1,040,085	4,474,344	2,468,598
Sundry products	388,561	229,921	1,248,344	317,018
Medical devices	133,429	14,739	305,020	185,227
Total	$13,286,908	$11,122,297	$36,288,706	$30,222,568

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

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Prescription drugs	$-	$-	$-	$-
Over-the-counter drugs	1,422,863	1,331,997	2,942,461	2,609,434
Nutritional supplements	195,227	137,503	537,119	592,346
Traditional Chinese medicine	-	-	-	-
Sundry products	646,640	292,193	1,422,131	976,269
Medical devices	2,130,771	325,739	5,015,722	774,444
Total	$4,395,501	$2,087,432	$9,917,434	$4,952,493

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

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Prescription drugs	$2,184,711	$3,407,773	$6,446,695	$11,057,448
Over-the-counter drugs	1,389,880	76,942	3,338,309	952,286
Nutritional supplements	35,320	820	69,270	261,954
Traditional Chinese medicine	121	6	89,389	929
Sundry products	11,791	1,137,780	18,568	2,570,591
Medical devices	15,806	-	54,965	6,743
Total	$3,637,629	$4,623,343	$10,017,196	$14,849,951

Note 23 – COMMITMENTS AND CONTINGENCIES

<u>Operating lease commitments</u>

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	$3,736,545	$110,845	$182,908	$ -	$4,030,298
2016	2,054,990	127,735	165,803	-	2,348,528
2017	1,659,717	139,348	150,960	-	1,950,025
2018	1,439,597	139,347	150,960	-	1,729,904
2019	726,108	139,347	150,960	-	1,016,415
Thereafter	317,420	174,185	75,480	-	567,085
Total	$9,934,377	$830,807	$877,071	$	$11,642,255

Total rent expense amounted to $1,287,473 and $936,991 for the three months ended December 31, 2014 and 2013, respectively, and $3,685,249 and $2,826,141 for the nine months ended December 31, 2014 and 2013, respectively.

Note 24 – SUBSEQUENT EVENTS

In January 2015, eight stores of Sanhao Pharmacy with the qualification of Social Health Insurance ("SHI"), have been relocated close to major resident areas with significant store improvements. These eight stores are now operating under the brand name “Jiuzhou Pharmacy”.

On January 8, 2015, Hangzhou Quannuo has terminated its business license with SAIC and officially closed its business. Hangzhou Quannuo had ceased its operation in fiscal 2014.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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, 2014 and filed with the SEC on June 27, 2014. 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 60 pharmacies in Hangzhou under the store brand of "Jiuzhou Grand Pharmacy." During the three months ended December 31, 2014, we opened 1 new pharmacy and acquired 8 pharmacies in Hangzhou.

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 that we currently sell to a local vendor. Since May 2010, we have also been selling certain OTC drugs and nutritional supplements online.

Recent Developments

On October 9, 2014, the Company, through Jiuzhou Pharmacy, a pharmacy that the Company controls through contractual arrangements, entered into an acquisition agreement with two individual owners of Sanhao Grand Pharmacy Chain Co., Ltd.("Sanhao Pharmacy"), a local drugstore chain located in Hangzhou, for a total purchase price of $1.56 million (RMB 9.6 million). Sanhao Pharmacy had eleven stores, and four of those drugstores have been qualified to take Social Health Insurance ("SHI"), China's national health insurance plan aimed to provide universal health insurance coverage to Chinese citizens. The other four pharmacies have passed all SHI tests and are expected to be qualified shortly. The SHI reimbursement has always been an important and steady source of revenue for drugstores chains in China. As the government is controlling its budget and tightening up its policy to admit new stores into its insurance system, we expect to further strengthen our market shares in Hangzhou by using Sanhao's existing SHI-applicable stores licenses and its network. In January 2015, we relocated eight SHI-applicable stores, which are now operating under Jiuzhou Pharmacy brand. After the relocation, those stores are much closer to several major residential areas, thus greatly enhanced the Company's store penetration in Hangzhou.

