

CHINA JO-JO DRUGSTORES, INC.

Form 10-Q

November 13, 2014

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 **September 30, 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

(State or other jurisdiction of

incorporation or organization)

98-0557852

(I.R.S. Employer

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 November 7, 2014, the registrant had 15,035,504 shares of common stock, par value \$0.001 per share, outstanding.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

	September 30, 2014	March 31, 2014
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 7,352,723	\$4,445,276
Restricted cash	5,485,545	3,114,543
Notes receivable	65,000	-
Trade accounts receivable, net	6,733,217	6,734,536
Inventories	8,421,989	7,047,397
Other receivables, net	792,852	149,546
Advances to suppliers, net	2,082,163	4,577,194
Other current assets	1,472,693	1,663,102
Total current assets	32,406,182	27,731,594
PROPERTY AND EQUIPMENT, net	8,828,548	9,412,688
OTHER ASSETS		
Farmland assets	1,373,425	1,371,735
Long term deposits	2,452,191	2,786,437
Other noncurrent assets	2,853,797	3,036,930
Intangible assets, net	1,555,478	1,569,443
Total other assets	8,234,891	8,764,545
Total assets	\$ 49,469,621	\$45,908,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loan payable	\$ 32,500	\$ 162,300
Accounts payable, trade	14,014,983	14,554,726
Notes payable	11,205,188	7,820,718
Other payables	2,056,070	1,282,211
Other payables - related parties	1,906,973	2,384,294

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Loan from third parties	234,812	294,042
Customer deposits	3,599,840	3,185,885
Taxes payable	417,768	373,501
Accrued liabilities	689,973	1,208,242
Total current liabilities	34,158,107	31,265,919
 Purchase option and warrant liability	 202,559	 278,916
Total liabilities	34,360,666	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 September 30, 2014 and March 31, 2014	-	-
Common stock; \$0.001 par value; 250,000,000 shares authorized; 15,035,504 and 14,416,022 shares issued and outstanding as of September 30, 2014 and March 31, 2014	15,036	14,416
Additional paid-in capital	18,427,053	17,355,555
Statutory reserves	1,309,109	1,309,109
Accumulated deficit	(8,643,697)	(8,260,767)
Accumulated other comprehensive income	3,963,596	3,905,136
Total stockholders' equity	15,071,097	14,323,449
 Noncontrolling interests	 37,858	 40,543
Total equity	15,108,955	14,363,992
 Total liabilities and stockholders' equity	 \$ 49,469,621	 \$45,908,827

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

	For the three months ended September 30,		For the six months ended September 30,	
	2014	2013	2014	2013
REVENUES, NET	\$ 18,444,065	\$ 16,855,421	\$ 34,903,297	\$ 32,191,940
COST OF GOODS SOLD	15,678,808	13,907,018	29,627,421	25,642,368
GROSS PROFIT	2,765,257	2,948,403	5,275,876	6,549,572
SELLING EXPENSES	1,933,780	2,979,131	3,702,357	4,659,973
GENERAL AND ADMINISTRATIVE EXPENSES	746,175	491,981	1,827,376	3,132,799
TOTAL OPERATING EXPENSES	2,679,955	3,471,112	5,529,733	7,792,772
INCOME (LOSS) FROM OPERATIONS	85,302	(522,709)	(253,857)	(1,243,200)
OTHER (LOSS) INCOME, NET	(52,692)	37,021	(168,528)	(3,392)
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITIES	(47,342)	(21,049)	76,357	(8,384)
LOSS BEFORE INCOME TAXES	(14,732)	(506,737)	(346,028)	(1,254,976)
PROVISION FOR INCOME TAXES	22,680	39,589	38,821	79,109
NET LOSS	(37,412)	(546,326)	(384,849)	(1,334,085)
ADD: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	1,219	264	1,919	507
NET LOSS ATTRIBUTABLE TO CHINA JO-JO DRUGSTORES, INC.	(36,193)	(546,062)	(382,930)	(1,333,578)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustments	6,192	259,814	58,460	1,019,605
COMPREHENSIVE INCOME (LOSS)	\$(30,001)	\$(286,248)	\$(324,470)	\$(313,973)
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	14,981,637	13,609,003	14,700,375	13,609,003
Diluted	14,981,637	13,609,003	14,700,375	13,609,003

