

CHINA JO-JO DRUGSTORES, INC.

Form 10-K

June 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended **March 31, 2015**

or

o 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 issuer as specified in its charter)

Nevada

(State or other jurisdiction of

98-0557852

(I.R.S. Employer

incorporation or organization)

Identification Number)

1st Floor, Yuzheng Plaza, No. 76,

Yuhuangshan Road Hangzhou, Zhejiang Province 310002

People's Republic of China

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code **+86 (571) 88077078**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common stock, \$0.001 par value NASDAQ Capital Market

Securities registered pursuant to section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐
Non-accelerated filer ☐ Smaller reporting company

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

As of September 30, 2014, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$17 million, based on a closing price of \$1.94 per share of common stock as reported on the NASDAQ Stock Market on such date.

As of June 11, 2015, the registrant had 15,650,504 shares of common stock outstanding.

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Forward Looking Statements

This report contains forward-looking statements. All forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events or future performance of the registrant. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. Forward-looking statements usually contain the words “estimate,” “anticipate,” “believe,” “expect,” or similar expressions, and are subject to numerous known and unknown risks and uncertainties. In evaluating such statements, prospective investors should carefully review various risks and uncertainties identified in this report, including the matters set forth under the captions “Risk Factors” and in the registrant’s other SEC filings. These risks and uncertainties could cause the registrant’s actual results to differ materially from those indicated in the forward-looking statements. The registrant undertakes no obligation to update or publicly announce revisions to any forward-looking statements to reflect future events or developments.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading “*Risks Relating to Our Business*” below, as well as those discussed elsewhere in this report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We file reports with the Securities and Exchange Commission (the “SEC”). You can read and copy any materials we file with the SEC at the SEC’s Public Reference Room located at 100 F. Street, NE, Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the registrant.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

PART I

ITEM 1. BUSINESS.

Overview

We are a retailer and distributor of pharmaceutical and other healthcare products typically found in a retail pharmacy in the People's Republic of China ("PRC" or "China"). Prior to acquiring Zhejiang Jiuxin Medicine Co., Ltd. ("Jiuxin Medicine") in August 2011 (see "*Our Corporate History and Structure - HJ Group*" below), we were primarily a retail pharmacy operator. We currently have fifty nine (59) store locations under the store brand "Jiuzhou Grand Pharmacy" in Hangzhou.

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

Our stores provide customers with a wide variety of pharmaceutical products, including prescription and over-the-counter ("OTC") drugs, nutritional supplements, TCM, personal and family care products, and medical devices, as well as convenience products, including consumable, seasonal, and promotional items. Additionally, we have licensed doctors of both western medicine and TCM on site for consultation, examination and treatment of common ailments at scheduled hours. Three (3) stores have adjacent medical clinics offering urgent cares (to provide treatment for minor ailments such as sprains, minor lacerations, and dizziness that can be treated on an outpatient basis), TCM (including acupuncture, therapeutic massage, and cupping) and minor outpatient surgical treatments (such as suturing). Our stores vary in size, but presently average approximately 210 square meters. We attempt to tailor each store's product offerings, physician access, and operating hours to suit the community where the store is located.

We operate our pharmacies (including the medical clinics) through the following companies in China that we control through contractual arrangements:

Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. ("Jiuzhou Pharmacy"), which we control contractually, operates our "Jiuzhou Grand Pharmacy" stores;

Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine (General Partnership) (“Jiuzhou Clinic”), which we control contractually, operates one (1) of our two (2) medical clinics; and

Hangzhou Jiuzhou Medical & Public Health Service Co., Ltd. (“Jiuzhou Service”), which we control contractually, operates our other medical clinics.

We also retail OTC drugs and nutritional supplements through a website (www.dada360.com) that we operate through Zhejiang Shouantang Pharmaceutical Technology Co., Ltd. (“Shouantang Technology”), a wholly-owned subsidiary, and its subsidiary, Zhejiang Quannuo Internet Technology Co., Ltd. (“Quannuo Technology”). For the fiscal year ended March 31, 2015, retail revenue, including pharmacies, medical clinics accounted for approximately 63.5% of our total revenue, while online pharmacy revenue accounted for 19.4% of our total revenue.

Since August 2011, we have operated a wholesale business through Zhejiang Jiuxin Medicine Co., Ltd. (“Jiuxin Medicine”), distributing third-party pharmaceutical products (similar to those carried by our pharmacies) primarily to trading companies throughout China. Jiuxin Medicine is wholly owned by Jiuzhou Pharmacy. For the fiscal year March 31, 2015, wholesale revenue accounted for approximately 17.1% of our total revenue.

We also have an herb farming business cultivating and wholesaling herbs used for TCM. This business is conducted through Hangzhou Qianhong Agriculture Development Co., Ltd. (“Qianhong Agriculture”), a wholly-owned subsidiary. During the fiscal year ended March 31, 2015, we generated no revenue from our herb farming business.

Throughout this report, we will sometimes refer to Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, as well as the subsidiaries of Jiuzhou Pharmacy, collectively as “HJ Group.”

Our Corporate History and Structure

We were incorporated in Nevada on December 19, 2006, under the name “Kerrisdale Mining Corporation,” with a principal business objective to acquire and develop mineral properties. Although we had acquired certain mining claims, we were not operational.

On July 14, 2008, we amended our Articles of Incorporation to change our authorized capital stock from 75,000,000 shares of common stock, par value \$0.001 per share, to 500,000,000 shares of common stock, par value \$0.001 per share, and 10,000,000 shares of preferred stock, par value \$0.001 per share. The preferred stock is “blank check,” and our Board of Directors has the right to set its designations, preferences, limitations, privileges, qualifications, dividend, conversion, voting, and other special or relative rights.

On September 17, 2009, we acquired control of Renovation Investment (Hong Kong) Co., Ltd., a limited liability company incorporated in Hong Kong on September 2, 2008 (“Renovation”), pursuant to a share exchange agreement.

On September 24, 2009, we amended our Articles of Incorporation to change our name from “Kerrisdale Mining Corporation” to “China Jo-Jo Drugstores, Inc.”

On April 9, 2010, we implemented a 1-for-2 reverse stock split of our issued and outstanding shares of common stock and a proportional reduction of our authorized shares of common stock, by filing a Certificate of Change pursuant to Nevada Revised Statutes 78.209 with the Nevada Secretary of State on April 6, 2010. All share information in this report takes into account this reverse stock split.

On April 28, 2010, we completed a registered public offering of 3,500,000 shares of our common stock at a price of \$5.00 per share, resulting in gross proceeds to us, prior to deducting underwriting discounts, commissions and offering expenses, of approximately \$17,500,000.

Renovation

Renovation was formed by the owners of HJ Group as a special purpose vehicle to raise capital overseas, in accordance with requirements of China's State Administration of Foreign Exchange ("SAFE"). SAFE issued the *Notice on Relevant Issues Concerning Foreign Exchange Administration for Financing and Round-Trip Investment Undertaken by Domestic Residents Through Overseas Special-Purpose Vehicles* ("Circular No. 75") on October 21, 2005. To further clarify the implementation of Circular 75, on May 31, 2007, SAFE issued a supplementary official notice known as *Hi ZhongFa [2007] No. 106* ("Circular 106"). Circular 75 and Circular 106 require the owners of any Chinese company to obtain SAFE's approval before establishing any offshore holding company structure for foreign financing as well as subsequent acquisition matters in China. Accordingly, the owners of HJ Group submitted their applications to SAFE on July 25, 2008. On August 16, 2008, SAFE approved the applications, permitting these Chinese nationals to establish Renovation as an offshore, special purpose vehicle which was permitted to have foreign ownership and participate in foreign capital raising activities. After SAFE's approval, the owners of HJ Group became holders of one hundred percent (100%) of Renovation's issued and outstanding capital stock on September 2, 2008. See "*Relevant PRC Regulations - SAFE Registration*" below.

Jiuxin Management

Zhejiang Jiuxin Investment Management Co., Ltd. (“Jiuxin Management”) was organized in the PRC on October 14, 2008. Since all of its issued and outstanding capital stock is held by Renovation, a Hong Kong company, Jiuxin Management is deemed a “wholly foreign owned enterprise” (“WFOE”) under applicable PRC laws.

On February 27, 2012, Jiuxin Management, Shouantang Technology and our three (3) key personnel, Mr. Lei Liu, Mr. Chong’an Jin, and Ms. Li Qi (the “Key Personnel”), organized Zhejiang Jiuying Grand Pharmacy Co., Ltd. (“Jiuying Pharmacy”), with forty nine percent (49%) of its equity interests held by Jiuxin Management and Shouantang Technology, and the remaining fifty one percent (51%) held by the Key Personnel. In May 2012, the Key Personnel gave control of their fifty one percent (51%) ownership to Jiuxin Management through contractual arrangements, thereby giving us one hundred percent (100%) control of Jiuying Pharmacy’s business operations. Jiuying Pharmacy ceased operations as of December 31, 2012, and was dissolved on January 7, 2013.

Jiutong Medical

Hangzhou Jiutong Medical Technology Co., Ltd. (“Jiutong Medical”) was organized in the PRC on December 20, 2011. Like Jiuxin Management, Jiutong Medical is also deemed a WFOE because it is wholly owned by Renovation. In November 2013, Jiutong Medical acquired the right to use of a piece of land, on which we plan to establish a herb processing plant in the future. As of March 31, 2015, we have not started constructing the plant.

Shouantang Technology

Shouantang Technology was organized in the PRC on July 16, 2010. Like Jiuxin Management and Jiutong Medical, it is also deemed a WFOE because it is wholly owned by Renovation.

In November 2010, Shouantang Technology acquired one hundred percent (100%) of Quannuo Technology and its wholly-owned subsidiary, Hangzhou Quannuo Grand Pharmacy Co., Ltd. (“Hangzhou Quannuo”), pursuant to an equity ownership transfer agreement. Quannuo Technology was organized in the PRC on July 7, 2009, and Hangzhou Quannuo on July 8, 2010. Hangzhou Quannuo currently has no operations and has terminated its SAIC license in April 2015.

On August 1, 2012, Shouantang Technology dissolved TongluLydia Agriculture Development Co., Ltd. (“TongluLydia”), a wholly-owned subsidiary organized on June 24, 2011. Prior to its dissolution, TongluLydia did not have any operations.

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

Qianhong Agriculture

Qianhong Agriculture was organized in the PRC on August 10, 2010 and is now carrying out our herb farming business. As of March 31, 2015, we have not harvested or sold any herbs.

Shouantang Health

Hangzhou Shouantang Health Management Co. Ltd. (“Shouantang Health”) was organized in the PRC on December 18, 2013. In April, 2015, Shouantang Health has been closed.

Sanhao Pharmacy

On October 9, 2014, the Company, through Jiuzhou Pharmacy, acquired Sanhao Grand Pharmacy Chain Co., Ltd. (“Sanhao Pharmacy”), a local drugstore chain located in Hangzhou, for \$1.56 million (RMB9.6 million). In January 2015, eight stores of Sanhao Pharmacy with the qualification of Social Health Insurance (“SHI”), have been relocated to major resident areas with significant store improvements. The eight stores are now operating under the brand name “Jiuzhou Pharmacy”. Two stores without SHI license have been closed as of March 31, 2015. One store without SHI license is applying for closing with the local government. Sanhao Pharmacy will be terminated after all of its stores are closed.

HJ Group

Jiuzhou Pharmacy is a PRC limited liability company established on September 9, 2003 by the Key Personnel: Mr. Lei Liu (55%), Mr. Chong'an Jin (23%) and Ms. Li Qi (22%). Hangzhou Kuaileren Grand Pharmacy Co., Ltd. (“Kuaileren”), originally a subsidiary of Jiuzhou Pharmacy, was dissolved on April 9, 2011. Prior to its dissolution,

Kuaileren operated a “Kuaileren Grand Pharmacy” store, which is now a “Jiuzhou Grand Pharmacy” store. On July 1, 2014, Mr. Chong’an Jin transferred all of his equity interests he held in Jiuzhou Pharmacy to Mr. Lei Liu and Ms. Li Qi. As a result, Mr. Lei Liu has held 61% and Ms. Li Qi has held 39% equity interests of Jiuzhou Pharmacy since then.

Jiuzhou Pharmacy currently has one subsidiary. Jiuxin Medicine, which was organized in the PRC on December 31, 2003. In April 2011, Jiuzhou Pharmacy entered into an equity ownership transfer agreement with the owners of Jiuxin Medicine, and its business license was transferred to Jiuzhou Pharmacy, although no consideration was paid. On August 25, 2011, the acquisition of Jiuxin Medicine was completed for RMB 30 million.

Jiuzhou Clinic is a PRC general partnership established on October 10, 2003 by the Key Personnel: Mr. Liu (39%), Mr. Jin (31%) and Ms. Qi (30%). Jiuzhou Clinic is a medical practice currently operating adjacent to the “Jiuzhou Grand Pharmacy” store in Dagan, providing primary, urgent, minor surgical, and traditional medical care services. Additionally, Jiuzhou Clinic’s physicians consult with and examine patients at other “Jiuzhou Grand Pharmacy” stores.

Jiuzhou Service is a PRC limited liability company established on November 2, 2005 by the Key Personnel: Mr. Liu (39%), Mr. Jin (31%) and Ms. Qi (30%). Jiuzhou Service is licensed as a healthcare management company and currently manages the medical clinic operating adjacent to the “Jiuzhou Grand Pharmacy” store in Wenhua, providing services similar to those at the Dagan clinic. Shouantang Health is a subsidiary of Jiuzhou Service that was established in December 2013 and was closed in April 2015.

We control HJ Group through contractual arrangements. See “*Contractual Arrangements with HJ Group and the Key Personnel*” below.

Contractual Arrangements with HJ Group and the Key Personnel

Our relationships with HJ Group and the Key Personnel are governed by a series of contractual arrangements that they have entered into with Jiuxin Management.

PRC regulations on foreign investment currently permit foreign companies to establish or invest in WFOEs or joint ventures that engage in wholesale or retail sales of pharmaceuticals in China. For retail sales, however, these regulations restrict the number and size of pharmacies that a foreign investor may own. If a chain operates more than thirty (30) stores and sells branded pharmaceutical products from different suppliers, a foreign investor may own only up to forty nine percent (49%) of such chain. The contractual arrangements with Jiuzhou Pharmacy enable us to bypass such restrictions, since neither we nor our subsidiaries own equity interests in Jiuzhou Pharmacy, while at the same time we retain control of its drugstore chain by virtue of the contractual arrangements.

Similarly, PRC regulations place certain restrictions on foreign ownership of medical practice. Foreign investors can only acquire ownership interests through a Sino-foreign joint venture and not through a WFOE. Since we do not have actual equity interests in Jiuzhou Clinic or Jiuzhou Service, and instead control these entities through contractual arrangements, such regulations do not apply to us or our structure.

Under PRC laws, Jiuxin Management, Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic are each independent business entities not exposed or subject to the liabilities incurred by any of the other three (3) entities. The contractual

arrangements constitute valid and binding obligations of the parties to such agreements. Each of the contractual arrangements, and the rights and obligations of the parties thereto, are enforceable and valid in accordance with the laws of the PRC. These contractual arrangements, as amended and in effect, include the following:

Consulting Services Agreement. Pursuant to certain exclusive consulting services agreements (the “Consulting Services Agreement”), Jiuxin Management has the exclusive right to provide Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic with general business operation services, including advice and strategic planning, as well as consulting services related to their current and future operations (the “Services”). Additionally, Jiuxin Management owns the intellectual property rights developed or discovered through research and development, in the course of providing the Services, or derived from the provision of the Services. Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic must each pay a quarterly consulting services fee in RMB to Jiuxin Management that is equal to its profits for such quarter. This agreement is in effect until and unless terminated by written notice of a party to the agreement in the event that: (a) a party becomes bankrupt, insolvent, is the subject of proceedings or arrangements for liquidation or dissolution, ceases to carry on business, or becomes unable to pay its debts as they become due; (b) Jiuxin Management terminates its operations; or (c) circumstances arise which would materially and adversely affect the performance or the objectives of the agreement. Jiuxin Management may also terminate the agreement with any of Jiuzhou Pharmacy, Jiuzhou Medical or Jiuzhou Clinic if one of them breaches the terms of the agreement, or without cause.

Operating Agreement. Pursuant to the operating agreement, Jiuxin Management agrees to guarantee the contractual performance by Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic of their agreements with any third party. In return, the Key Personnel must appoint designees of Jiuxin Management to the boards of directors and senior management of Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic. In addition, each of Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic agrees to pledge its accounts receivable and all of its assets to Jiuxin Management. Moreover, without the prior consent of Jiuxin Management, Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic cannot engage in any transactions that could materially affect their respective assets, liabilities, rights or operations, including, without limitation, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of their assets or intellectual property rights in favor of a third party, or transfer of any agreements relating to their business operations to any third party. They must also abide by corporate policies set by Jiuxin Management with respect to their daily operations, financial management and employment issues. The term of this agreement is from August 1, 2009 until the maximum period of time permitted by law. Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic cannot terminate this agreement.

Equity Pledge Agreement. Pursuant to certain equity pledge agreements (the “Equity Pledge Agreement”), the Key Personnel have pledged all of their equity interests in Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic to Jiuxin Management in order to guarantee these companies’ performance of their respective obligations under the Consulting Services Agreement. If these companies or the Key Personnel breach their respective contractual obligations, Jiuxin Management, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The Key Personnel have also agreed that upon occurrence of any event of default, Jiuxin Management shall be granted an exclusive, irrevocable power of attorney to take actions in the place and stead of the Key Personnel to carry out the security provisions of this agreement, and to take any action and execute any instrument that Jiuxin Management may deem necessary or advisable to accomplish the purposes of this agreement. The Key Personnel agree not to dispose of the pledged equity interests or take any actions that would prejudice Jiuxin Management’s interests. This agreement will expire two (2) years after the obligations of Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic under the Consulting Services Agreement have been fulfilled.

Option Agreement. Pursuant to the option agreement, the Key Personnel irrevocably grant Jiuxin Management or its designee an exclusive option to purchase, to the extent permitted under PRC law, all or part of their equity interests in Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic for the cost of the initial contributions to the registered capital or the minimum amount of consideration permitted by applicable PRC law. Jiuxin Management or its designee has sole discretion to decide when to exercise the option, whether in part or in full. The term of this agreement is from August 1, 2009 until the maximum period of time permitted by law.

Proxy Agreement. Pursuant to the proxy agreement, the Key Personnel irrevocably grant a designee of Jiuxin Management the right to exercise the voting and other ownership rights of the Key Personnel in Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic, including the rights to (i) attend any meeting of the Key Personnel (or participate by written consent in lieu of such meeting) in accordance with applicable laws and each company’s incorporating documents, (ii) sell or transfer all or any of the equity interests of the Key Personnel in these companies, and (iii) appoint and vote for the companies’ directors. The proxy agreement may be terminated by mutual consent of the parties or upon thirty (30) days’ written notice from Jiuxin Management.

Other than as pursuant to the foregoing contractual arrangements, Jiuzhou Pharmacy, Jiuzhou Medical and Jiuzhou Clinic cannot transfer any funds generated from their respective operations. The contractual arrangements were originally entered into on August 1, 2009, and amended on October 27, 2009.

Our Current Corporate Structure

The following diagram illustrates our current corporate structure as of March 31, 2015:

The table below summarizes the status of the registered capital of our PRC subsidiaries and controlled companies as of the date of this report:

Entity Name	Entity Type	Registered Capital	Registered Capital Paid	Due Date for Unpaid
				Registered Capital
Jiutong Medical	Subsidiary	USD 2,600,000	USD 2,600,000	N/A
Jiuzhou Clinic	VIE	N/A	N/A	N/A
Jiuzhou Pharmacy	VIE	RMB 5,000,000	RMB 5,000,000	N/A
Jiuzhou Service	VIE	RMB 500,000	RMB 500,000	N/A
Jiuxin Management	Subsidiary	USD 4,500,000	USD 4,500,000	N/A
Jiuxin Medicine	VIE	RMB 10,000,000	RMB 10,000,000	N/A
Qianhong Agriculture	Subsidiary	RMB 10,000,000	RMB 10,000,000	N/A
Quannuo Technology	Subsidiary	RMB 10,000,000	RMB 10,000,000	N/A
Shouantang Technology	Subsidiary	USD 11,000,000	USD 11,000,000	N/A
ShouantangBio	Subsidiary	RMB 1,000,000	RMB 1,000,000	N/A

Our Business

Pharmacies

We currently have fifty-nine (59) pharmacies throughout Hangzhou, the provincial capital of Zhejiang. Pharmacy sales accounted for approximately 76.6% of our retail revenue, and 63.5% of our total revenue, for the fiscal year ended March 31, 2015. We offer primarily third-party products at our pharmacies, including:

Approximately 1,270 prescription drugs (270 of which require a physician's prescription and the rest requires customer personal information registration only), sales of which accounted for approximately 36.7% of our retail revenue for the fiscal year ended March 31, 2015;

Approximately 1,400 OTC drugs, sales of which accounted for approximately 41.2% of our retail revenue for the fiscal year ended March 31, 2015;

Approximately 450 nutritional supplements, including a variety of healthcare supplements, vitamin, mineral and dietary products, sales of which accounted for approximately 10.3% of our retail revenue for the fiscal year ended March 31, 2015;

TCM, including drinkable herbal remedies and pre-packaged herbal mixtures for making soup, sales of which accounted for approximately 6.8% of our retail revenue for the fiscal year ended March 31, 2015;

Sundry products (i.e., personal care products such as skin care, hair care and beauty products, convenience products such as soft drinks, packaged snacks, and other consumable, cleaning agents, stationeries, and seasonal and promotional items tailored to local consumer demand for convenience and quality), sales of which accounted for approximately 2.1% of our retail revenue for the fiscal year ended March 31, 2015; and

Medical devices (i.e., family planning and birth control products, early pregnancy test products, portable electronic diagnostic apparatus, rehabilitation equipment, and surgical tools such as hemostats, needle forceps and surgical scissors), sales of which accounted for approximately 2.9% of our retail revenue for the fiscal year ended March 31, 2015.

We favor retail locations in well-established residential communities with relatively concentrated consumer purchasing power, and evaluate potential store sites to assess consumer traffic, visibility and convenience. Depending on its size, each drugstore has between two (2) to twelve (12) pharmacists on staff, all of whom are properly licensed. We accept prescriptions only from licensed health care providers, and verify the validity, accuracy, and completeness of all prescriptions. We also ask all prescription customers to disclose their drug allergies, current medical conditions, and current medications. Each pharmacy also maintains a TCM counter staffed by licensed herbalists.

After opening, a location without SHI coverage may take up to one year to achieve our projected revenue goals for that particular location. Various factors influence individual store revenue including, but not limited to: location, nearby competition, local population demographics, square footage, and government insurance coverage.

All of our fifty-nine (59) drugstores are located in Hangzhou.

To enhance customer experience, we have licensed physicians available at several of “Jiuzhou Grand Pharmacy” locations for consultation, examination and treatment of common ailments at scheduled hours. In addition, our Daguan, Wenhua and Xiasha stores have adjoining medical clinics that provide urgent care (such as sprains, minor lacerations, and dizziness), TCM treatments (including acupuncture, therapeutic massage, moxibustion, and cupping), and minor outpatient surgical treatments (such as suturing).

To ensure quality and personal attention for patients, we employ only licensed doctors and certified nurses and technicians, and patient treatments at our three (3) clinics follow nationally established clinical practice guidelines from China’s Ministry of Health. We currently have thirty seven (37) physicians and twenty two (22) clinic staff. In-store consultations and examinations by our physicians are provided free-of-charge to ensure that customers are being prescribed and taking the appropriate medicines for their ailments, and to afford customers convenience.

We view our medical services as more consumer-driven than other health care specialties, because consumers requiring the types of medical services that we provide often seek treatment on their own accord. We have developed our medical services to respond to the public need for convenient access to medical consultations and/or care and the significant savings that we can provide as compared to a more traditional medical setting such as a hospital. Many of our patients often need immediate access to medical services, do not have a regular physician, or may lack suitable alternatives. Patient flow is derived from the physical presence of our drugstores, not from pre-existing doctor-patient relationships or referrals from other healthcare providers.

We generate limited revenue directly from our clinics.

Online Sales

Since May 2010, we have been retailing OTC drugs and nutritional supplements on the Internet at www.dada360.com. Our subsidiary Quannuo Technology operates and maintains the website pursuant to the Internet Pharmaceutical Transaction Service Qualification Certificate issued by the State Food and Drug Administration (the “SFDA”) of Zhejiang Province, which allows us to engage in online retail pharmaceutical sales throughout China. We have established payment methods with banks and online intermediaries such as Alipay, and are cooperating with business-to-consumer online vendors such as Taobao. By using Taobao’s platform, we can be exposed to a wider range of customers. Additionally, we sell products via our own website www.dada360.com.

Online sales accounted for approximately 23.4% of our retail revenue, and 19.4% of our total revenue, for the fiscal year ended March 31, 2015.

Wholesale

Since acquiring Jiuxin Medicine in August 2011, we have been distributing similar third-party products offered at our pharmacies primarily to drug distributors throughout China, including:

Approximately 599 prescription drugs, the sales of which accounted for approximately 58.9% of our wholesale revenue for the fiscal year ended March 31, 2015;

Approximately 655 OTC drugs, the sales of which accounted for approximately 38.5% of our wholesale revenue for the fiscal year ended March 31, 2015;

Approximately 42 nutritional supplements, the sales of which accounted for approximately 0.7% of our wholesale revenue for the fiscal year ended March 31, 2015;

TCM products, the sales of which accounted for approximately 1.2% of our wholesale revenue for the fiscal year ended March 31, 2015;

Sundry products, the sales of which accounted for approximately 0.6% of our wholesale revenue for the fiscal year ended March 31, 2015; and

Medical devices, the sales of which accounted for approximately 0.1% of our wholesale revenue for the fiscal year ended March 31, 2015.

Our initial wholesale strategy was to scale the size of Jiuxin Medicine's business as quickly as possible through very competitive prices so that we could qualify to sell directly to hospital-affiliated pharmacies, which we estimate to represent over eighty percent (80%) sales of the pharmacies in China. However, that strategy has largely proven unprofitable, so we refocused our strategy on profitability starting in the third quarter of fiscal 2014. As local hospitals had stronger ties with their existing suppliers, during the year ended March 31, 2015, we had not been able to make significant progress. Wholesale revenue accounted for approximately 17.2% of our total revenue for the fiscal year ended March 31, 2015.

Herb Farming

From 2010 to the third quarter of fiscal 2013, we have been cultivating and harvested ten (10) types of herbs, such as fructusrubi (used in TCM to promote blood circulation), white atractylodes rhizome (used in TCM to treat physical and mental fatigue), atractylodesmacrocephala (used in TCM to control sweating), ginkgo seeds (used in TCM to treat asthma), and maidenhair trees used for TCM on approximately forty eight (48) acres of leased land in Lin'an approximately thirty (30) miles from Hangzhou.

We planted Ginkgo and maidenhair trees during the year ended March 31, 2013; A Ginkgo tree may have a growth period of up to twenty years before it is mature enough to harvest. Usually, the longer it grows, the more valuable it becomes. We plan to continue cultivating the trees in order to maximize their market value in the future. During the year ended March 31, 2015, we did not plant any other herbs that were ready to be harvested as of March 31, 2015. We anticipate that we will continue growing trees and start cultivating other herbs in the future.

Actual planting, cultivating and harvesting are done by local farmers organized and managed by the local village government. The farmers are compensated for their labor on an hourly basis. We also employ agricultural specialists under Qianhong Agriculture to monitor the farming activities. Harvested herbs are generally sold to a local vendor.

Herb farming revenue accounted for no revenue for the fiscal year ended March 31, 2015.

Our Customers

Retail Customers

For the fiscal year ended March 31, 2015, our pharmacies collectively served an average of approximately 12,000 customers per day. We periodically conduct qualitative customer surveys to help us build a stronger understanding of our market position and our customers' purchasing habits.

Pharmacy customers pay by cash, debit or credit card, or medical insurance cards under Hangzhou and Zhejiang's medical insurance programs. During the fiscal year ended March 31, 2015, approximately 25.7% of our pharmacy revenue came from cash sales, 57.7% from Hangzhou's medical insurance cards (where most of our pharmacies are located), and 16.6% from debit and credit cards, Zhejiang's medical insurance cards and other charge cards.

We maintain strict cash control procedures at our pharmacies. Our integrated information management system records the details of each sale, which we control from our headquarters. Depending on each location's sales activities, cash may be deposited daily or several times per week in designated bank accounts.

For sales made to eligible participants in the national medical insurance program, we generally obtain payments from the relevant government social security bureaus on a monthly basis. See "*Relevant PRC Regulations - Reimbursement under the National Medical Insurance Program.*" According to relevant regulations, a drugstore must operate for at least one (1) year before it can apply to be licensed to accept Hangzhou's medical insurance cards. As of the date of this report, fifty-six (56) of our fifty-nine (59) "Jiuzhou Grand Pharmacy" stores are licensed to accept medical insurance cards while two (3) will apply for approval in the near future. Those of our stores that accept medical insurance cards are designated as such by clear signage on their storefront windows.

Online Sales Customers

Our online customers mainly consist of consumers under thirty five (35) years of age. While our website is accessible throughout China, approximately forty percent (40%) of our online sales during the fiscal year ended March 31, 2015, were from Zhejiang and neighboring Jiangsu and Shanghai.

Wholesale Customers

Our wholesale customers are primarily third-party trading companies that purchase from us to resell to pharmacies throughout China. We also supply some hospitals and pharmacies, although they collectively make up less than 10.0% of our wholesale customers currently. HuaDong Pharmaceutical Co., Ltd. accounted for approximately 22.4% of our wholesale revenue, and 8.7% of our total revenue, for the fiscal year ended March 31, 2015. This customer is neither related to nor affiliated with us.

Herb Farming Customers

Our farming customers primarily include local herb vendors. For the fiscal year ended March, 31, 2015, we have not harvested or sold any herbs.

Marketing and Promotion

Our marketing and promotion efforts are focused on our retail segment, particularly our pharmacies, and our strategy is to build brand recognition, increase customer flow, build strong customer loyalty, maximize repetitive customer visits, and develop incremental revenue opportunities.

Our marketing department designs chain-wide marketing efforts while each store designs local promotions based on local demographics and market conditions. We also launch single store promotional campaigns and community activities in connection with the opening of new stores. Our store managers and staff are also encouraged to propose their own advertising and promotional plans, including holiday promotions, posters and billboards. In addition, we offer special discounts and gift promotions for selected merchandise periodically in conjunction with our suppliers' marketing programs. We also provide ancillary services such as providing free blood pressure readings in our stores.

Many of our promotional programs are designed to encourage manufacturers to invest resources to market their brands within our stores. We charge manufacturers promotional fees in exchange for the right to promote and display their products in our stores during promotional periods. We also allow manufacturers and distributors to station salespeople in our stores to promote their products, for which we receive a fee. Since manufacturers provide purchasing incentives and information to help customers to make informed purchase decisions, we believe that manufacturer-led promotions improve our customers' shopping experience. We work to maintain strong inventory positions for merchandise featured in our promotions, as we believe this increases the effectiveness of our spending on promotional activities.

We run advertisements periodically in selected newspapers to promote our brands and the products carried in our stores. Under our agreements with certain newspapers, we run one-page weekly or monthly advertisements, and the newspapers publish healthcare-related feature articles relating to our advertised products on or around the dates of our advertisements. We also promote our brands and products using billboards and radio and television commercials. Depending on our agreement with a particular manufacturer, advertising expenses are borne either by us, the manufacturer of the products being advertised, or are shared as a joint expense. Our advertisements are designed to promote our brands, our corporate image and the prices of products available for sale in our stores.

As part of our marketing campaign, we offer rewards cards to customers, which provide certain exclusive discounts. After a customer signs up for the rewards card, we communicate via the customer's preferred method: e-mail, traditional mail or text messages. For the fiscal year ended March 31, 2015, approximately 72.0% of our customers used their rewards card to make purchases. We intend to further extend this program to enhance the customer experience and for customer retention.

Our clinic staff also regularly offers free seminars and outreach programs covering various health issues that are topical to the communities where our stores are located. Such events are designed not only to raise public health awareness, but to reach potential customers for our drugstores.

To promote our online business, we are cooperating with Taobao, the largest online vendor in China, to help raise awareness among potential customers. Taobao lists our products on their platform, which then directs consumers back to our website to make their purchases.

Logistics

We use Jiuxin Medicine's resources to support our logistics needs in Hangzhou. Such resources include its 8,000 square meters facility located approximately seven (7) miles from our headquarters, which serves as our central distribution center. Jiuxin Medicine's staff and vehicles make regular deliveries to our pharmacies and wholesale customers.

We employ third-party logistics companies for deliveries to our pharmacies and wholesale customers outside Hangzhou. We believe that reliable logistics providers are readily available and can be replaced without any material interruptions to our business.

Suppliers