

CHINA JO-JO DRUGSTORES, INC.  
Form 10-K  
June 29, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-K**

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

For the fiscal year ended **March 31, 2018**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-34711**

**CHINA JO-JO DRUGSTORES, INC.**  
(Exact name of issuer as specified in its charter)

**Nevada**

**98-0557852**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

**Hai Wai Hai Tongxin Mansion Floor 6**

**Gong Shu District, Hangzhou City**

**310008**

**Zhejiang Province**

**P. R. China**

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
<b>Common stock, \$0.001 par value</b>	<b>NASDAQ Capital Market</b>

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes    No

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

Large Accelerated Filer    Accelerated Filer  
Non-accelerated filer    Smaller reporting company  
   Emerging growth company

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

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

As of September 30, 2017, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$25.5 million, based on a closing price of \$1.62 per share of common stock as reported on the NASDAQ Stock Market on such date.

As of June 21, 2018, the registrant had 29,161,778 shares of common stock outstanding.

**TABLE OF CONTENTS**

**TO ANNUAL REPORT ON FORM 10-K**

**FOR YEAR ENDED MARCH 31, 2018**

	<b>Page</b>
<b><u>PART I.</u></b>	
<u>Item 1. Business.</u>	1
<u>Item 1A. Risk Factors.</u>	15
<u>Item 1B. Unresolved Staff Comments.</u>	32
<u>Item 2. Properties.</u>	33
<u>Item 3. Legal Proceedings.</u>	33
<u>Item 4. Mine Safety Disclosures.</u>	33
<b><u>PART II.</u></b>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	34
<u>Item 6. Selected Financial Data.</u>	35
<u>Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operation.</u>	35
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk.</u>	43
<u>Item 8. Financial Statements and Supplementary Data.</u>	43
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	44
<u>Item 9A. Controls and Procedures.</u>	44
<u>Item 9B. Other Information.</u>	45
<b><u>PART III.</u></b>	
<u>Item 10. Directors, Executive Officers and Corporate Governance.</u>	46
<u>Item 11. Executive Compensation.</u>	50
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	53
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence.</u>	54
<u>Item 14. Principal Accounting Fees and Services.</u>	54
<b><u>PART IV.</u></b>	
<u>Item 15. Exhibits and Financial Statement Schedules.</u>	55
<u>Signatures.</u>	57



## Forward Looking Statements

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

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

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

## **PART I**

### **ITEM 1. BUSINESS.**

#### **Overview**

We are a retailer and distributor of pharmaceutical and other healthcare products typically found in a retail pharmacy in the People's Republic of China ("PRC" or "China"). Prior to acquiring Zhejiang Jiuxin Medicine Co., Ltd. ("Jiuxin Medicine") in August 2011 (see "*Our Corporate History and Structure - HJ Group*" below), we were primarily a retail pharmacy operator. We currently have one hundred and twenty-two (122) store locations under the store brand "Jiuzhou Grand Pharmacy" in Hangzhou city and its adjacent town Lin'an. Additionally, we operate nine drugstores, controlled by Hangzhou Jiuzhou Grand Pharmacy.

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

Our stores provide customers with a wide variety of pharmaceutical products, including prescription and over-the-counter ("OTC") drugs, nutritional supplements, TCM, personal and family care products, and medical devices, as well as convenience products, including consumable, seasonal, and promotional items. Additionally, we have licensed doctors of both western medicine and TCM on site for consultation, examination and treatment of common ailments at scheduled hours. Three (3) stores have adjacent medical clinics offering urgent cares (to provide treatment for minor ailments such as sprains, minor lacerations, and dizziness that can be treated on an outpatient basis), TCM (including acupuncture, therapeutic massage, and cupping) and minor outpatient surgical treatments (such as suturing). Our stores vary in size, but presently close to average 200 square meters per store. We attempt to tailor each store's product offerings, physician access, and operating hours to suit the community where the store is located.