LOSS PER SHARES:

Basic	\$ (0.00	) \$ (0.04	) \$ (0.03	) \$ (0.10	)
Diluted	\$ (0.00	) \$ (0.04	) \$ (0.03	) \$ (0.10	)

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(384,849)	\$(1,334,085)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	832,570	1,140,586
Stock-based compensation	129,692	58,801
Bad debt provision	(1,611,497)	(747,930)
Inventory reserve	136,575	-
Change in fair value of purchase option derivative liability	(76,357)	8,384
Change in operating assets:		
Accounts receivable, trade	694,722	972,975
Notes receivable	(64,932)	-
Inventories	(1,501,054)	(3,361,143)
Other receivables	(425,699)	(262,493)
Advances to suppliers	3,207,686	5,117,601
Other current assets	192,254	(849,209)
Long term deposit	337,326	-
Other noncurrent assets	186,680	92,785
Change in operating liabilities:		
Accounts payable, trade	(557,095)	5,323,371
Other payables and accrued liabilities	252,409	(654,911)
Customer deposits	409,600	(2,925,130)
Taxes payable	43,762	(45)
Net cash provided by operating activities	1,801,793	2,579,557
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(246,097)	(54,413)
Increase in long-term deposits for land use right	-	(1,351,030)
Additions to leasehold improvements	(12,485)	(26,619)
Payments on construction-in-progress	-	(111,524)
Net cash used in investing activities	(258,582)	(1,543,586)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term bank loan	32,466	161,770
Repayment of short-term bank loan	(162,330)	-
Repayment of third parties loan	(59,529)	-
Change in restricted cash	(2,364,687)	245,504

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Repayments of notes payable	(7,822,163)	(795,002)
Proceeds from notes payable	11,193,465	-
Proceeds from other payables-related parties	463,848	879,958
Net cash provided by financing activities	1,281,070	492,230
 EFFECT OF EXCHANGE RATE ON CASH	 83,166	 244,420
 INCREASE IN CASH	 2,907,447	 1,772,621
 CASH, beginning of period	 4,445,276	 4,524,094
 CASH, end of period	 \$7,352,723	 \$6,296,715
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$1,458	\$-
Cash paid for income taxes	\$43,788	\$12,797
Issuance of common stocks in exchange of debts	\$941,613	\$-
Reclassification of leasehold improvement to equipment	\$37,011	\$-

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

CHINA JO-JO DRUGSTORES, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1– DESCRIPTION OF BUSINESS AND ORGANIZATION

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

On September 17, 2009, the Company completed a share exchange transaction with Renovation Investment (Hong Kong) Co., Ltd. (“Renovation”), whereby 7,900,000 shares of common stock were issued to the stockholders of Renovation in exchange for 100% of the capital stock of Renovation. The completion of the share exchange transaction resulted in a change of control. The share exchange transaction was accounted for as a reverse acquisition and recapitalization and, as a result, the consolidated financial statements of the Company (the legal acquirer) 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 September 30, 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").

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

Entity Name	Background	Ownership
Renovation	Incorporated in Hong Kong SAR on September 2, 2008 Established in the PRC on October 14, 2008	100%
Jiuxin Management	Deemed a wholly foreign owned enterprise (“WFOE”) under PRC law Registered capital of \$4.5 million fully paid Established in the PRC on July 16, 2010 by Renovation Registered capital of \$20 million	100%
Shouantang Technology	Registered capital requirement reduced by the SAIC to \$11 million in July 2012 and is fully paid Deemed a WFOE under PRC law Invests and finances the working capital of Quannuo Technology Established in the PRC on August 10, 2010 by Jiuxin Management	100%
Qianhong Agriculture	Registered capital of RMB 10 million fully paid Carries out herb farming business Established in the PRC on July 7, 2009 Registered capital of RMB 10 million fully paid	100%
Quannuo Technology	Acquired by Shouantang Technology in November 2010 Operates the Company’s online pharmacy website and provide software and technical support	100%