On October 10, 2014, the Company, through Shouantang Technology, formed Shouantang Bio-technology Co., Ltd. ("Shouantang Bio") by contributing $0.16 million (RMB1 million) as its register capital. Shouantang Technology is formed to sell nutritional supplements under its own brand name. Shouantang was named a time-honored trademark of Zhejiang Province by local government. By selling nutritional supplements such as Ginseng with our own trademark both online and offline, we expect to develop a series of quality products and offer attractive prices to customers while better managing our cost.

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, 2014.

Results of Operations

Comparison of three months ended December 31, 2014 and 2013

The following table summarizes our results of operations for the three months ended December 31, 2014 and 2013:

	Three months ended December 31,			
	2014		2013	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
Revenue	$21,320,039	100.0 %	$17,833,072	100.0 %
Gross profit	$3,182,033	14.9 %	$179,084	1.0 %
Selling expenses	$2,184,184	10.2 %	$5,338,404	29.9 %
General and administrative expenses	$622,113	2.9 %	$3,700,466	20.8 %
Income (loss) from operations	$375,736	1.8 %	$(8,859,786)	(49.7)%
Other income (expense), net	$(106,773)	(0.5)%	$130,426	0.7 %
Change in fair value of purchase option derivative liability	$(127,431)	(0.6)%	$(41,944)	(0.2)%
Income tax expense	$14,007	0.1 %	$(35,887)	(0.2)%
Net income (loss) attributable to controlling interest	$126,538	0.6 %	$(8,735,230)	(49)%
Net income (loss) attributable to noncontrolling interest	$(987)	(0.0)%	$187	(0.0)%

Revenue

Revenue increased by $3,486,967 or 19.6% for the three months ended December 31, 2014, as compared to the same period in the previous fiscal year, primarily due to an increase in our retail business and online pharmacy segments, offset by a decline in our wholesale business.

Quarterly Revenue by Segment

The following table breaks down the revenue for our four business segments for the three months ended December 31, 2014 and 2013:

	Three months ended December 31,					
	2014		2013			
	Amount	% of total revenue	Amount	% of total revenue	Variance by amount	% of change
Revenue from retail drugstores	$13,286,909	62.3 %	$11,122,297	62.4 %	$2,164,612	19.5 %
Revenue from online sales	4,395,501	20.6 %	2,087,432	11.7 %	2,308,069	110.6 %
Revenue from wholesale business	3,637,629	17.1 %	4,623,343	25.9 %	(985,714)	(21.3)%
Revenue from farming business	—	— %	—	— %	—	— %
Total revenue	$21,320,039	100.0 %	$17,833,072	100.0 %	$3,486,967	19.6 %

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Retail drugstores sales, which accounted for approximately 62.3% of total revenue for the three months ended December 31, 2014, increased by $2,164,612, or 19.5%, to $13,286,909. Same-store sales increased by approximately $2.4 million, or 24.3%, while our new stores contributed approximately $0.24 million in revenue in the three months ended December 31, 2014. The increase in same-store sales reflects the implementation of key drugstore operational strategies such as promoting sales through our doctors and clinics, stringent performance-based internal staff assessments that stimulate sales, increased adaptability to community demand, better operational management in our stores, and close cooperation with certain large vendors such as SANOFI. The reason that our overall increase in our total revenue is in a less percent comparing to our same-store sales was because all Shanghai subsidiaries had canceled their SAIC registration. Although these stores were underperforming, they nevertheless contributed approximately $0.22 million in revenue prior to their closures in the three months ended December 31, 2013. Our store count increased to 60 as of December 31, 2014, from 51 stores as of December 31, 2013, as a net effect of closing five stores in Shanghai, opening new stores in Hangzhou, and acquiring and relocating the Sanhao stores.