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

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

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

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

In addition, we operate pharmacies through “Lin’An Jiuzhou”, which are directly held by Jiuxin Investments Management Co. Ltd. We also operates nine stores, which are held by Jiuzhou Pharmacy.

We also retail OTC drugs and nutritional supplements through a website ( [www.dada360.com](http://www.dada360.com) ) operated by Jiuzhou Pharmacy. For the fiscal year ended March 31, 2018, retail revenue, including pharmacies, medical clinics accounted for approximately 64.5% of our total revenue, while online pharmacy revenue accounted for 12.6% of our total revenue.

Since August 2011, we have operated a wholesale business through Zhejiang Jiuxin Medicine Co., Ltd. (“Jiuxin Medicine”), distributing third-party pharmaceutical products (similar to those carried by our pharmacies) primarily to trading companies throughout China. Jiuxin Medicine is wholly owned by Jiuzhou Pharmacy. For the fiscal year March 31, 2018, wholesale revenue accounted for approximately 22.9% of our total revenue.

We also have an herb farming business cultivating and wholesaling herbs used for TCM. This business is conducted through Hangzhou Qianhong Agriculture Development Co., Ltd. (“Qianhong Agriculture”), a wholly-owned subsidiary. During the fiscal year ended March 31, 2018, we generated no revenue from our herb farming business.

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

## **Our Corporate History and Structure**

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



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

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

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

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

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

On July 24, 2015, we closed a registered direct offering of 1.2 million shares of common stock at \$2.50 per share with gross proceeds of approximately \$3 million from our effective shelf registration statement on Form S-3.

On January 23, 2017, we completed a private offering of 4,840,000 shares of the common stock at a price of \$2.20 per share with gross proceeds of approximately \$10,648,000.

### ***Renovation***

Renovation was formed by the owners of HJ Group as a special purpose vehicle to raise capital overseas, in accordance with requirements of China’s State Administration of Foreign Exchange (“SAFE”). SAFE issued the *Notice*

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

### ***Jiuxin Management***

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

### ***Jiutong Medical***

Hangzhou Jiutong Medical Technology Co., Ltd. (“Jiutong Medical”) was organized in the PRC on December 20, 2011. Like Jiuxin Management, Jiutong Medical is also deemed a WFOE because it is wholly owned by Renovation. In November 2013, Jiutong Medical acquired the right to use of a piece of land, on which we plan to establish a herb processing plant in the future. As of March 31, 2017, we have not started constructing the plant.

### ***Shouantang Technology***

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

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



In November 2015, we sold all of the equity interests of Quannou Technology to six individuals for approximately \$17,121 (RMB107,074). Quannou Technology used to perform technical supports to our online pharmacy and incurred accumulated loss over the last five years. After the sale, its technical support function has been transferred back to Jiuzhou Pharmacy, which hosts our online pharmacy.

### ***Qianhong Agriculture***

Qianhong Agriculture was organized in the PRC on August 10, 2010 for our herb farming business. As of March 31, 2017, we have not harvested or sold any herbs.

### ***Shouantang Bio***

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

### ***Jiuyi Technology***

On September 10, 2015, Renovation set up an entity named Hangzhou JiuYi Medical Technology Co. Ltd, (“Jiuyi Technology”) with a registered capital of \$5 million, intended to provide additional technical support such as webpage development to our online pharmacy business. Later on, we decided to move online technical supports back to Jiuzhou Pharmacy, so Jiuyi Technology had no significant online technical operation. Jiuyi Technology is located in Hangzhou, China.

### ***Lin’an Jiuzhou***

On March 31, 2017, the Company, through Jiuxin Management, formed Lin’an Jiuzhou Grand Pharmacy Co. Ltd, (“Lin’an Jiuzhou”) with a registered capital of \$725,570 (RMB 5 million), to expand our retail pharmacies in Lin’an City.