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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,
pending dissolution

Established in the PRC on September 9, 2003

Jiuzhou Pharmacy
(1) Registered capital of RMB 5 million fully paid VIE by contractual arrangements (2)

Operates the “Jiuzhou Grand Pharmacy” stores in
Hangzhou

Established in the PRC as a general partnership
on October 10, 2003 VIE by contractual arrangements (2)

Jiuzhou Clinic (1)

Operates a medical clinic adjacent to one of
Jiuzhou Pharmacy’s stores

Established in the PRC on November 2, 2005

Jiuzhou Service (1) Registered capital of RMB 500,000 fully paid VIE by contractual arrangements (2)

Operates a medical clinic adjacent to one of
Jiuzhou Pharmacy’s stores

Established in PRC on December 31, 2003

Jiuxin Medicine Acquired by Jiuzhou Pharmacy in August 2011 VIE by contractual arrangements as a
wholly-owned subsidiary of Jiuzhou
Registered capital of RMB 10 million fully paid 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 100%

Currently has no operation

Established in the PRC on December 18, 2013
by Jiuzhou Service

Shouantang Health Registered capital of RMB 500,000 fully paid VIE by contractual arrangements as a
51% held by Jiuzhou Service controlled entity of Jiuzhou Service (2)

Currently has no operations

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 (1) 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.

To comply with certain foreign ownership restrictions of pharmacy and medical clinic operators, Jiuxin Management entered into a series of contractual arrangements with Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service on August 1, 2009. These contractual arrangements are comprised of five agreements: consulting services agreement, operating agreement, equity pledge agreement, voting rights agreement and option agreement. As a result of these agreements, which obligate Jiuxin Management to absorb all of the risks of loss from the activities (2) of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, and enable the Company (through Jiuxin Management) to receive all of their expected residual returns, the Company accounts for all three companies (as well as 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.

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 12. 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 \$9.99 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 five unprofitable pharmacies in Shanghai 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 six months ended September 30, 2014. The wholesale business is not expected to contribute a significant gross margin for the remaining of fiscal 2015, and sales have been projected to be approximately the same as the prior year. 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 six months ended September 30, 2014, the drugstore sales have increased by 20.4% over the same period of last year. The rising sales contributed to our positive operation cash flow. Online pharmacy sales are expected to grow significantly with similar profit margin as compared to the prior year. During the six months ended September 30, 2014, the online pharmacy sales have increased by 92.7% over the same period of last year. As of September 30, 2014, approximately \$4.22 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

Basis of presentation and consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("US GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. These condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the fiscal year ended March 31, 2014 filed with the SEC on June 27, 2014. Operating results for the three and six months ended September 30, 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.

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 ginkgo 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

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

Impairment of long lived assets

The Company evaluates long lived tangible and intangible assets for impairment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability is measured by comparing the assets' net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. There was no additional impairment occurred during fiscal 2015.

Notes payable

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

Income taxes

The Company records income taxes pursuant to the accounting standards for income taxes. These standards require the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due and the net change in deferred taxes. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

The accounting standards clarify the accounting and disclosure requirements for uncertain tax positions and prescribe a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. The accounting standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. No significant penalties, uncertain tax provisions or interest relating to income taxes were incurred during the periods ended September 30, 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 \$81,321 and \$18,632 for three months ended September 30, 2014 and 2013, respectively, and \$131,239 and \$56,533 for the six months ended September 30, 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 8 year term with a renewal option upon the expiration of the lease; the wholesale warehouse lease has a 10-year term with a renewal option upon the expiration of the lease. The Company has historically been able to

renew a majority of its drugstores leases. Under the terms of the lease agreements, the Company has no legal or contractual asset retirement obligations at the end of the lease. In addition, land leased from the government is amortized on a straight-line basis over a 30-year term.

