

CHINA JO-JO DRUGSTORES, INC.
Form 10-Q
November 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2016**

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 11, 2016, the registrant had 20,374,678 shares of common stock, par value \$0.001 per share, outstanding.

TABLE OF CONTENTS

TO QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	1
Unaudited Consolidated Balance Sheets as of September 30, 2016 and March 31, 2016	2
Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income for the Three and Six Months ended September 30, 2016 and 2015	3
Unaudited Consolidated Statements of Cash Flows for the Three and Six Months Ended September 30, 2016 and 2015	4
Notes to Unaudited Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	33
PART II OTHER INFORMATION	
Item 6. Exhibits	34
Signatures	35

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****CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

	September 30, 2016	March 31, 2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$8,352,091	\$6,671,873
Financial assets available for sale	-	465,165
Restricted cash	6,949,808	13,747,990
Notes receivable	169,850	15,506
Trade accounts receivable, net	10,070,611	8,054,597
Inventories	13,767,234	10,802,691
Other receivables, net	1,738,864	1,376,468
Advances to suppliers, net	3,644,598	4,230,665
Other current assets	1,733,945	1,518,048
Total current assets	46,427,001	46,883,003
PROPERTY AND EQUIPMENT, net	4,986,110	5,543,076
OTHER ASSETS		
Long-term investment	179,904	108,539
Farmland assets	1,546,112	1,562,205
Long term deposits	2,370,850	2,452,056
Other noncurrent assets	2,859,998	2,595,129
Intangible assets, net	2,818,340	2,928,779
Total other assets	9,775,204	9,646,708
Total assets	\$61,188,315	\$62,072,787

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Short-term loan payable	\$29,984	\$31,011
Accounts payable, trade	21,208,208	16,667,396
Notes payable	11,674,166	17,595,634
Other payable	1,756,456	1,917,821
Other payable - related parties	2,271,790	2,199,775
Customer deposits	2,678,671	2,610,151
Taxes payable	164,904	483,770
Accrued liabilities	592,881	615,056
Total current liabilities	40,377,060	42,120,614
Warrant liability	578,156	636,301
Total liabilities	40,955,216	42,756,915

STOCKHOLDERS' EQUITY

Common stock; \$0.001 par value; 250,000,000 shares authorized; 19,425,678 and 17,735,504 shares issued and outstanding as of September 30, 2016 and March 31, 2016	19,426	17,736
Additional paid-in capital	23,416,150	22,088,267
Statutory reserves	1,309,109	1,309,109
Accumulated deficit	(7,396,547)	(6,957,053)
Accumulated other comprehensive income	2,884,961	2,857,813
Total stockholders' equity	20,233,099	19,315,872
Total liabilities and stockholders' equity	\$61,188,315	\$62,072,787

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	For the three months ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
REVENUES, NET	\$20,160,835	\$22,577,626	\$41,096,750	\$43,888,918
COST OF GOODS SOLD	15,807,828	18,600,619	32,261,939	35,536,228
GROSS PROFIT	4,353,007	3,977,007	8,834,811	8,352,690
SELLING EXPENSES	3,023,322	3,418,755	5,706,043	6,515,124
GENERAL AND ADMINISTRATIVE EXPENSES	1,382,650	839,842	3,301,132	1,760,072
TOTAL OPERATING EXPENSES	4,405,972	4,258,597	9,007,175	8,275,196
(LOSS) INCOME FROM OPERATIONS	(52,965)	(281,590)	(172,364)	77,494
INTEREST INCOME	61,035	115,740	285,457	190,737
INTEREST EXPENSE	(430)	5,925	(869)	(154,006)
OTHER INCOME, NET	17,425	145,597	104,624	107,082
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITIES	90,289	200,903	58,093	158,066
INCOMEBEFORE INCOME TAXES	115,354	113,113	274,941	305,911
PROVISION FOR INCOME TAXES (BENEFIT)	17,484	(38,062)	49,518	44,125
NET INCOME	97,870	151,175	229,023	261,786
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustments	(87,721)	(860,853)	27,148	(774,553)
COMPREHENSIVE (LOSS) INCOME	\$(10,149)	\$(709,678)	\$256,171	\$(512,767)
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	19,375,773	16,537,461	18,239,065	16,096,406
Diluted	19,375,773	16,588,559	18,239,065	16,147,505

EARNINGS PER SHARES:

Basic	\$0.01	\$0.01	\$0.01	\$0.02
Diluted	\$0.01	\$0.01	\$0.01	\$0.02

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$229,023	261,786
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	466,570	763,839
Stock-based compensation	1,329,574	208,450
Bad debt provision	(177,274)	(1,540,695)
Change in fair value of purchase option derivative liability	(58,145)	(158,066)
Change in operating assets:		
Accounts receivable, trade	(2,190,470)	716,075
Notes receivable	(156,527)	98,698
Inventories	(3,358,110)	(1,371,177)
Other receivables	(176,334)	(556,942)
Advances to suppliers	275,098	748,185
Other current assets	(269,040)	615,329
Other noncurrent assets	(354,594)	-
Change in operating liabilities:		
Accounts payable, trade	5,147,686	2,924,110
Other payables and accrued liabilities	(102,920)	1,133,850
Customer deposits	156,632	(2,460,559)
Taxes payable	(306,109)	116,924
Net cash provided by operating activities	455,060	1,499,807
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(49,298)	(106,200)
Decrease in Financial assets available for sale	454,608	1,293,600
Investment in a joint venture	(75,768)	(113,190)
Additions to leasehold improvements	(26,262)	-
Net cash provided by investing activities	303,280	1,074,210
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term bank loan	-	23,580
Repayment of short-term bank loan	-	(31,665)

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

Change in restricted cash	6,411,257	(4,279,182)
Repayments of notes payable	(17,196,298)	(15,589,077)
Proceeds from notes payable	11,800,003	17,407,506
Proceeds from other payables-related parties	95,088	69,977
Proceeds from equity financing	-	2,699,500
Net cash provided by financing activities	1,110,050	300,639
EFFECT OF EXCHANGE RATE ON CASH	(188,172)	(188,652)
INCREASE IN CASH	1,680,218	2,686,004
CASH, beginning of period	6,671,873	4,023,581
CASH, end of period	\$8,352,091	\$6,709,585
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$869	\$158,415
Cash paid for income taxes	\$42,437	\$35,943
Non-cash financing activities:		
Issuance of stock purchase options to an investor	-	1,231,067
Issuance of stock purchase options to an investment bank	-	\$147,728

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

CHINA JO-JO DRUGSTORES, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – DESCRIPTION OF BUSINESS AND ORGANIZATION

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

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

The Company is a retail, both online and offline, and wholesale distributor of pharmaceutical and other healthcare products in the People’s Republic of China (“China” or the “PRC”). The Company’s offline retail business is comprised primarily of pharmacies, a majority of which are operated by Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), a company that the Company controls through contractual arrangements.

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

specialized in brand name development for nutritional supplements.

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

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

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

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

Entity Name	Background	Ownership
Renovation HK	Incorporated in Hong Kong SAR on September 2, 2008 Established in the PRC on October 14, 2008	100%
Jiuxin Management	Deemed a wholly foreign owned enterprise (“WFOE”) under PRC law Registered capital of \$4.5 million fully paid Established in the PRC on July 16, 2010 by Renovation with registered capital of \$20 million	100%
Shouantang Technology	Registered capital requirement reduced by the SAIC to \$11 million in July 2012 and is fully paid Deemed a WFOE under PRC law Invests and finances the working capital of Quannuo Technology Established in the PRC on August 10, 2010 by Jiuxin Management	100%
Qianhong Agriculture	Registered capital of RMB 10 million fully paid Carries out herb farming business Established in the PRC on September 9, 2003	100%
Jiuzhou Pharmacy (1)	Registered capital of RMB 5 million fully paid 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	VIE by contractual arrangements (2)

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

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 Pharmacy (2)
Registered capital of RMB 10 million fully paid

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 in October 2014 by Shouantang Technology

Shouantang Bio 100% held by Shouantang Technology 100%
Registered capital of RMB 1,000,000 fully paid

Sells nutritional supplements under its own brand name

Established in the PRC in May 2015

Jianshun Network 35% held by Jiuzhou Pharmacy Joint Venture 35% owned by Jiuzhou Pharmacy
Manages sales on official website of the online pharmacy

Established in the PRC on September 10, 2015

Jiuyi Technology 100% held by Renovation 100%

Technical support to online pharmacy

Kahamadi Bio Established in the PRC in May 2016 Joint Venture 49% owned by Shouantang Bio
49% held by Shouantang Bio

Registered capital of RMB 10 million

Develop brand name for nutritional supplements

Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service have been under the common control of the three shareholders of Renovation (the “Owners”) since their respective establishment dates, pursuant to agreements among the Owners to vote their interests in concert as memorialized in a voting agreement. Based on such voting (1) agreement, the Company has determined that common control exists among these three companies. Operationally, the Owners have operated these three companies in conjunction with one another since each company’s respective establishment date. Jiuxin Medicine is also deemed under the common control of the Owners as a subsidiary of Jiuzhou Pharmacy.

