

Comjoyful International Co  
Form 10-Q  
August 19, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C.20549**

**FORM 10-Q**

**x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2015

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 001-34998

**COMJOYFUL INTERNATIONAL COMPANY**

(Exact name of registrant as specified in its charter)

**Nevada**                                 **84-0691531**  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

**J4-2-12, Diplomatic Residence Compound,**

**No.1 Xiushui Street, JianguomenWai,**

**Chaoyang District, Beijing 100600, China**

**(Address of Principal Executive Offices including zip code)**

**0086 10 858 92903**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 x 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 (§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 x No o

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company

Large Accelerated Filer" Accelerated Filer" Non-Accelerated Filer " Smaller reporting  
company x  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Yes" No x

The Registrant had 2,080,873 shares of common stock outstanding on August 19, 2015.

**COMJOYFUL INTERNATIONAL COMPANY**

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**PART I. FINANCIAL INFORMATION****Item 1. Interim Financial Statements****COMJOYFUL INTERNATIONAL COMPANY****CONSOLIDATED BALANCE SHEETS**

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash	\$ 56,375	\$ 28,329
Inventories	129,553	154,771
Other current assets	68,090	62,428
Total current assets	254,018	245,528
Property and equipment, net	75,362	100,480
Advance payment for leasehold improvements	-	752,776
Rental deposits	40,348	97,099
Intangible assets, net	12,944	22,102
Total Assets	\$ 382,672	\$ 1,217,985
Liabilities and Deficit		
Current liabilities:		
Other current liabilities	\$ 1,604,288	\$ 1,517,751
Due to third parties	793,726	687,539
Due to owners	1,051,986	283,054
Unearned income-current portion	300,022	802,148
Total current liabilities	3,750,022	3,290,492
Unearned income-long-term portion	2,897,870	2,484,025
Advances from investors of new clubs	554,937	551,578
Total liabilities	7,202,829	6,326,095
Commitments and Contingencies		
Deficit		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value, 50,000,000 shares authorized, 2,080,873 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	20,808	20,808

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Additional paid-in capital	3,139,140	3,139,140	
Accumulated deficit	(9,581,423 )	(7,932,249 )	)
Accumulated other comprehensive loss	(58,378 )	(26,192 )	)
Total Comjoyful International Company stockholders' deficit	(6,479,853 )	(4,798,493 )	)
Non-controlling interests	(340,304 )	(309,617 )	)
Total Deficit	(6,820,157 )	(5,108,110 )	)
Total Liabilities and Deficit	\$ 382,672	\$ 1,217,985	

The accompanying notes are an integral part of the consolidated financial statements

Certain of the assets of the VIEs can be used only to settle obligations of the consolidated VIEs. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets.

## COMJOYFUL INTERNATIONAL COMPANY

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	\$81,783	\$306,574	\$192,418	\$669,341
Cost of revenues	(140,850 )	(331,261 )	(284,640 )	(786,209 )
Gross loss	(59,067 )	(24,687 )	(92,222 )	(116,868 )
Operating expenses				
Selling and general and administrative expenses	(326,587 )	(390,116 )	(808,287 )	(901,320 )
Impairment of long-lived assets	(827,819 )	-	(827,819 )	-
Total operating expenses	(1,154,406)	(390,116 )	(1,636,106)	(901,320 )
Loss from operations	(1,213,473)	(414,803 )	(1,728,328)	(1,018,188)
Other income/(expenses)				
Interest expenses	(19,986 )	(23,561 )	(30,371 )	(30,685 )
Other income/(expenses)	80,452	(83,915 )	80,425	(84,244 )
Total other expenses	60,466	(107,476 )	50,054	(114,929 )
Loss before income taxes expense	(1,153,007)	(522,279 )	(1,678,274)	(1,133,117)
Income tax expense	-	-	-	-
Net loss	(1,153,007)	(522,279 )	(1,678,274)	(1,133,117)
Less: Net loss attributable to non-controlling interests	(10,499 )	(22,556 )	(29,100 )	(45,752 )
Net loss attributable to Comjoyful International Company	(1,142,508)	(499,723 )	(1,649,174)	(1,087,365)
Comprehensive loss				
Net loss	(1,153,007)	(522,279 )	(1,678,274)	(1,133,117)
Foreign currency translation adjustment	(15,928 )	(3,170 )	(33,773 )	14,542
Total comprehensive loss	(1,168,935)	(525,449 )	(1,712,047)	(1,118,575)
Less: Comprehensive loss attributable to non-controlling interests	(10,987 )	(22,781 )	(30,687 )	(60,948 )
Comprehensive Loss Attributable to Comjoyful International Company	\$(1,157,948)	\$(502,668 )	\$(1,681,360)	\$(1,057,627)
Loss Per Share Basic and Diluted	\$(0.55 )	\$(0.24 )	\$(0.79 )	\$(0.55 )
Weight Average Number of Common Shares Outstanding-Basic and Diluted	2,080,873	2,080,873	2,080,873	1,977,224

The accompanying notes are an integral part of the consolidated financial statements

## COMJOYFUL INTERNATIONAL COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	2015	2014
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net loss	\$(1,678,274 )	\$(1,133,117 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	22,395	206,576
Amortization of intangible assets	3,521	3,704
Impairment of long-lived assets	827,819	84,164
Changes in current assets and liabilities:		
Inventories	26,090	(69,339 )
Other current assets	(5,269 )	(38,782 )
Rental deposits	57,187	-
Other current liabilities	77,085	301,477
Unearned income	(107,998 )	(277,982 )
Net cash used in operating activities	(777,444 )	(923,299 )
Cash flows from investing activities:		
Cash paid to purchase property, plant and equipment	(310 )	(13,160 )
Advance payment for leasehold improvements	(63,192 )	(61,226 )
Net Cash used in investing activities	(63,502 )	(74,386 )
Cash flows from financing activities:		
Loan to an owner	(139,830 )	(83,018 )
Collection from an owner	497,718	1,011,625
Due to owners	408,137	15,349
Due to third parties	101,724	64,803
Net cash provided by financing activities	<b>867,749</b>	1,008,759
Effect of foreign exchange rate on cash	1,243	(15,491 )
Net change in cash	28,046	(4,417 )
Cash at beginning of period	28,329	28,920
Cash at end of the period	\$56,375	\$24,503
Supplemental cash flow information		
Interest paid	\$-	\$-



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Income taxes paid	\$-	\$-
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The accompanying notes are an integral part of the consolidated financial statements.

**COMJOYFUL INTERNATIONAL COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**1. ORGANIZATION AND DESCRIPTION OF BUSINESS**

Comjoyful International Company (the "Company"), formerly known as Camelot Corporation ("Camelot Colorado"), was incorporated pursuant to the laws of the State of Colorado on September 5, 1975, and completed a \$500,000 public offering of its common stock in March 1976. The Company made several acquisitions and divestments of businesses. The Company was delisted from NASDAQ's Small Cap Market on February 26, 1998. In July 1998 all employees of the Company were terminated.

On April 28, 2011, at the special meeting, a majority of the shareholders of Camelot Corporation approved the adoption of a proposed Agreement and Plan of Merger, to reincorporate Camelot Corporation, a Colorado corporation in the State of Nevada by merger with and into a Nevada corporation with the name Camelot Corporation ("Camelot Nevada") (the "Migratory Merger"). Camelot Colorado formed Camelot Nevada expressly for the purpose of the Migratory Merger.

On September 21, 2012, Andrea Lucanto ("Ms. Lucanto"), the sole officer and director of the Company agreed to assume the debt of \$74,345 owed by the company to a third party. In exchange Ms. Lucanto was issued 74,345 shares of the company's common stock. The stock was valued at \$1.00 per share, which was negotiated by both parties. Upon issuance of the shares Ms. Lucanto owns 1,784,497 shares of Common Stock, or approximately 85.76% of the issued and outstanding Common Stock.

On December 12, 2012, Comjoyful International Ltd., a company incorporated under the laws of the British Virgin Islands ("Comjoyful BVI"), and Ms. Lucanto entered into a Stock Purchase Agreement pursuant to which Ms. Lucanto sold to Comjoyful BVI 1,784,497 shares of the Common Stock, representing approximately 85.76% of the total issued and outstanding shares of Common Stock (the "Transaction"). At the closing of the Transaction, Ms. Lucanto resigned from her positions as officer and director of the Company. As a result, Comjoyful BVI attained voting control of the Company, and Mr. Yazhong Liao became the Chief Executive Officer, President and Chief Financial Officer, and was also appointed as a director of the Company.

On December 28, 2012, the Company and its wholly-owned subsidiary (the "Company Sub") entered into an Agreement and Plan of Merger and on January 2, 2013 filed with the Secretary of State of Nevada Articles of Merger,

pursuant to which the Company Sub was merged with and into the Company (the "Name Change Merger"). The legal existence of the Company Sub, which had no assets or operations on the date of the Name Change Merger, was terminated effective as of the consummation of the Name Change Merger. Under Nevada law (NRS Section 92A.180), the Company may merge the Company Sub into itself without stockholder approval and effectuate a name change without stockholder approval. As a result, the Company changed its name to Comjoyful International Company.