Foreign currency translation

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

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

The balance sheet amounts, with the exception of equity, at September 30, 2014 and March 31, 2014 were translated at 1 RMB to \$0.1625 USD and at 1 RMB to \$0.1623 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the six months ended September 30, 2014 and 2013 were at 1 RMB to \$0.1623 USD and at 1 RMB to \$0.1618 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 September 30, 2014 and March 31, 2014, the Company had deposits totaling \$12,483,659 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 September 30, 2014, the two largest vendors accounted for 29% of the Company's total purchases and one vendor accounted for 19% of total advances to suppliers. For the three months ended September 30, 2013, no vendor accounted for more than 10% of the Company's total purchases and one vendor accounted for 20% of total advances to suppliers.

For the six months ended September 30, 2014, the two largest vendors accounted for 27% of the Company's total purchases and one vendor accounted for 19% of total advances to suppliers. For the six months ended September 30, 2013, one vendor accounted for approximately 10% of the Company's total purchases and another vendor accounted for 20% of total advances to suppliers.

For the three months ended September 30, 2014, no customer accounted for more than 10% of the Company's total sales or accounts receivable. For the three months ended September 30, 2013, no customer accounted for more than 10% of the Company's total sales and one customer accounted for 12% of total accounts receivable.

For the six months ended September 30, 2014, no customer accounted for more than 10% of the Company's total sales or accounts receivable. For the six months ended September 30, 2013, no customer accounted for more than 10% of the Company's total sales, and one customer accounted for 12% of total accounts receivable.

Noncontrolling interest

As of September 30, 2014, Yi Wang, an individual, owned 49% of the equity interests of Shouantang Health, which was not under the Company's control.

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.

NOTE 4 – TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following:

	September 30, 2014	March 31, 2014
Accounts receivable	\$ 10,935,920	\$ 11,869,866
Less: allowance for doubtful accounts	(4,202,703)	(5,135,330)
Trade accounts receivable, net	\$ 6,733,217	\$ 6,734,536

For the three months ended September 30, 2014 and 2013, \$64,636 and \$96,250 in accounts receivable were directly written off respectively. For the six months ended September 30, 2014 and 2013, \$129,494 and \$347,395 in accounts receivable were directly written off respectively.

Note 5 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	September 30,	March 31,
	2014	2014
Prepaid rental expenses	\$ 986,565	\$ 1,165,633
Lease rights transfer fees (1)	-	11,939
Prepays and other current assets	486,128	485,530
Total	\$ 1,472,693	\$ 1,663,102

Lease rights transfer fees are paid by the Company to secure store rentals in coveted areas. These additional costs (1) 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:

	September 30,	March 31,
	2014	2014
Building	\$ 1,140,816	\$ 1,139,412
Leasehold improvements	11,415,370	11,849,753
Farmland improvements	1,462,925	1,037,212
Office equipment and furniture	5,726,735	5,535,667
Motor vehicles	642,656	579,834
Total	20,388,502	20,141,878
Less: Accumulated depreciation	(11,559,954)	(10,729,190)
Property and equipment, net	\$ 8,828,548	\$ 9,412,688

Total depreciation expense for property and equipment was \$322,362 and \$512,065 for the three months ended September 30, 2014 and 2013, respectively, and \$816,444 and \$1,061,755 for the six months ended September 30, 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 September 30, 2014 and March 31, 2014, advance to suppliers consist of the following:

	September 30,	March 31,
	2014	2014
Advance to suppliers	\$ 7,965,478	\$ 11,162,767
Less: allowance for doubtful accounts	(5,883,315)	(6,585,573)
Advance to suppliers, net	\$ 2,082,163	\$ 4,577,194

For the three months ended September 30, 2014 and 2013, none of advances to suppliers were written off against the allowance for doubtful accounts, respectively. For the six months ended September 30, 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:

	September 30, 2014	March 31, 2014
Finished goods	\$ 9,334,368	\$7,822,102
Work-in-process (1)	-	-
Total inventory	\$ 9,334,368	\$7,822,102
Less: reserve for inventory	(912,379)	(774,705)
Inventory, net	\$ 8,421,989	\$7,047,397

Work-in-process includes ginkgo trees expected to be harvested and sold in two or three years. Due to its long-term nature, \$2,195,074 of work-in process and \$821,649 of inventory reserve for ginkgo trees are reclassified to farmland assets as of September 30, 2014, respectively; and \$2,192,372 of work-in process and \$820,637 of inventory reserve for ginkgo trees are reclassified to farmland assets as of March 31, 2014, respectively.