Our online pharmacy sales increased by approximately $2,308,069, or 110.6% for the three months ended December 31, 2014, as compared to the three months ended December 31, 2013. We have expanded our cooperation with business-to-consumer online vendors, including Taobao, JD.com and Amazon.com, by posting our products on their online platforms, which could direct customers to our website. Such arrangements have exposed our online presence to a wider consumer base. In addition, we have spent considerable efforts identifying popular products that can drive sales, while maintaining our attention on cost. We have signed a service agreement with Alipay (China) Internet Technology Ltd. ("Alipay") to launch an online payment service ("Alipay Service") for our customers. With over 300 million registered users and over 200 partnering financial institutions, Alipay is China's dominant third-party online payment provider which processes about 50% of China's e-commerce transactions, including mobile payments. Our cooperation with Alipay gives us a great opportunity to get access to Alipay's registered users who, like most Chinese consumers, are seeking more convenient pharmacy shopping experiences. Additionally, potential Chinese government’s authorization of online sales of prescription drugs in 2015 may increase online pharmacy sales in the future.

Wholesale revenue decreased by $985,714 or 21.3% primarily as a result of discontinuing volume-driven sales strategy and slow marketing progress made by our new wholesale team since they took over in late 2013. At present, the majority of drug sales still occur at hospitals in China. As local hospitals had stronger ties with their existing suppliers, during the three months ended December 31, 2014, we had not been able to make significant progress. Until we can establish a new customer base and are granted provincial or national exclusive sale agent for certain popular drugs, we do not expect our wholesale business to expand in the immediate future.

Gross Profit

Gross profit increased by $3,002,949 or 1,676.8% period over period primarily due to our promotional campaign and discounted wholesale prices during the quarter ended December 31,2013 while there were no such discounted programs during the quarter ended December 31, 2014. At the same time, gross margin increased from 1.0% to

14.9% primarily because we discounted prices for certain products in our wholesale sector in the three months ended December 31, 2013. The average gross margins for each of our four business segments are as follows:

	Three months ended December 31, 2014	2013
Average gross margin for retail drugstores	17.5%	18.9 %
Average gross margin for online sales	14.2%	16.1 %
Average gross margin for wholesale business	6.4 %	(48.9)%
Average gross margin for farming business	N/A	N/A

Retail drugstores gross margin decreased primarily due to lower sale prices caused by strong market competition and the implementation of government subsidies to all drugs sold at public hospitals in Zhejiang Province. The China Food and Drug Administration (the “CFDA”) continued to add more drugs into its drug retail price controls list. Although most of our drug prices are already within the price limit as regulated by the government, we had to adjust our prices from time to time to be competitive in the market. Furthermore, since April 2014, local public hospitals in Zhejiang Province are required from the local government to sell all drugs at cost, while local governments reimburse these hospitals with subsidies. Confronted with low or no profit margin sales and government subsidies to hospitals, we have to maintain low profit margins in order to attract customers.

Online pharmacy sales gross margins are usually lower than gross margins of drugs sold at physical drugstores and vary from time to time depending on the products we carry. In order to drive sale in competition for online customers, we lowered our sale prices on certain e-commerce platform such as Tmall. During the three months ended December, 2014, we made certain sales promotion on November 11, Singles Day in China, or the Black Friday and other special holidays in China such as December 12. In order to keep competitive and drive sales growth, we may lower our sales prices in long run while keeping watch on our bottom line profit.

Wholesale gross margin increased primarily due to discounted wholesale prices in the three months ended December 31, 2013 while we did not offer such discounted prices in the three months ended December 31, 2014. Although we were actively 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 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.

During the three months ended December 31, 2014, we continued to plant and grow Ginkgo trees based on our best estimate as to future market demands. Due to the prolonged life cycle, we were unable to harvest those herbs in the three months ended December 31, 2014. We expect to continue planting Ginkgo trees and other herbs in the near future. We plan to harvest and sell Ginkgo trees based on our best estimation of the market in two or three years. Revenue from the herbs will be generated when they are harvested.

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Selling and Marketing Expenses

Sales and marketing expenses decreased by $3,154,220 or 59.1% period over period. The reduction is primarily attributable to last year's promotional activities such as product giveaways at cost of approximately $2.96 million to our members to commemorate our ten-year anniversary and to foster our members' loyalty. As a result, such expenses as a percentage of our revenue decreased to 10.2%, from 29.9% for the same period a year ago. We do not expect future sales and marketing expenses to deviate significantly from its current levels.