## **HJ Group**

Jiuzhou Pharmacy is a PRC limited liability company established on September 9, 2003 by Mr. Lei Liu (55%), Mr. Chong'an Jin (23%) and Ms. Li Qi (22%). Hangzhou Kuaileren Grand Pharmacy Co., Ltd. ("Kuaileren"), originally a subsidiary of Jiuzhou Pharmacy, was dissolved on April 9, 2011. Prior to its dissolution, Kuaileren operated a "Kuaileren Grand Pharmacy" store, which is now a "Jiuzhou Grand Pharmacy" store. On July 1, 2014, Mr. Chong'an Jin transferred all of his equity interests he held in Jiuzhou Pharmacy to Mr. Lei Liu and Ms. Li Qi. As a result, Mr. Lei Liu held 61% and Ms. Li Qi has held 39% equity interests of Jiuzhou Pharmacy. On August 21, 2017, after Mr. Lei Liu transferred additional shares to Ms. Li Qi, Mr. Lei Liu held 56.7% and Ms. Li Qi held 43.3%. On April 25, 2018, Mr. Wei Chen, who is associated with CareRetail Holdings Limited, agreed to invest 200,000 RMB and hold 1% of Jiuzhou Pharmacy. As a result, Mr. Lei Liu held 56.13% and Ms. Li Qi has held 42.87% equity interests of Jiuzhou Pharmacy. Mr. Lei Liu and Ms. Li Qi are from time to time referred to in this report as Key Personnel.

Jiuzhou Pharmacy currently has one subsidiary, Jiuxin Medicine, which was organized in the PRC on December 31, 2003. In April 2011, Jiuzhou Pharmacy entered into an equity ownership transfer agreement with the owners of Jiuxin Medicine, and its business license was transferred to Jiuzhou Pharmacy, although no consideration was paid. On August 25, 2011, the acquisition of Jiuxin Medicine was completed for \$4.7 million (RMB 30 million.)

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

Jiuzhou Service is a PRC limited liability company established on November 2, 2005 by Mr. Liu (39%), Mr. Jin (31%) and Ms. Qi (30%). Jiuzhou Service is licensed as a healthcare management company and currently manages the medical clinic operating adjacent to the "Jiuzhou Grand Pharmacy" store in Wenhua, providing services similar to those at the Dagan clinic.

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

*Contractual Arrangements with HJ Group and the Key Personnel*

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

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

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

Under PRC laws, Jiuxin Management, Jiuzhou Pharmacy, Jiuzhou Service and Jiuzhou Clinic are each independent business entities not exposed or subject to the liabilities incurred by any of the other three (3) entities. The contractual arrangements constitute valid and binding obligations of the parties to such agreements. Each of the contractual arrangements, and the rights and obligations of the parties thereto, are enforceable and valid in accordance with the laws of the PRC. These contractual arrangements, as amended and in effect, include the following:

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

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

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

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

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

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

### **Our Current Corporate Structure**

The following diagram illustrates our current corporate structure as of March 31, 2018:



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

<b>Entity Name</b>	<b>Entity Type</b>	<b>Registered Capital</b>	<b>Registered Capital Paid</b>	<b>Due Date for Unpaid Registered Capital</b>
Jiutong Medical	Subsidiary	USD 2,600,000	USD 2,600,000	N/A
Jiuzhou Clinic	VIE	N/A	N/A	N/A
Jiuzhou Pharmacy	VIE	USD 733,500	USD 733,500	N/A
Jiuzhou Service	VIE	USD 73,350	USD 73,350	N/A
Jiuxin Management	Subsidiary	USD 14,500,000	USD 14,500,000	N/A
Jiuxin Medicine	VIE	USD 1,564,000	USD 1,564,000	N/A
Qianhong Agriculture	Subsidiary	USD 1,497,000	USD 1,497,000	N/A
Shouantang Technology	Subsidiary	USD 11,000,000	USD 11,000,000	N/A
Shouantang Bio	Subsidiary	USD 162,900	USD 162,900	N/A
Jiuyi Technology	Subsidiary	USD 5,000,000	USD 2,500,000	September 25, 2026
Lin'an Jiuzhou	Subsidiary	USD 725,570	USD 72,557	March 31, 2027
Jiuben Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiumu Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiuheng Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiujiu Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiuli Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiurui Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiuxiang Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiuyi Pharmacy	VIE	USD 15,920	USD 15,920	N/A
Jiuyuan Pharmacy	VIE	USD 15,920	USD 15,920	N/A