Note 9 – 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 10 – OTHER NONCURRENT ASSETS

Other noncurrent assets consisted of the following:

	September 30, 2014	March 31, 2014
Prepayment for lease of land use right – noncurrent, net(1)	\$ 2,800,984	\$2,878,687
Long term prepaid expense	52,813	158,243
Total	2,853,797	3,036,930

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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, (1) which will be refundable on the due date. Based on expected output from planted Ginkgo trees such as expected fruit production and tree market value, the fair value of the lease prepayment was lower than carrying cost. As a result, the Company recorded an impairment amounted to \$2,475,688 on lease prepayment.

The amortization of the prepayment for the lease of land use right was approximately \$16,761 and \$40,577 for the three months ended September 30, 2014 and 2013, respectively. The amortization of the prepayment for the lease of land use right was approximately \$33,517 and \$80,885 for the six months ended September 30, 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 September 30,	Amount
2015	\$67,035
2016	67,035
2017	67,035
2018	67,035
2019	67,035
Thereafter	1,328,309

Note 11– INTANGIBLE ASSETS

Net intangible assets consisted of the following at:

	September 30, 2014	March 31, 2014
Land use rights (1)	\$ 1,584,627	\$ 1,582,677
Software	474,672	474,088
Total other intangible assets	2,059,299	2,056,765
Less: accumulated amortization	(503,821)	(487,322)
Intangible assets, net	\$ 1,555,478	\$ 1,569,443

Amortization expense of intangibles amounted to \$7,864 and \$39,584 for the three months ended September 30, 2014 and 2013, respectively, and \$15,883 and \$78,831 for the six months ended September 30, 2014 and 2013, respectively.

In July 2013, the Company purchased the land use right of a plot of farmland in Lin'An, Hangzhou, intended for the (1) establishment of an herb processing plant in the future. However, as our farming business in Lin'An has not grown, the Company does not expect completion of the plant in the near future.

Note 12 – NOTES PAYABLE

The Company has credit facilities with Hangzhou United Bank (“HUB”), Bank of Hangzhou (“BOH”) and Industrial and Commercial Bank of China (“ICBC”) that provided working capital in the form of the following bank acceptance notes at September 30 and March 31, 2014:

Beneficiary	Endorser	Origination date	Maturity date	September 30, 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	04 /08/14	10/08/14	882,375	-
Jiuzhou Pharmacy(3)	HUB	05 /04/14	11/04/14	1,963,000	-
Jiuzhou Pharmacy(3)	HUB	08 /04/14	02/04/15	1,478,750	-
Jiuzhou Pharmacy(3)	HUB	08 /05/14	08/04/15	1,625,000	-
Jiuzhou Pharmacy(3)	HUB	09 /03/14	03/03/15	1,803,750	-
Jiuzhou Pharmacy(4)	BOH	06 /12/14	12/12/14	1,852,500	-
Jiuzhou Pharmacy(4)	BOH	06 /27/14	12/27/14	1,599,813	-
Total				\$ 11,205,188	\$ 7,820,718

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 (1) 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.

(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.

As of September 30, 2014, the Company had \$7,752,875 (RMB47,710,000) notes payable from HUB. The (3) Company is required to hold restricted cash of \$4,401,101 (RMB27,083,700) with HUB as collateral against these bank notes.

As of September 30, 2014, the Company had \$3,452,313 (RMB21,245,000) notes payable from BOH. The land (4) use right of the farmland in Lin' An, Hangzhou is pledged as collateral for these bank acceptance notes (see Note 11). The Company is required to hold restricted cash of \$1,035,694 (RMB6,373,500) with BOH as collateral against these bank notes.