General and Administrative Expenses

General and administrative expenses decreased by $3,078,353 or 83.2% period over period. The decrease was the net effect of $1 million loss from disposing of our obsolete inventory of aged suppliers' products in the three months ended December 31, 2013, approximately $1.26 million of additional allowance to our accounts receivable in the three months ended December 31, 2013, and $1.4 million allowance reversal for accounts receivable and advance to suppliers in the three months ended December 31, 2014, offset by approximately $1.17 million reversal from the allowance for advance to suppliers account in 2014. Excluding such net effect, general and administrative expense decreased by approximately $0.6 million, which is partly due to the closure of our Shanghai subsidiaries, termination of business of our health center, Jiuyingtang , and stricter internal control.

Income (Loss) from Operations

As a result of increased gross margin, we had income from operations of $141,532, as compared to loss from operations of $8,771,304 a year ago. Our operating margin for the three months ended December 31, 2014 and 2013 was 0.6% and (49.7)%, respectively.

Income Taxes

Our income tax expense increased by $49,894 period over period due to increased profit.

Net Loss

As a result of the foregoing, net loss decreased by $8,862,942 period over period.

Comparison of Nine months ended December 31, 2014 and 2013

The following table summarizes our results of operations for the nine months ended December 31, 2014 and 2013:

	Nine months ended December 31,			
	2014		2013	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
Revenue	$56,223,336	100.0 %	$50,025,012	100.0 %
Gross profit	$8,457,909	15.0 %	$6,728,656	13.5 %
Selling expenses	$5,886,541	10.5 %	$9,998,377	20 %
General and administrative expenses	$2,449,489	4.4 %	$6,833,265	13.7 %
(Loss) from operations	$(121,879)	(0.2)%	$(10,102,986)	(20.2)%
Other (expense), net	$(275,301)	(0.5)%	$127,034	0.3)%
Change in fair value of purchase option derivative liability	$(51,074)	(0.1)%	$50,328	0.1 %
Income tax expense	$52,828	0.1 %	$43,222	0.0 %
Net loss attributable to controlling interest	$(256,392)	(0.5)%	$(10,068,808)	(20.1)%
Net loss attributable to noncontrolling interest	$932	(0.0)%	$694	(0.0)%

Revenue

Revenue increased by $6,198,324 or 12.4% for the nine months ended December 31, 2014, as compared to the same period in the previous fiscal year, primarily due to an increase in our retail business and online pharmacy segments, offset by a decline in our wholesale business.

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Quarterly Revenue by Segment

The following table breaks down the revenue for our four business segments for the nine months ended December 31, 2014 and 2013:

	Nine months ended December 31,											
	2014			2013								
	Amount	% of total revenue		Amount	% of total revenue		Variance by amount		% of change			
Revenue from retail drugstores	$36,288,706	64.5	%	$30,222,568	60.4	%	6,066,138,		20.1	%		
Revenue from online sales	9,917,434	17.6	%	4,952,493	9.9	%	4,964,941		100.3	%		
Revenue from wholesale business	10,017,196	17.8	%	14,849,951	29.7	%	(4,832,755)		(32.5	)%		
Revenue from farming business	—	—	%	—	—	%	—		—	%		
Total revenue	$56,223,336	100.0	%	$50,025,012	100	%	$6,198,324		12.4	%		

Retail sales, which accounted for approximately 64.5% of total revenue for the nine months ended December 31, 2014, increased by $6,066,138, or 20.1%, to $36,288,706. Same-store sales increased by approximately $5.82 million, or 20.7%, while new stores contributed approximately $0.80 million in revenue in the nine months ended December 31, 2014. The increase in same-store sales reflects the implementation of key drugstore operational strategies such as promoting sales through our doctors and clinics, stringent performance-based internal staff assessments that stimulate sales, increased adaptability to community demand, better operational management in our stores, and close cooperation with certain large vendors such as SANOFI. We expect same-store sales will keep growing in the near future. The reason that our overall increase in our total revenue is in a less percent comparing to our same-store sales was because all Shanghai subsidiaries had canceled their SAIC registration. Although these stores were underperforming, they nevertheless contributed approximately $0.59 million in revenue prior to their closures in the nine months ended December 31, 2013. Our store count increased to 60 as of December 31, 2014 from 51 stores as of December 31, 2013, as a net effect of closing five stores in Shanghai, opening new stores in Hangzhou, and acquiring and relocating Sanhao stores.