On January 17, 2014 (the "Signing Date"), through a series of contractual arrangements (the "VIE Agreements"), the Company acquired Wuxi Kangjiafu Royal Traditional Investment Management Co., Ltd. ("Wuxi KJF"), a company based in Wuxi, Jiangsu province, the People's Republic of China (the "PRC" or "China"), in the business of operating healthcare clubs specialized in providing Chinese traditional physiotherapy services and other relaxing treatments. For purposes of entering into the VIE Agreements, Nanjing Kangjiafu Investment Consulting Co., Ltd. (the "Nanjing KJF") was incorporated in June 2013 by our fully-owned subsidiary, Comjoyful Industrial Development Limited, a Hong Kong company incorporated in April 2013.

#### *Entrusted Management Agreement*

Pursuant to an entrusted management agreement (the "Entrusted Management Agreement") among Yazhong Liao ("Mr. Liao"), Zhangmei Zhang ("Ms. Zhang"), Huiwen Qu ("Mr. Qu") (collectively, the "Wuxi KJF Shareholders"), and Nanjing KJF, agreed to entrust the business operations and management of Wuxi KJF to Nanjing KJF until Nanjing KJF acquires all of the assets or equity of Wuxi KJF (as more fully described under "Exclusive Option Agreement" below). Pursuant to the Entrusted Management Agreement, Nanjing KJF manages all of Wuxi KJF's operations, and controls all of Wuxi KJF's cash flow and assets through entrusted or designated bank accounts, and Nanjing KJF assumes all the operation risks and bears all losses of Wuxi KJF, including paying all Wuxi KJF's debts to the extent Wuxi KJF is not able to pay such debts. Nanjing KJF has right to collect a management fee from Wuxi KJF, which shall be paid after payment of a certain service fee to Nanjing KJF, as more fully described in the section entitled "Exclusive Technology Service Agreement" below. Wuxi KJF must appoint the persons designated by Nanjing KJF to be its executive director or directors, general manager, chief financial officer and any other senior officers. The Entrusted Management Agreement will remain in effect until Nanjing KJF acquires Wuxi KJF or Wuxi KJF is dissolved.

*Shareholders' Voting Proxy Agreement*

Pursuant to a shareholders' voting proxy agreement (the "Shareholders' Voting Proxy Agreement") between the Wuxi KJF Shareholders and Nanjing KJF, the Wuxi KJF Shareholders irrevocably appointed the designee of Nanjing KJF as their proxy to vote on all matters with respect to the Wuxi KJF Shareholders' shares of Nanjing KJF. The Shareholders' Voting Proxy Agreement may not be terminated prior to the completion of acquisition of all assets or equity of Wuxi KJF by Nanjing KJF.

*Exclusive Option Agreement*

Pursuant to the exclusive option agreement (the "Exclusive Option Agreement") among the Wuxi KJF Shareholders, Wuxi KJF and Nanjing KJF, the Wuxi KJF Shareholders and Wuxi KJF granted Nanjing KJF an irrevocable, exclusive purchase option to purchase all or part of the shares of Wuxi KJF held by the Wuxi KJF Shareholders, and all the assets and business of Wuxi KJF. The option is exercisable at any time but only to the extent that such purchase does not violate any PRC law then in effect. The exercise price will be the minimum price permitted under then applicable PRC law. Only the Nanjing KJF has the power to terminate the Exclusive Option Agreement.

*Exclusive Technology Service Agreement*

Pursuant to the technology service agreement between Wuxi KJF and Nanjing KJF (the "Exclusive Technology Service Agreement"), Wuxi KJF engaged Nanjing KJF as the sole technology service provider relating to, among other things, consultation of product marketing, investment management, global marketing, enterprise management and certain other business services required by Wuxi KJF. Pursuant to the Exclusive Technology Service Agreement, Wuxi KJF agreed to pay a service fee to Nanjing KJF based on certain factors set forth in the agreement, and Wuxi KJF agreed not to engage any third party for any of its technology services provided under the agreement. In addition, Nanjing KJF exclusively owns all intellectual property rights resulting from the performance of this agreement. The Exclusive Technology Service Agreement will remain in effect until the acquisition of all assets or equity of Wuxi KJF by Nanjing KJF is completed or Wuxi KJF is dissolved.

*Share Equity Pledge Agreement*

In order to guarantee the performance by Wuxi KJF and Wuxi KJF Shareholders of their respective obligations under the VIE Agreements, Wuxi KJF, the Wuxi KJF Shareholders and Nanjing KJF entered into a Share Equity Pledge

Agreement, pursuant to which the Wuxi KJF Shareholders pledged to Nanjing KJF all of their rights, titles and equity interest in Wuxi KJF, including the right to all dividends, money, interest, voting and other rights and benefits arising in respect of such equity interests. The Share Equity Pledge Agreement also prohibits the Wuxi KJF Shareholders from transferring their equity interests in Wuxi KJF while the agreement remains in effect.

As a result of the transactions described above, Comjoyful International Company became the record and beneficial owner of the share capital of Wuxi KJF and its subsidiaries indirectly. The reverse recapitalization of the Company was consummated.

Wuxi KJF, formerly known as Wuxi KangJiaFu Royal Traditional Health Management Co., Ltd., was incorporated in Wuxi City, Jiangsu Province of PRC on September 17, 2010, as a limited liability company which was 60% owned by Wuxi KangJiaFu Biotech Technology Co., Ltd, (the "KJF Biotech") and 40% owned by 20 individual shareholders with 2% each (the "Other Founders"). The Company is principally engaged in providing an integrated suite of physiotherapy services and solutions to individual customers.

On September 10, 2012, Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu signed a series of share transfer agreements with KJF Biotech and Other Founders. According to these agreements, KJF Biotech and Other Founders of Wuxi KJF transferred all of their shares to Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu. Therefore, Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu owned 60.004%, 27.498% and 12.498% equity interest of Wuxi KJF, respectively.

Wuxi Binhu District KangJiaFu Royal Traditional Health Preserving Club (the "Wuxi Club") was incorporated in Wuxi City, Jiangsu Province of PRC on January 26, 2011 as a limited partnership. 39.8% of Wuxi Club was owned by Wuxi KJF, 60% was owned by 10 individual limited partners and 0.2% was owned by general partner Huiwen Qu. When Wuxi Club was incorporated, Wuxi KJF signed Unanimous Action Letter together with other 10 limited partners and one general partner. Pursuant to the Unanimous Action Letter, Wuxi KJF and the other 11 partners agreed that they would vote in concert on corporate matters with respect to Wuxi Club. Therefore, Wuxi KJF has the controlling voting interest of Wuxi Club and Wuxi Club is consolidated as a subsidiary of Wuxi KJF.

On November 15, 2012, KJF Group Inc. (the "KJF Group") was incorporated in British Virgin Islands as a BVI Business Company. On November 15, 2012, KJF Group issued 50,000 shares with a par value of US\$1.00 to 195 members. Mr. Yazhong Liao, Ms. Zhangmei Zhang, Mr. Huiwen Qu, Ms. Xiuxia Ji and Mr. Yimin Gu owned 14.994%, 13.994%, 11.996%, 4.998% and 4.918% ordinary shares of KJF Group, respectively, which is 50.9% in total. The other 190 individuals owned 49.1% ordinary shares of KJF Group. These 190 individuals are all individual investors Wuxi KJF entered into partnership co-investment agreements with them in order to establish new clubs and expand business, including Wuxi, Nanjing, Jintan, Nantong, Yixing, Changzhou, Jiangyin and Shanghai. By issuing shares of KJF Group to these investors, Wuxi KJF has entered into agreement with them that the initial co-investment agreements were forfeited and their investment in clubs would be consideration for subscribing KJF Group's shares at RMB100,000 for 99 shares (the "New Agreement"). The New Agreement is effective upon the consummation of the going public of Wuxi KJF. Equity interest of the above 190 individual investors in correspondence clubs would be returned if the going public did not consummate.

On December 18, 2012, in accordance with the New Agreement, the new partners Ms. Qiuqiu Qian, Mr. Mingjie Xu and Mr. Xinhua Gu signed All Partners Resolution together with Wuxi KJF, 10 individual limited partners and general partner Huiwen Qu. According to the All Partners Resolution, 10 individual limited partners transferred all of their shares in Wuxi Club to the new partners and Wuxi KJF. Therefore, Wuxi KJF, Ms. Qiuqiu Qian, Mr. Mingjie Xu, Mr. Xinhua Gu, and Mr. Huiwen Qu owned 96.2%, 1.2%, 1.2%, 1.2%, and 0.2% equity interest of Wuxi Club, respectively. On January 17, 2014, as the consummation of the going public of Wuxi KJF became effective though the reverse recapitalization of the Company, non-controlling interests of the total equity interest in Wuxi Club decreased from 60.2% to 3.8%.