To comply with certain foreign ownership restrictions of pharmacy and medical clinic operators, Jiuxin Management entered into a series of contractual arrangements with Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service on August 1, 2009. These contractual arrangements are comprised of five agreements: 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 subsidiaries of Jiuzhou Pharmacy) as a variable interest entity (“VIE”) under the accounting standards of the Financial Accounting Standards Board (“FASB”). Accordingly, the financial statements of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, as well as the subsidiary under the control of Jiuzhou Pharmacy, Jiuxin Medicine and Shouantang Bio are consolidated into the financial statements of the Company.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The accompanying 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, 2016 filed with the SEC on June 28, 2016. Operating results for the three and six months ended September 30, 2016 may not be necessarily indicative of the results to 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.

Consolidation of variable interest entities

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

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

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

Control and common control are defined under the accounting standards as "an individual, enterprise, or immediate family members who hold more than 50 percent of the voting ownership interest of each entity." Because the Owners collectively own 100% of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, and have agreed to vote their interests in concert since the establishment of each of these three companies as memorialized in the Voting Rights Proxy Agreement, the Company believes that the Owners collectively have control and common control of the three companies. Accordingly, the Company believes that Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service were constructively held under common control by Jiuxin Management as of the time the Contractual Agreements were entered into, establishing Jiuxin Management as their primary beneficiary. Jiuxin Management, in turn, is owned by Renovation, which is owned by the Company.

Risks and Uncertainties

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

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

due to the unpredictability of legal proceedings in China, to recover all or a portion of the amount on deposit with its vendors or landlords.

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

Use of estimates

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

Fair value measurements

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

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

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

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

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

The Company's financial assets and liabilities, which include financial instruments as defined by ASC 820, include cash and cash equivalents, accounts receivable, accounts payable, long-term debt and derivatives. The carrying amounts of cash and cash equivalents, financial assets available for sales, accounts receivable, notes receivables, and accounts payable are a reasonable approximation of fair value due to the short maturities of these instruments (Level 1). The carrying amount of notes payable approximates fair value based on borrowing rates of similar bank loan currently available to the Company (Level 2) (See Note 13). The carrying amount of the Company's derivative instruments is recorded at fair value and is determined based on observable inputs that are corroborated by market data (Level 2). As of September 30, 2016, the fair values of our derivative instruments that were carried at fair value (See Note 17).

	Active Market for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Carrying Value
Cash and cash equivalents	8,352,091	-	-	8,352,091
Notes payable	-	11,674,166	-	11,674,166
Warrants liability	-	471,186	-	471,186
Total	8,352,091	12,145,352	-	20,497,443

Revenue recognition

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

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

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

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

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

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

Restricted cash

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

Accounts receivable

Accounts receivable represents the following: (1) amounts due from banks relating to retail sales that are paid or settled by the customers' debit or credit cards, (2) amounts due from government social security bureaus and commercial health insurance programs relating to retail sales of drugs, prescription medicine, and medical services that are paid or settled by the customers' medical insurance cards, (3) amounts due from non-bank third party payment instruments such as Alipay from certain e-commerce platforms and (4) amounts due from non-retail customers for sales of merchandise.

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

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

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

Advances to suppliers

Advances to suppliers consist of prepayments to our vendors such as pharmaceutical manufacturers and other distributors. Since the acquisition of Jiuxin Medicine, we have transferred almost all logistics services of our retail drugstores to Jiuxin Medicine. Jiuzhou Pharmacy only makes purchase on certain non-medical products such as sundry. As a result, almost all of advance to suppliers balances are with Jiuxin Medicine.

Advances to suppliers for our drug wholesale business consist of prepayments to our vendors such as pharmaceutical manufacturers and other distributors. We typically receive products from vendors within three to nine months after making prepayments. We continuously monitor delivery from and payments to our vendors while maintaining a provision for estimated credit losses based upon historical experience and any specific supplier issues such as discontinuing of inventory supply that have been identified. If we are having difficulty receiving products from a vendor, we take the following steps: cease purchasing products from the vendor, ask for return of our prepayment promptly, and if necessary, take legal actions. If all of these steps are unsuccessful, management then determines whether or not the prepayments should be reserved or written off.

Inventories

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

Farmland assets

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

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

Property and equipment

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

	Estimated Useful Life
Leasehold improvements	3-10 years
Motor vehicles	3-5 years
Office equipment & furniture	3-5 years
Buildings	35 years

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

Intangible assets

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

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

	Estimated Useful Life
Land use 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 were no fixed assets and farmland assets impaired for the six months ended September 30, 2016 (See Note 6 and 9).

Notes payable

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

Income taxes

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

The Company has adopted FASB ASC Topic 740-10-25, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company performed self-assessment and the Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of September 30, 2016 and March 31, 2016, the management of the Company considered that the Company had no additional liabilities for uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in the future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the three months ended September 30, 2015 and 2016, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

Value added tax

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

The accounting standards clarify the accounting and disclosure requirements for uncertain tax positions and prescribe a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. The accounting standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. No significant penalties, uncertain tax provisions or interest relating to income taxes were incurred during the periods ended September 30, 2016 and 2015.

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 \$113,638 and \$134,887 for three months ended September 30, 2016 and 2015, respectively, and \$182,487 and \$198,053 for the six months ended September 30, 2016 and 2015, 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, 2016 and March 31, 2016 were translated at 1 RMB to 0.1499 USD and at 1 RMB to 0.1551 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the six months ended September 30, 2016 and 2015 were at 1 RMB to 0.1515USD and at 1 RMB to 0.1617 USD, respectively.

Concentrations and credit risk

Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash and restricted cash. The Company has cash balances at financial institutions located in Hong Kong and PRC. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board's insured limits. Since March 31, 2015, balances at financial institutions and state-owned banks within the PRC are covered by insurance up to RMB 500,000 (USD 74,960) per bank. As of September 30, 2016 and March 31, 2016, the Company had deposits totaling \$14,962,487 and \$19,956,275 that were covered by such limited insurance, respectively. Any balance over RMB 500,000 (USD 74,960) per bank in PRC will not be covered. To date, the Company has not experienced any losses in such accounts.

For the three months ended September 30, 2016, one largest vendor accounted for 30.7% of the Company's total purchases and one vendor accounted for 9.9% of the Company's total advances to suppliers. For the three months ended September 30, 2015, two largest vendors accounted for 24.5% of the Company's total purchases and one vendor accounted for 18.2% of the Company's total advances to suppliers.

For the six months ended September 30, 2016, two largest vendors accounted for 38.6% of the Company's total purchases and one vendor accounted for 9.9% of the Company's total advances to suppliers. For the six months ended September 30, 2015, two largest vendors accounted for 25.3% of the Company's total purchases and one vendor accounted for 18.2% of the Company's total advances to suppliers.

For the three months and six months ended September 30, 2016 and September 30, 2015, no customer accounted for more than 10% of the Company's total sales or accounts receivable.

Recent Accounting Pronouncements

Measurement of Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the assumptions, models and

methods for estimating expected credit losses. This ASU is effective for the Company beginning in the first quarter of 2020 and allows for early adoption beginning in the first quarter of 2019. The Company is currently evaluating the impact the ASU will have on its Consolidated Financial Statements.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” requiring the recognition of the income tax effects of stock awards in the income statement when the awards are settled and allowing the Company to repurchase more of an employee's shares than allowed under current guidance, without triggering liability accounting. This ASU also addresses simplifications related to statement of cash flows classification and accounting for forfeitures. This ASU is effective for the Company beginning in the first quarter of 2017 and allows for early adoption. The Company is currently evaluating the impact this ASU will have on its Consolidated Financial Statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” replacing most existing revenue recognition guidance under GAAP and eliminating industry specific guidance. The core principle of the new guidance is that an entity should recognize revenue for the transfer of goods and services equal to an amount it expects to be entitled to receive for those goods and services.

In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” deferring the effective date by one year.

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

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

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

These ASUs are effective for the Company beginning in the first quarter of 2018, allow for early adoption in the first quarter of 2017 and may be applied using either a full retrospective approach or a modified retrospective approach. The Company is currently evaluating the method of adoption and the impact these ASUs will have on its Consolidated Financial Statements.

NOTE 3 – FINANCIAL ASSETS AVAILABLE FOR SALE

As of September 30, 2016 and March 31, 2016, financial assets available for sale amounted to \$0 and \$465,165 (RMB 3,000,000), respectively. On March 28, 2016, the Company purchased from Bank of Hangzhou a wealth-management product called “Lehui 2016”, which bears an annual interest rate of 4.15% and is due and paid back on September 26, 2016. The total principal is \$465,165 (RMB 3,000,000) interest received is approximately \$9,433.