Our online pharmacy sales increased by approximately $4,964,941 or 100.3% for the nine months ended December 31, 2014, as compared to the nine months ended December 31, 2013. We have expanded cooperation with business-to-consumer online vendors, including Taobao, JD.com and Amazon.com, 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. In addition, we have spent considerable efforts identifying popular products that can drive sales, while maintaining a watch on cost. We have signed a service agreement with Alipay (China) Internet Technology Ltd. ("Alipay") to launch an online payment service ("Alipay Service") for our customers. With over 300 million registered users and over 200 partnering financial institutions, Alipay is China's dominant third-party online payment provider which processes about 50% of China's e-commerce transactions, including mobile payments. Our cooperation with Alipay gives us a great opportunity to get access to Alipay's registered users who, like most Chinese consumers, are seeking more convenient pharmacy shopping experiences. Additionally, potential authorization of the online sale of prescription drugs in 2015 may increase online pharmacy sales in the future.

Wholesale revenue decreased by $4,832,755 or 32.5% primarily as a result of discontinuing the volume-driven sales strategy and slow marketing progress made by our existing team in marketing profitable products since their took over in August 2013. The majority of drug sales still occur at hospitals in China. As local hospitals had strong ties with their existing suppliers, during the nine months ended December 31, 2014, we had not been able to make significant progress. Until we can develop and establish a new customer base and are granted provincial or national exclusive sale agents for certain popular drugs, we do not expect our wholesale business to expand in the immediate future.

Gross Profit

Gross profit increased by $1,729,253 or 25.7% period over period primarily as a result of our last year's promotional campaign and discounted wholesale prices during the quarter ended December 31, 2013. At the same time, gross margin increased from 13.5% to 15.0% primarily because we discounted prices for certain products in our wholesale sector in the nine months ended December 31, 2013. The average gross margins for each of our four business segments are as follows:

	Nine months ended December 31,	
	2014	2013
Average gross margin for retail drugstores	17.5 %	22.8%
Average gross margin for online sales	15.3 %	16.9%
Average gross margin for wholesale business	6.0 %	(6.8)%
Average gross margin for farming business	N/A	N/A

Retail drugstores gross margin decreased primarily due to lower sale prices caused by strong market competition and the implementation of government subsidies to all drugs sold at public hospitals in Zhejiang Province. The China Food and Drug Administration (the "CFDA") continued to add more drugs into its drug retail price controls list. Although most of our drug prices were already within the price limit as regulated by the government, we adjusted our prices from time to time to be competitive in the market. Furthermore, since April 2014, local public hospitals in Zhejiang Province have been required to sell all drugs at cost. In turn, local governments reimburse these hospitals with subsidies. Confronted with low or no profit margin sales and government subsidies to hospitals, we have to maintain low profit margins in order to attract customers.

Online pharmacy sales gross margins are usually lower than gross margins of drugs sold at physical drugstores and vary from time to time depending on the products we carry. In order to drive sale in competition for online customers, we lowered our sale prices on certain e-commerce platform such as Tmall. We made certain sales promotion on November 11, Singles Day in China, or the Black Friday China ("Singles Day") and other special days in China such as December 12. In order to keep competitive and drive sales growth, we may lower our sales prices in the long run while keeping watch on our bottom line profit.

Wholesale gross margin increased primarily due to the discounted wholesale prices in the nine months ended December 31, 2013 while there were no such discounts during the nine months ended December 31, 2014. Although we were actively 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 provincial or national exclusive sale agent for certain popular drugs and have sales access to large local hospitals, we may have to keep low profit margin in order to drive sales.

