

CHINA JO-JO DRUGSTORES, INC.
Form 10-Q
August 14, 2018

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 **June 30, 2018**

or

Transition Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: **001-34711**

CHINA JO-JO DRUGSTORES, INC.

(Exact name of registrant as specified in its charter)

Nevada **98-0557852**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Hai Wai Hai Tongxin Mansion Floor 6

Gong Shu District, Hangzhou City **310008**

Zhejiang Province

P. R. 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer Accelerated Filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 11, 2018, the registrant had 28,936,778 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 JUNE 30, 2018

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	1
Unaudited condensed consolidated balance sheets as of June 30, 2018 and March 31, 2018	1
Unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three months ended June 30, 2018 and 2017	2
Unaudited condensed consolidated statements of cash flows for the three months ended June 30, 2018 and 2017	3
Notes to unaudited condensed consolidated financial statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36
Item 4. Controls and Procedures	37
PART II OTHER INFORMATION	
Item 6. Exhibits	38
Signatures	39

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

	June 30, 2018	March 31, 2018
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$8,905,417	\$15,132,640
Restricted cash	14,037,057	16,319,551
Financial assets available for sale	172,498	175,140
Notes receivable	394,194	279,082
Trade accounts receivable	6,877,684	8,322,393
Inventories	13,703,245	13,429,568
Other receivables, net	3,712,097	3,098,079
Advances to suppliers	3,887,251	3,447,452
Other current assets	1,509,159	2,116,237
Total current assets	53,198,602	62,320,142
PROPERTY AND EQUIPMENT, net	2,708,381	2,843,640
OTHER ASSETS		
Long-term investment	153,573	40,890
Farmland assets	791,795	796,286
Long term deposits	2,469,844	2,501,968
Other noncurrent assets	1,335,493	1,253,352
Intangible assets, net	3,919,088	4,056,414
Total other assets	8,669,793	8,648,910
Total assets	\$64,576,776	\$73,812,692
LIABILITIES AND STOCK HOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	22,419,005	25,259,526
Notes payable	13,559,626	19,180,200
Other payables	4,571,800	4,272,523

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

Other payables - related parties	754,727	850,342
Customer deposits	4,000,968	4,040,867
Taxes payable	68,571	366,040
Accrued liabilities	837,488	841,993
Total current liabilities	46,212,185	54,811,491
Purchase option and warrants liability	145,770	138,796
Total liabilities	46,357,955	54,950,287

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Common stock; \$0.001 par value; 250,000,000 shares authorized; 25,214,678 and 25,214,678 shares issued and outstanding as of June 30, 2018 and March 31, 2018	28,937	28,937
Preferred stock; \$0.001 par value; 10,000,000 shares authorized; nil issued and outstanding as of June 30, 2018 and March 31, 2018	-	-
Additional paid-in capital	43,648,229	43,599,089
Statutory reserves	1,309,109	1,309,109
Accumulated deficit	(30,307,042)	(29,661,190)
Accumulated other comprehensive income	4,208,094	3,586,460
Total stockholders' equity	18,887,327	18,862,405
Noncontrolling interests	(668,506)	-
Total equity	18,218,821	18,862,405
Total liabilities and stockholders' equity	\$64,576,776	\$73,812,692

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)

	For the three months	
	ended	
	June 30,	2017
	2018	2017
REVENUES, NET	\$22,772,566	\$21,670,368
COST OF GOODS SOLD	17,155,763	17,492,707
GROSS PROFIT	5,616,803	4,177,661
SELLING EXPENSES	4,626,978	3,916,859
GENERAL AND ADMINISTRATIVE EXPENSES	1,554,528	1,725,443
TOTAL OPERATING EXPENSES	6,181,506	5,642,302
LOSS FROM OPERATIONS	(564,703)	(1,464,641)
INTEREST INCOME	47,172	44,899
INTEREST EXPENSE	-	-
OTHER (EXPENSE) INCOME, NET	(114,941)	(29,348)
CHANGE IN FAIR VALUE OF PURCHASE OPTION AND WARRANTS LIABILITY	(6,974)	50,324
(LOSS) BEFORE INCOME TAXES	(639,446)	(1,398,766)
PROVISION FOR INCOME TAXES	57,169	20,538
NET (LOSS)	(696,615)	(1,419,304)
ADD: NET (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	50,763	-
NET (LOSS) ATTRIBUTABLE TO CHINA JO-JO DRUGSTORES, INC.	(645,852)	(1,419,304)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	621,634	459,069
COMPREHENSIVE (LOSS)	(74,981)	(960,235)
WEIGHTED AVERAGE NUMBER OF SHARES:		

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

Basic	28,936,778	25,214,678
Diluted	28,936,778	25,214,678

(LOSS) PER SHARES:

Basic	\$(0.02) \$(0.06)
Diluted	\$(0.02) \$(0.06)

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

	For the three months	
	ended	
	June 30,	2017
	2018	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (696,615)	\$ (1,419,304)
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt direct write-off and provision	259,279	212,199
Depreciation and amortization	293,095	289,058
Stock based compensation	49,140	343,480
Change in fair value of purchase option derivative liability	6,974	(50,324)
Accounts receivable, trade	1,077,419	(537,768)
Notes receivable	(114,944)	85,434
Inventories and biological assets	(458,803)	(387,176)
Other receivables	(401,204)	365,954
Advances to suppliers	(775,014)	450,107
Other current assets	554,048	(66,556)
Long term deposit	(5,415)	(772,661)
Other noncurrent assets	(97,341)	(162,049)
Accounts payable, trade	(2,369,206)	(1,518,372)
Other payables and accrued liabilities	357,335	(346,903)
Customer deposits	20,290	83,096
Taxes payable	(281,235)	(179,483)
Net cash provided by operating activities	(2,582,197)	(3,611,268)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of financial assets available for sale	-	(72,875)
Acquisition of equipment	(32,753)	(17,340)
Increase in construction-in-progress	-	(336,882)
Increase intangible assets	-	(80,162)
Additions to leasehold improvements	-	-
Investment in a joint venture	(109,142)	-
Additions to leasehold improvements	(116,002)	-
Net cash used in investing activities	(257,897)	(507,259)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	1,961,576	(531,031)

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

Proceeds from notes payable	10,376,504	8,684,688
Repayment of notes payable	(15,512,104)	(8,410,741)
Changes in other payables-related parties	-	(87,449)
Proceeds from equity and debt financing	7,629	-
Repayment of other payables-related parties	(84,014)	-
Net cash provided by (used in) financing activities	(3,250,409)	(344,533)
EFFECT OF EXCHANGE RATE ON CASH	(136,720)	458,201
DECREASE IN CASH	(6,227,223)	(4,004,859)
CASH, beginning of year	15,132,640	18,364,424
CASH, end of year	\$8,905,417	\$14,359,565
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$27,832	\$26,853

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

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

The Company is an online and offline retailer and wholesale distributor of pharmaceutical and other healthcare products in the People’s Republic of China (“China” or the “PRC”). The Company’s offline retail business is comprised primarily of pharmacies, which are operated by Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), a company that the Company controls through contractual arrangements. On March 31, 2017, Jiuxin Management established a subsidiary, Lin’An Jiuzhou Pharmacy Co., Ltd (“Lin’An Jiuzhou”) to operate drugstores in Lin’an City. As of June 30, 2018, Jiuzhou Pharmacy has established the following companies, each of which operates a drugstore in Hangzhou City:

Entity Name	Date Established
Hangzhou Jiuben Pharmacy Co., Ltd (“Jiuben Pharmacy”)	April 27, 2017
Hangzhou Jiuli Pharmacy Co., Ltd (“Jiuli Pharmacy”)	May 22, 2017
Hangzhou Jiuxiang Pharmacy Co., Ltd (“Jiuxiang Pharmacy”)	May 26, 2017
Hangzhou Jiuhe Pharmacy Co., Ltd (“Jiuhe Pharmacy”)	June 6, 2017
Hangzhou Jiujiu Pharmacy Co., Ltd (“Jiujiu Pharmacy”)	June 8, 2017
Hangzhou Jiuyi Pharmacy Co., Ltd (“Jiuyi Pharmacy”)	June 8, 2017

Hangzhou Jiuyuan Pharmacy Co., Ltd (“Jiuyuan Pharmacy”) July 13, 2017

Hangzhou Jiumu Pharmacy Co., Ltd (“Jiumu Pharmacy”) July 21, 2017

Hangzhou Jiurui Pharmacy Co., Ltd (“Jiurui Pharmacy”) August 4, 2017

During the fiscal year 2018, the Company opened as many as fifty-seven new stores. Except for four stores, all of the new stores were without government insurance reimbursement certificates at their openings.