## **Our Business**

### ***Pharmacies***

We currently have one hundred and twenty-two (122) pharmacies throughout Hangzhou, the provincial capital of Zhejiang and neighborhood cities. Pharmacy sales accounted for approximately 83.6% of our retail revenue, and 64.5% of our total revenue, for the fiscal year ended March 31, 2018. We offer primarily third-party products at our pharmacies, including:

Approximately 1,335 prescription drugs (252 of which require a physician's prescription and the rest requires customer personal information registration only), sales of which accounted for approximately 33.2% of our retail

revenue for the fiscal year ended March 31, 2018;

Approximately 1,653 OTC drugs, sales of which accounted for approximately 45.8% of our retail revenue for the fiscal year ended March 31, 2018;

Approximately 734 nutritional supplements, including a variety of healthcare supplements, vitamin, mineral and dietary products, sales of which accounted for approximately 6.7% of our retail revenue for the fiscal year ended March 31, 2018;

TCM, including drinkable herbal remedies and pre-packaged herbal mixtures for making soup, sales of which accounted for approximately 2.7% of our retail revenue for the fiscal year ended March 31, 2018;

Sundry products (i.e., personal care products such as skin care, hair care and beauty products, convenience products such as soft drinks, packaged snacks, and other consumable, cleaning agents, stationeries, and seasonal and promotional items tailored to local consumer demand for convenience and quality), sales of which accounted for approximately 10.1% of our retail revenue for the fiscal year ended March 31, 2018; and

Medical devices (i.e., family planning and birth control products, early pregnancy test products, portable electronic diagnostic apparatus, rehabilitation equipment, and surgical tools such as hemostats, needle forceps and surgical scissors), sales of which accounted for approximately 1.6% of our retail revenue for the fiscal year ended March 31, 2018.

We favor retail locations in well-established residential communities with relatively concentrated consumer purchasing power or close to local hospitals, and evaluate potential store sites to assess consumer traffic, visibility and convenience. Depending on its size, each drugstore has between two (2) to eight (8) pharmacists on staff, all of whom are properly licensed. We accept prescriptions only from licensed health care providers, and verify the validity, accuracy, and completeness of all prescriptions. We also ask all prescription customers to disclose their drug allergies, current medical conditions, and current medications. Most pharmacies also maintain a TCM counter staffed by licensed herbalists.

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

All of our one hundred and twenty-two (122) drugstores are located in Hangzhou city and its adjacent town Lin'an.

To enhance customer experience, we have licensed physicians available at several of "Jiuzhou Grand Pharmacy" locations for consultation, examination and treatment of common ailments at scheduled hours. In addition, our Dagan, Wenhua and Xiasha stores have adjoining medical clinics that provide urgent care (such as sprains, minor

lacerations, and dizziness), TCM treatments (including acupuncture, therapeutic massage, moxibustion, and cupping), and minor outpatient surgical treatments (such as suturing).

To ensure quality and personal attention for patients, we employ only licensed doctors and certified nurses and technicians, and patient treatments at our three (3) clinics follow nationally established clinical practice guidelines from China's Ministry of Health. We currently have sixty-three (63) physicians and thirty-three (33) clinic staff. In-store consultations and examinations by our physicians are provided free-of-charge to ensure that customers are being prescribed and taking the appropriate medicines for their ailments, and to afford customers convenience.