Nanjing KangJiaFu Royal Traditional Health Preserving Club (the "Nanjing Club") was originally founded in Nanjing City, Jiangsu Province of PRC on August 31, 2012, as a limited partnership which was 58.33% owned by Wuxi KJF, 41.59% owned by 20 individual limited partners and 0.08% owned by general partner Huiwen Qu. In accordance with

New Agreement, Wuxi KJF owned 79.17% of the total equity interest in Nanjing Club and Non-controlling interest owned 20.83% of the total equity interest in Nanjing club, respectively. On January 17, 2014, as the consummation of the going public of Wuxi KJF became effective through the reverse recapitalization of the Company, non-controlling interests of the total equity interest in Nanjing Club decreased from 41.67% to 20.83%.

Jintan KangJiaFu Royal Traditional Health Investment Management Co., Ltd. (the "Jintan Club") was originally founded in Jintan City, Jiangsu Province of PRC on October 10, 2013, as a subsidiary which was 100% owned by Wuxi KJF.

**2.**

**GOING CONCERN**

The consolidated financial statements are prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of obligations in the normal course of business. The Company had recurring consolidated losses of \$1,678,274 for the six months ended June 30, 2015 and \$1,133,117 for the six months ended June 30, 2014, negative working capital of \$3,496,004 as of June 30, 2015 and \$3,044,964 as of December 31, 2014, and has a total deficit of \$6,820,157 as of June 30, 2015 and \$5,108,110 as of December 31, 2014. These conditions raise substantial doubt about the ability of the Company to continue as a going concern.

In view of these matters, continuation as a going concern is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financial requirements, raise additional capital, and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern.

The management plans to raise necessary working capital by developing new products and services, and the stockholders of the Company Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu would provide any capital shortfall. KJF Biotech has also repaid \$2,510,441 to Wuxi KJF during the year 2014. There are no assurances that the Company will be successful in achieving these goals.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Consolidated financial statements**

The interim consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The interim consolidated financial information as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, which are normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP, have been omitted pursuant to those rules and regulations. The interim consolidated financial information should be read in conjunction with the financial statements and the notes thereto, included in the Company's Form 10-K for the fiscal year ended December 31, 2014, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company's consolidated financial position as of June 30, 2015, its consolidated results of operations for three and six months ended June 30, 2015 and 2014, and its consolidated cash flows for the six months ended June 30, 2015 and 2014, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

#### **Foreign currency transactions and translation**



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The reporting currency of the Company is United States Dollars (the “USD”) and the functional currency of Wuxi KJF is Renminbi (the “RMB”) as China is the primary economic environment in which they operate.

For financial reporting purposes, the financial statements of Wuxi KJF, which are prepared using RMB, are translated into the reporting currency, United States dollar (“U.S. dollar”) so to be consolidated with the Company’s. Monetary assets and liabilities denominated in currencies other than the reporting currency are translated into the reporting currency at the rates of exchange ruling at the balance sheet date. Revenues and expenses are translated using average rates prevailing during the reporting period. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive income in owners’ deficit. Transaction gains and losses are recognized in the statements of operations and comprehensive income.

The exchange rates applied are as follows:

	June 30, 2015	December 31, 2014
Balance sheet items, except for equity accounts	6.1088	6.1460
	Three months ended June 30, 2015	2014
Items in the statements of operations and comprehensive loss, and statements cash flows	6.1067	6.1658

	Six months ended June 30,	
	2015	2014
Items in the statements of operations and comprehensive loss, and statements cash flows	6.1254	6.1419

### **Use of estimates**

The preparation of the consolidated financial statements in accordance with US GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates and assumptions including those related to the useful lives and recoverability of the carrying amount of property, plant and equipment, impairment of long-lived assets, and deferred tax based on historical experience and various other factors believed to be reasonable under the circumstances, and accruals for income tax uncertainties and other contingencies. Changes in facts and circumstances may result in revised estimates.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and demand deposits or liquid investments that are placed with banks and other financial institutions and are unrestricted as to withdrawal or use, or have remaining maturities of three months or less.

### **Inventories**

Inventories are materials used in the physiotherapy process. Such items include: Chinese traditional medicine packages, essential oil, towels and so on, are stated at the lower of cost or market value. Cost is determined using weighted average method.

### **Fair value of financial instruments**

ASC Topic 820 "Fair Value Measurement and Disclosures," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the

asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

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

Level 2 - Observable inputs other than Level 1 prices 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.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates their hierarchy disclosures in each quarter.

Financial instruments include cash and cash equivalents, advance to suppliers, other current assets, amounts due from related parties, amounts due to related parties, and other current liabilities. The carrying amount reported in consolidated balance sheets approximated their fair values because of the short maturity of these instruments.

## Property and equipment

Property and equipment are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing that asset to its present working condition and location for its intended use. Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated on the straight-line basis over the expected beneficial periods.

The leasehold improvements represent the actual cost for bringing the club spaces and office spaces, the Company leased to the condition necessary for their intended use (to provide service to our customers or to provide work place for administrative staff). The costs include payments to fitment construction companies, construction materials, air conditioning system, electricity system, etc. Leasehold improvements are amortized over 5-year period, which is the shorter of the lease term and estimated useful life.

Depreciation is provided to write off the cost of property and equipment over their useful lives from the date on which they become fully operational and after taking into account their estimated salvage values, using the straight-line method:

Furniture, computer and electronic equipment and leasehold improvement	5 years
Office equipment	5 years
Motor vehicle	5 years

Management estimates the salvage value of property plant and equipment to be 5% of original value excluding leasehold improvement. The salvage value of leasehold improvement estimated by the management is 0%.

## Intangible assets

Intangible assets consists of software and are stated at cost less accumulated amortization.

Intangible assets are amortized using the straight-line basis over the estimated useful lives as follows:

Accounting and operational software 5 years

### **Impairment of Long-Lived Assets**

Long-lived assets, including property and equipment and purchased intangible assets with finite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of long-lived assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Company recorded impairment losses for long-lived assets of \$827,819 for the six months ended June 30, 2015 and nil for the six months ended June 30, 2014 (See Note 6). Impairment of long-lived assets is \$827,819 for the three months ended Jun 30, 2015 and nil for the three months ended Jun 30, 2014.

## **Revenue recognition**

Revenues are recognized when the following four criteria are met: (i)persuasive evidence of an arrangement exists, (ii)the service has been rendered, (iii)the fees are fixed or determinable, and (iv)collectability is reasonably assured.

### Service Revenue

The Company generates service revenue primarily from providing physiotherapy services including pedicure, sauna and massage to its individual customers. Upon receipt of the upfront cash payments for the pre purchase of multiple massages from the individual customer, the full payment will be deferred and recognized as unearned income. The Company recognizes service revenue proportionately when services are provided to the customer, and there is no expiration date for the prepayment. Unearned income for which the deliveries of services are expected to occur after twelve months is recognized as long-term portion of unearned income liability.

The Company also provides its customers Health Recuperation service, which mainly arranges its customers to take holiday in some famous tourist cities. The Company is responsible for the whole service including providing recruiting members, transportation and accommodation etc. The service fee is collected in advance. The Company recognizes Health Recuperation service when the service is rendered completely. Considering the Company is main service provider and obligator for the whole service, revenue is recognized on a gross basis.

### Sundry Foods Revenue

The Company also sells sundry foods to the individual customers when provided with physiotherapy services. Sundry Food Revenue is recognized after foods are delivered, the price is fixed or determinable and collection of the receivable is reasonably assured.

### Health Drink Products Revenue

The Company sells health drink products to its customers. Health drink products revenue is recognized after the health drink products are delivered, the price is fixed or determinable and collection of the receivable is reasonably assured.

## **Cost of Revenues**

Cost of revenues primarily consists of salaries, bonuses and allowances paid to physiotherapists and other service staff, rental payments, materials consumed during the physiotherapy, the depreciation and amortization of property and equipment, and the business taxes. Cost of health drink products primarily consists of materials and processing fee.

## **Operating leases**

Wuxi KJF, Wuxi Club, Nanjing Club and Jintan Club all lease office or operating premises under non-cancelable operating leases. Payments made under operating leases are charged to the consolidated statements of income on a straight-line basis over the lease term. Rental and property management fee expenses for the six months ended June 30, 2015 and 2014 were \$306,502 and \$338,121, respectively, and for the three months ended June 30, 2015 and 2014 were \$138,260 and \$167,891, respectively.

Wuxi KJF and Wuxi Club signed the lease agreement and property management agreement with the same landlord as their office and operation are in the same premise in July 2010. The lease term was 9 years with no renewal period. The rental increases 16.7% at the end of the third year and 21.4% at the end of the sixth year, and the property management fee remains flat.

Nanjing Club signed the lease and property management agreement in August 2011. The lease term was 10 years with no renewal period. There was a 184-day rental holiday at the inception of the lease and the rental increases 5% each year from the third year of the lease term and the property management fee remains flat. On June 30, 2015, Nanjing Club signed the early termination agreement with the lessor, as Nanjing Club is going to be closed.