NOTE 4 – TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following:

	September 30, 2016	March 31, 2016
Accounts receivable	\$ 11,718,911	\$ 10,153,840
Less: allowance for doubtful accounts	(1,648,300)	(2,099,243)
Trade accounts receivable, net	\$ 10,070,611	\$ 8,054,597

For the three months ended September 30, 2016 and 2015, \$30,790 and \$31,541 in accounts receivable were directly written off respectively. For the six months ended September 30, 2016 and 2015, \$63,382 and \$91,873 in accounts receivable were directly written off respectively.

Note 5 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	September 30, 2016	March 31, 2016
Prepaid rental expenses(1)	\$1,316,503	\$1,052,196
Prepaid and other current assets	417,442	465,852
Total	\$1,733,945	\$1,518,048

(1) Represents store and office rental expenses that were usually prepaid and amortized over the prepayment period.

Note 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2016	March 31, 2016
Building	\$ 1,607,452	\$ 1,662,510
Leasehold improvements	11,926,559	12,308,190
Farmland development cost	1,792,952	1,854,364
Office equipment and furniture	5,423,723	5,560,171
Motor vehicles	604,643	624,235
Total	21,355,329	22,009,470
Less: Accumulated depreciation	(14,118,895)	(14,138,992)
Impairment*	(2,250,324)	(2,327,402)
Property and equipment, net	\$4,986,110	\$5,543,076

*The variance of impairment from March 31, 2016 to September 30, 2016 is solely caused by exchange rate variance.

Total depreciation expense for property and equipment was \$213,969 and \$336,225 for the three months ended September 30, 2016 and 2015, respectively, and \$452,979 and \$748,018 for the six months ended September 30, 2016 and 2015, respectively. There were no fixed assets impaired in the three and six months ended September 30, 2016.

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 purchase on a timely basis. This amount is refundable and bears no interest. As of September 30, 2016 and March 31, 2016, advance to suppliers consist of the following:

	September 30, 2016	March 31, 2016
Advance to suppliers	\$3,920,439	\$4,336,207
Less: allowance for doubtful accounts	(275,841)	(105,542)

Advance to suppliers, net	\$3,644,598	\$4,230,665
---------------------------	-------------	-------------

For the three and six months ended September 30, 2016 and 2015, none of the advances to suppliers were written off against previous allowance for doubtful accounts, respectively.

Note 8 – INVENTORY

Inventory consisted of finished goods, which were \$13,767,234 and \$10,802,691 as of September 30, 2016 and March 31, 2016, respectively. As the sales in the first two fiscal quarters were affected by G20 summit in Hangzhou, the Company planned to implement sales campaign in the third quarter and prepared more inventory. On the other hand, because suppliers usually provide higher discount and rebate rate if more inventory were purchased in bulk, the Company tends to purchase more inventory to maximize its profit margin. However, the Company constantly monitors its potential obsolete products and is allowed to return products close to expiration dates to its suppliers. Any loss on damaged items is immaterial and will be recognized immediately. As a result, no reserves were made as of September 30, 2016 and March 31, 2016.

Note 9 – FARMLAND ASSETS

Farmland assets are ginkgo trees planted in 2012 and expected to be harvested and sold in several years. As of September 30, 2016 and March 31, 2016, farmland assets consisted of the following:

	September 30, 2016	March 31, 2016
Farmland assets	\$2,304,152	\$2,346,209
Less: Impairment*	(758,040)	(784,004)
Farmland assets, net	\$1,546,112	\$1,562,205

* The estimated fair value is estimated to be lower than its investment value as of September 30, 2016 and March 31, 2016.

Note 10 – LONG TERM DEPOSITS, LANDLORDS

As of September 30, 2016 and March 31, 2016, long term deposits amounted to \$2,370,850 and \$2,452,056, respectively. Long term deposits are money deposited with or advanced to landlords for securing retail store leases for which the Company does not anticipate applying or being returned within the next twelve months. Most of the Company's landlords require a minimum of nine months' rent being paid upfront plus additional deposits.

Note 11 – OTHER NONCURRENT ASSETS

	September 30, 2016	March 31, 2016
Prepayment for headquarter office(1)	\$350,813	\$-
Prepayment for lease of land use right(2)	2,509,185	2,595,129
Other noncurrent assets	\$2,859,998	\$2,595,129

(1) As of September 30, 2016, a total of \$584,688 (RMB3,900,000) was prepaid as headquarter office rental for five years from January 1, 2016 to December 31, 2020. As of September 30, 2016, prepaid rental for less than one year was classified as current assets, the remaining balance of \$350,813 was classified as noncurrent assets.

(2) The prepayment for lease of land use right is a payment made to a local government in connection with entering into a 30-year operating land lease agreement. The land is currently used to cultivate Ginkgo trees. This prepayment includes a deposit of \$1,049,440, which will be refundable on the due date. Based on expected output from planted Ginkgo trees such as expected fruit production and tree market value, the fair value of the lease prepayment was lower than carrying cost. As a result, the Company recorded impairment on the lease prepayment.

The amortization of the prepayment for the lease of land use right was approximately \$15,484 and \$17,438 for the three months ended September 30, 2016 and 2015, respectively. The amortization of the prepayment for the lease of land use right was approximately \$31,289 and \$33,387 for the six months ended September 30, 2016 and 2015, respectively.

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

Years ending September 30,	Amount
2017	\$62,578
2018	62,578
2019	62,578
2020	62,578
2021	62,578
Thereafter	1,146,855

Note 12– INTANGIBLE ASSETS

Net intangible assets consisted of the following at:

	September 30, 2016	March 31, 2016
License (1)	\$1,440,732	\$1,482,492
Land use rights (2)	1,461,951	1,512,027
Total intangible assets	2,902,683	2,994,519
Less: accumulated amortization	(84,343)	(65,740)
Intangible assets, net	\$2,818,340	\$2,928,779

Amortization expense of intangibles amounted to \$6,101 and \$7,808 for the three months ended September 30, 2016 and 2015, respectively, and \$13,591 and \$15,821 for the six months ended September 30, 2016 and 2015, respectively.

This represents the fair value of the licenses of insurance applicable drugstores acquired from Sanhao Pharmacy. (1) The licenses allow patients to pay by insurance cards at stores and the stores can get reimbursed from the Human Resource and Social Security Department of Hangzhou City.

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

Note 13 – NOTES PAYABLE

The Company has credit facilities with Hangzhou United Bank (“HUB”), Bank of Hangzhou (“BOH”), Industrial and Commercial Bank of China (“ICBC”) and Zhejiang Tailong Commercial Bank (“ZTCB”) that provided working capital in the form of the following bank acceptance notes at September 30, 2016 and March 31, 2016:

Beneficiary	Endorser	Origination date	Maturity date	September 30, 2016	March 31, 2016
Jiuzhou Pharmacy(1)	HUB	04/22/15	04/21/16	-	1,550,550
Jiuzhou Pharmacy(1)	HUB	04/29/15	04/28/16	-	3,333,683
Jiuzhou Pharmacy(1)	HUB	10/09/15	04/09/16	-	1,708,706
Jiuzhou Pharmacy(1)	HUB	11/02/15	05/02/16	-	2,553,756
Jiuzhou Pharmacy(2)	BOH	12/27/15	05/27/16	-	1,592,415
Jiuzhou Pharmacy(1)	HUB	12/28/15	06/28/16	-	2,741,372
Jiuzhou Pharmacy(2)	BOH	12/29/15	06/29/16	-	58,913
Jiuzhou Pharmacy(3)	ICBC	02/03/16	08/03/16	-	1,307,114
Jiuzhou Pharmacy(1)	HUB	03/07/16	09/07/16	-	2,749,125
Jiuzhou Pharmacy(1)	HUB	04/05/16	10/05/16	1,280,317	-
Jiuzhou Pharmacy(1)	HUB	05/06/16	11/06/16	1,601,737	-
Jiuzhou Pharmacy(2)	BOH	06/06/16	12/06/16	2,128,394	-
Jiuzhou Pharmacy(4)	ZTCB	06/24/16	12/24/16	599,680	-
Jiuzhou Pharmacy(2)	BOH	06/27/16	12/27/16	749,600	-
Jiuzhou Pharmacy(1)	HUB	06/29/16	12/29/16	1,247,334	-
Jiuzhou Pharmacy(1)	HUB	08/05/16	02/05/17	1,462,141	-
Jiuzhou Pharmacy(1)	HUB	08/29/16	02/28/17	2,604,963	-
Total				\$ 11,674,166	\$ 17,595,634

As of March 31, 2016, the Company had \$14,696,105 (RMB94,779,950) of notes payable from HUB. The Company is required to hold restricted cash of \$11,278,693 (RMB72,739,950) with HUB as collateral against these (1) bank notes. As of September 30, 2016, the Company had \$8,196,492 (RMB 54,672,441) of notes payable from HUB. The Company is required to hold restricted cash of \$2,561,032 (RMB17,082,660) with HUB as collateral against these bank notes.