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

The Company currently conducts its online retail pharmacy business through Jiuzhou Pharmacy, which holds the Company’s online pharmacy license. Prior to November 2015, the Company primarily conducted its online retail pharmacy business through Zhejiang Quannuo Internet Technology Co., Ltd. ..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 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. On April 20, 2018, 10% of Jiuxin Medicine shares were sold to Hangzhou Kangzhou Biotech Co. Ltd. for a total proceeds of \$79,625 (RMB 507,760),

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

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

Entity Name	Background	Ownership
Renovation	Incorporated in Hong Kong SAR on September 2, 2008 Established in the PRC on October 14, 2008	100%
Jiuxin Management	Deemed a wholly foreign owned enterprise (“WFOE”) under PRC law Registered capital of \$14.5 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	100%
	Deemed a WFOE under PRC law Invests and finances the working capital of Quannuo Technology	
Qianhong Agriculture	Established in the PRC on August 10, 2010 by Jiuxin Management	100%

Registered capital of RMB 10 million
fully paid

Carries out herb farming business

Established in the PRC on September 9,
2003

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

Operates the “Jiuzhou Grand Pharmacy”
stores in Hangzhou

Established in the PRC as a general
partnership on October 10, 2003

Jiuzhou Clinic (1) VIE by contractual arrangements (2)

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

Established in the PRC on November 2,
2005

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

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

Jiuxin Medicine Established in PRC on December 31, 2003 VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

Acquired by Jiuzhou Pharmacy in August
2011

Registered capital of RMB 10 million
fully paid

Carries out pharmaceutical distribution
services

Entity Name	Background	Ownership
	Established in the PRC on December 20, 2011 by Renovation	
Jiutong Medical	Registered capital of \$2.6 million fully paid	100%
	Currently has no operation	
	Established in the PRC on April 27, 2017 by Jiuzhou Pharmacy	
Jiuben Pharmacy	Registered capital of \$15,920 fully paid	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
	Operates a pharmacy in Hangzhou	
	Established in the PRC on May 22, 2017 by Jiuzhou Pharmacy	
Jiuli Pharmacy	Registered capital of \$15,920 fully paid	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
	Operates a pharmacy in Hangzhou	
	Established in the PRC on May 26, 2017 by Jiuzhou Pharmacy	
Jiuxiang Pharmacy	Registered capital of \$15,920 fully paid	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
	Operates a pharmacy in Hangzhou	

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

Jiuheng Pharmacy Established in the PRC on June 6, 2017 by Jiuzhou Pharmacy VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

Registered capital of \$15,920 fully paid

Operates a pharmacy in Hangzhou

Established in the PRC on June 8, 2017 by Jiuzhou Pharmacy

Jiujiu Pharmacy Registered capital of \$15,920 fully paid VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

Operates a pharmacy in Hangzhou

Established in the PRC on June 8, 2017 by Jiuzhou Pharmacy

Jiuyi Pharmacy Registered capital of \$15,920 fully paid VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

Operates a pharmacy in Hangzhou

Established in the PRC on July 13, 2017 by Jiuzhou Pharmacy

Jiuyuan Pharmacy Registered capital of \$15,920 fully paid VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

Operates a pharmacy in Hangzhou

Jiumu Pharmacy Established in the PRC on July 21, 2017 by Jiuzhou Pharmacy VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

Registered capital of \$15,920 fully paid

Operates a pharmacy in Hangzhou

Entity Name	Background	Ownership
	Established in the PRC on August, 2017 by Jiuzhou Pharmacy	
Jiurui Pharmacy	Registered capital of \$15,920 fully paid	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
	Operates a pharmacy in Hangzhou	
	Established in the PRC in October, 2014 by Shouantang Technology	
	100% held by Shouantang Technology	
Shouantang Bio	Registered capital of RMB 1,000,000 fully paid	100%
	Sells nutritional supplements under its own brand name	
	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	49%
	49% held by Shouantang Bio	

Registered capital of RMB 10 million

Develop brand name for nutritional supplements

Established in the PRC in March 31, 2017

100% held by Jiuxin Management

Lin'An Jiuzhou

100%

Registered capital of RMB 5 million

Explore retail pharmacy market in Lin'An City

Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service had been under the common control of Mr. Lei Liu, Mr. Chong'an Jin and Ms. Li Qi, 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 (1) rights agreement. Based on such voting agreement, the Company has determined that common control exists among these three companies. 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: a consulting services agreement, operating agreement, equity pledge agreement, voting rights agreement and option agreement. Because such agreements obligate Jiuxin Management to absorb all of the risks of loss from the activities of (2) 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 each of the 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 – LIQUIDITY

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

The drug retail business is a highly competitive industry in PRC. Several large drugstore chains and a variety of single stores operate in Hangzhou City and Zhejiang Province. In order to increase our competition advantages and gain more local retail pharmacy market share, during fiscal year 2018, we opened as many as fifty-seven new stores in Hangzhou. As a result, we incurred significant amount of expense related to rental, labor hiring and training, and marketing activities. As the retail pharmaceutical market becomes more competitive in recent years, a new store usually cannot make profit in its operation until a year later. In fact, we incurred significant expense with limited incremental revenue in the period we opened new stores.

At their openings, except for four stores, almost all of the new stores were without government insurance reimbursement certificates. In fact, it usually takes more than one year for a new store to apply for and obtain the local government insurance reimbursement certificate. We have applied for and received certificates in two stores in January 2018 and eleven new stores in June 2018. Historically, sales reimbursed from the government insurance agency contributes more than half of total revenue in a mature store. We are actively in the process of applying certificates for all of our new stores. As more and more new stores obtain certificates, we expect our new store revenue will increase and eventually contribute positive operating cash flow.

The Company's principal sources of liquidity consist of existing cash, equity financing, bank facilities from local banks as well as personal loans from its principal shareholders if necessary. On January 23, 2017, we completed a private placement with a single healthcare-focused institutional investor for the purchase of an aggregate of 4,840,000 of our common stock at a price of \$2.20 per share and gross proceeds of approximately \$10,648,000. The Company has two credit line agreements from two local banks as displayed in detail in Note 14. Approximately \$4.89 million bank credit line was still available for further borrowing as of June 30, 2018. Any borrowing therefrom is guaranteed by a third-party guarantor company, and secured by the Company's assets pursuant to a collateral agreement, as well as the personal guarantees of some of its principal shareholders.

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

Note 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The consolidated financial statements include the financial statements of the Company, its wholly-owned 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 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 suppliers.

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 FASB 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 FASB 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 June 30, 2018, 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	8,905,417	-	\$ -	8,905,417
Notes payable	-	13,559,626	-	13,559,626
Warrants liability	-	145,770	\$ -	145,770
Total	8,905,417	13,705,396	\$ -	22,610,813

Revenue recognition

Revenue from sales of prescription medicine at 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 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 for the return of certain merchandises without reason within seven days after customer's receipt of the applicable 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 and long-term deposits 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 and 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 it determines 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 trends.