During the nine months ended December 31, 2014, we continued to plant and grow Ginkgo trees based on our best estimate as to future market demands. Due to the prolonged life cycle, we were unable to harvest those herbs in the nine months ended December 31, 2014. We expect to continue planting Ginkgo trees and other herbs in the near future based on our best estimation of the market. We plan to harvest and sell Ginkgo trees based on our best estimation of the market in two or three years. Revenue from the herbs will be generated when they are harvested.

Selling and Marketing Expenses

Sales and marketing expenses decreased by $4,111,836 or 41.1% period over period. The decrease is primarily attributable to last year’s promotional activities such as product giveaways at cost of approximately $2.96 million to our members to commemorate our ten-year anniversary and to foster our members’ loyalty in the same period of last fiscal year. As a result, such expenses as a percentage of our revenue decreased to 10.5%, from 20.0% for the same period a year ago. We do not expect future sales and marketing expenses to deviate significantly from its current levels.

General and Administrative Expenses

General and administrative expenses decreased by $4,383,776 or 64.2% period over period. The decrease was a net effect of $1 million loss from disposing of our obsolete inventory of aged suppliers’ products in the nine months ended December 31, 2013, approximately $1.34 million of additional allowance to our accounts receivable in the nine months ended December 31, 2013, and $3.13 million allowance reversal for accounts receivable and advance to suppliers in the nine months ended December 31, 2014, offset by approximately $1.19 million reversal from the allowance for advance to suppliers account. Excluding such net effect, general and administrative expense decreased by approximately $0.1 million.

Income (Loss) from Operations

As a result of lower operational expense, we had income from operations of $121,879, as compared to loss from operations of $10,102,986 a year ago. Our operating margin for the nine months ended December 31, 2014 and 2013 was 0.2% and (20.2)%, respectively.

Income Taxes

Our income tax expense increased by $9,606 period over period due to decrease in loss.

Net Loss

As a result of the foregoing, net loss decreased by $9,812,178 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	$5,792,512	$ 5,617	$1,313,863	$-	$7,292,919
4 - 6 months	12,041	-	555,714	-	567,755
7 - 9 months	1,632	-	221,239	-	222,871
10 - 12 months	47,027	-	75,322	-	109,612
Over one year	32,237	-	1,214,251	631,999	1,891,224

Allowance for doubtful accounts	(512,043)	-	(1,828,745)	(631,999)	(2,972,787)
Total accounts receivable	$5,554,333	$ 5,617	$1,551,644	$-	$7,111,594

Accounts receivable from our retail business mainly consist of reimbursements from government health insurance bureaus and commercial health insurance programs. In the nine months ended December 31, 2014, we wrote off an approximately $193,519 of uncollectible amounts from provincial and Hangzhou City government insurance, as such amount has been determined by the health insurance bureaus to be unqualified for reimbursement.

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Accounts receivable from our drug wholesale business and herb farming business consist of receivables from our customers such as drug distributors. In the nine months ended December 31, 2014, we reversed bad debt provision for $2,156,926. 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. In addition, the new management team came on board and started implemented a stricter credit policy in August 2013. Furthermore, the new management team expensed significant efforts in clearing outstanding balances with certain customers and suppliers. During the nine months ended December 31, 2014, we were able to continually collect certain aged accounts. As a result, we reversed approximately $2,156,926 in allowance.

Subsequent to December 31, 2014 and through February 6, 2015, we collected approximately $4.5 million in receivables relating to our drugstore business, $0.6 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	$ 962	$ -	$3,738,722	$ 81	$3,739,765
4 - 6 months	-	-	265,446	-	265,446
7 - 9 months	-	-	749,574	-	749,574
10 - 12 months	-	-	931,902	-	931,902
Over one year	-	-	3,596,630	-	3,596,630
Allowance for doubtful accounts	-	-	(5,616,825)	-	(5,616,825)
Total advances to suppliers	$ 962	$ -	$3,665,449	$ 81	$3,666,492

Since the acquisition of Jiuxin Medicine, we have gradually transferred almost all logistics services of our retail drugstores to Jiuxin Medicine. Jiuzhou Pharmacy only purchases certain non-medical products such as sundry. As a result, our retail chain had little advances to suppliers as of December 31, 2014.