As of March 31, 2016, the Company had \$1,592,415 (RMB10,270,000) of notes payable from BOH. The land use right of the farmland in Lin’ An, Hangzhou is pledged as collateral for these bank acceptance notes (see Note 12). The Company is required to hold restricted cash of \$480,671 (RMB3,100,000) with BOH as collateral against (2) these bank notes. As of September 30, 2016, the Company had \$2,877,994 (RMB 19,196,865) of notes payable from BOH. The land use right of the farmland in Lin’ An, Hangzhou is pledged as collateral for these bank acceptance notes (see Note 12). The Company is required to hold restricted cash of \$1,738,837 (RMB 11,598,432) with BOH as collateral against these bank notes.

(3)

As of March 31, 2016, the Company had \$1,307,114 (RMB8,430,000) of notes payable from ICBC, with restricted cash of \$928,051 (RMB5,985,300) held at the bank. As of September 30, 2016, the Company had no notes payable from ICBC.

- (4) As of September 30, 2016, the Company had \$599,680 (RMB4,000,000) of notes payable from ZTCB, with restricted cash of \$299,840 (RMB2,000,000) held at the bank.

As of September 30, 2016, the Company had a credit line of approximately \$14.02 million in the aggregate from HUB, BOH, ICBC and ZTCB. By putting up the restricted cash of \$4.30 million deposited in the banks, the total credit line was \$18.32 million. As of September 30, 2016, the Company had approximately \$11.67 million of bank notes payable and approximately \$6.65 million bank credit line was still available for further borrowing. The bank notes are also secured by buildings owned by the Company's major shareholders, land use rights of Jiutong Medical, a shop of Jiuzhou Pharmacy, and guaranteed by Jiuxin Medical.

Note 14 – TAXES

Income tax

For the three and six months ended September 30, 2016 and 2015, the income tax provisions were as follow:

	Three months ended September 30,		Six months ended September 30,	
	2016	2015	2016	2015
Income tax	\$17,484	\$(38,062)	\$45,918	\$44,125

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, 2016 and 2015:

	For the three months ended September 30, 2016		For the six months ended September 30, 2015	
	2016	2015	2016	2015
U.S. Statutory rates	34.0 %	34.0 %	34.0 %	34.0 %
Foreign income not recognized in the U.S.	(34.0)	(34.0)	(34.0)	(34.0)
China income taxes	25.0	25.0	25.0	25.0
Change in valuation allowance (1)	(25.0)	(25.0)	(25.0)	(25.0)
Non-deductible expenses-permanent difference (2)	15.2	(5.8)	16.7	(27.9)
Effective tax rate	15.2 %	(5.8)%	16.7 %	(27.9)%

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

(2) The (61.8)% and 5.8% rate adjustments for the three months ended September 30, 2016 and 2015, and the (6.3)% and (27.9)% rate adjustments for the six months ended September 30, 2016 and 2015 represents expenses primarily included stock option expense, legal, accounting and other expenses incurred by the Company that were not deductible for PRC income tax.

Jo-Jo Drugstores is incorporated in the U.S. and incurred a net operating loss for income tax purposes for the three and six months ended September 30, 2016 and 2015. As of September 30, 2016, the estimated net operating loss carry forwards for U.S. income tax purposes amounted to \$1,503,000 which may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized by 2032. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at September 30, 2015. There was no net change in the valuation allowance for the three and six months ended September 30, 2016 and 2015. Management reviews this valuation allowance periodically and makes adjustments as necessary.

Taxes payable at September 30, 2016 and March 31, 2016 consisted of the following:

	September 30, 2016	March 31, 2016
VAT	\$ 134,058	\$422,804
Income tax	15,418	10,880
Others	15,531	50,086
Total taxes payable	\$ 164,904	\$483,770

The Company has adopted ASC Topic 740-10-05, "Income Taxes." To date, the adoption of this interpretation has not impacted the Company's financial position, results of operations, or cash flows. The Company performed self-assessment and the Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of September 30 and March 31, 2016, management considered that the Company had no uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the three months and six months ended September 30, 2016 and 2015, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

Note 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 \$222,732 and \$245,394 in employment benefits and pension for the three months ended September 30, 2016 and 2015, respectively, and \$470,632 and \$468,405 in employment benefits and pension for the six months ended September 30, 2016 and 2015, respectively.

Note 16 – RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts payable to related parties are summarized as follows:

	September 30, 2016	March 31, 2016
Due to cofounders (1):	\$576,818	\$576,818
Due to a director and CEO (2):	1,694,972	1,622,957
Total	\$2,271,790	\$2,199,775

As of September 30, 2016 and March 31, 2016, amount due to cofounders represents contributions from the (1) Owners to Jiuxin Management to enable Jiuxin Management to meet its approved PRC registered capital requirements.

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

As of September 30, 2016 and March 31, 2016, notes payable totaling \$4,943,875 and \$5,302,881 were secured by the personal properties of certain of the Company's shareholders, respectively.

The Company leases from Mr. Lei Liu a retail space which expires in September 2016. Rent expense amounted to \$4,499 and \$23,940 for the three months ended September 30, 2016 and 2015, respectively. Rent expense amounted to \$9,092 and \$48,510 for the six months ended September 30, 2016 and 2015, respectively. The amounts were not paid to Mr. Liu as of September 30, 2016.

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. On September 21, 2016, the warrants were exercised at the stock price of \$1.84. As a result, 52,174 shares were issued.

On September 26, 2013, the issuance date of the warrant, the Company classified its fair value as a liability of \$33,606. The Company recognized a gain of \$93,606 and \$200,903 from the change in fair value of the warrant liability for the three months ended September 30, 2016 and September 30, 2015, The Company recognized a loss of \$76,633 and \$58,318 from the change in fair value of the warrant liability for the three months ended September 30, 2016 and September 30, 2015, respectively. As a result, the warrant liability is carried on the consolidated balance sheets at the fair value of \$0 and \$89,997 as of September 30, 2016 and March 31, 2016, respectively.

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

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

	Common Stock Warrants September 30, 2016 (1)	Common Stock Warrants March 31, 2016		
Stock price	\$ 1.78	\$ 1.60		
Exercise price	\$ 3.10	\$ 3.10		
Annual dividend yield	0	% 0	%	
Expected term (years)	4.30	4.80		
Risk-free interest rate	1.14	% 1.21	%	
Expected volatility	99.39	% 102.16	%	

(1) As of September 30, 2016, the warrants had not been exercised.

Upon evaluation, the warrants meet the definition of a derivative under ASC 815 as the Company cannot avoid net cash settlement under certain circumstances. Accordingly, the fair value of the warrants was classified as a liability of \$546,304 as of March 31, 2016. For the three and six months ended September 30, 2016, the Company recognized a loss of \$3,265 and \$18,488 for the investor warrants and placement agent warrants, from the change in fair value of the warrants liability. As a result, the warrants liability is carried on the consolidated balance sheets at the fair value of \$578,156 for the investor warrants and placement agent warrants, as of September 30, 2016.

Note 18 – STOCKHOLDER’S EQUITY

Stock-based compensation

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

On November 25, 2015, the Company agreed to grant a total of 150,000 shares of restricted common stock to a financial consulting firm for its financial advisory services. The term of the service agreement is one year. The trading value of the Company’s common stock on November 25, 2015 was \$1.77. For the three and six months ended September 30, 2016, \$66,921 and \$133,114 was recorded as a consulting expense.

On November 27, 2015, the Company granted a total of 735,000 shares of restricted common stock to its directors, officers and certain employees under the Company’s 2010 Equity Incentive Plan, as amended (the “Plan”). The stock awards vests in one year. The trading value of the Company’s common stock on November 27, 2015 was \$1.76. For the three and six months ended September 30, 2016, 326,058 and \$648,572 was recorded as service compensation expense.

On June 7, 2016, the Company granted a total of 8,000 shares of restricted common stock to Taylor Raffery, an investor relation firm, for its marketing services. The trading value of the Company’s common stock in June 2016 was \$1.60. Taylor Raffery’s service ended in June 2016. As a result, for the three and six months ended September 30, 2016, \$0 and \$12,800 was recorded as a consulting expense.

On June 3, 2016, the Company granted a total of 1,630,000 shares of restricted common stock to its key employees in retail drugstores and online pharmacy under the Company’s 2010 Equity Incentive Plan, as amended. The stock awards vests in three year. The trading value of the Company’s common stock on June 3, 2016 was \$1.62. For the three and

six months ended September 30, 2016, \$221,859 and \$286,970 was recorded as service compensation expense.

Stock option

On November 18, 2014, the Company granted a total of 967,000 shares of stock options under the Plan to a group of a total of 46 grantees including directors, officers and employees. The exercise price of the stock option is \$2.50. The option vests in three years on November 18, 2017, provided that the grantees are still employed by the Company on such a date. The options will be exercisable for five years from the vesting date, or November 18, 2017 until November 17, 2022. For the three months ended September 30, 2016 and 2015, \$124,033 and \$124,033 was recorded as compensation expense. For the six months ended September 30, 2016 and 2015, \$248,066 and \$248,066 was recorded as compensation expense. As of September 30, 2016, there was approximately \$0.56 million of total unrecognized compensation costs related to stock option compensation arrangements granted which is expected to be recognized over the remaining weighted-average period of 1.13 years.