In the Company's online pharmacy business, accounts receivable primarily consist of amounts due from non-bank third party payment instruments such as Alipay and certain e-commerce platforms. To purchase pharmaceutical products from an e-commerce platforms such as Tmall, customers are required to submit payment to certain non-bank third party payment instruments, such as Alipay, which, in turn, 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 directly purchases certain non-medical products, such as certain nutritional supplements. As a result, almost all advances to suppliers are made by 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 have difficulty receiving products from a vendor, we take the following steps: cease purchasing products from such vendor, ask for return of our prepayment promptly, and if necessary, take legal action. If all of these steps are unsuccessful, management then determines whether 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 that 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 cost, 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 rights	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 three months ended June 30, 2018.

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 a self-assessment and the Company's liability for income taxes includes 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 June 30, 2018 and March 31, 2018, 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 June 30, 2018 and 2017, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities, the most significant of which 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 June 30, 2018 and 2017.

Stock based compensation

The Company follows the provisions of FASB ASC 718, "Compensation — Stock Compensation," which establishes accounting standards for non-employee and employee stock-based awards. Under the provisions of FASB 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 \$191,054 and \$456,904 for the three months ended June 30, 2018 and 2017, 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-cancellable 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 10 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 June 30, 2018 and at March 31, 2018 were translated at 1 RMB to 0.1568 USD and at 1 RMB to 0.1592 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the three months ended June 30, 2018 and 2017 were at 1 RMB to 0.1511 USD and at 1 RMB to 0.1510 USD, respectively.

Concentrations and credit risk

Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash and restricted cash. The Company has cash balances at financial institutions located in Hong Kong and PRC. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board’s insured limits. Since March 31, 2015, balances at financial institutions and state-owned banks within the PRC are covered by insurance up to RMB 500,000 (USD 77,550) per bank. As of June 30, 2018 and March 31, 2018, the Company had deposits totaling \$22,906.350 and \$31,433,969 that were covered by such limited insurance, respectively. Any balance over RMB 500,000 (USD 73,750) 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 June 30, 2018, two vendors accounted for 46.2% of the Company’s total purchases and two vendors accounted for more than 10% of total advances to suppliers. For the three months ended June 30, 2017, two vendors collectively accounted for 35.7% of the Company’s total purchases and two suppliers accounted for more than 10% of total advances to suppliers.

For the three months ended June 30, 2018, no customer accounted for more than 10% of the Company's total sales and more than 10% of total accounts receivable. For the three months ended June 30, 2017, no customer accounted for more than 10% of the Company's total sales or more than 10% of total accounts receivable.

Recent Accounting Pronouncements

In February 2016, the FASB issued No. 2016-02 "Leases (Topic 842);," increasing transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for any of the following: 1. A public business entity; 2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market; 3. An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC). For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in this Update is permitted for all entities. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, "Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting," eliminating the requirement to retroactively adopt the equity method of accounting. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. We are currently evaluating the impact of the adoption of ASU 2016-07 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," reducing complexity of several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We are currently evaluating the impact of the adoption of ASU 2016-09 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” providing financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” addressing eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. We are currently evaluating the impact of the adoption of ASU 2016-15 on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” addressing that diversity. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. We are currently evaluating the impact of the adoption of ASU 2016-18 on our consolidated financial statements.

In July 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-11, “Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception”. Part I of this Update addresses the complexity of accounting for certain financial instruments with down round features. Part II of this Update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification®. We are currently evaluating the impact of the adoption of ASU 2017-11 on our consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”), which removes Step 2 from the goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. Public business entity that is a U.S. Securities and Exchange Commission filer should adopt the amendments in this ASU for its annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of the adoption of ASU 2017-04 on our 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 the fiscal year of 2019, 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 4 – FINANCIAL ASSETS AVAILABLE FOR SALE

As of June 30, 2018 and March 31, 2018, financial assets available for sale amounted to \$172,498 (RMB 1,100,000) and \$175,140 (RMB 1,100,000), respectively. In the year ended March 31, 2018, the Company invested as a limited partner (LP) in a private equity fund, which is intended to invest in retail pharmaceutical business. The Company has signed an investment agreement with the private equity fund and agreed to invest a total of \$295,096 (RMB 2,000,000).

NOTE 5 – TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following:

	June 30, 2018	March 31, 2018
Accounts receivable	\$ 11,326,613	\$ 12,883,707
Less: allowance for doubtful accounts	(4,448,929)	(4,561,314)
Trade accounts receivable, net	\$ 6,877,684	\$ 8,322,393

For the three months ended June 30, 2018 and 2017, \$30,583 and \$26,393 in accounts receivable were directly written off, respectively. As of June 30, 2018 and March 31, 2018 no trade accounts receivables were pledged as collateral for borrowings from financial institutions.

Note 6 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	June 30, 2018	March 31, 2018
Prepaid rental expenses ⁽¹⁾	\$1,386,304	\$1,984,856
Prepaid and other current assets	122,855	131,381
Total	\$1,509,159	\$2,116,237

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

Note 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30, 2018	March 31, 2018
Building	\$ 1,681,393	\$ 1,707,145
Leasehold improvements	7,612,163	7,606,496
Farmland development cost	1,875,424	1,904,151
Office equipment and furniture	5,356,962	5,581,554
Motor vehicles	450,040	456,442
Total	16,975,982	17,255,788
Less: Accumulated depreciation	(11,798,940)	(11,905,893)
Impairment*	(2,468,661)	(2,506,255)
Property and equipment, net	\$ 2,708,381	\$ 2,843,640

*The variance of impairment from March 31, 2018 to June 30, 2018 is solely caused by exchange rate variance.

Depreciation expenses for property and equipment totaled \$219,759 and \$281,928 for the three months ended June 30, 2018 and 2017, respectively. There were no fixed assets impaired in the three months ended June 30, 2018.

Note 8 – ADVANCES TO SUPPLIERS

Advances to suppliers consist of deposits, with or advances to, outside vendors for future inventory purchases. Most of the Company's suppliers 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 June 30, 2018 and March 31, 2018, advance to suppliers consist of the following:

	June 30, 2018	March 31, 2018
Advance to suppliers*	\$ 7,211,936	\$ 6,505,545
Less: allowance for unrefundable advances	(3,324,685)	(3,058,092)
Advance to suppliers, net	\$ 3,887,251	\$ 3,447,452

* In order to achieve a larger rebate for certain merchandise, such as colla coril asini (donkey-hide gelatin), from certain suppliers, the Company made a significant cash advance to such suppliers.

For the three months ended June 30, 2018 and 2017, none of the advances to suppliers were written off against previous allowance for unrefundable advances, respectively.

Note 9 – INVENTORY

Inventory consisted of finished goods, valued at \$13,703,245 and \$13,429,568 as of June 30, 2018 and March 31, 2018, respectively. The Company constantly monitors its potential obsolete products and is allowed to return products close to their expiration dates to its suppliers. Any loss on damaged items is immaterial and will be recognized immediately. As a result, no reserves were made for inventory as of June 30, 2018 and March 31, 2018.

Note 10 – FARMLAND ASSETS

Farmland assets consist of ginkgo trees planted in 2012 and expected to be harvested and sold in several years. As of June 30, 2018 and March 31, 2018, farmland assets are valued as follows:

	June 30, 2018	March 31, 2018
Farmland assets	\$2,387,901	\$2,416,839
Less: Impairment*	(1,596,106)	(1,620,554)
Farmland assets, net	\$791,795	\$796,286

*The estimated fair value is estimated to be lower than its investment value as of June 30, 2018 and March 31, 2018.

Note 11 – LONG TERM DEPOSITS, LANDLORDS

As of June 30, 2018 and March 31, 2018, long term deposits amounted to \$2,469,844 and \$2,501,968, respectively. Long term deposits are money deposited with, or advanced to, landlords for the purpose of securing retail store leases that the Company does not anticipate being returned within the next twelve months. Most of the Company's landlords require a minimum payment of nine months' rent, paid upfront, plus additional deposits.