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

We generate limited revenue directly from our clinics. However, our clinic brings in the patients flow into our stores, where they make medicine purchase.

### ***Online Sales***

Since May 2010, we have been retailing OTC drugs and nutritional supplements on the Internet at [www.dada360.com](http://www.dada360.com). Before November 2015, our subsidiary Quannuo Technology operated and maintained the website pursuant to the Internet Pharmaceutical Transaction Service Qualification Certificate issued by the State Food and Drug Administration (the "SFDA") of Zhejiang Province, which allows us to engage in online retail pharmaceutical sales throughout China. As we sold all our equity interests in Quannuo Technology in November 2015, we have transferred our online pharmacy operation function to Jiuzhou Pharmacy. We have established payment methods with banks and online intermediaries such as Alipay, and are cooperating with business-to-consumer online vendors such as Taobao. By using Taobao's platform in addition to our own website as mentioned above, we can be exposed to a wider range of customers.

Online sales accounted for approximately 16.4% of our retail revenue, and 12.6% of our total revenue, for the fiscal year ended March 31, 2018. Online sales accounted for approximately 22.9% of our retail revenue, and 18.9% of our total revenue, for the fiscal year ended March 31, 2017.

### ***Wholesale***

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

Approximately 343 prescription drugs, the sales of which accounted for approximately 56.0% of our wholesale revenue for the fiscal year ended March 31, 2018; Approximately 1,065 prescription drugs, the sales of which accounted for approximately 55.6% of our wholesale revenue for the fiscal year ended March 31, 2017;

Approximately 253 OTC drugs, the sales of which accounted for approximately 42.6% of our wholesale revenue for the fiscal year ended March 31, 2018; Approximately 1,284 OTC drugs, the sales of which accounted for approximately 42.5% of our wholesale revenue for the fiscal year ended March 31, 2017;

Approximately 31 nutritional supplements, the sales of which accounted for approximately 0.8% of our wholesale revenue for the fiscal year ended March 31, 2018; Approximately 208 nutritional supplements, the sales of which accounted for approximately 0.4% of our wholesale revenue for the fiscal year ended March 31, 2017;

TCM products, the sales of which accounted for approximately 0.3% of our wholesale revenue for the fiscal year ended March 31, 2018; TCM products, the sales of which accounted for approximately 1.5% of our wholesale revenue for the fiscal year ended March 31, 2017;

Sundry products, the sales of which accounted for approximately 0.2% of our wholesale revenue for the fiscal year ended March 31, 2018; Sundry products, the sales of which accounted for approximately 0.0% of our wholesale revenue for the fiscal year ended March 31, 2017; and

Medical devices, the sales of which accounted for approximately 0.0% of our wholesale revenue for the fiscal year ended March 31, 2018 and 2017.

Wholesale revenue increased primarily as a result of our ability to resell certain products, which our retail stores made large order on, to other vendors. As our retail drugstores achieved large quantity sales of certain brand name merchandises, we were able to bargain lower purchase prices than the market level on these merchandises. As a result, certain vendors who were unable to obtain a better price than ours, will turn to us for these merchandises, leading the wholesale volume to grow. On the other side, we have been trying to act as a local agent for well-know health products in Zhejiang Province. For example, we signed a strategic cooperation agreement with Dong'a Gelatin (DEEJ) and act as its local sale agent in Zhejiang Province. Until we can establish a new customer base and secure a status to serve as provincial or national exclusive sale agent for certain popular drugs, we do not expect our wholesale business to increase significantly in the immediate future.

### ***Herb Farming***

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

We planted ginkgo and maidenhair trees during the year ended March 31, 2013. A ginkgo tree may have a growth period of up to twenty years before it is mature enough to harvest. Usually, the longer it grows, the more valuable it becomes. We plan to continue cultivating the trees in order to maximize their market value in the future. We anticipate that we will continue growing trees and cultivating other herbs in the future.