Jintan Club signed the lease and property management agreement in April 2012. The lease term was 10 years with no renewal period. The rental increases 6% each year and the property management fee remains flat.

Wuxi KJF signed the lease and property management agreement for future Nantong Club in September 2011. The lease term was 10 years with no renewal period. There was a 150-day rental holiday at the inception of the lease and the rental increases 5% at the end of the third year and the end of the sixth year, and the property management fee remains flat. Nantong Club is not going to be opened, and the lease will be terminated.

### **Income taxes**

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provision for income taxes.

### **Comprehensive loss**

Comprehensive loss includes net loss and foreign currency translation adjustments. Comprehensive loss is reported in the consolidated statements of operations and comprehensive loss. Accumulated other comprehensive loss, as presented on the balance sheets are the cumulative foreign currency translation adjustments.

### **Significant risks and uncertainties**



*Credit risk*

Assets that potentially subject the Company to significant concentration of credit risk primarily consist of cash. The maximum exposure of such assets to credit risk is their carrying amount as of the balance sheet dates. As of June 30, 2015 and December 31, 2014, the Company held cash in banks of \$4,794 and \$8,958, respectively, which were deposited in financial institutions located in Mainland China, which were uninsured by the government authority. To limit exposure to credit risk relating to deposits, the Company primarily place cash deposits with large financial institutions in China which management believes are of high credit quality.

The Company's operations are carried out in Mainland China. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC as well as by the general state of the PRC's economy. In addition, the Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, rates and methods of taxation, and the extraction of mining resources, among other factors.

**Recently issued accounting pronouncements**

There were various accounting standards and updates recently issued, none of which are expected to have a material impact on the Company's financial position, operations, or cash flows.

**4.**

**INVENTORIES**

Inventories as of June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015 (Unaudited)	December 31, 2014
Medicinal materials	\$ 33,822	\$ 45,545
Other materials	95,731	109,226
Total	\$ 129,553	\$ 154,771

**5. OTHER CURRENT ASSETS**

Other current assets as of June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015 (Unaudited)	December 31, 2014
Advances to staff for business use	\$ 1,273	\$ 9,072
Advance to suppliers	62,447	52,704
Others	4,370	652
Total	\$ 68,090	\$ 62,428

Advance to suppliers mainly represents prepayment to suppliers for purchase materials and other necessary ingredients for the production of health drink.

**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment consisted of the following as of June 30, 2015 and December 31, 2014:

	June 30, 2015 (Unaudited)	December 31, 2014
Leasehold improvements	\$ -	\$ 10,228
Furniture and office equipment	53,200	53,414
Computer and electronic equipment	30,184	29,860
Motor vehicle	75,430	74,988
	158,814	168,490
Less: Accumulated depreciation and amortization	(83,452 )	(68,010 )
Total	\$ 75,362	\$ 100,480

Depreciation and amortization expenses for the three months ended June 30, 2015 and 2014 were \$14,099 and \$104,701, respectively, and for the six months ended June 30, 2015 and 2014 were \$22,395 and \$206,576, respectively .

We performed our long-lived assets impairment test as of December 31, 2014. As the carrying value of Wuxi Club and Jintan Club are higher than the undiscounted cash flows, impairment loss should be recognized. An impairment loss is recognized for the difference between the carrying amount of the asset and its fair value. We determined that the implied fair value of long-lived assets of Wuxi Club and Jintan Club were nil. Therefore, a long-lived impairment loss of \$1,074,821 was recognized for the year ended December 31, 2014.

As of June 30, 2015, we recognized a long-lived impairment loss of \$50,194 which is the carrying amount of fixed assets of the Nanjing Club as Nanjing club is going to be closed

**7. ADVANCE PAYMENT FOR LEASEHOLD IMPROVEMENT**

Wuxi KJF has paid in advance to decoration suppliers for leasehold improvement for the Nantong club. As of June 30, 2015, we recognized a long-lived impairment loss of \$777,625 which is the carrying amount of leasehold improvement of Nantong Club transferred from advance payment for leasehold improvement with the completion of the decoration and Nantong Club is not going to be opened. As of June 30, 2015 and December 31, 2014, the balance of advance payment for leasehold improvement amounted to \$nil and \$752,776, respectively.

**8. RENTAL DEPOSITS**

Wuxi KJF rents premises for its business clubs and was required to pay rental deposits pursuant to rental agreements and the rental deposits will be refunded after the lease terminates. As of June 30, 2015 and December 31, 2014, the rental deposits amounted to \$40,348 and \$97,099, respectively.

**9. INTANGIBLE ASSETS, NET**

Intangible assets consisted of the following as of June 30, 2015 and December 31, 2014:

	June 30, 2015 (Unaudited)	December 31, 2014
Accounting and operational software	\$ 19,889	\$ 32,025
Less: Accumulated amortization	(6,945 )	(9,923 )
<b>Total</b>	<b>\$ 12,944</b>	<b>\$ 22,102</b>

Amortization expenses for the three months ended June 30, 2015 and 2014 were \$1,766 and \$949, respectively. Amortization expenses for the six months ended June 30, 2015 and 2014 were \$3,521 and \$3,704 respectively. The estimated annual amortization expense for intangible asset is \$7,048 for years ended December 31, 2015 and 2016, \$6,477 for the year ended December 31, 2017, and \$1,620 for the year ended December 31, 2018.

**10. OTHER CURRENT LIABILITIES**

Other current liabilities as of June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015 (Unaudited)	December 31, 2014
Payable for leasehold improvement and accrued rental expenses	\$ 1,450,571	\$ 1,390,910
Payroll payable	83,807	52,884
Other tax payable	69,910	73,957
Total	\$ 1,604,288	\$ 1,517,751

## 11. DUE TO THIRD PARTIES

On June 3, 2013, Wuxi KJF borrowed \$464,550 from individual investor Teng Guoxiang for Jintan Club decoration with annual interest rate 4.2%, matured on March 31, 2014. On the same day, Wuxi KJF and individual investor Teng Guoxiang extended the maturing date of the borrowing to December 31, 2014 with annual interest rate 18.0%. On December 31, 2014, Wuxi KJF repaid \$81,357 to Teng Guoxiang. On the same day, Wuxi KJF and individual investor Teng Guoxiang extended the maturing date of the borrowing to September 30, 2015 with annual interest rate 6%. During the six months ended June 30, 2015, Wuxi KJF borrowed \$112,825 from Teng Guoxiang for Jintan Club decoration with annual interest rate 5.75%,

Interest expense for the above loans was \$12,059 and \$23,143 for the three months ended June 30, 2015 and 2014, respectively, and \$22,595 and \$30,279 for the six months ended June 30, 2015 and 2014, respectively.

The weighted average interest rate on these loans outstanding was 5.75% and 11.15% as of the date of June 30, 2015 and December 31, 2014, respectively.

## 12. ADVANCES FROM INVESTORS OF NEW CLUBS

Wuxi KJF entered into partnership co-investment agreements with 401 individual investors in order to establish new clubs and expand business, including Wuxi, Nanjing, Jintan, Nantong, Yixing, Changzhou, Jiangyin and Shanghai. As of June 30, 2015 and December 31, 2014, only Wuxi Club and Jintan Club had started operations and other clubs were still in start-up stage, advances from investors of new clubs amounted to \$554,937 and \$551,578, respectively.

There was no restriction on the use of cash received from investors for clubs.

## 13. UNEARNED INCOME

	June 30, 2015 (Unaudited)	December 31, 2014
Current portion	\$ 300,022	\$ 802,148
Long-term portion	2,897,870	2,484,025
Total	\$ 3,197,892	\$ 3,286,173

The balances of unearned income as of June 30, 2015 and December 31, 2014 represented prepayments made by the customers for prepaying massages service and “Health Recuperation” service. Service revenue is recognized proportionally when services are provided to customers, reducing the unearned income balance. There is no expiration date for the prepayment, and the period in which revenue will be realized is uncertain. Income from deliveries of services of \$300,022 and \$802,148 was expected to be earned in twelve months as of June 30, 2015 and December 31, 2014, respectively. The estimation was made based on the Company’s revenue projection according to both existing clubs’ historical experience and the plan for the opening of new clubs. During the three months ended June 30, 2015 and 2014, customers’ consumption of unearned income of \$64,304 and \$295,284 was recognized as revenue, respectively. During the six months ended June 30, 2015 and 2014, customers’ consumption of unearned income of \$161,436 and \$647,359 was recognized as revenue, respectively. The prepayment is not refundable once made by the customers.

## 14. INCOME TAXES

The Company and its subsidiaries file separate income tax returns.

*The United States of America*

Comjoyful International Company is incorporated in the State of Nevada in the U.S., and is subject to a gradual U.S. federal corporate income tax of 15% to 35%. The State of Nevada does not impose any corporate state income tax.

*Hong Kong*

Comjoyful Industrial Development Limited ("Comjoyful HK") is incorporated in Hong Kong and Hong Kong's profits tax rate is 16.5% from the year 2013 to 2014. Comjoyful HK did not earn any income that was derived in Hong Kong for the years ended December 31, 2014 and 2013, and therefore, Comjoyful HK was not subject to Hong Kong Profits Tax. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

**PRC**

The entities incorporated in PRC file separate tax returns to PRC taxation authorities. Effective from January 1, 2008, the PRC's statutory rate is 25%. The entities are subject to an income tax rate of 25%, unless otherwise specified.

The Company's VIE files separate tax returns to PRC taxation authorities.

*Wuxi KJF, Nanjing KJF and Jintan Club*

Nanjing KJF, Wuxi KJF and Jintan Club are subject to PRC Enterprise Income Tax ("EIT") on the taxable income in accordance with the relevant PRC income tax laws. The EIT rate for companies operating in the PRC is 25%.

Reconciliation between the statutory PRC EIT rate of 25% and the effective tax rate is as follows:

	Six months ended June 30,	
	2015	2014
	%	%
Reconciling items:		
PRC statutory tax rate	(25 )	(25 )
Non- deductible expenses	-	22
Change in valuation allowance	25	3
Effective tax rate	0	0

Wuxi KJF and Jintan Club had deferred tax assets of \$1,563,045 and \$1,367,454 as of June 30, 2015 and December 31, 2014, respectively that consist of tax loss carry forwards. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those net operating losses are available. The Company considers projected future taxable income and tax planning strategies in making its assessment. At present, Wuxi KJF and Jintan Club do not have a sufficient operation profit to conclude that it is more-likely-than-not that Wuxi KJF and Jintan Club will be able to realize all of its tax benefits in the near future and therefore a valuation allowance was established for the full value of the deferred tax asset.



*Wuxi Club and Nanjing Club*

Wuxi Club and Nanjing Club are not subject to EIT as they are limited liability partnerships, however each individual partner is subject to the individual income tax ("IIT") on his/her distributive share of taxable income in accordance with the relevant PRC income tax laws. The IIT is calculated by taxable income multiplying with applicable tax rate, and then minus deducting amount. Each enterprise partner is subject to EIT at its applicable EIT rate on its distributive share of taxable income from the partnership. Wuxi KJF, as Wuxi Club and Nanjing Club's enterprise partner, is subject its distributive share in Wuxi Club and Nanjing Club's taxable income to EIT at 25% tax rate. Wuxi KJF could also carry forward its distributive share in Wuxi Club and Nanjing Club's deductible loss for 5 years to offset any future distributive taxable income from the respective club. But the distributive deductible loss from the 2 partnerships (Wuxi Club and Nanjing Club) could not be used to offset Wuxi KJF's other operating income. Wuxi Club and Nanjing Club both incurred net loss for the six months ended June 30, 2015 and 2014, and the amount was included in Wuxi KJF's reconciliation and deferred tax assets determination.

The Company did not identify significant unrecognized tax benefits for the six months ended June 30, 2015 and 2014. They did not incur any interest and penalties related to potential underpaid income tax expenses and also believed that the adoption of pronouncement issued by FASB regarding accounting for uncertainty in income taxes did not have a significant impact on the unrecognized tax benefits within 12 months from June 30, 2015.

## **15.EMPLOYEE BENEFIT PLAN**

Full time employees of the Company and Wuxi KJF located in the PRC (mainland), participate in a government-mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance and other welfare benefits are provided to employees. The Company and Wuxi KJF accrue for these benefits based on certain percentages of the employees' salaries. The Company and Wuxi KJF accrued the welfare benefits of \$12,698 and \$18,248 for the three months ended June 30, 2015 and 2014, respectively, and \$32,345 and \$45,653 for the six months ended June 30, 2015 and 2014

## 16. RELATED PARTY TRANSACTIONS AND BALANCES

On its foundation, Wuxi KJF was 60% owned by KJF Biotech and 40% owned by 20 individual shareholders with 2% each. On September 10, 2012, Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu signed a series of share transfer agreements with KJF Biotech and Other Founders. According to these agreements, KJF Biotech and Other Founders of the Company transferred all of their shares to Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu. Therefore, Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu owned 60.004%, 27.498% and 12.498% equity interest of Wuxi KJF, respectively. KJF Biotech's current owners are Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu. The Company and KJF Biotech share certain officers and employees, who are working roughly half the time for the Company and half the time for KJF Biotech. The salaries and associated expenses of these officers and employees are equally shared by the Company and KJF Biotech. During the three months ended June 30, 2015 and 2014, Wuxi KJF recorded \$10,763 and \$14,023 expenses for those shared officers and employees in selling and general and administrative expenses, respectively. During the six months ended June 30, 2015 and 2014, Wuxi KJF recorded \$21,357 and \$29,451 expenses for those shared officers and employees in selling and general and administrative expenses, respectively.

During the six months ended June 30, 2015, the amount of loans Wuxi KJF made to KJF Biotech was \$139,830, and KJF Biotech repaid to Wuxi KJF \$497,718. During the six months ended June 30, 2014, the amount of loans Wuxi KJF made to KJF Biotech was \$83,018, and KJF Biotech repaid to Wuxi KJF \$1,011,625. During the three months ended Jun 30, 2015, the amount of loans Wuxi KJF made to KJF Biotech was \$11,121, and KJF Biotech repaid to Wuxi KJF \$276,568. During the three months ended Jun 30, 2014, the amount of loans Wuxi KJF made to KJF Biotech was \$13,812, and KJF Biotech repaid to Wuxi KJF \$363,014.

The balances of due to owners as of June 30, 2015 and December 31, 2014 were \$1,051,986 and \$283,054, respectively, and represented payment made by KJF Biotech for operation purposes on behalf of Wuxi Club and non-interest bearing loan from Mr. Yazhong Liao, Ms. Zhangmei Zhang, Xiuxia Ji, Yimin Gu and Mr. Huiwen Qu for daily operations.

The Company's trademark "Kangjiafu" was registered by KJF Biotech and the Company licensed it from KJF Biotech at no cost. The license agreement expires in November 2018.

## 17. CONCENTRATIONS AND CREDIT RISKS

As of June 30, 2015 and December 31, 2014, the Company held cash in banks of \$4,794 and \$8,958, respectively that is uninsured by the government authority. To limit exposure to credit risk relating to deposits, the Company primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings.

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC as well as by the general state of the PRC's economy. The business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

No single customer accounted for 10% or more of total sales for the three months ended June 30, 2015 and 2014. No single supplier accounted for 10% or more of total inventory and service purchases for the three months ended June 30, 2015 and 2014.

No single customer accounted for 10% or more of total sales for the six months ended June 30, 2015 and 2014. No single supplier accounted for 10% or more of total inventory and service purchases for the six months ended June 30, 2015 and 2014.

**18.COMMITMENTS AND CONTINGENCY***Capital commitments*

As of June 30, 2015, there were capital commitments amounting to \$61,393 which were mainly related the leasehold improvements of the new clubs.

*Operating lease commitments*

The Company leased offices spaces and employee living spaces under non-cancellable operating leases. Future minimum rental commitments for the next five years are as follows:

	December 31,
2015	\$ 116,733
2016	253,694
2017	266,999
2018	301,824
2019	177,149
2020 and then after	431,536
Total	\$ 1,547,935

*Contingency*

Wuxi Club completed fitment work at the end of 2010. Just before the local Fire Control Bureau's issuance of the Fire Control Permit to Wuxi Club, provincial government issued a new regulation, which forbids the operation of any densely-populated business on or above 4th floors of a building. Wuxi Club is located on 29th floor of a building. The local Fire Control Bureau did not issue Fire Control Permit to Wuxi Club but verbally agreed that Wuxi Club could go on operating on the 29th floor. According to Article 58 of Fire Protection Law of the People's Republic of China, local government has the right to cease the operation of a business if the required Fire Control Permit is not obtained. The local Fire Control Bureau performed regular annual fire control inspection on Wuxi Club without any defects noted. We believe the local Fire Control Bureau has substantially approved our operations. Wuxi Club has not received any notification from the government that the operation shall be ceased. Cease of operation of Wuxi Club remains a possibility but management does not consider it probable.

## **19.SUBSEQUENT EVENTS**

On August 17, 2015, Wuxi KJF signed agreement for termination of the lease and property management agreement for future Nantong Club, as Nantong Club is not going to be opened. According to the termination agreement, Wuxi KJF is responsible to transfer the lease of the 1st floor. Before the transfer, Wuxi KJF needs to pay rental of \$32,783 each year. The other floors of the property will be transferred back to the landlord, and Wuxi KJF doesn't need to pay rental. The landlord will be responsible for the operation, and Wuxi KJF will have 20% of the net profit from the operation till September 15, 2021.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### *Overview*

We own and operate three health care clubs featuring traditional Chinese-style foot massage and other traditional relaxing treatments in Jiangsu province, China. Currently we have three clubs located in Wuxi and Nanjing and Jintan. The operation of Nanjing club was suspended due to a construction of a shopping mall was started around the Nanjing Club and significantly reduced Nanjing Club's business. In September 2014, we tried to reopen Nanjing Club for two days, but unfortunately, due to lack of customers and the high operation cost, we are going to close Nanjing Club in third quarter of 2015. The new club in Nantong was in start-up and promotion stage. Due to the fierce market competition, we are not going to open Nantong Club. We differentiate ourselves from other Chinese foot massage clubs based on our decorative style, club size, cultural background, and services.

Our main service is foot massage, body massage, spa, moxibustion, referred to as reflexology. In China, reflexology is widely believed to offer health and therapeutic benefits, based on ancient Chinese medical theories involving body energy system pathways and blockages that can develop, which can be reflected in other parts of the body as malady or discomfort. Western views on foot massage and massage in general are varied, with skeptics and several studies claiming little or no real therapeutic benefit. There is, however, near universal agreement that foot massage and massage are relaxing and rejuvenating.

### **Critical Accounting Policies, Estimates and Assumptions**

#### **Use of estimates**

The preparation of the consolidated financial statements in accordance with US GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates and assumptions including those related to the useful lives and recoverability of the carrying amount of property, plant and equipment, impairment of long-lived assets, and deferred tax based on historical experience and various other factors believed to be reasonable under the circumstances, and accruals for income tax uncertainties and other contingencies. Changes in facts and circumstances may result in revised estimates.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and demand deposits or liquid investments that are placed with banks and other financial institutions and are unrestricted as to withdrawal or use, or have remaining maturities of three months or less.

## **Inventories**

Inventories are materials used in the physiotherapy process. Such items include: Chinese traditional medicine packages, essential oil, towels and so on, are stated at the lower of cost or market value. Cost is determined using weighted average method.

## **Fair value of financial instruments**

ASC Topic 820 "Fair Value Measurement and Disclosures," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

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

Level 2 - Observable inputs other than Level 1 prices 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.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates their hierarchy disclosures in each quarter.

Financial instruments include cash and cash equivalents, advance to suppliers, other current assets, amounts due from related parties, amounts due to related parties, and other current liabilities. The carrying amount reported in consolidated balance sheets approximated their fair values because of the short maturity of these instruments.



## **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing that asset to its present working condition and location for its intended use. Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated on the straight-line basis over the expected beneficial periods.

The leasehold improvements represent the actual cost for bringing the club spaces and office spaces, the Company leased to the condition necessary for their intended use (to provide service to our customers or to provide work place for administrative staff). The costs include payments to fitment construction companies, construction materials, air conditioning system, electricity system, etc. Leasehold improvements are amortized over 5-year period, which is the shorter of the lease term and estimated useful life.

Depreciation is provided to write off the cost of property and equipment over their useful lives from the date on which they become fully operational and after taking into account their estimated salvage values, using the straight-line method:

Furniture, computer and electronic equipment and leasehold improvement	5 years
Office equipment	5 years
Motor vehicle	5 years

Management estimates the salvage value of property plant and equipment to be 5% of original value excluding leasehold improvement. The salvage value of leasehold improvement estimated by the management is 0%.

### **Intangible assets**

Intangible assets consists of software and are stated at cost less accumulated amortization.

Intangible assets are amortized using the straight-line basis over the estimated useful lives as follows:

Accounting and operational software 5 years

### **Impairment of Long-Lived Assets**

Long-lived assets, including property and equipment and purchased intangible assets with finite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of long-lived assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Company recorded impairment losses for long-lived assets of \$827,819 for the six months ended June 30, 2015 and nil for the six months ended June 30, 2014.

## **Revenue recognition**

Revenues are recognized when the following four criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured.

### *Service Revenue*

The Company generates service revenue primarily from providing physiotherapy services including pedicure, sauna and massage to its individual customers. Upon receipt of the upfront cash payments for the pre purchase of multiple massages from the individual customer, the full payment will be deferred and recognized as unearned income. The Company recognizes service revenue proportionately when services are provided to the customer, and there is no expiration date for the prepayment. Unearned income for which the deliveries of services are expected to occur after twelve months is recognized as long-term portion of unearned income liability.

The Company also provides its customers Health Recuperation service, which mainly arranges its customers to take holiday in some famous tourist cities. The Company is responsible for the whole service including providing recruiting members, transportation and accommodation etc. The service fee is collected in advance. The Company recognizes Health Recuperation service when the service is rendered completely. Considering the Company is main service provider and obligator for the whole service, revenue is recognized on a gross basis

### *Sundry Foods Revenue*

The Company also sells sundry foods to the individual customers when provided with physiotherapy services. Sundry Food Revenue is recognized after foods are delivered, the price is fixed or determinable and collection of the receivable is reasonably assured.

### *Health Drink Products Revenue*

The Company sells health drink products to its customers. Health drink products revenue is recognized after the health drink products are delivered, the price is fixed or determinable and collection of the receivable is reasonably assured.

**Cost of Revenues**

Cost of revenues primarily consists of salaries, bonuses and allowances paid to physiotherapists and other service staff, rental payments, materials consumed during the physiotherapy, the depreciation and amortization of property and equipment, and the business taxes. Cost of health drink products primarily consists of materials and processing fee.

## **Operating leases**

Wuxi KJF, Wuxi Club, Nanjing Club and Jintan Club all lease office or operating premises under non-cancelable operating leases. Payments made under operating leases are charged to the consolidated statements of income on a straight-line basis over the lease term. Rental and property management fee expenses for the six months ended June 30, 2015 and 2014 were \$306,502 and \$338,121, respectively, and for the three months ended June 30, 2015 and 2014 were \$138,260 and \$167,891, respectively.

Wuxi KJF and Wuxi Club signed the lease agreement and property management agreement with the same landlord as their office and operation are in the same premise in July 2010. The lease term was 9 years with no renewal period. The rental increases 16.7% at the end of the third year and 21.4% at the end of the sixth year, and the property management fee remains flat.

Nanjing Club signed the lease and property management agreement in August 2011. The lease term was 10 years with no renewal period. There was a 184-day rental holiday at the inception of the lease and the rental increases 5% each year from the third year of the lease term and the property management fee remains flat. On June 30, 2015, Nanjing Club signed the early termination agreement with the lessor, as Nanjing Club is going to be closed.

Jintan Club signed the lease and property management agreement in April 2012. The lease term was 10 years with no renewal period. The rental increases 6% each year and the property management fee remains flat.

Wuxi KJF signed the lease and property management agreement for future Nantong Club in September 2011. The lease term was 10 years with no renewal period. There was a 150-day rental holiday at the inception of the lease and the rental increases 5% at the end of the third year and the end of the sixth year, and the property management fee remains flat. Nantong Club is not going to be opened, and the lease will be terminated.

## **Income taxes**

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The

components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provision for income taxes.

**Comprehensive loss**

Comprehensive loss includes net loss and foreign currency translation adjustments. Comprehensive loss is reported in the consolidated statements of operations and comprehensive loss. Accumulated other comprehensive loss, as presented on the balance sheets are the cumulative foreign currency translation adjustments.

**Results of Operations for the Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014**

The following table sets forth a summary of certain key components of our results of operations for periods indicated in dollars.

	For The Three Months Ended June 30,			
	2015 (Unaudited)	2014 (Unaudited)	Change in %	
Revenues	\$ 81,783	306,574	(73	)%
Cost of revenues	(140,850 )	(331,261 )	(57	)%
Gross loss	(59,067 )	(24,687 )	(139	)%
Selling and general and administrative expenses	(326,587 )	(390,116 )	(16	)%
Impairment of long-lived assets	(827,819 )	-	N/A	%
Loss from operations	(1,213,473 )	(414,803 )	193	%
Other income/(expenses)	60,466	(107,476 )	(156	)%
Loss before income taxes expenses	(1,153,007 )	(522,279 )	121	%
Income tax expense	-	-	N/A	
Net loss	\$ (1,153,007 )	(522,279 )	121	%

**Revenue and Cost**

**Revenue.** Our revenues are derived from foot massage, body massage, health recuperation, other therapy treatments services and health drink products. For the three months ended June 30, 2015, the Company had revenues of \$81,783 compared to revenues of \$306,574 for the three months ended June 30, 2014, a decrease of \$224,791 or approximately 73.32%. The decrease in revenue experienced by the Company was primarily because i) Revenue of Jintan Club contributed \$99,394 for the three months ended June 30, 2015, compared to \$112,200 for the three months ended June 30, 2014, a decrease of \$12,806. ii) Revenue of Wuxi Club contributed amount \$37,314 for the three months ended June 30, 2015 compared \$53,370 for the three months ended June 30, 2014, a decrease of \$16,056. The revenue for the three months ended June 30, 2015 for Wuxi and Jintan Clubs has decreased compared to the three months ended



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June 30, 2014 mainly due to fierce competition of local market in 2015. iii) Revenue of Wuxi KJF contributed Health Recuperation Program Product amount to nil for the three months ended June 30, 2015 compared to \$ 758,252 for the three months ended June 30, 2014. Nanjing Club is going to be closed and Nantong Club is not going to be opened. Both Nanjing Club and Nantong Club have no business after established. There was no revenue recognized from the two clubs for the three months ended June 30, 2015 and 2014.

Cost. Our cost consists of service directed costs mainly including material consumed and labor cost, rental expense, depreciation expense, etc. For the three months ended June 30, 2015, the Company's total cost was \$140,850 compared to total costs of \$331,261 for the three months ended June 30, 2014, a decrease of \$190,411, or approximately 57.48%. This decrease in cost of revenue experienced by the Company was primarily due to i) Jintan Club and Wuxi Club's service revenue both decrease compare to the same period in last year, the cost of service revenue decrease from \$245,906 for the three months ended June 30, 2014 to \$136,743 for the three months ended June 30, 2015. ii) Cost of KJF contributed Health Recuperation Program Product amount \$4,106 for the three months ended June 30, 2015 compared \$96,902 for the three months ended June 30, 2014.

### **Selling and general and administrative expenses**

Our Selling and general and administrative expenses mainly consisted of salaries, office rent, depreciation and consulting service fee, etc. and totaled \$326,587 for the three months ended June 30, 2015. Compared to \$390,116 for the three months ended June 30, 2014, there was a decrease of \$63,529, or approximately 16.28%.

### **Impairment of long-lived assets**

During the three months ended June 30, 2015, we recorded impairment losses for long-lived assets of \$827,819 which included fixed assets impairment amount \$50,194 as Nanjing club is going to be closed, and leasehold improvement impairment amount \$752,776 as Nantong club is going to be reorganized.

### **Income tax**

#### Wuxi KJF, Nanjing KJF and Jintan Club

Wuxi KJF, Nanjing KJF and Jintan Club are subject to EIT on the taxable income in accordance with the relevant People's Republic of China (the "PRC") income tax laws. The EIT rate for companies operating in the PRC is 25%. For the three month ended June 30, 2015 and 2014, Wuxi KJF, Nanjing KJF and Jintan Club suffered operating loss and did not recognize deferred tax benefit from net operating loss because the Company does not have a sufficient operation profit to conclude that it is more-likely-than-not that Wuxi KJF, Nanjing KJF and Jintan Club will be able to realize its tax benefits in the near future.



Wuxi Club and Nanjing Club

Wuxi Club and Nanjing Club are not subject to EIT as they are limited liability partnerships, however each individual partner is subject to IIT on his/her distributive share of taxable income in accordance with the relevant PRC income tax laws. Each enterprise partner is subject to EIT at its applicable EIT rate on its distributive share of taxable income from the partnership. Wuxi KJF, as Wuxi Club and Nanjing Club's enterprise partner, is subject its distributive share in Wuxi Club and Nanjing Club's taxable income to EIT at 25% tax rate. Wuxi KJF could also carry forward its distributive share in Wuxi Club and Nanjing Club's deductible loss for 5 years to offset any future distributive taxable income from the respective club. But the distributive deductible loss from the 2 partnerships (Wuxi Club and Nanjing Club) could not be used to offset Wuxi KJF's other operating income. Wuxi Club and Nanjing Club both incurred net loss for the three months ended June 30, 2015 and 2014, and the amount was included in Wuxi KJF's reconciliation and deferred tax assets determination.

**Results of Operations for the Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014**

The following table sets forth a summary of certain key components of our results of operations for periods indicated in dollars.

	For The Six Months Ended June 30,			
	2015	2014	Change in %	
	(Unaudited)	(Unaudited)		
Revenues	\$192,418	669,341	(71.25	)%
Cost of revenues	(284,640 )	(786,209 )	(63.80	)%
Gross loss	(92,222 )	(116,868 )	(21.09	)%
Selling and general and administrative expenses	(808,287 )	(901,320 )	(10.32	)%
Impairment of long-lived assets	(827,819 )	-	N/A	%
Loss from operations	(1,728,328)	(1,018,188 )	69.75	%
Other income/(expenses)	50,054	(114,929 )	(143.55	)%
Loss before income taxes expenses	(1,678,274)	(1,133,117 )	48.11	%
Income tax expense	-	-	N/A	
Net loss	\$(1,678,274)	(1,133,117 )	48.11	%

**Revenue and Cost**

Revenue. Our revenues are derived from foot massage, body massage, health recuperation, other therapy treatments services and health drink products. For the six months ended June 30, 2015, the Company had revenues of \$192,418

compared to revenues of \$669,341 for the six months ended June 30, 2014, a decrease of \$476,923 or approximately 71.25%. The decrease in revenue experienced by the Company was primarily because i) Revenue of Jintan Club contributed \$99,394 for the six months ended June 30, 2015, compared to \$245,284 for the six months ended June 30, 2014, a decrease of \$145,890. ii) Revenue of Wuxi Club contributed amount \$88,027 for the six months ended June 30, 2015 compared \$128,913 for the six months ended June 30, 2014, a decrease of \$40,886. The revenue for the six months ended June 30, 2015 for Wuxi and Jintan Clubs has decreased compared to the six months ended June 30, 2014 mainly due to fierce competition of local market in 2015. iii) Revenue of Wuxi KJF contributed Health Recuperation Program Product amount to nil for the six months ended June 30, 2015 compared to \$ 276,915 for the six months ended June 30, 2014. Nanjing Club is going to be closed and Nantong Club is not going to be opened. Both Nanjing Club and Nantong Club have no business after established. There was no revenue recognized from the two clubs for the six months ended June 30, 2015 and 2014.

**Cost.** Our cost consists of service directed costs mainly including material consumed and labor cost, rental expense, depreciation expense, etc. For the six months ended June 30, 2015, the Company's total cost was \$284,640 compared to total costs of \$786,209 for the six months ended June 30, 2014, a decrease of \$501,569, or approximately 63.80%. This decrease in cost of revenue experienced by the Company was primarily due to i) Jintan Club and Wuxi Club's service revenue both decrease compare to the same period in last year, the cost of service revenue decrease from \$575,210 for the six months ended June 30, 2014 to \$280,533 for the six months ended June 30, 2015. ii) Cost of KJF contributed Health Recuperation Program Product amount \$4,106 for the six months ended June 30, 2015 compared \$207,851 for the six months ended June 30, 2014.

### **Selling and general and administrative expenses**

Our Selling and general and administrative expenses mainly consisted of salaries, office rent, depreciation and consulting service fee, etc. and totaled \$808,287 for the six months ended June 30, 2015. Compared to \$901,320 for the six months ended June 30, 2014, there was a decrease of \$93,033, or approximately 10.32%.

### **Impairment of long-lived assets**

During the six months ended June 30, 2015, we recorded impairment losses for long-lived assets of \$827,819 which included fixed assets impairment amount \$50,194 as Nanjing club is going to be closed, and leasehold improvement impairment amount \$752,776 as Nantong club is going to be reorganized.

### **Income tax**

#### Wuxi KJF, Nanjing KJF and Jintan Club

Wuxi KJF, Nanjing KJF and Jintan Club are subject to EIT on the taxable income in accordance with the relevant People's Republic of China (the "PRC") income tax laws. The EIT rate for companies operating in the PRC is 25%. For the six month ended June 30, 2015 and 2014, Wuxi KJF, Nanjing KJF and Jintan Club suffered operating loss and did not recognize deferred tax benefit from net operating loss because the Company does not have a sufficient operation profit to conclude that it is more-likely-than-not that Wuxi KJF, Nanjing KJF and Jintan Club will be able to realize its tax benefits in the near future.



Wuxi Club and Nanjing Club

Wuxi Club and Nanjing Club are not subject to EIT as they are limited liability partnerships, however each individual partner is subject to IIT on his/her distributive share of taxable income in accordance with the relevant PRC income tax laws. Each enterprise partner is subject to EIT at its applicable EIT rate on its distributive share of taxable income from the partnership. Wuxi KJF, as Wuxi Club and Nanjing Club's enterprise partner, is subject its distributive share in Wuxi Club and Nanjing Club's taxable income to EIT at 25% tax rate. Wuxi KJF could also carry forward its distributive share in Wuxi Club and Nanjing Club's deductible loss for 5 years to offset any future distributive taxable income from the respective club. But the distributive deductible loss from the 2 partnerships (Wuxi Club and Nanjing Club) could not be used to offset Wuxi KJF's other operating income. Wuxi Club and Nanjing Club both incurred net loss for the six months ended June 30, 2015 and 2014, and the amount was included in Wuxi KJF's reconciliation and deferred tax assets determination.

**Unearned income**

As of June 30, 2015, we had unearned income of \$3,197,892 compared to \$3,286,173 as of December 31, 2014, a decrease of \$88,281, or approximately 2.69%. The decrease in unearned income was the result of service revenue recognized \$161,436 but only received deposit \$ 46,510 during the six months ended June 30, 2015. As of June 30, 2015, there was 20,111 individual customers represented by unearned income compare to 19,621 individual customers as of December 31, 2014, an increase of 2.5%, and average amount is \$159 as of June 30, 2015 compare to \$167 as of December 31, 2014.

Among the \$3,197,892 as of June 30, 2015, we expect to realize \$300,022 income from the prepaid amount in the following 12 months. This amount is an estimate based on our judgment. \$300,022 prepayment from massage service customers is expected to be used during the period, considering the current operation of our Wuxi KJF, Wuxi Club and Jintan Club.

**Liquidity and Capital Resources**

The following table sets forth the summary of our cash flows for the six months ended June 30, 2015 and 2014.

For The Six Months Ended June 30,	
2015	2014



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	(Unaudited)		(Unaudited)	
Net cash used in operating activities	\$ (777,444	)	\$ (923,299	)
Net cash used in investing activities	(63,502	)	(74,386	)
Net cash provided by financing activities	867,749		1,008,759	
Effect of foreign exchange rate on cash	1,243		(15,491	)
Net change in cash	28,046		(4,417	)
Cash at beginning of year	28,329		28,920	
Cash at end of the period	\$ 56,375		\$ 24,503	

*Cash flow from Operating Activities*

Net cash of \$777,444 was used in operating activities for the six months ended June 30, 2015 compared to net cash used in operating activities of \$923,299 for the six months ended June 30, 2014, representing a decrease of \$145,855. The decrease in net cash used in our operating activities was primarily attributable to the following reasons: i) net loss of \$ 1,678,274 for the six months ended June 30, 2015, compared to net loss of \$1,133,117 for the six months ended June 30, 2014, which is a difference of \$ 545,157. ii) an impairment of long-lived assets amount \$827,819 was recognized for the six months ended June 30, 2015, compare to \$84,164 for the six months ended June 30, 2014, which is a difference of \$743,655. iii) a decrease in unearned income of \$107,998 for the six months ended June 30, 2015 and a decrease in unearned income of \$277,982 for the six months ended June 30, 2014, which is a difference of \$169,984.

*Cash flow from Investing Activities*

For the six months ended June 30, 2015, the net cash used in investing activities was \$63,502 compared to net cash used in investing activities of \$74,386 for the six months ended June 30, 2014, a decrease of net cash used of \$10,884. The decrease in net cash used in investing activities was primarily attributable to the increase in cash paid to purchase of property, plant and equipment. During the six months ended June 30, 2015, \$310 was paid to purchase of property, plant and equipment compare to \$13,160 was paid for the six months ended June 30, 2014.

*Cash flow from Financing Activities*

For the six months ended June 30, 2015, the net cash provided by financing activities was \$867,749 compared to net cash provided by financing activities of \$1,008,759 for the six months ended June 30, 2014, a decrease of \$141,010. The decrease in net cash provided by financing activities was primarily attributable to the following reasons: i) collection from owner of \$497,718 for the six months ended June 30, 2015, compared to \$1,011,625 for the six months ended June 30, 2014, which is a difference of \$513,907; ii) loan to an owner of \$139,830 for the six months ended June 30, 2015 and \$83,018 for the six months ended June 30, 2014, which is a difference of \$56,812; iii) due to owners increase of \$408,137 for the six months ended June 30, 2015 and increase \$15,349 for the six months ended June 30, 2014, which is a difference of \$392,788. iv) in order to raise necessary working capital for the new clubs' decorations, an increase in loan from third parties of \$101,724 for the six months ended June 30, 2015 and loan from third party and \$64,803 for the six months ended June 30, 2014, which is a difference of \$36,921.

Currently the Company generates cash to meet short-term and long-term cash requirements by several means. The current main source of cash comes from the owner KJF Biotech. The majority shareholders of the Company Mr.

Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu would provide any capital shortfall. However, there is no assurance that the Company will be successful in achieving these goals.

## **Contingency**

Wuxi Club completed fitment work at the end of 2010. Just before the local Fire Control Bureau's issuance of the Fire Control Permit to Wuxi Club, provincial government issued a new regulation, which forbids the operation of any densely-populated business on or above 4th floors of a building. Wuxi Club is located on 29th floor of a building. The local Fire Control Bureau did not issue Fire Control Permit to Wuxi Club but verbally agreed that Wuxi Club could go on operating on the 29th floor. According to Article 58 of Fire Protection Law of the People's Republic of China, local government has the right to cease the operation of a business if the required Fire Control Permit is not obtained. The local Fire Control Bureau performed regular annual fire control inspection on Wuxi Club without any defects noted. We believe the local Fire Control Bureau has substantially approved our operations. Wuxi Club has not received any notification from the government that the operation shall be ceased. Cease of operation of Wuxi Club remains a possibility but not probable.

## **Liquidity and Capital Resources**

The consolidated financial statements are prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of obligations in the normal course of business. The Company had recurring consolidated losses of \$1,678,274 for the six months ended June 30, 2015 and \$1,133,117 for the six months ended June 30, 2014, negative working capital of \$ 3,496,004 as of June 30, 2015 and \$3,044,964 as of December 31, 2014, and has a total deficit of \$ 6,820,157 as of June 30, 2015 and \$5,108,110 as of December 31, 2014. These conditions raise substantial doubt about the ability of the Company to continue as a going concern.

In view of these matters, continuation as a going concern is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financial requirements, raise additional capital, and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern.

The management plans to raise necessary working capital by developing new products and services, and the stockholders of the Company Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu would provide any capital shortfall. There are no assurances that the Company will be successful in achieving these goals.

## **Off-Balance Sheet Arrangements**

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The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### *Foreign Exchange Risk*

Our reporting currency is the U.S. dollar. Transactions in other currencies are recorded in Renminbi at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are remeasured into Renminbi at rates of exchange in effect at the balance sheet dates. Exchange gains and losses are recorded in our statements of operations as a component of current period earnings.

The State Administration on Foreign Exchange, or SAFE, of the PRC, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (1996), as amended, or the "Rules." Under the Rules, once various procedural requirements are met, Renminbi is convertible for current account transactions, including trade and service-related foreign exchange transactions and dividend payments, but not for capital account transactions, including direct investment, loans or investments in securities outside the PRC, without prior approval of the SAFE of the PRC, or its local counterparts.

Since July 2005, the Renminbi is no longer pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.3% per day and the People's Bank of the PRC regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, the PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market. As of December 31, 2010, the exchange rate of RMB to USD 1.0000 was RMB 6.6000. On June 19, 2010, the People's Bank of China announced the removal of the de facto peg. Following this announcement, the Renminbi depreciated from 6.7968 Renminbi per U.S. dollar on June 21, 2010 to 6.2 Renminbi per U.S. dollar on June 30, 2015.

We conduct substantially all of our operations through our PRC operating companies, and their financial performance and position are measured in terms of Renminbi. Our solutions are primarily procured, sold and delivered in the PRC for Renminbi. The majority of our net revenue are denominated in Renminbi.

#### **Item 4. Controls and Procedures**

##### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

As of the end of the period covered by this Report, our Chief Executive Officer and Chief Financial Officer performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on the evaluation and the identification of the material weaknesses in internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2015, the Company's disclosure controls and procedures were not effective.

##### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. In connection with management's assessment of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, we identified the following material weaknesses in our internal control over financial reporting as of June 30, 2015:

1. The Company has not established adequate financial reporting monitoring procedures to mitigate the risk of management override.
2. In addition, there is insufficient oversight of accounting principles implementation and insufficient oversight of external audit functions.

3. There is a strong reliance on the external consultants and legal counsel to review and edit the annual and quarterly filings and to ensure compliance with SEC disclosure requirements.

#### REMEDIATION OF MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As a small business, the Company does not have the resources to install a dedicated staff with deep expertise in all facets of SEC disclosure and GAAP compliance. As is the case with many small businesses, the Company will continue to work with its external consultants as it relates to new accounting principles and changes to SEC disclosure requirements. The Company has found this approach worked well in the past and believes it to be the most cost effective solution available for the foreseeable future.

The Company will conduct a review of existing sign-off and review procedures as well as document control protocols for critical accounting spreadsheets. The Company will also increase management's review of key financial documents and records.

As a small business, the Company does not have the resources to fund sufficient staff to ensure a complete segregation of responsibilities within the accounting function. However, Company management does review, and will increase the review of, financial statements on a monthly basis. These actions, in addition to the improvements identified above, will minimize any risk of a potential material misstatement occurring.

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes in our internal control over financial reporting during the quarter ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We know of no material, active or pending legal proceedings against the Company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

### **ITEM 1A. RISK FACTORS**

As a smaller reporting company, the Company is not required to make disclosures under this Item 1A.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5.OTHER INFORMATION**

None.

**ITEM 6:EXHIBITS**

The exhibits listed on the Exhibit Index are provided as part of this report.

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Name of Exhibit</b>
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: August 19, 2015 COMJOYFUL INTERNATIONAL  
COMPANY

By: /s/ Yazhong Liao  
Yazhong Liao

Chief Executive Officer and President

By: /s/ Gene Michael Bennett  
Gene Michael Bennett

Chief Financial Officer