Note 12 – OTHER NONCURRENT ASSETS

Other noncurrent assets consisted of the following:

	June 30, 2018	March 31, 2018
Forest land use rights*	\$1,216,618	\$1,235,253
Others	118,875	18,099
Total	\$1,335,493	\$1,253,352

* The prepayment for lease of forest land use rights is a payment made to a local government in connection with entering into an operating land lease agreement. The land is currently used to cultivate Ginkgo trees. The forest rights certificate from the local village extends the life of the lease to January 31, 2060.

The amortization of the prepayment for the lease of forest land use right was approximately \$7,096 and \$6,846 for the three months ended June 30, 2018 and 2017, respectively.

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

For the year ending June 30,	Amount
2019	\$28,384
2020	28,384
2021	28,384
2022	28,384
2023	28,384

Thereafter 1,100,533

Note 13 – INTANGIBLE ASSETS

Net intangible assets consisted of the following at:

	June 30, 2018	March 31, 2018
License ⁽¹⁾	\$2,148,770	\$1,967,934
SAP software ⁽²⁾	542,051	764,104
Land use rights ⁽³⁾	1,529,199	1,552,622
Total intangible assets	4,220,020	4,284,660
Less: accumulated amortization	(300,932)	(228,246)
Intangible assets, net	\$3,919,088	\$4,056,414

Amortization expense of intangibles amounted to \$73,336 and \$7,130 for the three months ended June 30, 2018 and 2017, respectively.

This represents the fair value of the licenses of insurance applicable drugstores acquired from Sanhao Pharmacy, a drugstore chain Jiuzhou Pharmacy acquired in 2014. The licenses allow patients to pay by using insurance cards at stores. The stores are reimbursed from the Human Resource and Social Security Department of Hangzhou City. In September 2017, the Company acquired several new stores for the purpose of the Municipal Social Medical Reimbursement Qualification Certificates. The owners of these acquired drugstores agreed to cease their stores' business and liquidate all of the stores' accounts before Jiuzhou Pharmacy acquired them. As a result, Jiuzhou Pharmacy has not obtained any assets or liabilities from the stores, but was able to transfer the certificates to our new stores opened at the same time.

In 2017, we have installed a leading ERP system, SAP from Germany. SAP is a well-known management system used by many fortune 500 companies. As of March 31, 2018, the system has been completely installed and running for two months in the Company. By automatically connecting commodity flow data with accounting recording, the system minimizes the manual errors made by accounting staff. Additionally, the system provides a view of overall and instant cash information by electronically linking local banking systems with SAP. Additional benefits include automatically-generated customized monthly company performance report, instant inventory monitoring and reporting, and punctual customer and suppliers accounts maintaining.

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

Note 14 – 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 June 30, 2018 and March 31, 2018:

Beneficiary	Endorser	Origination date	Maturity date	June 30, 2018	March 31, 2018
Jiuzhou Pharmacy ⁽¹⁾	HUB	10/10/17	04/10/18		2,552,769
Jiuzhou Pharmacy ⁽¹⁾	HUB	11/24/17	05/24/18		21,972
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/05/17	06/05/18		377,347
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/29/17	06/29/18		1,194,135
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/29/17	06/29/18		1,443,554
Jiuzhou Pharmacy ⁽¹⁾	HUB	02/05/18	08/05/18	2,578,996	2,618,500
Jiuzhou Pharmacy ⁽¹⁾	HUB	03/05/18	09/05/18	3,026,283	3,072,638
Jiuzhou Pharmacy ⁽¹⁾	HUB	11/06/17	05/06/18		3,553,014
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/05/17	06/05/18		1,937,683
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/29/17	06/29/18		1,687,711
Jiuzhou Pharmacy ⁽¹⁾	HUB	04/09/18	10/09/18	1,618,360	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	05/04/18	11/04/18	2,334,990	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	06/29/18	12/29/18	2,004,108	-
Jiuxin Medicine ⁽²⁾	CMB	02/02/18	08/02/18	70,567	71,648
Jiuxin Medicine ⁽²⁾	CMB	02/07/18	08/07/18	94,090	95,531
Jiuxin Medicine ⁽²⁾	CMB	03/07/18	09/07/18	530,728	538,857
Jiuxin Medicine ⁽²⁾	CMB	03/15/18	09/15/18	44,165	44,842
Jiuzhou Pharmacy ⁽¹⁾	HUB	04/09/18	10/09/18	303,897	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	05/14/18	11/14/18	953,441	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	11/08/16	05/08/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	11/11/16	05/11/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/05/16	06/05/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/29/16	06/29/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	12/29/16	06/29/17	-	-
Jiuzhou Pharmacy ⁽²⁾	ZTCB	12/27/16	06/27/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	02/06/17	08/06/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	03/07/17	09/07/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	03/07/17	09/07/17	-	-
Jiuzhou Pharmacy ⁽¹⁾	HUB	03/07/17	09/07/17	-	-
Total				\$13,559,626	\$19,180,200

(1) As of June 30, 2018, the Company had \$11,562,738 (RMB 73,734,425) of notes payable from HUB. The Company is required to hold restricted cash in the amount of \$10,001,034 (RMB 63,775,597) with HUB as collateral against

these bank notes. Included in the restricted cash is a total of \$9,331,511 three-year deposit (RMB 59,506,118) deposited into HUB as a collateral for current and future notes payable from HUB. As of March 31, 2018, the Company had \$18,429,322 (RMB 115,748,985) of notes payable from HUB. The Company is required to hold restricted cash in the amount of \$13,565,300 (RMB 85,199,540) with HUB as collateral against these bank notes. Included in the restricted cash is a total of \$7,269,509 three-year deposit (RMB 45,657,584) deposited into HUB as a collateral for current and future notes payable from HUB.

(2) As of June 30, 2018, the Company had \$1,926,321 (RMB 12,733,957) of notes payable from CMB, with restricted cash in the amount of \$1,926,321 (RMB 12,733,957) held at the bank. As of March 31, 2018, the Company had \$750,878 (RMB 4,716,037) of notes payable from CMB, with restricted cash in the amount of \$750,878 (RMB 4,716,037) held at the bank.

As of March 31, 2018, the Company had a credit line of approximately \$3.29 million in the aggregate from HUB, and BOH. By putting up three-year deposit of \$11.00 million and the restricted cash of \$4.16 million deposited in the banks, the total credit line was \$18.45 million. As of June 30, 2018, the Company had approximately \$13.56 million of bank notes payable and approximately \$4.89 million bank credit line was still available for further borrowing. The bank notes are secured by buildings owned by the Company's major shareholders and by a shop of Jiuzhou Pharmacy, and are guaranteed by the Company's major shareholders.

Note 15 – TAXESIncome tax

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, operating losses and tax credit carryforwards. Deferred tax assets and liabilities are calculated using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are provided against deferred income tax assets for amounts which are not considered “more likely than not” to be realized.

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

For the three months ended June 30, 2018 and 2017, the components of income tax expense consist of the following:

	For the three months ended June 30,	
	2018	2017
Current:		
Federal	-	-
State	-	-
Foreign	57,169	20,538
	57,169	20,538
Deferred:		
Federal	-	-
State	-	-

Foreign	-	-
Provision for income taxes	57,169	20,538

The following table reconciles the U.S. statutory tax rates with the Company's effective tax rate for the three months ended June 30, 2018 and 2017:

	For the three months ended June 30,	
	2018	2017
U.S. Statutory rates	21.0 %	34.0 %
Foreign income not recognized in the U.S.	(21.0)	(34.0)
China income taxes	25.0	25.0
Change in valuation allowance ⁽¹⁾	(25.0)	(32.0)
Non-deductible expenses-permanent difference ⁽²⁾	8.9	5.5
Effective tax rate	(8.9)%	(1.5)%

(1) Represents a non-taxable expense reversal due to overall decrease in allowance for accounts receivable and advances to suppliers.

The (8.9)% and (1.5)% rate adjustments for the three months ended June 30, 2018 and 2017 represent expenses (2) that primarily include stock option expenses and legal, accounting and other expenses incurred by the Company that are 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 months ended June 30, 2018 and 2017. As of June 30, 2018, 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 continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at June 30, 2018. There was no net change in the valuation allowance for the three months ended June 30, 2018 and 2017. Management reviews this valuation allowance periodically and makes adjustments as necessary.

The components of the Company's net deferred tax assets are as follows:

	As of 6/30/2018	As of 6/30/2017
Allowance	37,855	111,881
Long-lived assets impairment	-	-
Depreciation and Amortization	73,274	72,265
Accrued expense	144,121	17,842
Net operating loss carryforward	2,856,362	1,754,114
Foreign Tax Credit Carryover	195,000	195,000
Total deferred tax assets (liabilities):	3,306,612	2,151,101
Valuation allowance	(3,306,612)	(2,151,101)
Net deferred tax assets (liabilities)	-	-

The Company regularly assesses the realizability of its deferred tax assets and establishes a valuation allowance if it is more-likely-than-not that some portion of the deferred tax assets will not be realized. We weigh all available positive and negative evidence, including earnings history and results of recent operations, scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. Assumptions used to forecast future taxable income often require significant judgment. More weight is given to objectively verifiable evidence. In the event we determine that we would not be able to realize all or part of our net deferred tax assets in the future, a valuation allowance will be established against deferred tax assets in the period in which we make such determination. The need to establish a valuation allowance against deferred tax assets may cause greater volatility in our effective tax rate.

As of June 30, 2018 and June 30, 2017, the estimated net operating loss carry forwards for U.S. income tax purposes amounted to \$816,908, which may be available to reduce future years' taxable income. These carry forwards will expire if not utilized by 2032. In addition, the Company carries a Foreign tax credit of \$195,000. As of June 30, 2018 and June 30, 2017, the estimated net operating loss carry forwards for Hong Kong income tax purposes amounted to \$1,884,271 and \$1,704,073, which may be available to reduce future years' taxable income. June 30, 2018 and June 30, 2017, the estimated net operating loss carry forwards for China income tax purposes amounted to \$9,495,625 and \$ 4,748,096, which may be available to reduce future years' taxable income. These carry forwards will expire if not utilized in next five years.

On December 22, 2017, the U.S. federal government enacted the 2017 Tax Act. The 2017 Tax Act includes a number of changes in existing tax law impacting businesses, including the transition tax, a one-time deemed repatriation of cumulative undistributed foreign earnings and a permanent reduction in the U.S. federal statutory rate from 35% to 21%, effective on January 1, 2018. ASC 740 requires companies to recognize the effect of tax law changes in the period of enactment, accordingly, the effects must be recognized on companies' calendar year-end financial statements, even though the effective date for most provisions is January 1, 2018. As a result, we re-measured our net U.S.

deferred tax assets at the 21% future tax rate. At December 31, 2017, according to the 2017 Tax Act for estimating our foreign undistributed earnings, we estimated an aggregate deficit in "accumulated earnings and profits," which is how foreign undistributed earnings are determined for the one-time transition tax and for U.S. income tax purposes. As a result, the one-time transition tax did not have a significant impact on the Company's FY18 tax provision and there was no undistributed accumulated earnings and profits as of March 31, 2018.

In December 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provided a measurement period of up to one year from the enactment date of the 2017 Tax Act for us to complete the accounting for the 2017 Tax Act and its related impacts. The income tax effects of the 2017 Tax Act for which the accounting is incomplete include: the impact of the transition tax, the revaluation of deferred tax assets and liabilities to reflect the 21% corporate tax rate, and the impact to the aforementioned items on state income taxes. We have made reasonable provisional estimates for each of these items, however, these estimates may be affected by other analyses related to the 2017 Tax Act, including but not limited to, any deferred adjustments related to the filing of our fiscal 2018 federal and state income tax returns and further guidance yet to be issued.

The Company recorded net unrecognized tax benefits of \$0.0 million as of January 31, 2018. It is our policy to classify accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years as the Company's most significant tax jurisdiction. 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.

Note 16 – 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 \$363,784 and \$283,244 in employment benefits and pension for the three months ended June 30, 2018 and 2017, respectively.

Note 17 – RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts payable to related parties are summarized as follows:

	June 30, 2018	March 31, 2018
Due to a director and CEO ⁽¹⁾ :	754,727	850,342
Total	\$754,727	\$850,342

(1) 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 June 30, 2018 and March 31, 2018, notes payable totaling \$0 and \$3,253,630 were secured by the personal properties of certain of the Company's shareholders, respectively. The shareholders have removed their properties from pledged assets list.

The Company leases from Mr. Lei Liu a retail space; the lease expires in September 2018. Rent expenses totaled \$4,532 and \$4,460 for the three months ended December 31, 2018 and 2017, respectively. The amounts owed under the lease for the three months ended June 30, 2018 and 2017 were not paid to Mr. Liu as of June 30, 2018.

Note 18 – WARRANTS

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

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

	Common Stock Warrants June 30, 2018 ⁽¹⁾	Common Stock Warrants March 31, 2018		
Stock price	\$ 1.44	\$ 1.35		
Exercise price	\$ 3.10	\$ 3.10		
Annual dividend yield	0	0	%	%
Expected term (years)	2.55	2.80		
Risk-free interest rate	2.63	1.98	%	%
Expected volatility	67.96	68.73	%	%

(1)As of June 30, 2018, the warrants had not been exercised.

Upon evaluation, the warrants meet the definition of a derivative under FASB ASC 815, as the Company cannot avoid a net cash settlement under certain circumstances. Accordingly, the fair value of the warrants was classified as a liability of \$496,217 as of March 31, 2017. For the three months ended June 30, 2017, the Company recognized a gain of \$10,253 for the investor warrant and placement agent warrant, from the change in fair value of the warrant liability. As a result, the warrant liability is carried on the consolidated balance sheets at the fair value of \$145,770 for the investor warrant and placement agent warrant, collectively, as of June 30, 2018.

Note 19 – STOCKHOLDER’S EQUITY

Common stock

On January 23, 2017, the Company closed a private offering with one institutional investor (the “Investor”) pursuant to which the Company sold to the Investor, and the Investor purchased from the Company, an aggregate of 4,840,000 shares of the common stock, par value \$0.001 per share, of the Company, at a purchase price of \$2.20 per share, for aggregate gross proceeds to the Company of \$10,648,000 (the “Private Placement”).

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 an expense over the requisite service periods in the Company’s consolidated statements of operations. Share-based awards are attributed to expenses 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 FASB 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 March 30, 2018, the Company granted a total of 3,947,100 shares of restricted common stock to its key employees in its retail drugstores and online pharmacy under the Company’s 2010 Equity Incentive Plan, as amended (the “Plan”). The stock awards vests on the grant date. On June 28, 2018, the compensation committee of the Company cancelled 225,000 shares granted to the CEO so that it fits within the 675,000 shares limitation set forth in the Plan. The Tax

Cuts and Jobs Act of 2017 removed the 162(m) qualified performance based compensation exemption to the \$1 million cap on deductions for compensation to covered executives. Section 1.3.2 was in the Plan to permit grants under the Plan to fit within that exemption. As that exemption no longer applies for grants made in 2018 or thereafter, the Plan has been amended to remove the provisions intended to comply with that exemption, including the one in Section 1.3.2. of the Plan. For the year ended March 31, 2018, \$5,328,585 was recorded as a service compensation expense, respectively.

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 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 June 30, 2018 and 2017, \$0 and \$124,033 was recorded as compensation expense. As of June 30, 2018, all compensation costs related to stock option compensation arrangements granted have been recognized.

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 dividends 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 months ended June 30, 2018 and 2017, the Company did not make appropriations to statutory reserves.

There are no legal requirements in the PRC to fund the Reserve Fund by transfer of cash to any restricted accounts, and the Company does not do so.

Note 20 – (LOSS) INCOME PER SHARE

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

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

	The three months ended June 30,	
	2018	2017
Net (loss) attributable to controlling interest	\$(696,615)	\$(1,419,304)

Weighted average shares used in basic computation	28,936,778	25,214,678
Diluted effect of stock options and warrants	-	0
Weighted average shares used in diluted computation	28,936,778	25,214,678
Loss per share – Basic:	-	-
Net (loss) attributable to controlling interest	\$(0.02)	\$(0.06)
Loss per share – Diluted:	-	-
Net (loss) attributable to controlling interest	\$(0.02)	\$(0.06)

For the three months ended June 30, 2018, 967,000 shares underlying employee stock 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.

Note 21 – 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 operations for the three months ended June 30, 2018.

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$ 15,968,341	\$ 2,021,869	4,782,356	-	22,772,566
Cost of goods	11,163,223	1,740,904	4,251,636	-	17,155,763
Gross profit	\$ 4,805,118	\$ 280,965	530,720	-	5,616,803
Selling expenses	3,477,677	401,362	747,939	-	4,626,978
General and administrative expenses	1,301,468	187,224	65,836	-	1,554,528 *
(Loss) income from operations	\$(25,973)	\$(307,621)	(283,055)	-	(564,703)
Depreciation and amortization	\$ 130,657	\$-	5,786	-	136,443
Total capital expenditures	\$ 157,272	\$-	1,117	-	158,389

* Includes accounts receivable allowance reversal of \$112,386 and additional advance to suppliers allowance of \$266,592.

The following table presents summarized information by segment of the continuing operations for the three months ended June 30, 2017.

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	\$ 13,020,370	\$ 3,135,689	5,514,309	-	21,670,368
Cost of goods	9,736,208	2,844,498	4,912,001	-	17,492,707
Gross profit	\$ 3,284,162	\$ 291,191	602,308	-	4,177,661
Selling expenses	2,419,556	515,387	981,916	-	3,916,859
General and administrative expenses	1,269,776	70,289	375,472	9,906	1,725,443 *
(Loss) income from operations	\$(405,170)	\$(294,485)	(755,080)	(9,906)	(1,464,641)
Depreciation and amortization	\$ 86,989	\$-	82,607	119,461	289,057
Total capital expenditures	\$ 56,574	\$-	(39,235)	-	17,339

* Includes accounts receivable allowance reversal of \$249,315 and additional advance to suppliers allowance of \$197,761.

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 drugstores by main product category for the three months ended June 30, 2018 and 2017 were as follows:

	For the three months ended June 30,	
	2018	2017
Prescription drugs	\$5,809,215	4,595,354
OTC drugs	6,964,828	5,643,962
Nutritional supplements	945,206	1,037,332
TCM	1,582,568	1,012,511
Sundry products	204,861	262,036
Medical devices	461,663	469,175
Total	\$15,968,341	13,020,370

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

	For the three months ended June 30,	
	2018	2017
Prescription drugs	\$-	-
OTC drugs	775,993	1,117,392
Nutritional supplements	143,096	516,076
TCM	4,929	-
Sundry products	1,037,166	419,033
Medical devices	60,685	1,083,188
Total	\$2,021,869	3,135,689

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

	For the three months ended June 30,	
	2018	2017
Prescription drugs	\$3,419,536	3,397,401
OTC drugs	1,274,919	2,100,650
Nutritional supplements	25,381	16,258

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

TCM	21,851	-
Sundry products	4,755	-
Medical devices	35,914	-
Total	\$4,782,356	5,514,309

Note 22 – COMMITMENTS AND CONTINGENCIESOperating lease commitments

The Company recognizes lease expenses 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 June 30,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2019	\$4,436,071	\$ -	\$ -	\$ -	\$4,436,071
2020	3,819,028	-	-	-	3,819,028
2021	2,921,040	-	-	-	2,921,040
2022	2,405,098	-	-	-	2,405,098
2023	1,553,088	-	-	-	1,553,088
Thereafter	2,301,813	-	-	-	2,301,813

Total rent expense amounted to \$1,149,243 and \$848,341 for the three months ended June 30, 2018 and 2017, respectively.

Note 23 – Subsequent Events

The management has evaluated subsequent events through the date these financial statements were issued, and there were no material subsequent events requiring adjustments to the financial statements or disclosure.

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, 2018 and filed with the SEC on June 29, 2018. 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, medical devices, and 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. As of June 30, 2018, we had 122 pharmacies in Hangzhou under the store brand of "Jiuzhou Grand Pharmacy." During the three months ended June 30, 2018, we had relocated two of our stores in Hangzhou City.

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. Our sales through our own platform are primarily generated by customers who use their private commercial medical insurances package.

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 planted ginkgo trees but have not incurred sales in the three months ended June 30, 2018.

Critical Accounting Policies and Estimates

In preparing our audited 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 2 to our audited consolidated financial statements accompanying in this report.

In May 2014, the FASB issued ASU No. 2014-09, which creates Topic 606, Revenue from Contracts with Customers. The new guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Additionally, the guidance requires improved disclosure to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and permits early adoption on a limited basis. The update permits the use of either the retrospective or cumulative effect transition method. On April 1, 2018, we adopted the guidance in ASC 606 and all the related amendments and applied the new revenue standard to all contracts using the modified retrospective method. Based on the new standard our revenue recognition policies related to membership rewards programs will change. But the impact of the new revenue standard was not material and there was no adjustment required to the opening balance of retained earnings. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an ongoing basis.

We currently recorded awarded membership points as accrued expense. The adoption of the policy will require us to deduct the membership rewards directly from our retail revenue. In other words, we will present such amounts in net sales as opposed to our current reduction of operation expense classification.

Results of Operations***Comparison of the three months ended June 30, 2018 and 2017***

The following table summarizes our results of operations for the three months ended June 30, 2018 and 2017:

	Three months ended June 30, 2018		2017			
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Revenue	\$22,772,566	100.0	%	\$21,670,368	100.0	%
Gross profit	\$5,616,803	24.7	%	\$4,177,661	19.3	%
Selling expenses	\$4,626,978	20.3	%	\$3,916,859	18.1	%
General and administrative expenses	\$1,554,528	6.8	%	\$1,725,443	8.0	
Loss from operations	\$(564,703)	(2.5)%	\$(1,464,641)	(6.8)%
Interest income	\$47,172	0.2	%	\$44,899	0.2	%
Interest expenses	\$-	0.0	%	\$-	0.0	%
Other income, net	\$(114,941)	(0.5)%	\$(29,348)	(0.1)%
Change in fair value of derivative liability	\$6,974	0.0	%	\$50,324	0.2	%
Income tax expense	\$57,169	0.3	%	\$20,538	0.1	%
Net income (loss)	\$(696,615)	(3.1)%	\$(1,419,304)	(6.5)%

Revenue

Due to the growth in our retail drugstores business, revenue increased by \$1,102,198 or 5.1% for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, offset by the decrease in our online sales and wholesale business. The following table breaks down the revenue for our four business segments for the three months ended June 30, 2018 and 2017:

Revenue by Segment

The following table breaks down the revenue for our four business segments for the three months ended June 30, 2018 and 2017:

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

	For the three months ended June 30,				Variance by amount	% of change
	2018		2017			
	Amount	% of total revenue	Amount	% of total revenue		
Revenue from retail drugstores	\$15,968,341	70.1	% \$13,020,370	60.1	% \$2,947,971	22.6 %
Revenue from online sales	2,021,869	8.9	% 3,135,689	14.5	% (1,113,820)	(35.5)%
Revenue from wholesale business	4,782,356	21.0	% 5,514,309	25.4	% (731,953)	(13.3)%
Revenue from farming business	-	-	% -	-	% -	- %
Total revenue	\$22,772,566	100.0	% \$21,670,368	100.0	% \$1,102,198	5.1 %

Retail drugstores sales, which accounted for approximately 70.1% of total revenue for the three months ended June 30, 2018, increased by \$2,947,971, or 22.6% compared to the three months ended June 30, 2017, to \$15,343,920. Same-store sales increased by approximately \$827,720, or 6.4%, while new stores contributed approximately \$1,549,439 in revenue in the three months ended June 30, 2018. The increase in our retail drugstore sales is primarily due to, benefits such as emphasis on onsite medical care, incremental DTP (Direct-to-Patient) business caused by continuous hospital medical reform, and promotional campaign. As a cornerstone for our business, convenient onsite medical support at our pharmacies has become our legacy from the beginning of our business. Suitable medical support from our doctors has proven to be critical to our superior store sales. By adding more doctoral service at stores, we have been able to promote our store sales. DTP drugs are usually low profit margin new medicines not sold at hospitals. As part of medical reform package, local governments require the revenue percentage from drug sales at public hospitals to decline year by year. In order to achieve lower drug sales percentage out of their total revenue, the public hospitals chose to abandon sales of low profit margin DTP products first. We have actively contacted local vendors of certain DTP products and were able to sell these DTP products in our stores. As a result, sales in our drugstores increased. From time to time, we implemented marketing campaigns suitable to local community at our stores. We usually cooperated with brand-name pharmaceutical manufacturers in our market campaigns. The brand-name medical products sales increased our store reputations and become beneficial to our long-term sales. Furthermore, starting from fiscal 2018, we have accelerated our new stores expansion, which is expected to generate more retail drugstore revenues. Our store count increased to 122 as of June 30, 2018, compared to 71 stores as of June 30, 2017.

Our online pharmacy sales decreased by approximately \$1,113,820, or 35.5% for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017. The decrease was primarily caused by decline in our sales via various e-commerce platforms, offset by the increase in business referred from Pharmacy Benefit Management (“PBM”) providers and, as further explained below, during this three months. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. Such arrangements with third-party platforms have exposed our online presence to a wider consumer base. Our official website sales increased by \$190,261 or 64.6% period over period, primarily as we explored more PBM providers, who draw insured from private health insurance company to spend on health products at drugstores. In order to increase the popularity of our products, we have made considerable efforts to identify popular products that can drive sales, while keeping a close watch on cost. However, due to the official suspension of OTC drug sales on e-commerce platforms such as Alibaba and strong competition, our sales via these e-commerce platforms have been curtailed. As a result, our sales via these e-commerce platforms decreased by 51.0% period over period. We are adding more non-medical health products such as nutritional supplements into our sales menu to counteract the decline in sale of OTC drug category.

Wholesale revenue decreased by \$731,953 or 13.3%. As our retail drugstores achieved large quantity sales of certain brand name products, we were able to bargain for lower purchase prices than the market level on these merchandises. As a result, vendors who were unable to obtain a better price than ours, turned to us for these products, causing the increase in the wholesale volume. Due to the leave of a key salesperson, we suffered loss of certain business. However, in long run, we will be able to fill the gap and raise our wholesale business steadily. Hospitals are still dominating drug retailers 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.

In the three months ended June 30, 2018 and 2017, we have not generated revenue from our farming business. We planted ginkgo and maidenhair trees during the year ended June 30, 2013. A ginkgo tree may have a growth period of up to twenty-three months before it is mature enough for harvest. We have not yet harvested our ginkgo or maidenhair trees. 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. We anticipate that we will continue to grow ginkgo trees and start cultivating other herbs in the future.

Gross Profit

Gross profit increased by \$1,439,412 or 34.4% period over period primarily as a result of an increase in gross profit provided by retail pharmacy business, which increased significantly in the three months ended June 30, 2018. At the same time, gross margin increased from 19.3% to 24.7% due to higher retail and online profit margins. The average gross margins for each of our four business segments are as follows:

	For the three months ended June 30,	
	2018	2017
Average gross margin for retail drugstores	30.1%	25.2%
Average gross margin for online sales	13.9%	9.3%
Average gross margin for wholesale business	11.1%	10.9%
Average gross margin for farming business	N/A	N/A

Retail gross margin increased primarily because of corporate operational strategy adjustments to focus on profit margin products, introducing new suppliers, and renegotiating prices with our suppliers periodically. In fiscal 2018, we opened quite a few new stores and thus suffered from low profit, as the new stores usually set up low profit margin in promoting store sales. As time goes by, the new stores have become mature and been obtaining local government insurance reimbursement certificates, we now require our operation team to focus on the generation of more profit. As a result, our gross margin increased. One way to keep reasonably high profit margin is to explore more suppliers. Also we try to directly purchase from manufactures instead of local vendors to cut off middle-man expenses. For those long-term suppliers, we closely watch the market price variance of important products and renegotiate with them when the medical products prices are lower.

Gross margin of online pharmacy sales increased primarily because of the increase in our sales via our own official website, as well as due to decrease in sale via third-party platforms, which are usually subject to low profit margin. We conduct 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 have higher profit margins because customers referred by commercial insurance companies are premium customers who can afford premium products with higher profit margins. As described in the above, during the three months ended June 30, 2018, we achieved more sales from our own official websites. As a result, we incurred higher profit margin. On the other side, we experienced decline in sales via third-party platforms. Consequently, our overall online sales profit margin increased in the three months ended June 30, 2018.

Wholesale gross margin varies period by period primarily as a result of different products we carry and sell to certain pharmaceutical vendors. Although we have attempted to market our products to major local hospitals and other

pharmacies, we have not been able to make significant progress. Until we are able to obtain status as a provincial or national exclusive sale agent for certain popular drugs or have sales access to large local hospitals, we may have to maintain low profit margins in order to drive sales on our wholesale business.

Selling and Marketing Expenses

Selling and marketing expenses increased by \$710,119, or 18.1%, as compared to the same period of last fiscal year, primarily due to increase in marketing and sales staff expense related to our store expansion, offset by decline in expense of our wholesale business. We opened approximately more than forty new stores in Hangzhou and ten new stores in Lin'An under Lin'An Jiuzhou. To quickly attract local customers and expand our business, we hired additional in-store staff and arranged various promotion campaigns. For example, during the three months ended June 30, 2018, the total selling expense related to Lin'An Jiuzhou is \$155,377. On the other side, in the three months ended June 30, 2017, we had quite a few wholesale business referred by individual traders who require reward based on the transaction amount. As a result, we incurred additional selling expense. Overall, such expenses as a percentage of our revenue kept at 18.1%, in both the three months ended June 30, 2018 and 2017.

General and Administrative Expenses

General and administrative expenses decreased by \$170,915, or 9.9%, as compared to the same period of last year. Such expenses as a percentage of revenue decreased to 7.0% from 8.0% for the same period three months ago. In fact, our retail business incurred additional administrative expense related to our store expansion, which was offset by decrease in administrative fee of our wholesale business due to logistic outsourcing. Our stock compensation has decreased by approximately \$294,340 as certain stocks compensation have been fully amortized into expense in fiscal year 2018 and no additional expenses were incurred in the three months ended June 30, 2018.

Loss from Operations

As a result of the above, we had loss from operations of \$564,703 in the quarter ended June 30, 2018, as compared to loss from operations of \$1,464,641 a year ago. Our operating margin for the three months ended June 30, 2018 and 2017 was (2.5)% and (6.8)%, respectively.

Income Taxes

Our income tax expense increased by \$36,631 period over period due to an increase in overall profit.

Net (Loss) Income

As a result of the foregoing, net loss is \$696,615 in the three months ended June 30, 2018 as compared to a net income of \$1,419,304 in the three months ended June 30, 2017.

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	\$4,571,261	\$21,283	\$1,062,863	\$ -	\$5,655,407
4- 6 months	329,017	4,447	666,611	-	1,000,075
7- 12 months	93,817	52,640	605,560	-	752,018
Over one year	1,853,169	123,843	1,942,101		3,919,113
Allowance for doubtful accounts	(2,075,310)	(145,334)	(2,228,285)		(4,448,929)
Total accounts receivable	\$4,771,954	\$56,879	\$2,048,851	\$ -	\$6,877,684

Accounts receivable from our retail business mainly consist of reimbursements from government health insurance bureaus and commercial health insurance programs. In the three months ended June 30, 2018, we wrote off an approximately \$30,583 collectible from provincial and Hangzhou City government insurance, as such amount has been determined by the health insurance bureaus to be unqualified for reimbursement. In addition, as we gained experience in operating online pharmacy with good reputation, we have provided online operating and network technical support to an online business, which intends to run an online health products shop in Hong Kong in 2016. As a result, we recognized revenue and incurred accounts receivables. As the online business company was not able to make profit from its online shop, it has not paid off its account on time. As a result, we made additional reserve on these aged accounts.

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.

Subsequent to June 30, 2018 and through May 31, 2018, we collected approximately \$2.7 million in receivables relating to our drugstore business, approximately \$1.3 million in receivables relating to our online pharmacy business, approximately \$1.7 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 at 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	\$683,584	\$ -	\$833,024	\$ -	\$1,516,608
4- 6 months	1,696,476	-	379,740	-	2,076,216
7- 12 months	256,301	-	431,657	-	687,959
Over one year	236,069	-	2,695,083	-	2,931,152
Allowance for doubtful accounts	(429,622)	-	(2,895,063)	-	(3,324,685)
Total advances to suppliers	\$2,442,810	\$-	\$1,444,441	\$-	\$3,887,251

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 purchases on certain non-medical products. As a result, our retail chain had little advances to suppliers as of June 30, 2018.

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 action. If all of these steps are unsuccessful, management then determines whether 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. To control credit risk, we have tightened our customer credit policy and strengthened monitoring of uncollected receivables.

Liquidity and Capital Resources

Our cash flows for the periods indicated are as follows:

	For the three months ended June 30,	
	2018	2017
Net cash provided by/used in operating activities	\$(2,582,197)	\$(3,611,268)
Net cash provided by/used in investing activities	\$(257,897)	\$(507,259)
Net cash provided by/used in financing activities	\$(3,250,409)	\$(344,533)

For the three months ended June 30, 2018, cash used in operating activities amounted to \$2,582,197, as compared to \$3,611,268 a year ago. The change is primarily attributable to a decrease in cash provided by advances to suppliers of \$1,225,121, a decrease in cash provided by change of accounts payable of \$850,834 offset by an increase of \$1,615,187 in advances to accounts receivable, an increase in cash provided by other payables and accrued liabilities of \$704,238, and an increase in cash provided by the long term deposit of \$767,246.

For the three months ended June 30, 2018, net cash used in investing activities amounted to \$(257,897), as compared to \$(507,258) provided by investing activities a year ago. The change is attributable to increase in construction-in-progress such as SAP system implementation in the three months ended June 30, 2017.

For the three months ended June 30, 2018, net cash provided by financing activities amounted to \$(3,250,409), as compared to \$(344,533) net cash used in financing activities a year ago. The decrease is primarily due to repayment of notes payable, offset by decrease in restricted cash.

As of June 30, 2018, we had cash of approximately \$8,905,417. Our total current assets as of June 30, 2018, were \$53,198,603 and total current liabilities were \$46,212,185, which resulted in a working capital of \$6,986,418 .

In order to increase our competition advantages and gain more local retail pharmacy market share, during fiscal year 2018, we opened as many as fifty-seven new stores in Hangzhou. As a result, we incurred significant amount of expense related to rental, labor hiring and training, and marketing activities. As the retail pharmaceutical market becomes more competitive in recent years, a new store usually cannot make profit in its operation until a year later. In fact, we incurred significant expense with limited incremental revenue in the period we opened new stores.

At their openings, except for four stores, almost all of the new stores were without government insurance reimbursement certificates. In fact, it usually takes more than one year for a new store to apply for and obtain the local government insurance reimbursement certificate. We have applied for and received certificates in two stores in January 2018 and eleven new stores in June 2018. Historically, sales reimbursed from the government insurance agency contributes more than half of total revenue in a mature store. We are actively in the process of applying certificates for all of our new stores. As more and more new stores obtain certificates, we expect our new store revenue will increase and eventually contribute positive operating cash flow.

On January 23, 2017, we completed a private placement with a single healthcare-focused institutional investor for the purchase of an aggregate of 4,840,000 of our common stock at a price of \$2.20 per share and gross proceeds of approximately \$10,648,000. As of June 30, 2018, we had approximately \$4.89 million in our credit line 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:

Periods ending June 30,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2018	\$4,436,071	\$ -	\$ -	\$ -	\$4,436,071
2019	3,819,028	-	-	-	3,819,028
2020	2,921,040	-	-	-	2,921,040
2021	2,405,098	-	-	-	2,405,098
2022	1,553,088	-	-	-	1,553,088
Thereafter	2,301,813	-	-	-	2,301,813

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 audited consolidated financial statements or otherwise disclosed in this report were as follows:

	June 30, 2018		March 31, 2018	
Balance sheet items, except for the registered and paid-up capital, as of end of period	USD1: RMB	0.1568	USD1: RMB	0.1592
Amounts included in the statement of Operations and statement of cash flows for the period ended	USD1: RMB	0.1511	USD1: RMB	0.1510

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 June 30, 2018, 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 weakness in internal control over financial reporting as described in our annual report on Form 10-K for the year ended March 31, 2018:

Accounting and Finance Personnel Weaknesses - As noted in Item 9A of our annual reports on Form 10-K for the preceding 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's assessment of the control deficiency over accounting and finance personnel as of June 30, 2018 considered the same factors, including:

the number of adjustments proposed by our independent auditors during our quarterly review and annual audit processes;

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

how accurately we prepared supporting information to provide to our independent auditors on a quarterly and annual basis.

Based on the above factors, management concluded that the control deficiency over accounting and finance personnel continues to be material weaknesses as of June 30, 2018, as our accounting staff continues to lack sufficient U.S. GAAP experience and requires further substantial training. Specifically, to address the material weakness related to insufficient accounting resources and process necessary to comply with reporting and compliance requirements of the FASB and SEC, we plan to put additional personnel who have FASB and SEC reporting and compliance knowledge and experience at the Company or search for more advice from outside accounting consultants.

We have been continually making progress in improving internal controls. In 2017, we installed a leading ERP system, SAP from Germany. SAP is a well-known management system used by many fortune 500 companies. Per the contract with the local SAP system provider, the total fee for SAP customized installation and training adds up to more than one million USD in this year. By automatically connecting commodity flow data with accounting recording, the system minimizes the manual errors made by accounting staff. Additionally, the system provides a view of overall and instant cash information by electronically linking local banking systems with SAP. Additional benefits include automatically-generated customized monthly company performance reports, instant inventory monitoring and reporting, and punctual customer and suppliers accounts maintenance. In addition, we plan to introduce talented managers who are able to better utilize the system. We expect to continually improve our internal control system. As such, we will continue our efforts during the fiscal year ending March 31, 2019, although there can be no assurance that compliance will be achieved in this time frame.

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.

EXHIBIT INDEX

Exhibit Number	Description
31.1	<u>Section 302 Certification by the Corporation's Chief Executive Officer</u>
31.2	<u>Section 302 Certification by the Corporation's Chief Financial Officer</u>
32.1	<u>Section 906 Certification by the Corporation's Chief Executive Officer and Chief Financial Officer</u>
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

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: August 14, 2018 By: /s/ Lei Liu
Lei Liu

Chief Executive Officer

Date: August 14, 2018 By: /s/ Ming Zhao
Ming Zhao
Chief Financial Officer