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 six months ended September 30, 2016 and 2015, 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 19 – INCOME PER SHARE

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

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

	Three months ended September 30,		Six months ended September 30,	
	2016	2015	2016	2015
Net income attributable to controlling interest	\$97,870	\$151,175	\$229,023	\$261,786
Weighted average shares used in basic computation	19,375,773	16,537,461	18,239,065	16,096,406

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

Diluted effect of purchase options and warrants	-	51,099	-	51,099
Diluted effect of restricted shares	-	-	-	-
Weighted average shares used in diluted computation	19,375,773	16,588,560	18,239,065	16,147,505
Income per share – Basic:				
Net income before noncontrolling interest	\$0.01	\$0.01	\$0.01	\$0.02
Add: Net loss attributable to noncontrolling interest	\$-	\$-	\$-	\$-
Net income attributable to controlling interest	\$0.01	\$0.01	\$0.01	\$0.02
Loss per share – Diluted:				
Net income before noncontrolling interest	\$0.01	\$0.01	\$0.01	\$0.02
Add: Net income attributable to noncontrolling interest	\$-	\$-	\$-	\$-
Net income attributable to controlling interest	\$0.01	\$0.01	\$0.01	\$0.02

For the three and six months ended September 30, 2016, the 967,000 shares underlying employee stocks options and 600,000 shares underlying outstanding purchase options to an investor, and 72,000 shares underlying outstanding purchase option to an investment placement agent were excluded from the calculation of diluted loss per share as the options were anti-dilutive. For the three and months ended September 30, 2015, no warrants were excluded from the calculation of diluted earnings per share as the options were anti-dilutive.

Note 19 – SEGMENTS

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

The Company's reportable business segments are strategic business units that offer different products and services. Each segment is managed separately because 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 September 30, 2016:

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$12,806,987	\$3,783,725	\$3,570,123	\$-	\$20,160,835
Cost of goods	9,037,377	3,386,588	3,383,863	-	15,807,828
Gross profit	\$3,769,610	\$397,137	\$186,260	\$-	\$4,353,007
Selling expenses	2,192,969	450,866	379,487	-	3,023,322
General and administrative expenses	1,652,375	-	(276,910)*	7,185)	1,382,650
(Loss) income from operations	\$(75,734)	\$(53,729)	\$83,683	\$(7,185)	\$(52,965)
Depreciation and amortization	\$466,051	\$-	\$6,644	\$-	\$472,695
Total capital expenditures	\$40,084	\$-	\$-	\$-	\$40,084

* includes the accounts receivable and advance to suppliers allowance reversal of \$318,789.

The following table presents summarized information of the continuing operations by segment for the three months ended September 30, 2015:

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$13,103,135	\$6,558,407	\$2,916,084	\$-	\$22,577,626
Cost of goods	10,177,989	5,737,312	2,685,318	-	18,600,619
Gross profit	\$2,925,146	\$821,095	\$230,766	\$-	\$3,977,007
Selling expenses	3,230,986	51,462	136,307	-	3,418,755
General and administrative expenses	1,191,832	214,315	(47,827)*	(518,478)	839,842
(Loss) income from operations	\$(1,497,672)	\$555,318	\$142,286	\$518,478)	\$(281,590)
Depreciation and amortization	\$134,720	\$-	\$130,103	\$79,209	\$344,032
Total capital expenditures	\$6,200	\$690	\$(83)	\$-	\$6,807

* includes the accounts receivable and advance to suppliers allowance reversal of \$850,079.

The following table presents summarized information of the continuing operation by segment for the six months ended September 30, 2016:

Total

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

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	
Revenue	\$25,515,229	\$8,854,804	\$6,726,717	\$-	\$41,096,750
Cost of goods	18,124,144	7,800,678	6,337,117	-	32,261,939
Gross profit	\$7,391,085	\$1,054,126	\$389,600	\$-	\$8,834,811
Selling expenses	4,401,929	912,912	391,202	-	5,706,043
General and administrative expenses	3,180,948	-	108,476	11,708	3,301,132
(Loss) income from operations	\$(191,792)	\$141,214	\$(110,078)	\$(11,708)	\$(172,364)
Depreciation and amortization	\$412,859	\$-	\$53,711	\$-	\$466,570
Total capital expenditures	\$49,298	\$-	\$-	\$-	\$49,298

* includes the accounts receivable and advance to suppliers allowance reversal of \$280,645.

The following table presents summarized information of the continuing operation by segment for the six months ended September 30, 2015:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$25,274,023	\$12,524,175	\$6,090,720	\$-	\$43,888,918
Cost of goods	19,215,883	10,681,595	5,638,750	-	35,536,228
Gross profit	\$6,058,140	\$1,842,580	\$451,970	\$-	\$8,352,690
Selling expenses	5,805,454	458,712	250,958	-	6,515,124
General and administrative expenses	2,291,554	445,930	(467,225)	(510,187)	1,760,072
(Loss) income from operations	\$(2,038,868)	\$937,938	\$668,237	\$510,187	\$77,494
Depreciation and amortization	\$329,727	\$-	\$273,609	\$160,503	\$763,839
Total capital expenditures	\$93,132	\$6,669	\$6,399	\$-	\$106,200

* includes the accounts receivable and advance to suppliers allowance reversal of \$1,586,818.

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		Six months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Prescription drugs	\$4,097,127	\$4,789,007	\$8,368,229	\$9,435,383
Over-the-counter drugs	5,188,201	5,436,301	10,063,556	10,332,993
Nutritional supplements	965,346	1,029,519	2,142,086	1,940,130
Traditional Chinese medicine	1,120,808	1,276,488	2,049,831	2,412,997
Sundry products	223,799	341,663	478,357	603,710
Medical devices	1,176,034	230,157	2,377,497	548,810
Total	\$12,771,315	\$13,103,135	\$25,479,556	\$25,274,023

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

	Three months ended		Six months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Prescription drugs	\$-	\$-	\$-	\$-
Over-the-counter drugs	1,309,143	1,730,043	2,946,434	3,610,327
Nutritional supplements	536,456	559,390	1,444,479	1,073,134
Traditional Chinese medicine	-	-	-	-
Sundry products	405,341	2,587,169	1,071,504	3,814,123
Medical devices	1,532,784	1,681,805	3,392,386	4,026,592
Total	\$3,783,724	\$6,558,407	\$8,854,803	\$12,524,175

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

	Three months ended		Six months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Prescription drugs	\$1,948,879	\$1,808,043	\$3,846,484	\$3,711,364
Over-the-counter drugs	1,621,129	1,077,992	2,840,030	2,274,770
Nutritional supplements	31,170	23,346	70,493	43,931
Traditional Chinese medicine	4,453	-	4,453	-
Sundry products	-	3,482	-	6,414
Medical devices	165	3,221	931	54,240
Total	\$3,605,796	\$2,916,084	\$6,762,391	\$6,090,720

Note 20 – COMMITMENTS AND CONTINGENCIESOperating lease commitments

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

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

Periods ending September 30,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2017	\$2,684,661	\$ 37,278	\$ 74,556	\$ -	\$2,796,495
2018	2,354,654	37,278	74,556	-	2,466,488
2019	1,842,029	37,278	74,556	-	1,953,863
2020	1,004,782	37,278	74,556	-	1,116,616
2021	370,069	12,426	24,852	-	407,347
Thereafter	515,510	-	-	-	515,510

Total rent expense amounted to \$722,190 and \$1,178,159 for the three months ended September 30, 2016 and 2015, respectively, and \$1,477,442 and \$2,427,544 for the six months ended September 30, 2016 and 2015, respectively.

Note 21 – SUBSEQUENT EVENTS

On October 11, 2016, the Company issued a total of 949,000 shares of common stock to Lei Liu, at \$1.69 per share, the fair market value, or the closing stock price on Nasdaq on October 11, 2016, to offset the debts in the amount of \$1,603,810 owed to Mr. Liu.

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

The following management's discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this item. In addition to historical information, the following discussion contains certain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "may," "will," "could," "expect," "anticipate," "intend," "believe," "estimate," "plan," "predict," and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of our annual report on Form 10-K for the year ended March 31, 2016 and filed with the SEC on June 28, 2015. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

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

Overview

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

Our drugstores offer customers a wide variety of pharmaceutical products, including prescription and over-the-counter ("OTC") drugs, nutritional supplements, TCM, personal and family care products, and medical devices, as well as convenience products, including consumable, seasonal, and promotional items. Additionally, we have licensed doctors of both western medicine and TCM on site for consultation, examination and treatment of common ailments at scheduled hours. We currently have 62 pharmacies in Hangzhou under the store brand of "Jiuzhou Grand Pharmacy." During the six months ended September 30, 2016, we have opened two new pharmacies.

Since May 2010, we have also been selling certain OTC drugs, medical devices, nutritional supplements and other sundry products online. Our online pharmacy sells through several third-party platforms such as Alibaba's Tmall,

JD.com and Amazon.com, and the Company's own platform all over China. In fiscal year 2017, we plan to grow sales through our own platform by closely cooperating with commercial insurance companies and selling products to customers who have bought medical insurance from these commercial insurance companies. Additionally, in order to keep top rankings in certain third-party platforms such as Tmall, we plan to spend reasonable resources in marketing our products through these third-party platforms.

We operate a wholesale business through Jiuxin Medicine distributing third-party pharmaceutical products (similar to those carried by our pharmacies) primarily to trading companies throughout China. We also farm certain herbs used in TCM but have not incurred sales in the three months ended September 30, 2016.

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, 2016.

Results of Operations***Comparison of three months ended September 30, 2016 and 2015***

The following table summarizes our results of operations for the three months ended September 30, 2016 and 2015:

	Three months ended September 30, 2016		Three months ended September 30, 2015			
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Revenue	\$20,160,835	100.0 %	\$22,577,626	100.0 %		
Gross profit	\$4,353,007	21.59 %	\$3,977,007	17.6 %		
Selling expenses	\$3,023,322	15.0 %	\$3,418,755	15.1 %		
General and administrative expenses	\$1,382,650	6.8 %	\$839,842	3.7 %		
Loss from operations	\$(52,965)	(0.2)%	\$(281,590)	(1.2)%		
Interest income	\$61,035	0.3 %	\$115,740	0.5 %		
Interest expenses	\$(430)	0.0 %	\$5,925	0.0 %		
Other income, net	\$17,425	(0.1)%	\$193,800	(0.9)%		
Change in fair value of purchase option derivative liability	\$90,289	0.4 %	\$200,903	(0.9)%		
Income tax expense (benefit)	\$17,484	(0.1)%	\$(38,062)	(0.2)%		
Net income	\$97,870	0.5 %	\$151,175	(0.7)%		

Revenue

Primarily due to the decline in our online pharmacy business, revenue decreased by \$2,416,791 or 10.7% for the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, partially offset by the increase in our wholesale business. The following table breaks down the revenue for our four business segments for the three months ended September 30, 2016 and 2015:

Quarterly Revenue by Segment

The following table breaks down the revenue for our four business segments for the three months ended September 30, 2016 and 2015:

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

	Three months ended September 30,				Variance by amount	% of change
	2016		2015			
	Amount	% of total revenue	Amount	% of total revenue		
Revenue from retail drugstores	\$12,806,987	63.5	% \$13,103,135	58.1	% \$(296,148)	(2.3)%
Revenue from online sales	3,783,725	18.8	% 6,558,407	29.0	% (2,774,682)	(42.3)%
Revenue from wholesale business	3,570,123	17.7	% 2,916,084	12.9	% 654,039	22.4 %
Revenue from farming business	-	-	% -	-	% -	- %
Total revenue	\$20,160,835	100.0	% \$22,577,626	100.0	% \$(2,416,791)	(10.7)%

24

Retail drugstores sales, which accounted for approximately 63.5% of total revenue for the three months ended September 30, 2016, decreased by \$296,148, or 2.3% compared to the three months ended September 30, 2015, to \$12,806,987. Same-store sales decreased by approximately \$1,278,023, or 10.2%, while new stores contributed approximately \$ 109,939 in revenue in the three months ended September 30, 2016. Excluding the RMB depreciation effect, the same store sales decreased by approximately 6.0% period over period. Due to the G20 summit held in Hangzhou in September 2016, the local government has significantly tightened its security requirements in the quarter ended September 30, 2016. For instance, local policemen make multiple detail security checks on people in the street and the community. As a result, more and more migrants from other areas in China, such as businessman and labors, choose to leave temporarily. As these migrants represent a large population in the City, our sales to this group of people were curtailed. In the long run, the same store sales are expected to grow due to the increasing demand on healthcare products in China. As soon as the summit was over, we have accelerated our marketing activities and expect a strong sale rebound in the third quarter. On the other side, we have created a new chronic disease management team and a supporting system. Customers enrolled in our chronic disease management program usually become loyal to our store service and tend to make continuous and more purchase. In order to promote our same-store sales growth, we implemented certain operational strategies such as increasing product adaptability to community demand, providing access to mobile payments, launching in-pharmacy virtual doctor clinics and close cooperating with certain reputable vendors to promote sales of their brand name products. Our store count increased to 62 as of September 30, 2016, compared to 59 stores as of September 30, 2015, as an effect of opening three stores in fiscal 2017.

Our online pharmacy sales decreased by approximately \$2,774,682, or 22.4% for the three months ended September 30, 2016, as compared to the three months ended September 30, 2015. The decrease was mainly caused by the decline in business referred from Yikatong and decline in our sale via e-commerce platforms, as further explained below, during this quarter. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. we put our products on e-commerce platforms, including Tmall at Alibaba, JD.com and www.yhd.com. Such arrangements have exposed our online presence to a wider consumer base. In order to increase the popularity of our products, we have made considerable efforts identifying popular products that can drive sales, while we keep close watch on the cost. However, due to the CFDA suspension of OTC drugs sales on e-commerce platforms such as Alibaba in the second quarter, our sales via these e-commerce platforms have been curtailed. As a result, our sales via these e-commerce platforms decreased by 28.1% period over period. We are adding more non-medical health products such as nutritional supplements into our sales menu to counterpart the decline in sale of OTC drug category. In addition, we are actively searching for experienced e-commerce experts in Hangzhou. We expect our e-commerce platform sales will pick up in the future.

Due to the decline in business referred from “Yikatong”, the popular pharmacy and health insurance benefit card, the sales on our own official website for the three months ended September 30, 2016 decreased by \$1.4 million or 79.6% as compared to the three months ended September 30, 2015. Yikatong is run by a Pharmacy Benefit Management (“PBM”) provider in China. In fiscal 2016, we created strategic alliance with the PBM provider. However, in order to maximize its profit, the PBM provider chose to create its own online pharmacy to sell products referred from Yikatong. In order to grow its own online pharmacy, the PMB provider actively directed Yikatong customers to purchase products on its online pharmacy. As a result, the sales on our own official website declined dramatically. In order to offset the negative effect, we had been actively working with a similar vendor, who may refer to us a big customers pool in the near future. If we are able to retain the new vendor, our own website sale will continue to grow in the future.

Wholesale revenue increased by \$654,039 or 22.4%, primarily due to marketing efforts of certain new salespersons. However, at present, the majority of drug sales still occur at hospitals in China. Local hospitals usually have stronger ties with their existing suppliers and we have not been able to make significant progress in becoming a major supplier to local hospitals. Until we can establish a new customer base and are granted a status to serve as provincial or national exclusive sale agent for certain popular drugs, we do not expect our wholesale business to increase significantly in the immediate future.

In the three months ended September 30, 2016 and 2015, we have not harvested and generated revenue from our farming business. We planted ginkgo and maidenhair trees during the year ended March 31, 2013. A ginkgo tree may have a growth period of up to twenty years before it is mature enough for harvest. Usually, the longer it grows the more valuable it becomes. We plan to continue cultivating the trees in order to maximize their market value in the future. During the three months ended September 30, 2016, we have been evaluating feasibility of planting other herbs with short period of growth. We anticipate that we will continue to grow ginkgo trees and start cultivating other herbs in the future.

Gross Profit

Gross profit increased by \$376,000 or 9.5% period over period primarily as a result of an increase in gross margin of retail drugstores sale. At the same time, gross margin increased from 17.6% to 21.6% due to higher retail profit margins. The average gross margins for each of our four business segments are as follows:

	Three months ended September 30,	
	2016	2015
Average gross margin for retail drugstores	29.4%	22.3%
Average gross margin for online sales	10.5%	12.5%
Average gross margin for wholesale business	5.2 %	7.9 %
Average gross margin for farming business	N/A	N/A

Retail gross margin increased primarily because of more vendor rebates attributable to our focused marketing efforts in promoting brand-name products with large pharmaceutical suppliers, continuous efforts to renegotiate prices with our suppliers periodically, and selection of certain higher profit margin products. Instead of labeling our own products, we focused on promoting brand name products. We believe selling brand name products will increase our store popularity and customer loyalty. As a result, we achieved significant sales volume with certain brand pharmaceutical suppliers and received their considerable rebates. Additionally, we have been searching for ways to improve our profit margin. From time to time, we compared existing products among our suppliers to squeeze lower cost. Because local hospitals are required to sell certain drugs listed in CFDA list at a set cost, these drugs are sold at extremely low profit margin from our stores. We actively search for and sell alternative drugs with better treatment effect and higher profit margin.

Gross margin of online pharmacy sales decreased primarily because of the decline in our sales via our own official website, as well as promotion of certain products sales at low profit margin. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website, www.dada360.com. The sales on our own official website usually has higher profit margin because customers referred by Yikatong and commercial insurance companies are premium customers who can afford premium products with higher profit margin. As described in the above, Yikatong has cut its customers sources to our online pharmacy. As a result, our average profit margin was affected. On the other hand, we promoted certain products such as health herb tea on our own website at low margin in the three months ended September 30, 2016. As a result, our overall online sales profit margin declined in this quarter.

Wholesale gross margin decreased primarily as a result of different products we carried and sold to certain pharmaceutical vendors. Although we tried marketing our products to major local hospitals and other pharmacies, we

had not been able to make significant progress. Until we are able to obtain status as provincial or national exclusive sale agent for certain popular drugs or have sales access to large local hospitals, we may have to keep low profit margin in order to drive sales.

Selling and Marketing Expenses

Sales and marketing expenses decreased by \$395,433 or 11.6% period over period, primarily attributable to rental savings. As online shopping becomes very popular in China, the value of physical commercial shop site has declined. We were able to renegotiate with certain landlords to cut our rental expense when leases come to renewal. However, due to the decrease in overall sale, such expenses as a percentage of our revenue only slightly decreased to 15.0%, from 15.1% for the same period a year ago. We expect future sales and marketing expenses to not deviate significantly from the current level.

General and Administrative Expenses

General and administrative expenses increased by \$542,808 or 64.4% period over period. Such expenses as a percentage of revenue increased to 6.9% from 3.7% for the same period a year ago. The increase in absolute dollars reflects accounts receivable and advances to vendors allowance reversal of \$253,431 in the three months ended September 30, 2016 as compared to reversal of \$850,079 in the three months ended September 30, 2015. The difference was caused by the fact that we were able to collect certain remaining aged accounts receivable and advances to suppliers accounts in the three months ended September 30, 2015. Excluding such an effect, general and administrative expense slightly decreased by \$53,840.

Income (Loss) from Operations

As a result of the above, we had loss from operations of \$52,965, as compared to loss from operations of \$281,590 a year ago. Our operating margin for the three months ended September 30, 2016 and 2015 was (0.3)% and (1.2)%, respectively.

Income Taxes

Our income tax expense increased by \$55,546 period over period due to increase in retail sales profit.

Net Income

As a result of the foregoing, net income decreased by \$53,305 period over period.

Comparison of six months ended September 30, 2016 and 2015

The following table summarizes our results of operations for the six months ended September 30, 2016 and 2015:

	Six months ended September 30, 2016		2015			
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Revenue	\$41,096,750	100.0 %	43,888,918	100.0 %		
Gross profit	\$8,834,811	21.5 %	8,352,690	19 %		
Selling expenses	\$5,706,043	13.9 %	6,515,124	14.8 %		
General and administrative expenses	\$3,301,132	8 %	1,760,072	4 %		
Income (loss) from operations	\$(172,364)	(0.4)%	77,494	(0.2)%		
Interest Income	285,457	0.7 %	190,737	0.4 %		
Interest Expenses	(869)	0.0 %	(154,006)	(0.4)%		
Other (expense), net	\$104,624	0.2)%	70,351	(0.2)%		
Change in fair value of purchase option derivative liability	\$58,093	0.1 %	158,066	(0.4)%		
Income tax expense	\$45,918	0.1 %	44,125	0.1 %		
Net income attributable to controlling interest	\$229,023	0.6 %	261,786	(0.3)%		
Net income (loss) attributable to noncontrolling interest	\$-	(0.0)%	-	(0.0)%		

Revenue

Primarily due to the decline in our online pharmacy business, our revenue decreased by \$2,792,168 or 6.4% for the six months ended September 30, 2016, as compared to the six months ended September 30, 2015, partially offset by the increase in our wholesale business. The following table breaks down the revenue for our four business segments for the three months ended September 30, 2016 and 2015.

Quarterly Revenue by Segment

The following table breaks down the revenue for our four business segments for the six months ended September 30, 2016 and 2015:

	Six months ended September 30, 2016		2015		Variance by amount	% of change
	Amount	% of total revenue	Amount	% of total revenue		
Revenue from retail drugstores	\$25,515,229	62.1 %	\$25,274,023	57.6 %	\$241,206	1.0 %
Revenue from online sales	8,854,804	21.5 %	12,524,175	28.5 %	(3,669,371)	(29.3) %
Revenue from wholesale business	6,726,717	16.4 %	6,090,720	13.9 %	635,997	10.4 %
Revenue from farming business	-	- %	-	- %	-	- %
Total revenue	\$41,096,750	100.0 %	\$43,888,918	100.0 %	\$(2,792,168)	(6.4) %

Retail drugstores sales, which accounted for approximately 62.1% of total revenue for the six months ended September 30, 2016, increased by \$241,206, or 1.0% compared to the six months ended September 30, 2015, to \$25,515,229. Same-store sales decreased by approximately \$1,543,340, or 6.4%, while new stores contributed approximately \$133,065 in revenue in the six months ended September 30, 2016. Excluding the RMB depreciation effect, the same store sales decreased by approximately 0.1% period over period. Due to the G20 summit held in Hangzhou in September 2016, the local government has significantly tightened its security requirements in the quarter ended September 30, 2016 and more and more migrants from other areas in China, such as businessman and labors, choose to leave temporarily. As these migrants represent a large population in the City, our sales to this group of people were curtailed. In the long run, the same store sales are expected to grow due to the increasing demand on healthcare products in China. Immediately after the summit was over, we have accelerated our marketing activities and expect a sale rebound in the third quarter. On the other side, we have created a new chronic disease management team and a supporting system. Customers enrolled in our chronic disease management program usually become loyal to our store service and tend to make continuous and more purchase. In order to promote our same-store sales growth, we implemented certain operational strategies such as increasing product adaptability to community demand, providing access to mobile payments, launching in-pharmacy virtual doctor clinics and close cooperating with certain reputable vendors to promote sales of their brand name products. Our store count increased to 62 as of September 30,

2016, compared to 59 stores as of September 30, 2015, as an effect of opening six stores in fiscal 2017.

Our online pharmacy sales decreased by approximately \$3,669,371, or 29.3% for the six months ended September 30, 2016, as compared to the six months ended September 30, 2015. The decrease was mainly caused by the decline in business referred from Yikatong and decline in our sale via e-commerce platforms, as further explained below. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. We put our products on e-commerce platforms, including Tmall at Alibaba, JD.com and www.yhd.com. Such arrangements have exposed our online presence to a wider consumer base. In order to increase the popularity of our products, we have made considerable efforts identifying popular products that can drive sales, while we keep close watch on the cost. However, due to the CFDA suspension of OTC drugs sales on e-commerce platforms such as Alibaba in the second quarter, our sales via these e-commerce platforms have been curtailed. As a result, our sales via these e-commerce platforms decreased by 5.3% period over period. Excluding the RMB depreciation effect, our sales via these e-commerce platforms increased by approximately 1.0% period over period. We are adding more non-medical health products such as nutritional supplements into our sales menu to counterpart the decline in sale of OTC drug category. In addition, we are actively searching for experienced e-commerce experts in Hangzhou, which is well-known as an e-commerce innovator in China. We expect our e-commerce platform sales will pick up in the future.

Due to the decline in business referred from “Yikatong”, the popular pharmacy and health insurance benefit card, the sales on our own official website for the six months ended September 30, 2016 decreased by \$3.2 million or 71.7% as compared to the six months ended September 30, 2015. Yikatong is run by a Pharmacy Benefit Management (“PBM”) provider in China. In fiscal 2016, we created strategic alliance with the PBM provider. However, in order to maximize its profit, the PBM provider chose to create its own online pharmacy to sell products referred from Yikatong. In order to grow its own online pharmacy, the PBM provider actively directed Yikatong customers to purchase products on its online pharmacy. As a result, the sales on our own official website declined dramatically. In order to offset the negative effect, we had been actively working with a similar vendor, who may refer to us a big customers pool in the near future. If we are able to retain the new vendor, our own website sale will continue to grow in the future.

Wholesale revenue increased by \$635,997 or 10.4%, primarily due to marketing efforts of certain new salespersons. However, at present, the majority of drug sales still occur at hospitals in China. Local hospitals usually have stronger ties with their existing suppliers and we have not been able to make significant progress in becoming a major supplier to local hospitals. Until we can establish a new customer base and are granted a status to serve as provincial or national exclusive sale agent for certain popular drugs, we do not expect our wholesale business to increase significantly in the immediate future.

In the six months ended September 30, 2016 and 2015, we have not harvested and generated revenue from our farming business. We planted ginkgo and maidenhair trees during the year ended March 31, 2013. A ginkgo tree may have a growth period of up to twenty years before it is mature enough for harvest. Usually, the longer it grows the more valuable it becomes. We plan to continue cultivating the trees in order to maximize their market value in the future. During the six months ended September 30, 2016, we have been evaluating feasibility of planting other herbs with short period of growth. We anticipate that we will continue to grow ginkgo trees and start cultivating other herbs in the future.

Gross Profit

Gross profit increased by \$482,121 or 5.8% period over period primarily as a result of an increase in gross margin of retail drugstores sale. At the same time, gross margin increased from 19.0% to 21.5% due to higher retail profit margins. The average gross margins for each of our four business segments are as follows:

	Six months ended September 30,	
	2016	2015
Average gross margin for retail drugstores	29.0%	24.0%
Average gross margin for online sales	11.9%	14.7%
Average gross margin for wholesale business	5.8 %	7.4 %
Average gross margin for farming business	N/A	N/A

Retail gross margin increased primarily because of more vendor rebates attributable to our focused marketing efforts in promoting brand-name products with large pharmaceutical suppliers, continuous efforts to renegotiate prices with our suppliers periodically, and selection of certain higher profit margin products. Instead of labeling our own products, we focused on promoting brand name products. We believe selling brand name products will increase our store popularity and customer loyalty. As a result, we achieved significant sales volume with certain brand pharmaceutical suppliers and received their considerable rebates. Additionally, we have been searching for ways to improve our profit margin. From time to time, we compared existing products among our suppliers to squeeze lower cost. Because local hospitals are required to sell certain drugs listed in CFDA list at a set cost, these drugs are sold at extremely low profit margin from our stores. We actively search for and sell alternative drugs with better treatment effect and higher profit margin.

Gross margin of online pharmacy sales decreased primarily because of the decline in our sales via our own official website, as well as promotion of certain products sales at low profit margin. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website, www.dada360.com. The sales on our own official website usually has higher profit margin because customers referred by Yikatong and commercial insurance companies are premium customers who can afford premium products with higher profit margin. As described in the above, Yikatong has cut its customers sources to our online pharmacy. As a result, our average profit margin was affected. As a result, our overall online sales profit margin declined in this quarter.

Wholesale gross margin increased primarily as a result of different products we carried and sold to certain pharmaceutical vendors. Although we tried marketing our products to major local hospitals and other pharmacies, we had not been able to make significant progress. Until we are able to obtain status as provincial or national exclusive

sale agent for certain popular drugs or have sales access to large local hospitals, we may have to keep low profit margin in order to drive sales.

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

Selling and Marketing Expenses

Sales and marketing expenses decreased by \$809,081 or 12.4% period over period, primarily attributable to rental savings. As online shopping becomes very popular in China, the value of physical commercial shop site has declined. We were able to renegotiate with certain landlords to cut our rental expense when leases come to renewal. However, due to the decrease in overall sale, such expenses as a percentage of our revenue only slightly decreased to 14.8%, from 13.9% for the same period a year ago. We expect future sales and marketing expenses to not deviate significantly from the current level.

General and Administrative Expenses

General and administrative expenses increased by \$1,541,060 or 87.6% period over period. Such expenses as a percentage of revenue increased to 8.0% from 4.0% for the same period a year ago. The increase in absolute dollars reflects accounts receivable and advances to vendors allowance reversal of \$253,431 in the three months ended September 30, 2016 as compared to reversal of \$1,586,818 in the three months ended September 30, 2015. The difference was caused by the fact that we were able to collect certain remaining aged accounts receivable and advances to suppliers accounts in the three months ended September 30, 2015. Excluding such an effect, general and administrative expense slightly decreased by \$53,840.

Income (Loss) from Operations

As a result of the above, we had loss from operations of \$172,364, as compared to income from operations of \$77,494 a year ago. Our operating margin for the six months ended September 30, 2016 and 2015 was (0.4)% and 0.2%, respectively.

Income Taxes

Our income tax expense increased by \$1,793 period over period due to overall increase in operation income in retail profit.

Net Income (Loss)

As a result of the foregoing, net income decreased by \$32,763 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	\$7,877,366	\$468,908	\$1,389,535	\$-	\$9,735,809
4- 6 months	19,626	37,599	126,816	-	184,041
7- 12 months	6,171	10,897	387,726	-	404,794
Over one year	9,128	5,464	1,378,476	1,199	1,394,267
Allowance for doubtful accounts	(76,907)	(16,392)	(1,553,802)	(1,199)	(1,648,300)
Total accounts receivable	\$7,35,384	\$506,476	\$1,728,751	\$-	\$10,070,611

Accounts receivable from our retail business mainly consist of reimbursements from government health insurance bureaus and commercial health insurance programs. In the three and six months ended September 30, 2016, we wrote off an approximately \$30,790 and \$63,382 collectible from provincial and Hangzhou City government insurance, as such amount has been determined by the health insurance bureaus to be unqualified for reimbursement.

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

Accounts receivable from our drug wholesale business and herb farming business consist of receivables from our customers such as pharmaceutical distributors. Our drug wholesale business transitioned away from focusing on sales volume beginning in the second half of fiscal 2013, and it tightened its customer credit policy and strengthened monitoring of uncollected receivables. Furthermore, the new management team expended significant efforts in clearing outstanding balances with certain customers and suppliers. In the six months ended September 30, 2016, we were able to continually collect certain aged accounts. As a result, we reversed approximately \$280,645 in allowance.

Subsequent to September 30, 2016 and through October 31, 2016, we collected approximately \$2.6 million in receivables relating to our drugstore business, approximately \$1.4 million in receivables relating to our online pharmacy business, approximately \$0.2 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	\$ 531,413	\$ -	\$2,800,310	\$ -	\$3,331,723
4- 6 months	-	-	157,760	-	157,760
7- 12 months	-	-	356,435	-	356,435
Over one year	-	-	74,521	-	74,521
Allowance for doubtful accounts	(22,855)	-	(252,986)	-	(275,841)
Total advances to suppliers	\$ 508,558	\$ -	\$3,136,040	\$ -	\$3,644,598

Since the acquisition of Jiuxin Medicine, we have gradually transferred almost all logistics services of our retail drugstores to Jiuxin Medicine. Jiuzhou Pharmacy only makes purchase on certain non-medical products such as sundry. As a result, our retail chain had little advances to suppliers as of September 30, 2016.

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

	Six months ended	
	September 30,	
	2016	2015
Net cash provided by operating activities	\$455,060	\$1,499,807
Net cash provided by investing activities	\$303,280	\$1,074,210
Net cash provided by financing activities	\$1,110,050	\$300,640

For the six months ended September 30, 2016, cash provided by operating activities amounted to \$455,060, as compared to \$1,499,807 a year ago. The change is primarily attributable to a decrease in cash provided by accounts receivable of \$2,906,545, a decrease in cash provided by change of inventories and biological assets of \$1,986,933, offset by an increase in cash provided by the change of bad debt direct write-off and provision of \$ 1,363,421.

For the six months ended September 30, 2016, net cash provided by investing activities amounted to \$303,280, as compared to \$1,074,210, used in investing activities a year ago. The change is attributable to the pay back of financial assets available for sale in the six months ended September 30, 2015.

For the six months ended September 30, 2016, net cash provided by financing activities amounted to \$1,110,050, as compared to \$300,640 a year ago.

As of September 30, 2016, we had cash of approximately \$8,352,091. Our total current assets as of September 30, 2015, were \$46,427,001 and total current liabilities were \$40,484,031, which resulted in a working capital of \$5,942,970.

On July 23, 2015, we completed a registered direct placement with a single health-care focused institutional investor for the purchase of an aggregate of \$3 million of its common stock at a price of \$2.50 per share and net proceeds of approximately \$2.7 million after deducting commissions and all other expenses. As of September 30, 2016, we had approximately \$6.65 million bank credit line was still available for further borrowing. We believe that the foregoing sources will collectively provide sufficient liquidity for us to meet our liquidity and capital obligations for the next twelve months. However, if we are to acquire additional businesses or further expand our operations, we may need additional capital.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

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

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

Periods ending September 30,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2017	\$2,684,661	\$ 37,278	\$ 74,556	\$ -	\$2,796,495
2018	2,354,654	37,278	74,556	-	2,466,4881
2019	1,842,029	37,278	74,556	-	1,953,863
2020	1,004,782	37,278	74,556	-	1,116,616
2021	370,069	12,426	24,852	-	407,347
Thereafter	515,510	-	-	-	515,510

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:

	September 30, 2016	March 31, 2015	September 30, 2015
Balance sheet items, except for the registered and paid-up capital, as of end of period/year	USD1: RMB 0.1499	USD1: RMB 0.1551	USD1: RMB 0.1572
Amounts included in the statement of Operations and statement of cash flows for the period/year ended	USD1: RMB 0.1515	USD1: RMB 0.1582	USD1: RMB 0.1617

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 September 30, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon such evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were ineffective at the reasonable assurance level. Such conclusion is based on the presence of the following material weaknesses in internal control over financial reporting as following:

the significance of the audit adjustments' impact on the overall financial statements; and

how adequately we complied with U.S. GAAP on transactions.

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

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 6. EXHIBITS.

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

34

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: November 14, 2016 By: /s/ Lei Liu
Lei Liu

Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2016 By: /s/ Ming Zhao
Ming Zhao
Chief Financial Officer

(Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT INDEX

**Exhibit
Number Description**

31.1	Section 302 Certification by the Corporation's Chief Executive Officer
31.2	Section 302 Certification by the Corporation's Chief Financial Officer
32.1	Section 906 Certification by the Corporation's Chief Executive Officer and 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