Advances to suppliers for our drug wholesale business consist of prepayments to our vendors such as drug 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 customer collection issues 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 recourse. 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, 2014, we were able to continually collect and sold goods from certain suppliers which we made advances in the past. As a result, we reversed approximately $968,748 in allowance. In addition, the new management team came on board and started implemented a stricter credit policy in August 2013. As a result, 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	
	2014	2013
Net cash provided by operating activities	$(1,228,647)	$(686,132)
Net cash used in investing activities	$(2,120,589)	$(1,838,011)
Net cash provided by financing activities	$545,810	$731,666

For the nine months ended December 31, 2014, net cash used in operating activities amounted to $1,228,647, as compared to $686,132 a year ago. The change is primarily attributable to a decrease in cash provided by advances to suppliers of $8,790,372, a decrease in cash provided by accounts payable of $6,336,481, offset by decrease in cash used by inventory of $6,354,615.

For the nine months ended December 31, 2014, net cash used in investing activities amounted to $2,120,589 as compared to $1,838,011 a year ago. The change is primarily attributable to the acquisition of Sanhao Pharmacy in the nine months ended December 31, 2014.

For the nine months ended December 31, 2014, net cash provided by financing activities amounted to $545,810, as compared to $731,666 a year ago.

As of December 31, 2014, we had cash of approximately $1,734,392. Our total current assets as of December 31, 2014, were $34,990,647 and total current liabilities were $38,212,271, which resulted in a negative net working capital of $3,221,624.

Our ability to continue as a going concern depends upon aligning our sources of funding (debt and equity) with our expenditure requirements and repayment of the short-term debts as and when they become due (See Note 2 – liquidity).

The drug retail business is a highly competitive industry in PRC. Several large drugstore chains and a variety of single stores operate in Hangzhou City and Zhejiang Province. The Company closed unprofitable stores including those in Shanghai in fiscal 2013 and 2014. The Shanghai stores alone contributed a loss of $0.66 million in fiscal 2014. The remaining drugstores have historically been profitable and are not expected to require additional financing.

As reflected in our consolidated financial statements, we reported net income of $127,525 for the three months ended December 31, 2014. We have taken measures to address some of these challenges, such as accelerating cash or goods collections from suppliers against advances, and attracting talent to improve and enhance our traditional retail pharmacy plus in-store clinic business. We are looking to open additional in-store clinics to attract customer traffic. Moreover, the Company is actively developing its high profit margin product line of Chinese Medicine and high-grade nutritional supplements such as Ginseng under its own trademark of Shouantang. We have collected certain aged accounts from our suppliers and customers and will continue to pursue the collection of certain older accounts receivables. Additionally, we have subleased our healthcare center under Jiuyingtang to cut loss in the near future. By doing so, we hope to further cut our expenses. We have also adjusted our wholesale strategy to focus on profitability and timely collection of credit sales rather than immediate sales volume growth, even though we anticipate that this will lower our wholesale revenue in the near term. We are actively seeking out potential customers, such as local hospitals, which have higher profit margins for sales than sales to other wholesale customers. Additionally, we have established an OTC Drug department looking to supply other smaller retails drugstores which, if successful, can increase our sales. The Company plans to fund current operations by continuing to focus on profitability for its wholesale operations and focus on strengthening and expanding its core business model of integrated pharmacy and clinic, which has proven to be a key profit driver.

As of December 31, 2014, our current liabilities exceed current assets by $3.22 million. In assessing its liquidity, management monitors and analyzes the Company's cash balance, its ability to renew bank facilities, and its operating and capital expenditure commitments. Its principal liquidity needs are to meet its working capital requirements, operating expenses and capital expenditure obligations. As of the latest applicable date of this report, the Company has obtained the following financial supports, which are listed below:

Line of bank credit

Banks	Amount of Line of Credit as of December 31, 2014 (in millions)	Unused Amount of Line of Credit as of December 31, 2014 (in millions)	Expiration Date
Hangzhou United Bank	$ 0.81	$ 0	April 2, 2015
Hangzhou United Bank	1.17	0	October 23, 2015
Industrial and Commercial Bank of China	1.96	0.39	July, 16, 2015
Bank of Hangzhou	1.82	1.82	June 12, 2015
Bank of Hangzhou	2.87	1.42	June 12, 2015
Total	$ 8.63	$ 3.63	

Our principal sources of liquidity consist of existing cash, bank facilities from local banks as well as personal loans from our principal shareholders if necessary. We have three credit line agreements from three local banks as displayed in detail in Note 12. The three credit lines from HUB, ICBC, and BOH allow us to borrow up to $8.63 million in sum. By putting up the restricted cash of $9.94 million deposited in the bank, the credit line is raised up to $18.57 million in total. As of December 31, 2014, we have approximately $14.94 million bank notes payable, approximately $3.63 million bank credit line has not been used and is still available for further borrowing. Any borrowing therefrom is guaranteed by a third-party guarantor company, and secured by our assets pursuant to a collateral agreement, as well as the personal guarantees of some of its principal shareholders.

The retail drugstores have been projected to increase in the future. Although confronted with zero profit margin implemented at hospitals in 2014, we quickly responded by providing better service, finding popular products, closely working with suppliers. Our sales growth rate was more than twice of the industry average in the nine months ended December 31, 2014. The online pharmacy sales are expected to grow significantly with similar profit margin. As drug e-commerce becomes more popular and China Food and Drug Administration (“CFDA) gradually legalizes sales of prescription drug, we expect a fast growth of our online pharmacy. The wholesale business is not expected to contribute a significant gross margin to support overhead for the remaining of fiscal 2015, and sales have not been projected to grow. The farming business is not expected to have any sales and may incur limited operating costs.

Our good credit history with local banks may also enable us to obtain additional credit lines from the same banks or seek new loans from other banks if necessary. In addition, our CEO Mr. Lei Liu has agreed to provide the necessary financial support to meet our financial obligations in the event that we require additional liquidity. However, since we have no formal agreement with Mr. Liu contractually obligating him to meet our anticipated cash needs for the near future, we cannot be certain that additional financing will be available through shareholder loans, or even if available, if it will be available on terms acceptable to us.

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.

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	$3,736,545	$110,845	$182,908	$ -	$4,030,298
2016	2,054,990	127,735	165,803	-	2,348,528
2017	1,659,717	139,348	150,960	-	1,950,025
2018	1,439,597	139,347	150,960	-	1,729,904
2019	726,108	139,347	150,960	-	1,016,415
Thereafter	317,420	174,185	75,480	-	567,085
Total	$9,934,377	$830,807	$877,071	$ -	$11,642,255

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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:

	December 31, 2014	March 31, 2014	December 31, 2013
Balance sheet items, except for the registered and paid-up capital	USD1: RMB 0.1629	USD1: RMB 0.1623	USD1: RMB 0.1637
Amounts included in the statement of Operations and statement of cash flows	USD1: RMB 0.1626	USD1: RMB 0.1626	USD1: RMB 0.1623

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, 2014, 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.

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PART II – OTHER INFORMATION

ITEM 6. EXHIBITS.

EXHIBIT INDEX

Exhibit Number	Description
10.1	Acquisition Agreement between Jiuzhou Pharmacy and Sanhao Pharmacy dated October 9, 2014 (Incorporated by reference from Exhibit 10.1 filed with the quarter report on Form 10-Q by the Company with the SEC on November 13, 2014)
10.2	Form of the Restricted Stock Award Agreement (Incorporated by reference from Exhibit 10.1 filed with the current report on Form 8-K by the Company with the SEC on November 24, 2014)
10.3	Form of the Non-statutory Stock Option Agreement (Incorporated by reference from Exhibit 10.2 filed with the current report on Form 8-K by the Company with the SEC on November 24, 2014)
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*

*Filed herewith.

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 17, 2015	By: /s/ Lei Liu Lei Liu Chief Executive Officer
Date: February 17, 2015	By: /s/ Ming Zhao Ming Zhao Chief Financial Officer

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