As of September 30, 2014, the Company had a credit line of approximately \$9.99 million (RMB 61.4 million) in the aggregate from HUB, BOH and ICBC. By putting up the restricted cash of \$5.44 million deposited in the bank, the credit line is raised up to \$15.43 million in total. As of September 30, 2014, we have approximately \$11.21 million bank notes payable, approximately \$4.22 million bank credit line has not been used and is still available for further borrowing. The bank notes are also secured by buildings owned by our major shareholders with a value of approximately \$6,139,250 (RMB37,780,000) personally guaranteed by our major shareholders and guaranteed by Zhejiang Jin Qiao Guarantee Company.

Note 13 – 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

The following table reconciles the U.S. statutory tax rates with the Company's effective tax rate for the three and six months ended September 30, 2014 and 2013:

	For the three months ended September 30,		For the six months ended September 30,	
	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)	(117.2)	(32.1)	(29.9)	(31.0)
Non-deductible expenses-permanent difference (2)	(61.8)	(0.7)	(6.3)	(0.3)
Effective tax rate	(154.0)%	(7.8)%	(11.2)%	(6.3)%

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

(2) The (61.8)% and (0.7)% rate adjustments for the three months ended September 30, 2014 and 2013, and the (6.3)% and (0.3)% rate adjustments for the six months ended September 30, 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 six months ended September 30, 2014 and 2013. As of September 30, 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 September 30, 2014. There was no net change in the valuation allowance for the three and six months ended September 30, 2014 and 2013. Management reviews this valuation allowance periodically and makes adjustments as necessary.

Taxes payable at September 30, 2014 and March 31, 2014 consisted of the following:

	September 30, 2014	March 31, 2014
VAT	\$ 386,130	\$344,329

Income tax	7,963	7,851
Others	23,675	21,321
Total taxes payable	\$ 417,768	\$373,501

Note 14– POSTRETIREMENT BENEFITS

Regulations in the PRC require the Company to contribute to a defined contribution retirement plan for all permanent employees. The contribution for each employee is based on a percentage of the employee's current compensation as required by the local government. The Company contributed \$209,773 and \$176,883 in employment benefits and pension for the three months ended September 30, 2014 and 2013, respectively, and \$400,271 and \$321,947 in employment benefits and pension for the six months ended September 30, 2014 and 2013, respectively.

Note 15– RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts payable to related parties are summarized as follows:

	September 30, 2014	March 31, 2014
Due to cofounders (1):	\$ 577,529	\$576,818
Due to a director and CEO (2):	1,329,444	1,807,476
Total	\$ 1,906,973	\$2,384,294

As of September 30, 2014 and March 31, 2014, amount due to cofounders represents contributions from the (1) Owners to Jiuxin Management to enable Jiuxin Management to meet its approved PRC registered capital requirements.

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 (2) 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.

As of September 30, 2014 and March 31, 2014, notes payable totaling \$5,789,875 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 \$24,350 and \$48,702 for the three months ended September 30, 2014 and 2013, respectively, and \$48,692 and \$97,062 for the six months ended September 30, 2014 and 2013. None was paid to Mr. Liu for the three and six months ended September 30, 2014 and 2013.

Note 16- 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 \$10,975 and \$48,363 from the change in fair value of the option liability for the three and six months ended September 30, 2014. The Company recognized a loss of \$1,036 from the change in fair value of the option liability for the three months ended September 30, 2013, and a gain of \$11,629 for the six months ended September 30, 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 September 30, 2014 using the following assumptions:

Underwriter
Purchase
Option
September 30,
2014 (1)

Stock price	\$	1.94	
Exercise price	\$	6.25	
Annual dividend yield	0		%
Expected term (years)	0.55		
Risk-free interest rate	0.03		
Expected volatility	92.28		%

(1) As of September 30, 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 September 30, 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 17 – 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 September 30, 2014 using the following assumptions: