CAMBREX CORP
Form 10-Q
May 09, 2007

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 March 31, 2007

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 1-10638

CAMBREX CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	22-2476135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ONE MEADOWLANDS PLAZA, EAST RUTHERFORD, NEW JERSEY 07073
(Address of principal executive offices)

(201) 804-3000
(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 Securities Exchange Act of 1934 during the preceding twelve 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer"in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ]

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

As of April 30, 2007, there were 28,669,061 shares outstanding of the registrant's Common Stock, $.10 par value.

CAMBREX CORPORATION AND SUBSIDIARIES

FORM 10-Q

For The Quarter Ended March 31, 2007

Table of Contents

Part I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CAMBREX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share data)

	MARCH 31, 2007	DECEMBE 200
ASSETS		
Current assets:		
Cash and cash equivalents	$344,915	$ 33,
Trade receivables, net	35,311	38,
Inventories, net	56,193	53,
Assets of discontinued operations	--	79,
Prepaid expenses and other current assets	20,289	19,
Total current assets	456,708	224,
Property, plant and equipment, net	141,933	141,
Goodwill	32,860	32,
Assets of discontinued operations	--	202,
Other assets	3,132	4,
Total assets	$634,633	$606,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,722	$ 28,
Accrued expense and other current liabilities	63,329	45,
Liabilities of discontinued operations	--	33,
Total current liabilities	88,051	107,
Long-term debt	--	158,
Deferred income tax	22,037	14,
Liabilities of discontinued operations	--	24,
Accrued pension and postretirement benefits	39,255	39,
Other non-current liabilities	16,113	15,
Total liabilities	165,456	359,
Stockholders' equity:		
Common stock, $.10 par value; authorized 100,000,000, issued 30,913,540 and 30,145,319 shares at respective dates	3,091	3,
Additional paid-in capital	259,064	241,
Retained earnings	233,243	28,
Treasury stock, at cost, 2,445,334 and 2,446,097 shares at respective dates	(20,825)	(20,
Accumulated other comprehensive loss	(5,396)	(5,
Total stockholders' equity	469,177	246,
Total liabilities and stockholders' equity	$634,633	$606,

See accompanying notes to unaudited consolidated financial statements.

2

CAMBREX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per-share data)

	THREE MONTHS ENDED MARCH 31, 2007	THREE MONTHS ENDED MARCH 31, 2006
Gross sales	$ 64,997	$54,120
Allowances and rebates	590	386
Net sales	64,407	53,734
Other revenues	807	(647)
Net revenues	65,214	53,087
Cost of goods sold	40,819	34,002
Gross profit	24,395	19,085
Operating expenses:		
Selling, general and administrative expenses	15,347	12,490
Research and development expenses	2,600	2,362
Restructuring expenses	1,682	--
Strategic alternative costs	23,130	988
Total operating expenses	42,759	15,840
Operating (loss)/profit	(18,364)	3,245
Other (income)/expenses:		
Interest (income)/expense, net	(1,539)	5,444
Other (income)/expenses, net	(19)	5
Loss before income taxes	(16,806)	(2,204)
(Benefit)/provision for income taxes	(2,363)	2,500
Loss from continuing operations	$(14,443)	$(4,704)
Income from discontinued operations, net of tax	219,659	3,527
Income/(loss) before cumulative effect of a change in accounting principle	205,216	(1,177)
Cumulative effect of a change in accounting principle	--	(228)
Net income/(loss)	$205,216	$(1,405)
Basic earnings per share:		
Loss from continuing operations	$ (0.51)	$ (0.18)
Income from discontinued operations, net of tax	7.82	0.14
Cumulative effect of a change in accounting principle	--	(0.01)
Net income/(loss)	$ 7.31	$ (0.05)
Diluted earnings per share:		
Loss from continuing operations	$ (0.51)	$ (0.18)
Income from discontinued operations, net of tax	7.82	0.14
Cumulative effect of a change in accounting principle	--	(0.01)
Net income/(loss)	$ 7.31	$ (0.05)
Weighted average shares outstanding:		
Basic	28,071	26,661
Effect of dilutive stock based compensation	--	--
Diluted	28,071	26,661
Cash dividends paid per share	$ 0.03	$ 0.03

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	THREE MONTHS ENDED MARCH 31, 2007	2006
Cash flows from operating activities:		
Net income/(loss)	$ 205,216	$ (1,405)
Adjustments to reconcile net income/(loss) to cash flows:		
Cumulative effect of a change in accounting principle	--	228
Depreciation and amortization	4,894	4,757
Write-off of debt origination fees	841	463
Strategic alternative and restructuring charges	18,797	--
Stock based compensation included in net income/(loss)	1,819	377
Deferred income tax provision	8,116	--
Allowance for doubtful accounts	53	10
Inventory reserve	1,625	(36)
Loss on sale of assets	175	140
Changes in assets and liabilities:		
Receivables	3,095	4,899
Inventories	(4,017)	(6,340)
Prepaid expenses and other current assets	(960)	3,173
Accounts payable and other current liabilities	(4,174)	2,609
Other non-current assets and liabilities	1,176	1,055
Discontinued operations:		
Gain on sale of businesses	(232,116)	--
Changes in operating assets and liabilities	(4,886)	(9,808)
Other non-cash charges	1,359	5,811
Net cash provided by operating activities	1,013	5,933
Cash flows from investing activities:		
Capital expenditures	(5,478)	(4,290)
Other investing activities	(15)	--
Discontinued operations:		
Capital expenditures	(530)	(4,209)
Proceeds from sale of business	460,000	--
Acquired in-process research and development	--	(1,338)
Other investing activities	11	(41)
Net cash provided by/(used) in investing activities	453,988	(9,878)
Cash flows from financing activities:		
Dividends	(833)	(801)
Net (decrease)/increase in short-term debt	(140)	457
Long-term debt activity (including current portion):		
Borrowings	24,279	127,200
Repayments	(182,725)	(146,619)

Proceeds from stock options exercised	15,962	1,003
Other financing activities	(59)	(1)
Discontinued operations:		
Debt repayments	(254)	(366)
Net cash used in financing activities	(143,770)	(19,127)
Effect of exchange rate changes on cash and cash equivalents	(62)	806
Net increase/(decrease) in cash and cash equivalents	311,169	(22,266)
Cash and cash equivalents at beginning of period	33,746	45,342
Cash and cash equivalents at end of period	$ 344,915	$ 23,076

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data)

(1) BASIS OF PRESENTATION

Unless otherwise indicated by the context, "Cambrex" or the "Company" means Cambrex Corporation and subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments, which are of a normal and recurring nature, except as otherwise described herein, and is necessary for a fair statement of financial position and results of operations in conformity with generally accepted accounting principles ("GAAP"). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2006.

The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

In October, 2006, the Company sold two businesses within the Human Health segment for nominal consideration. As a result of this transaction, the Company reported a non-cash charge of $23,244 in the fourth quarter of 2006, and all periods presented reflect the results of these businesses as discontinued operations.

In February 2007, the Company completed the sale of the businesses that comprise the Bioproducts and Biopharma segments (excluding certain liabilities) to Lonza Group AG for total cash consideration of $460,000. As a result of this transaction, the Company reported a gain of $232,116, subject to working capital and other adjustments, and all periods presented reflect the results of these businesses as discontinued operations. Refer to Note 13 for a complete discussion on discontinued operations.

(2) IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting for Uncertainty in Income Taxes

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109 ("FIN 48") effective January 1, 2007. This interpretation clarified the accounting for uncertainty in income tax positions and required the Company to recognize in the consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The effect of adopting this interpretation was not material. Refer to Note 5 for further discussion.

Accounting for Planned Major Maintenance Activities

The Company adopted FASB Staff Position ("FSP") No. AUG AIR-1 "Accounting for Planned Major Maintenance Activities" effective January 1, 2007. This FSP amended certain provisions of APB Opinion No. 28 "Interim Financial Reporting". This FSP prohibited the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim reporting periods. The adoption of this FSP had an immaterial impact on the Company's financial position and results of operations.

(3) STOCK-BASED COMPENSATION

The Company adopted FAS 123(R) "Share-Based Payment," effective January 1, 2006 using the modified prospective transition method. Prior to January 1, 2006, the company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees. The first quarter of 2006 does not include compensation cost for options granted prior to January 1, 2006 as all options outstanding prior to January 1, 2006 were fully vested as of December 31, 2005. On March 31, 2007, the Company had seven active stock-based employee compensation plans in effect. All stock options granted during 2006 vest 25% per year over four years and have a term of seven years except for those options effected by the restructuring and strategic alternative activity as described in Note 8. The Company also had outstanding at March 31, 2007 restricted stock as described below.

Beginning January 1, 2006, the Company began recognizing compensation costs for stock option awards to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted to employees during the quarter ended March 31, 2007. The weighted-average fair value per share for the stock options granted to employees during the quarter ended March 31, 2006 was $8.15.

Stock option values were estimated using a 0.55% to 0.56% dividend yield, expected volatility of 36.49% to 38.28% and a risk-free interest rate of 4.42% to 4.96%. The Company's stock options are not publicly traded; therefore, expected volatilities are based on historical volatility of the Company's stock. The risk-free interest rate is based on the yield of a zero-coupon U.S. Treasury bond whose maturity period approximates the option's expected term. The expected term of 4.75 years was utilized based on the "simplified" method for determining the expected term of stock options in Staff Accounting Bulletin No. 107, "Share-Based Payment." Assumptions used in estimating the fair value of stock options granted in the first quarter of 2006 are consistent with the assumptions used prior to the adoption of FAS 123(R) with the exception of the expected life. As a result of using the "simplified" method, the expected life was shortened by 1.25 years.

FAS 123(R) requires companies to estimate the expected forfeitures for all unvested awards and record compensation costs only for those awards that are expected to vest. As of March 31, 2007, the total compensation cost related to unvested stock option awards granted to employees but not yet recognized was $689. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 2.5 years.

For the quarters ended March 31, 2007 and 2006, the Company recorded $73 and $0 respectively in selling, general and administrative expenses for stock options. In addition, the Company recorded $185 and $17 in strategic alternative costs and restructuring expenses, respectively, in the first of quarter 2007.

Cambrex senior executives participate in a long-term incentive plan which rewards achievement of long-term strategic goals with restricted stock units. Awards are made annually to key executives and vest in one-third increments on the first, second and third anniversaries of the grant. On the third anniversary of the grant, restrictions on sale or transfer are removed and shares are issued to executives. In the event of termination of employment or retirement, the participant is entitled to the vested portion of the restricted stock units and forfeits the remaining amount; the three-year sale and transfer restriction remains in place. For certain employees with employment contracts, all shares vest upon certain events, including a change in control as defined in those contracts. In the event of death or permanent disability, all shares vest and the deferred sales restriction lapses. These awards are classified as equity awards as defined in FAS 123(R). Historically, only senior executives participated in this plan. As of January 1, 2006, certain other employees are eligible to

(3) STOCK-BASED COMPENSATION (CONTINUED)

receive restricted stock as part of a redesigned stock-based compensation plan. These awards cliff vest on the third anniversary of the grant date. For the quarters ended March 31, 2007 and 2006, the Company recorded $171 and $159, respectively, in selling, general and administrative expenses for restricted stock. In addition, the Company recorded $1,303 and $70 in strategic alternative costs and restructuring expenses, respectively, in the first quarter of 2007, primarily for the acceleration of vesting related to restricted stock per the terms of the executive change in control agreements. As of March 31, 2007 the total compensation cost related to unvested restricted stock granted but not yet recognized was $1,475. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.8 years.

At March 31, 2006, the Company had outstanding 150,000 fully-vested cash-settled incentive SARs at a price of $19.30. These SARs were classified as liability awards and, as such, were recorded at fair value until the rights were exercised during the fourth quarter of 2006. As of March 31, 2007 the Company did not have any SARs outstanding. For the quarter ended March 31, 2006 the

(dollars in thousands, except share data)

Company recorded $218 in compensation expense. Under FAS 123(R), the Company is required to measure the SARs at fair market value. Prior to adopting FAS 123(R), the SARs were measured at the intrinsic value. In addition, during the first quarter of 2006, the Company recorded $228 in compensation expense as a cumulative effect of a change in accounting principle in accordance with FAS 123(R).

The following table is a summary of the Company's stock option activity issued to employees and related information:

OPTIONS	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1, 2007	2,754,893	$28.48
Granted	--	--
Exercised	(792,221)	$21.34
Forfeited or expired	(182,085)	$23.55
Outstanding at March 31, 2007	1,780,587	$32.16
Exercisable at March 31, 2007	1,666,595	$32.90

The aggregate intrinsic value for all stock options exercised for the first quarters of 2007 and 2006 were $1,596 and $435, respectively. The aggregate intrinsic value for all stock options outstanding as of March 31, 2007 was $1,496. The aggregate intrinsic value for all stock options exercisable as of March 31, 2007 was $1,131.

(3) STOCK-BASED COMPENSATION (CONTINUED)

A summary of the Company's nonvested stock options as of March 31, 2007 and changes during the three months ended March 31, 2007, are presented below:

NONVESTED STOCK OPTIONS	NUMBER OF SHARES	WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE
Nonvested at January 1, 2007	236,952	$21.39
Granted	--	--
Vested during period	(59,463)	$21.39
Forfeited	(63,497)	$21.39
Nonvested at March 31, 2007	113,992	$21.39

(dollars in thousands, except share data)

A summary of the Company's nonvested restricted stock as of March 31, 2007 and changes during the three months ended March 31, 2007 is presented below:

Nonvested Restricted Stock	NUMBER OF SHARES	WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE
Nonvested at January 1, 2007	165,868	$22.02
Granted	53,129	$21.69
Vested during period	(51,002)	$22.74
Forfeited	(28,922)	$21.43
Nonvested at March 31, 2007	139,073	$21.75

(4) GOODWILL

The change in the carrying amount of goodwill for the three months ended March 31, 2007, is as follows:

	Human Health Segment
Balance as of January 1, 2007	$32,573
Translation effect	287
Balance as of March 31, 2007	$32,860

(5) INCOME TAXES

The Company recorded a tax benefit of $2,363 in the first quarter of 2007 compared to tax expense of $2,500 in the first quarter of 2006. This change is due to the geographic mix of pre-tax earnings, as well as the recognition of a tax benefit in continuing operations as a result of the sale of the Bioproducts and Biopharma segments in the first quarter of 2007.

(5) INCOME TAXES (CONTINUED)

The Company maintains a full valuation allowance against its domestic, and certain foreign, net deferred tax assets and will continue to do so until an appropriate level of profitability is sustained or tax strategies can be developed that would enable the Company to conclude that it is more likely than not that a portion of these net deferred assets would be realized. As such, improvements in domestic, and certain foreign, pre-tax income in the future may result in these tax benefits ultimately being realized. However, there is no assurance that such improvements will be achieved.

The Company has adopted the provisions of FIN 48 effective January 1, 2007.

As of January 1, 2007 the Company had reserves of approximately $2,024 for uncertain tax positions. These were accounted for in the Company's non-current liabilities and includes estimated cumulative interest and penalties of $414. The Company also had unrecognized tax benefits of $2,000 for certain tax attributes which had full valuation allowances. The net effect of this is a decrease to the gross deferred tax assets and a corresponding decrease to the related valuation allowance with no effect to beginning retained earnings. There was no interest component related to these items. Consistent with prior periods, the company will recognize interest and penalties within its income tax provision. The total unrecognized tax benefit of $4,024, if recognized, would impact the effective tax rate.

The Company has recently closed the IRS examination for the periods 2001-2003. Although not currently under examination by the IRS, the Company is subject to examination for the years 2004 through 2006. It is also subject to exams in foreign jurisdictions for 2002 forward, 2004 forward and 2006 forward in its significant non-U.S. jurisdictions.

The Company is also subject to audit in various states (for various years) in which it files income tax returns. Past audits have not resulted in material adjustments. Audits for New Jersey and Maine have recently been concluded with no material changes. Open years for these states are 2004 and 2005 forward, respectively. An audit for the state of Maryland for 2001-2004 is in process and for which the Company anticipates no material additional liability.

The Company anticipates a net decrease of approximately $200 to $300 for unrecognized tax benefits, which would positively impact the provision for income taxes, in the next 12 months mainly due to the expiration of a statute of limitation period.

(6) NET INVENTORIES

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Net inventories at March 31, 2007 and December 31, 2006 consist of the following:

	MARCH 31, 2007	DECEMBER 31, 2006
Finished goods	$23,844	$23,792
Work in process	19,671	15,540
Raw materials	9,722	11,696
Supplies	2,956	2,865
Total	$56,193	$53,893

CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(7) LONG-TERM DEBT

Long-term debt at March 31, 2007 and December 31, 2006 consists of the following:

	MARCH 31, 2007	DECEMBER 31, 2006
Bank credit facilities	$--	$158,600
Total	$--	$158,600

Proceeds from the sale of the Bioproducts and Biopharma segments, as discussed in Note 13, were used to repay all outstanding debt on the credit facility. Due to this repayment, $821 was recorded in interest expense, in continuing operations, in the first quarter of 2007 related to the acceleration of unamortized origination fees.

(8) RESTRUCTURING CHARGES

The Company announced plans to eliminate certain employee positions at the corporate office upon completion of the sale of the Bioproducts and Biopharma segments. This plan will include certain one-time benefits for employees terminated and is expected to be completed before the end of 2007. The Company recognized expense of $1,682 during the first quarter of 2007, and expects the total charge for the program to be approximately $4,000, substantially all of which will be paid in cash. The Company anticipates annual cost savings related to the elimination of all these positions to be approximately $5,200.

(9) COMPREHENSIVE INCOME

The following table reflects the components of comprehensive income for the three months ended March 31, 2007 and 2006:

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Net income/(loss)	$205,216	$(1,405)
Foreign currency translation	(254)	3,740
Unrealized gain on hedging contracts, net of tax	77	124
Unrealized gain on available-for-sale securities, net of tax	17	244
Reclassification adjustment for net realized gains on available-for-sale securities included in net income, net of tax	(1,198)	--
Pension, net of tax	1,719	--

Total	$205,577	$ 2,703
	========	=======

CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(9) COMPREHENSIVE INCOME (CONTINUED)

During the first quarter of 2007 the Company sold an available-for-sale security. For purposes of computing gains or losses, cost is identified on a specific identification basis. As of December 31, 2006 the amount recorded in accumulated other comprehensive income ("AOCI') was a gain of $1,198, which was reclassed out of AOCI upon the sale of the security and the Company recorded a gain of $734 to other income at the actual sale date.

(10) RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Domestic Pension Plans

The Company maintains two U.S. defined-benefit pension plans which cover all eligible employees: the Nepera Hourly Pension Plan which covers the union employees at the previously-owned Harriman, New York plant, and the Cambrex Pension Plan which covers all other eligible employees.

The components of net periodic pension cost for the Company's domestic plans for the three months ended March 31, 2007 and 2006 are as follows:

	March 31, 2007	March 31, 2006
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 335	$ 729
Interest cost	898	858
Expected return on plan assets	(921)	(746)
Amortization of prior service costs	5	11
Recognized actuarial loss	52	180
Curtailments	337	--
Net periodic benefit cost	$ 706	$1,032

The sale of the Bioproducts and Biopharma segments in February, 2007 required the Company to recognize a curtailment charge of $337, which is recorded in discontinued operations.

The Company has a Supplemental Executive Retirement Plan ("SERP") for key executives. This plan is non-qualified and unfunded.

CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

The components of net periodic benefit cost for the Company's SERP Plan for the three months ended March 31, 2007 and 2006 is as follows:

(10) RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

	March 31, 2007	March 31, 2006
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 38	$ 55
Interest cost	74	63
Amortization of prior service cost	--	1
Recognized actuarial loss	4	6
Curtailments	11	--
Net periodic benefit cost	$127	$125

International Pension Plans

A foreign subsidiary of the Company maintains a pension plan for their employees that conforms to the common practice in their respective country. Based on local laws and customs, this plan is not funded.

The components of net periodic pension cost for the Company's international plan for the three months ended March 31, 2007 and 2006 are as follows:

	March 31, 2007	March 31, 2006
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$111	$128
Interest cost	160	128
Amortization of unrecognized net obligation	--	(8)
Recognized actuarial (gain)/loss	(17)	17
Amortization of prior service cost	(2)	(1)
Net periodic benefit cost	$252	$264

The Company does not expect to contribute cash to its international pension plan in 2007.

Other Postretirement Benefits

Cambrex provides postretirement health and life insurance benefits ("postretirement benefits") to all eligible retired employees. Employees who retire at or after age 55 with fifteen years of service are eligible to participate in the postretirement benefit plans. Certain subsidiaries and all employees hired after December 31, 2002 (excluding those covered by collective bargaining) are not eligible for these benefits. The Company's responsibility for such premiums for each plan participant is based upon years of service. Such plans are self-insured and are not funded. Effective January 1, 2006, the Cambrex Retiree Medical Plan no longer provides prescription coverage to retirees or dependents age 65 or older.

(dollars in thousands, except share data)

(10) RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

The components of net periodic postretirement benefit cost for the three months ended March 31, 2007 and 2006 are as follows:

	March 31, 2007	March 31, 2006
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost of benefits earned	$ 5	$ 16
Interest cost	27	34
Actuarial loss recognized	17	33
Amortization of unrecognized prior	(39)	(45)
Net periodic benefit cost	$ 10	$ 38

(11) SEGMENT INFORMATION

The Company classifies its non-corporate business activities into one reportable segment: Human Health, consisting of active pharmaceutical ingredients and pharmaceutical intermediates produced under Food and Drug Administration cGMP for use in the production of prescription and over-the-counter drug products and other fine custom chemicals derived from organic chemistry.

Information as to the operations of the Company is set forth below. Cambrex evaluates performance based on gross profit and operating profit. The Company allocates certain corporate expenses to the Human Health segment.

Two customers each account for 10% of consolidated gross sales in the three months ended March 31, 2007 and 2006. One customer is a pharmaceutical company with which a long-term sales contract is in effect that is scheduled to expire at the end of 2008. The Company has agreed in principle to extend the contract which will result in lower profitability for sales under this arrangement in 2007 and 2008. Formal negotiations are nearly complete. The second customer is a distributor representing multiple customers.

CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(11) SEGMENT INFORMATION (CONTINUED)

The following is a summary of business segment information:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Gross Sales:		
Human Health	$ 64,997	$54,120
	$ 64,997	$54,120
Gross Profit:		
Human Health	$ 24,395	$19,085
	$ 24,395	$19,085
Operating Profit:		
Human Health	$ 14,756	$11,060
Corporate	(33,120)	(7,815)
	$(18,364)	$ 3,245
Capital Expenditures:		
Human Health	$ 5,425	$ 4,275
Corporate	53	15
	$ 5,478	$ 4,290
Depreciation:		
Human Health	$ 4,732	$ 4,497
Corporate	101	250
	$ 4,833	$ 4,747
Amortization:		
Human Health	$ 61	$ 10
	$ 61	$ 10

	March 31, 2007	December 31, 2006
Total Assets:		
Human Health	$285,062	$286,437
Corporate	349,571	38,264

Assets of discontinued operations	--	281,675
	$634,633	$606,376

CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(12) CONTINGENCIES

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company continually assesses all known facts and circumstances as they pertain to all legal and environmental matters and evaluates the need for reserves and disclosures as deemed necessary based on these facts and circumstances and as such facts and circumstances develop. These matters, either individually or in the aggregate, could have a material adverse effect on the Company's financial condition, operating results and cash flows in a future reporting period.

Environmental

In connection with laws and regulations pertaining to the protection of the environment, the Company and/or its subsidiaries is a party to several environmental proceedings and remediation investigations and cleanups and, along with other companies, has been named a potentially responsible party ("PRP") for certain waste disposal sites ("Superfund sites"). Additionally, as discussed in the "Sale of Rutherford Chemicals" section of this Note, the Company has retained the liability for certain environmental proceedings, associated with the Rutherford Chemicals business.

Each of these matters is subject to various uncertainties, and it is possible that some of these matters will be decided unfavorably against the Company. The resolution of such matters often spans several years and frequently involves regulatory oversight or adjudication. Additionally, many remediation requirements are not fixed and are likely to be affected by future technological, site, and regulatory developments. Consequently, the ultimate extent of liabilities with respect to such matters, as well as the timing of cash disbursements cannot be determined with certainty.

In matters where the Company has been able to reasonably estimate its liability, the Company has accrued for the estimated costs associated with the study and remediation of Superfund sites not owned by the Company and the Company's current and former operating sites. These accruals were $5,028 and $4,862 at March 31, 2007 and December 31, 2006, respectively. The increase in the accrual is primarily due to an increase in the reserve for one of the Company's former operating sites of $240 partially offset by payments of $47 and currency fluctuation of $30. Based upon currently available information and analysis, the Company's current accrual represents management's best estimate of the probable and estimable costs associated with environmental proceedings including amounts for legal and investigation fees where remediation costs may not be estimable at the reporting date.

As a result of the sale of the Bayonne, New Jersey facility (see "Sale of Rutherford Chemicals" section of this Note), The Company became obligated to investigate site conditions and conduct required remediation under the New Jersey Industrial Site Recovery Act. The Company completed a preliminary assessment of the site and submitted the preliminary assessment to the New Jersey Department of Environmental Protection ("NJDEP"). The preliminary assessment identified potential areas of concern based on historical operations and sampling of such areas commenced. The Company has completed a second phase of sampling and determined that a third phase of sampling is necessary to determine the extent of contamination and any necessary remediation. The results of the completed and proposed sampling, and any additional sampling deemed necessary, will be used to develop an estimate of the Company's future liability for remediation costs, if any. The Company submitted its plan for the third phase of sampling to the NJDEP during the fourth quarter of 2005. The sampling will commence upon approval of the sampling plan.

(12) CONTINGENCIES (CONTINUED)

The Company's Cosan subsidiary conducted manufacturing operations in Clifton, New Jersey from 1968 until 1979. Prior to the acquisition of Cosan by the Company, the operations were moved to another location and thereafter Cambrex purchased the business. In 1997, Cosan entered into an Administrative Consent Order with the NJDEP. Under the Administrative Consent Order, Cosan was required to complete an investigation of the extent of the contamination related to the Clifton site and conduct remediation as may be necessary. During the third quarter of 2005, the Company completed the investigation related to the Clifton site, which extends to adjacent properties. The results of the investigation caused the Company to increase its related reserves by $1,300 in 2005 based on the proposed remedial action plan. The Company submitted the results of the investigation and proposed remedial action plan to the NJDEP. In late 2006, the NJDEP requested that an additional investigation be conducted at the site. The Company submitted its plan for additional work to the NJDEP in April 2007 and will commence such additional work upon approval of the plan.

In March 2006, the Company received notice from the USEPA that two former operating subsidiaries are considered PRPs at the Berry's Creek Superfund Site, Bergen County, New Jersey. The operating companies are among many other PRPs that were listed in the notice. Pursuant to the notice, the PRPs have been asked to perform a remedial investigation and feasibility study of the Berry's Creek Site. The Company has met with the other PRPs. Both operating companies joined the groups of PRPs and filed a joint response to the USEPA agreeing to jointly negotiate to conduct or fund (along with other PRPs) an appropriate remedial investigation and feasibility study of the Berry's Creek Site. At this time it is too early to predict the extent of any liabilities. However, reserves have been established to cover anticipated initial costs related to the site.

The Company is involved in other matters where the range of liability is not reasonably estimable at this time and it is not determinable when information will become available to provide a basis for recording an accrual, should an accrual ultimately be required.

Litigation and Other Matters

Mylan Laboratories

In 1998 the Company and its subsidiary Profarmaco S.r.l. (currently known as Cambrex Profarmaco Milano S.r.l.") ("Profarmaco") were named as defendants (along with Mylan Laboratories, Inc. ("Mylan") and Gyma Laboratories of America, Inc., Profarmaco's distributor in the United States) in a proceeding instituted by the Federal Trade Commission ("FTC") in the United States District Court for the District of Columbia (the "District Court"). Suits were also commenced by several State Attorneys' General. The suits alleged violations of the Federal Trade Commission Act arising from exclusive license agreements between Profarmaco and Mylan covering two APIs. The FTC and Attorneys' General suits were settled in February 2001, with Mylan (on its own behalf and on behalf of Profarmaco and Cambrex) agreeing to pay over $140,000 and with Mylan, Profarmaco and Cambrex agreeing to monitor certain future conduct.

The same parties including the Company and Profarmaco have also been named in purported class action complaints brought by private plaintiffs in various state courts on behalf of purchasers of the APIs in generic form, making allegations similar to those raised in the FTC's complaint and seeking various forms of relief including treble damages.

In April 2003, Cambrex reached an agreement with Mylan under which Cambrex would contribute $12,415 to the settlement of litigation brought by a class of direct purchasers. In exchange, Cambrex and

(12) CONTINGENCIES (CONTINUED)

Profarmaco received from Mylan a release and full indemnity against future costs or liabilities in related litigation brought by purchasers, as well as potential future claims related to this matter. Cambrex recorded an $11,342 charge (discounted to the present value due to the five year pay-out) in the first quarter of 2003 as a result of this settlement. In accordance with the agreement $9,215 has been paid through March 31, 2007, with the remaining $3,200 to be paid over the next two years.

Vitamin B-3

In May 1998, the Company's subsidiary, Nepera, which formerly operated the Harriman facility and manufactured and sold niacinamide ("Vitamin B-3"), received a Federal Grand Jury subpoena for the production of documents relating to the pricing and possible customer allocation with regard to that product. In 2000, Nepera reached agreement with the Government as to its alleged role in Vitamin B-3 violations from 1992 to 1995. The Canadian government claimed similar violations. All government suits in the U.S. and Canada have been concluded.

Nepera has been named as a defendant, along with several other companies, in a number of private civil actions brought on behalf of alleged purchasers of Vitamin B-3. The actions seek injunctive relief and unspecified but substantial damages. All cases have been settled within established reserve amounts.

Settlement documents are expected to be finalized and payments are expected to be made during the next several months. The balance of the reserves recorded within accrued liabilities related to this matter was $1,580 as of March 31, 2007.

Sale of Rutherford Chemicals

The Company completed the sale of its Rutherford Chemicals business in November 2003. Under the agreement for the sale ("Purchase Agreement"), the Company provided standard representations and warranties and included various covenants concerning the business, operations, liabilities and financial condition of the Rutherford Chemicals business ("Rutherford Business"). Most of such representations and warranties survived for a period of thirty days after the preparation of the audited financial statements for year-end 2004 by the purchasers of the Rutherford Business ("Buyers"). Therefore, claims for breaches of such representations had to be brought during such time frame. Certain specified representations, warranties and covenants, such as those relating to employee benefit matters and certain environmental matters, survive for longer periods and claims under such representations, warranties and covenants could be brought during such longer periods. Under the Purchase Agreement, the Company has indemnified the Buyer for breaches of representations, warranties and covenants. Indemnifications for certain but not all representations and warranties are subject to a deductible of $750 and a cap at 25 percent of the purchase price. Further, to the extent any claimed damages arise from breaches of representations and warranties, such damages would be subject to a cap of between approximately $14,000 and $16,250, depending on whether certain contingent payments are made, and is subject to the deductible of $750 which is the responsibility of the Buyers.

Under the Purchase Agreement, the Company has retained the liabilities associated with existing general litigation matters related to Rutherford Chemicals. With respect to certain pre-closing environmental matters, the Company retains the responsibility for: (i) certain existing matters including violations and off-site liabilities; and (ii) completing the on-going remediation at the New York facility. Further, as a result of the sale of the Bayonne, New Jersey facility, a part of Rutherford Chemicals, and as discussed in the Environmental Section above, the obligation to investigate site conditions and conduct required remediation under the provisions of the New Jersey Industrial Site Recovery Act was triggered; the Company has

(12) CONTINGENCIES (CONTINUED)

retained the responsibility for completion of any such investigation and remediation. With respect to all other pre-closing environmental liabilities, whether known or unknown, the Buyer is responsible for the management of potential future matters; however, the Buyer and the Company may share the costs of associated remediation with respect to such potential future matters, subject to certain limitations defined in the agreement for sale. The Company has accrued for exposures which are deemed probable and estimable.

In March 2005, the Company received a claim from the Buyers claiming breach of certain representations, warranties and covenants contained in the Purchase Agreement which the Company rejected in its entirety. Thereafter, the Buyers submitted an amended claim claiming alleged breaches of representations, warranties and covenants covering each of the five operating sites sold pursuant to the Purchase Agreement and are related primarily to facility structures, utilities and equipment and alleges damages of $26,407 which the Company rejected in its entirety.

In September 2005, the Company received a request for indemnity ("September Notice") from the Buyers related to an arbitration claim filed by a Rutherford Business customer ("Customer"). The arbitration claim arises from a claimed breach of a supply agreement that was assigned to and assumed by the Buyers pursuant to the Purchase Agreement. Thereafter, the Company was also served with an arbitration claim by the Customer related to the same matter. In the arbitration claim, the Customer claims $30,000 in damages arising from Buyers' breach of the supply agreement. The Buyers have now settled the Customer arbitration claim for $3,600. The Buyers claim that the September Notice amends the earlier claims that they filed in early 2005, as discussed above, and that the Customer's claimed breach of the supply agreement should be treated as part of a breach of a representation, warranty or covenant set forth in the earlier notices. The supply agreement was assigned to and assumed by the Buyers, and the Company has now been dismissed from the Customer's arbitration claim. In October 2005, the Company rejected the Buyers' claim for indemnity under the September Notice in its entirety.

In October 2005, the Company received a notice from the Buyers ("October Notice") that summarized the claims previously received in early 2005. The October Notice also set forth additional claims for environmental matters related to the Rutherford Business that relate to environmental matters at each of the five operating sites sold pursuant to the Purchase Agreement. In December 2005, the Buyers added two additional environmental claims related to the former operating sites ("December Notices"). The Company responded to the October and December Notices disputing the environmental claims on various grounds, including that the Company believes most claims relate to Buyers' obligations under the Purchase Agreement. The Company also requested additional information because some environmental claims may be covered by sections of the Purchase Agreement where the parties share liability concerning such matters.

In April 2006, the Company received a summons and complaint (the "Complaint") from the Buyers, which was filed in the Supreme Court of the State of New York, County of New York. The Complaint seeks indemnification, declaratory and injunctive relief for alleged (i) breaches of representations, warranties and covenants covering each of the former operating sites related to facility structures, utilities and equipment included in the 2005 notices mentioned above and the allegedly related breach of the Customer Supply Agreement arising from a breach of warranty at the Harriman facility included in the September Notice mentioned above (collectively "Equipment Matters"); and (ii) claims related to environmental matters at each of the five operating locations, most of which related to the former Harriman location included in the October Notice and December Notices mentioned above (collectively "Environmental Matters").

(12) CONTINGENCIES (CONTINUED)

The Company continues its evaluation of Buyers' allegations and intends to defend itself against these claims vigorously. The Company continues to believe that the Equipment Matters are without merit. In April 2007, the Buyers stipulated to the withdrawal of 23 of the 39 of its equipment claims, approximately $12,000 of claimed equipment damages. Further, the Company continues to believe that based on current information the majority of the Environmental Matters are either the Buyers' responsibility or without merit and the remaining are otherwise not reasonably estimable at this time. As such, the Company has recorded no reserves for this matter.

Class Action Matter

In October 2003, the Company was notified of a securities class action lawsuit filed against Cambrex and five former and current Company officers. Five class action suits were filed with the New Jersey Federal District Court (the "Court"). Discovery in this matter is proceeding. In January 2004, the Court consolidated the cases, designated the lead plaintiff and selected counsel to represent the class. An amended complaint was filed in March 2004. The lawsuit has been brought as a class action in the names of purchasers of the Company's common stock from October 21, 1998 through July 25, 2003. The complaint alleges that the Company failed to disclose in a timely fashion the January 2003 accounting restatement and subsequent SEC investigation, as well as the loss of a significant contract at the Baltimore facility.

The Company filed a Motion to Dismiss in May 2004. Thereafter, the plaintiff filed a reply brief and in October 2005, the Court denied the Company's Motion to Dismiss. The Company continues to believe that the complaints are without merit and will vigorously defend against them. As such, the Company has recorded no reserves related to this matter. The Company has reached its deductible under its insurance policy and further costs, expenses and any settlement is expected to be paid by the Company's insurers.

Securities and Exchange Commission

The SEC is currently conducting an investigation into the Company's inter-company accounting procedures from the period 1997 through 2001. The investigation began in the first half of 2003 after the Company voluntarily disclosed certain matters related to inter-company accounts for the five-year period ending December 31, 2001 that resulted in the restatement of the Company's financial statements for those years. To the Company's knowledge, the investigation is limited to this inter-company accounting matter, and the Company does not expect further revisions to its historical financial statements relating to these issues. The Company is fully cooperating with the SEC.

Baltimore Litigation

In 2001, the Company acquired the biopharmaceutical manufacturing business in Baltimore (the "Baltimore Business"). The sellers of the Baltimore Business filed suit against the Company alleging that the Company made false representations during the negotiations on which the sellers relied in deciding to sell the business and that the Company breached its obligation to pay additional consideration as provided in the purchase agreement which was contingent on the performance of the Baltimore Business. Management believes the matter to be without merit and continues its defense of this matter. A decision on the Motion for Summary Judgment filed in 2006 is pending.

(12) CONTINGENCIES (CONTINUED)

Other

The Company has commitments incident to the ordinary course of business including corporate guarantees of certain subsidiary obligations to the Company's lenders related to financial assurance obligations under certain environmental laws for remediation, closure and/or third party liability requirements of certain of its subsidiaries and a former operating location; contract provisions for indemnification protecting its customers and suppliers against third party liability for manufacture and sale of Company products that fail to meet product warranties and contract provisions for indemnification protecting licensees against intellectual property infringement related to licensed Company technology or processes.

Additionally, as permitted under Delaware law, the Company has agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a Director and Officer insurance policy that covers a portion of any potential exposure.

The Company currently believes the estimated fair value of its indemnification agreements is not significant based on currently available information, and as such, the Company has no liabilities recorded for these agreements as of March 31, 2007.

In addition to the matters identified above, Cambrex's subsidiaries are party to a number of other proceedings.

(13) DISCONTINUED OPERATIONS

On October 27, 2006, the Company sold two businesses within the Human Health segment for nominal consideration. As a result of the transaction, the Company reported a non-cash charge of $23,244 in the fourth quarter of 2006 and the Cork and Landen businesses are being reported as a discontinued operation in all periods presented.

On February 6, 2007, the Company completed the sale of the businesses that comprise the Bioproducts and Biopharma segments (excluding certain liabilities) to Lonza Group AG for cash consideration of $460,000. As a result of the transaction, the Company recorded a $232,116 gain in the first quarter of 2007, subject to working capital and other adjustments. The Company is currently in discussions with the buyer regarding the final calculation of the working capital adjustment which is expected to be completed in the second quarter of 2007. Any changes to the closing balance sheets of the divested companies will be reflected in discontinued operations in future periods. As a result of the completion of the transaction on February 6, 2007, the Bioproducts and Biopharma segments are being reported as discontinued operations in all periods presented.

(13) DISCONTINUED OPERATIONS (CONTINUED)

The following table reflects revenues and income from the discontinued operations:

	Three months ended March 31, 2007	2006
Revenues	$ 20,335	$65,487
Pre-tax income from operations of discontinued operations	$ 545	$ 5,568
Gain on sale of Bioproducts and Biopharma segments	232,116	--
Income from discontinued operations before income taxes	$232,661	$ 5,568

The following table reflects the carrying amount of the assets and liabilities as of December 31, 2006 for the businesses that were sold on February 6, 2007:

	December 31, 2006
Assets:	
Cash	$ --
Accounts receivable, net	35,460
Inventories, net	40,708
Other current assets	3,215
Property, plant and equipment, net	85,162
Intangibles, net	115,562
Other assets	1,568
Total assets held for sale	281,675
Liabilities:	
Accounts payable and accrued liabilities	31,965
Other current liabilities	1,436
Long-term debt	3,627
Other liabilities	20,581
Total liabilities held for sale	$ 57,609
Net assets held for sale	$224,066

(14) SUBSEQUENT EVENTS

In April 2007, the Company entered into a $200,000 five-year Syndicated Senior Revolving Credit Facility ("5-Year Agreement"), which expires in April 2012.

The Company used the remaining proceeds of approximately $307,000 from the sale of the Bioproducts and Biopharma segments and $94,000 of borrowings under the 5-Year Agreement to pay a special dividend of $14.00 per share on May 3, 2007, totaling approximately $401,000. The Company also discontinued its quarterly dividend payment and will instead allocate these cash outlays to support its growth initiatives.

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

EXECUTIVE OVERVIEW

The Company's business consists of one segment - Human Health. The Human Health segment is primarily comprised of active pharmaceutical ingredients derived from organic chemistry and pharmaceutical intermediates.

The following significant events occurred during the first quarter 2007 which affected reported operating profit:

- A charge of $23,130 recorded within operating expenses for strategic alternative costs.

- A charge of $1,682 recorded within operating expenses for restructuring costs.

- A charge of $821 recorded within interest expense for the write-off of unamortized debt costs.

During to the first quarter of 2007 the Company completed the sale of the businesses that comprise the Bioproducts and Biopharma segments (excluding certain liabilities) to Lonza Group AG for total cash consideration of $460,000. As a result of this transaction, the Company recorded a gain of $232,116 in discontinued operations, subject to working capital and other adjustments.

RESULTS OF OPERATIONS

COMPARISON OF FIRST QUARTER 2007 VERSUS FIRST QUARTER 2006

Gross sales in the first quarter 2007 of $64,997 were $10,877 or 20.1% above the first quarter 2006. Gross sales were favorably impacted 5.5% due to exchange rates reflecting a weaker U.S. dollar.

Within the Human Health segment, sales of active pharmaceutical ingredients ("APIs") of $48,342 were $7,945 or 19.7% above the first quarter 2006 primarily due to higher sales volume of generic APIs partially offset by lower pricing. Sales of pharmaceutical intermediates of $8,058 were $1,547 or 23.8% above the first quarter 2006 primarily due to stronger demand for custom development products. Sales of other Human Health products of $8,597 were $1,385 or 19.2% above the first quarter 2006 primarily due to stronger demand of crop protection products partially offset by lower sales of x-ray media.

Human Health gross margins increased to 37.5% in the first quarter 2007 from 35.3% in the first quarter 2006. This increase is primarily due to higher sales volume and favorable foreign currency exchange partially offset by lower pricing.

The following table reflects sales by geographic area for the three months ended March 31, 2007 and 2006:

	2007	2006
North America	$22,473	$17,121
Europe	38,567	33,838
Asia	2,007	1,342
Other	1,950	1,819
Total Gross Sales	$64,997	$54,120

RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF FIRST QUARTER 2007 VERSUS FIRST QUARTER 2006 (CONTINUED)

Selling, general and administrative expenses of $15,347 or 23.6% of gross sales in the first quarter 2007 increased from $12,490, or 23.1% in the first quarter 2006. The increase in expense is due mainly to higher administration expenses, primarily legal fees. The impact of foreign currency exchange was negligible.

The Company announced plans to eliminate certain employee positions at the corporate office upon completion of the sale of the Bioproducts and Biopharma segments. This plan will include certain one-time benefits for employees terminated and is expected to be completed before the end of 2007. Costs related to these plans are recorded on the restructuring expenses line on the income statement. The Company recognized expense of $1,682 during the first quarter of 2007, and expects the total charge for the program to be approximately $4,000, substantially all of which will be in cash. The Company anticipates annual cost savings related to the elimination of all these positions to be approximately $5,200.

Strategic alternative costs include costs that the Company has incurred related to the decision to sell the Bioproducts and Biopharma segments in February 2007. These costs are not considered part of the restructuring program or a part of discontinued operations under current accounting guidance. The first quarter of 2007 includes charges of $18,188 related to certain benefits which became payable under change of control agreements between the Company and four of its current or former executives due to the sale of the Bioproducts and Biopharma segments. The Company will recognize additional expense in future quarters for the recognition of interest and discounting as well as the potential for changes in estimates. Substantially all of this charge will be paid in cash. The exact timing of the payment is uncertain at this time but is expected to be in 2008.

Also included in strategic alternative costs in the current quarter is $4,489 of retention bonuses. This includes amounts that were payable upon completion of the Bioproducts and Biopharma segments sales transaction on February 6, 2007 as well as bonuses payable to certain current employees for continued employment, generally through September 30, 2007. The Company is recognizing this cost ratably over the applicable service period and anticipates a total charge of approximately $3,200. Additional costs including those associated with the payment of the special dividend in connection with the divestiture amounted to approximately $453 during the quarter.

Research and development expenses of $2,600 were 4.0% of gross sales in the first quarter 2007, compared to $2,362 or 4.4% of gross sales in the first quarter 2006. The increase in expense primarily reflects higher personnel costs. The impact of foreign currency exchange was negligible.

Operating loss in the first quarter of 2007 was $18,364 compared to profit of $3,245 in the first quarter of 2006. The results reflect higher operating expenses due to strategic alternative and restructuring costs partially offset by higher gross margins as discussed above.

Net interest income was $1,539 in the first quarter of 2007 compared to net interest expense of $5,444 in the first quarter of 2006. These results primarily reflect lower average debt due to paying off the credit facility in February 2007 using the proceeds from the sale of the Bioproducts and Biopharma segments, partially offset by higher interest rates. Interest income was also considerably higher in the first quarter of 2007 compared to 2006 due to interest earned on the proceeds from the sale of the Bioproducts and Biopharma segments. Also included in first quarter 2007 was the acceleration of unamortized origination fees related to the repayment of the credit facility of $821. Included in first quarter 2006 is approximately $5,272 related to the make whole payment of $4,809 and the related acceleration of $463 of unamortized origination fees. The average interest rate on debt was 6.1% in the first quarter of 2007 versus 5.2% in the first quarter of 2006.

The effective tax rate for the first quarter 2007 was 14.1% compared to -113.4% in the first quarter 2006. The tax provision in the first quarter 2007 changed to a benefit of $2,363 compared to expense of $2,500 in

the first quarter of 2006. This change is due to the geographic mix of pre-tax earnings, as well as the recognition of a tax benefit in continuing operations as a result of the sale of the Bioproducts and Biopharma segments in the first quarter of 2007. The Company maintains a full valuation allowance against its domestic, and certain foreign, net deferred tax assets and will continue to do so until an appropriate level of profitability is sustained or tax strategies can be developed that would enable the Company to conclude that it is more likely than not that a portion of these net deferred assets would be realized. As such, improvements in domestic, and certain foreign, pre-tax income in the future may result in these tax benefits ultimately being realized. However, there is no assurance that such improvements will be achieved.

Loss from continuing operations in the first quarter of 2007 was $14,443, or $0.51, per diluted share versus $4,704, or $0.18 per diluted share in the same period a year ago.

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109 ("FIN 48") effective January 1, 2007. This interpretation clarified the accounting for uncertainty in income tax positions and required the Company to recognize in the consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The effect of adopting the interpretation was not material. Refer to Note 5 for further discussion.

The Company adopted FASB Staff Position ("FSP") No. AUG AIR-1 "Accounting for Planned Major Maintenance Activities" effective January 1, 2007. This FSP amended certain provisions of APB Opinion No. 28 "Interim Financial Reporting". This FSP prohibited the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim reporting periods. The adoption of this FSP had an immaterial impact on the Company's financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased $311,169 in the first three months of 2007. During the three months ended March 31, 2007, the Company generated cash from operations of $1,013, a decrease of $4,920 versus the same period a year ago. The decrease in cash flows from operations in the first three months of 2007 versus the first three months of 2006 is due primarily to the pay down of accounts payable.

Cash flows provided by financing activities in the first three months of 2007 of $453,988 primarily reflect proceeds from the sale of the Bioproducts and Biopharma segments. Capital expenditures from continuing operations were $5,478 in the first three months of 2007 as compared to $4,290 in 2006. Part of the funds in 2007 were used for a new API purification facility in Milan, Italy and capital improvements to existing facilities.

Cash flows used in financing activities in the first three months of 2007 of $143,770 include net pay down of debt of $158,586 and dividends paid of $833 partially offset by proceeds from stock options exercised of $15,962. In the first three months of 2006 financing activities include a net pay down of debt of $18,962, dividends paid of $801 partially offset by proceeds from stock options exercised of $1,003.

During the first three months of 2007 and 2006, the Company paid cash dividends of $0.03 per share.

On October 24, 2006, the Company entered into a definitive stock purchase agreement with Lonza Group AG for the sale of the businesses that comprise the Bioproducts and Biopharma segments (excluding certain liabilities) for total cash consideration of $460,000. The sale of these businesses closed during the first quarter of 2007.

The Company used the proceeds from the sale to repay outstanding debt and on May 3, 2007, paid a special dividend of $14.00 per share, totaling approximately $401,000. Approximately $94,000 was borrowed from the Company's new five-year, $200,000 credit facility to pay the dividend. The Company also discontinued its quarterly dividend payment and will instead allocate these cash outlays to support its growth initiatives.

RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

In April 2007, the Board of Directors of the Company approved the suspension of the domestic pension plans and SERP plan effective August 31, 2007.

FORWARD-LOOKING STATEMENTS

This document may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Rule 3b-6 under The Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding expected performance, especially expectations with respect to sales, research and development expenditures, earnings per share, capital expenditures, acquisitions, divestitures, collaborations, or other expansion opportunities. These statements may be identified by the fact that they use words such as "expects," "anticipates," "intends," "estimates," "believes" or similar expressions are used in connection with any discussion of future financial and/or operating performance. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Form 10-Q. Any forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations including, but not limited to, global economic trends, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and/or regulations (particularly environmental issues), tax rate, interest rate, technology, manufacturing and legal issues, including the outcome of outstanding litigation disclosed in the Company's public filings, changes in foreign exchange rates, performance of minority investments, uncollectible receivables, loss on disposition of assets, cancellation or delays in renewal of contracts, lack of suitable raw materials or packaging materials, the Company's ability to receive regulatory approvals for its products, the outcome of the evaluation of strategic alternatives and whether the Company's estimates with respect to its earnings and profits for tax purposes in 2007 will be correct. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. New factors emerge from time to time and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

For further details and a discussion of these and other risks and uncertainties, investors are cautioned to review the Cambrex 2006 Annual Report on Form 10-K, including the Forward-Looking Statement section therein, and other filings with the U.S. Securities and Exchange Commission. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk during the first quarter of 2007. For a discussion of the Company's exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the

Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Disclosure controls include components of internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States.

We have carried out an evaluation under the supervision of, and with the participation of, our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2007. The Company's management has concluded that the financial statements included in this Form 10-Q are a fair presentation in all material respects the Company's financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

There were no significant changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the quarter ended March 31, 2007.

PART II - OTHER INFORMATION

CAMBREX CORPORATION AND SUBSIDIARIES

ITEM 1 LEGAL PROCEEDINGS

See the discussion under Part I, Item 1, Note 12 to the Consolidated Financial Statements.

ITEM 1A RISK FACTORS

There have been no material changes to our risk factors and uncertainties during the first three months of 2007. For a discussion of the Risk Factors, refer to Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2006.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

1. At a Special Meeting of Shareholders held on February 5, 2007 the Stockholders voted for the approval of the sale of the Bioproducts and Biopharma segments.

Votes For	Votes Against	Votes Abstained
21,064,114	55,789	26,804

2. At the Annual Meeting of Stockholders held on April 26, 2007, four Directors in Class II were elected to hold office as Directors of the Company until the 2010 Annual Meeting of Stockholders

Nominees	Votes For	Votes Withheld
Rosina B Dixon	22,436,620	961,953
Roy W Haley	22,949,190	449,383
Leon J Hendrix, Jr	22,435,670	962,903
Ilan Kaufthal	22,347,160	1,051,413

3. Also, to amend the Restated Certificate of Incorporation in order to declassify the Board of Directors and authorizing:

(i) the annual election of all members of the Board of Directors;

Votes For	Votes Against	Votes Abstained
23,302,177	55,680	40,717

(ii) stockholders to remove a director with or without cause by a majority vote of the then outstanding shares of common stock entitled to vote generally in the election of directors; and

Votes For	Votes Against	Votes Abstained
23,261,427	95,968	41,177

(iii) the removal of provisions requiring a supermajority vote of our common stock to effect certain amendments to our Restated Certificate of Incorporation and By-Laws; and

Votes For	Votes Against	Votes Abstained
23,258,121	98,021	42,432

4. Also, the Stockholders voted for the appointment of BDO Seidman, LLP as the Company's Registered Independent Public Accounting Firm for 2007.

Votes For	Votes Against	Votes Abstained
23,371,956	17,013	9,593

ITEM 6 EXHIBITS

1. Exhibit 3.1 - Restated Certificate of Incorporation of registrant, as amended.

2. Exhibit 3.2 - By Laws of registrant, as amended.

3. Exhibit 31.1 - CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

4. Exhibit 31.2 - CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

5. Exhibit 32.1 - CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

6. Exhibit 32.2 - CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAMBREX CORPORATION

By /s/ Gregory P. Sargen

Gregory P. Sargen
Vice President and Chief Financial Officer (On behalf of the Registrant and as the Registrant's Principal Financial Officer)

Dated: May 9, 2007

TD STYLE="padding-bottom: 1.5pt; font: 10pt Times New Roman, Times, Serif; text-align: left"> (88,840) 198,751 (LOSS) BEFORE INCOME

TAXES (1,603,130) (1,150,662) (2,242,576) (2,549,428) PROVISION FOR INCOME
TAXES (415) 18,047 56,754 38,585 NET
(LOSS) (1,602,715) (1,168,709) (2,299,330) (2,588,013) OTHER COMPREHENSIVE (LOSS)
INCOME Foreign currency translation
adjustments (1,448,661) 633,184 (827,027) 1,092,253 COMPREHENSIVE
(LOSS) $(3,051,376) $(535,525) $(3,126,357) $(1,495,760) WEIGHTED AVERAGE NUMBER OF
SHARES: Basic 28,936,778 25,214,678 28,936,778 25,214,678 Diluted 28,936,778 25,214,678 28,936,778 2
PER SHARES: Basic $(0.06) $(0.05) $(0.08) $(0.10)Diluted $(0.06) $(0.05) $(0.08) $(0.10)

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

2

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,299,330)	$(2,588,013)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt direct write-off and provision	890,576	1,241,159
Depreciation and amortization	557,930	590,618
Stock based compensation	71,427	689,372
Change in fair value of purchase option derivative liability	88,840	(198,751)
Accounts receivable, trade	(833,992)	(2,138,968)
Notes receivable	32,528	(49,387)
Inventories and biological assets	(1,587,645)	(789,355)
Other receivables	(800,686)	(39,756)
Advances to suppliers	(611,849)	958,032
Other current assets	469,985	(180,048)
Long term deposit	18,851	(813,282)
Other noncurrent assets	(139,597)	(106,981)
Accounts payable, trade	(603,967)	2,911,679
Other payables and accrued liabilities	1,305,221	(181,932)
Customer deposits	773,748	308,252
Taxes payable	(253,496)	(133,285)
Net cash used in operating activities	(2,921,456)	(520,646)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of financial assets available for sale	88,897	(73,915)
Purchase of financial assets available for sale	(91,099)	-
Acquisition of equipment	(142,681)	(212,358)
Increase in construction-in-progress	-	(473,716)
Increase intangible assets	-	(298,617)
Investment in a joint venture	-	(9,387)
Additions to leasehold improvements	(244,047)	(27,986)
Net cash used in investing activities	(388,930)	(1,095,979)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	(1,947,655)	(503,908)
Proceeds from notes payable	16,177,514	12,664,216
Repayment of notes payable	(18,290,325)	(12,929,115)
Proceeds from equity and debt financing	7,667	-

Repayment of other payables-related parties	(84,543)	(88,698)
Net cash used in financing activities	(4,137,342)	(857,505)
EFFECT OF EXCHANGE RATE ON CASH	(762,555)	947,579
INCREASE IN CASH	(8,210,283)	(1,526,551)
CASH, beginning of year	15,132,640	18,364,424
CASH, end of year	$6,922,357	$16,837,873
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$57,460	$42,689

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

3

Note 1 – DESCRIPTION OF BUSINESS AND ORGANIZATION

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

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

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

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

Hangzhou Jiuyuan Pharmacy Co., Ltd ("Jiuyuan Pharmacy")	July 13, 2017
Hangzhou Jiumu Pharmacy Co., Ltd ("Jiumu Pharmacy")	July 21, 2017
Hangzhou Jiurui Pharmacy Co., Ltd ("Jiurui Pharmacy")	August 4, 2017

During the six month period ending September 30, 2018, the Company opened two new stores. All of the new stores were without government insurance reimbursement certificates at their openings.

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

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

The Company's wholesale business is primarily conducted through Zhejiang Jiuxin Medicine Co., Ltd. ("Jiuxin Medicine"), which is licensed to distribute prescription and non-prescription pharmaceutical products throughout China. Jiuzhou Pharmacy acquired Jiuxin Medicine on August 25, 2011. On April 20, 2018, 10% of Jiuxin Medcine shares were sold to Hangzhou Kangzhou Biotech Co. Ltd. for a total proceeds of $79,625 (RMB 507,760),

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

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

Entity Name	Background	Ownership
Renovation	Incorporated in Hong Kong SAR on September 2, 2008	100%
Jiuxin Management	Established in the PRC on October 14, 2008 Deemed a wholly foreign owned enterprise ("WFOE") under PRC law Registered capital of $14.5 million fully paid	100%
Shouantang Technology	Established in the PRC on July 16, 2010 by Renovation with registered capital of $20 million Registered capital requirement reduced by the SAIC to $11 million in July 2012 and is fully paid Deemed a WFOE under PRC law Invests and finances the working capital of Quannuo Technology	100%
Qianhong Agriculture	Established in the PRC on August 10, 2010 by Jiuxin Management Registered capital of RMB 10 million fully paid Carries out herb farming business	100%

	Established in the PRC on September 9, 2003	
Jiuzhou Pharmacy (1)	Registered capital of RMB 5 million fully paid	VIE by contractual arrangements (2)
	Operates the “Jiuzhou Grand Pharmacy” stores in Hangzhou	
	Established in the PRC as a general partnership on October 10, 2003	
Jiuzhou Clinic (1)		VIE by contractual arrangements (2)
	Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores	
	Established in the PRC on November 2, 2005	
Jiuzhou Service (1)	Registered capital of RMB 500,000 fully paid	VIE by contractual arrangements (2)
	Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores	
	Established in PRC on December 31, 2003	
	Acquired by Jiuzhou Pharmacy in August 2011	
Jiuxin Medicine		VIE by contractual arrangements as a controlled subsidiary of Jiuzhou Pharmacy (2)
	Registered capital of RMB 10 million fully paid	
	Carries out pharmaceutical distribution services	

5

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

Jiuheng Pharmacy	Established in the PRC on June 6, 2017 by Jiuzhou Pharmacy Registered capital of $15,920 fully paid Operates a pharmacy in Hangzhou	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
Jiujiu Pharmacy	Established in the PRC on June 8, 2017 by Jiuzhou Pharmacy Registered capital of $15,920 fully paid Operates a pharmacy in Hangzhou	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
Jiuyi Pharmacy	Established in the PRC on June 8, 2017 by Jiuzhou Pharmacy Registered capital of $15,920 fully paid Operates a pharmacy in Hangzhou	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
Jiuyuan Pharmacy	Established in the PRC on July 13, 2017 by Jiuzhou Pharmacy Registered capital of $15,920 fully paid Operates a pharmacy in Hangzhou	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
Jiumu Pharmacy	Established in the PRC on July 21, 2017 by Jiuzhou Pharmacy Registered capital of $15,920 fully paid	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)

Operates a pharmacy in Hangzhou

6

Entity Name	Background	Ownership
Jiurui Pharmacy	Established in the PRC on August, 2017 by Jiuzhou Pharmacy Registered capital of $15,920 fully paid Operates a pharmacy in Hangzhou	VIE by contractual arrangements as a wholly-owned subsidiary of Jiuzhou Pharmacy (2)
Shouantang Bio	Established in the PRC in October, 2014 by Shouantang Technology 100% held by Shouantang Technology Registered capital of RMB 1,000,000 fully paid Sells nutritional supplements under its own brand name	100%
Jiuyi Technology	Established in the PRC on September 10, 2015 100% held by Renovation Technical support to online pharmacy	100%
Kahamadi Bio	Established in the PRC in May 2016 49% held by Shouantang Bio	49%

Registered capital of RMB 10 million

Develop brand name for nutritional supplements

Established in the PRC in March 31, 2017

100% held by Jiuxin Management

Lin'An Jiuzhou		100%

Registered capital of RMB 5 million

Explore retail pharmacy market in Lin'An City

(1) Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service had been under the common control of Mr. Lei Liu, Mr. Chong'an Jin and Ms. Li Qi, the three shareholders of Renovation (the "Owners") since their respective establishment dates, pursuant to agreements among the Owners to vote their interests in concert as memorialized in a voting rights agreement. Based on such voting agreement, the Company has determined that common control exists among these three companies. The Owners have operated these three companies in conjunction with one another since each company's respective establishment date. Jiuxin Medicine is also deemed under the common control of the Owners as a subsidiary of Jiuzhou Pharmacy.

(2) To comply with certain foreign ownership restrictions of pharmacy and medical clinic operators, Jiuxin Management entered into a series of contractual arrangements with Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service on August 1, 2009. These contractual arrangements are comprised of five agreements: a consulting services agreement, operating agreement, equity pledge agreement, voting rights agreement and option agreement. Because such agreements obligate Jiuxin Management to absorb all of the risks of loss from the activities of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, and enable the Company (through Jiuxin Management) to receive all of their expected residual returns, the Company accounts for each of the three companies (as well as subsidiaries of Jiuzhou Pharmacy) as a variable interest entity ("VIE") under the accounting standards of the Financial Accounting Standards Board ("FASB"). Accordingly, the financial statements of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, as well as the subsidiary under the control of Jiuzhou Pharmacy, Jiuxin Medicine and Shouantang Bio are consolidated into the financial statements of the Company.

Note 2 – LIQUIDITY

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

The drug retail business is a highly competitive industry in PRC. Several large drugstore chains and a variety of single stores operate in Hangzhou City and Zhejiang Province. In order to increase our competition advantages and gain more local retail pharmacy market share, during fiscal year 2018, we opened 57 new stores in Hangzhou. As a result, we incurred significant amount of expense related to rental, labor hiring and training, and marketing activities. As the retail pharmaceutical market has become more competitive in recent years, a new store usually cannot make profit in its first year of operation. In fact, we incurred significant expense with limited incremental revenue in the period we opened new stores.

As of September 30, 2018, all but 42 of the new stores are without government insurance reimbursement certificates. It usually takes more than one year for a new store to apply for and obtain the local government insurance reimbursement certificate. Historically, sales reimbursed from the government insurance agency contributes more than half of total revenue in a mature store. We are actively in the process of applying certificates for all of our new stores. As more and more new stores obtain certificates, we expect our new store revenue will increase and eventually contribute positive operating cash flow.

The Company's principal sources of liquidity consist of existing cash, equity financing, bank facilities from local banks as well as personal loans from its principal shareholders if necessary. On January 23, 2017, we completed a private placement with a single healthcare-focused institutional investor for the purchase of an aggregate of 4,840,000 of our common stock at a price of $2.20 per share and gross proceeds of approximately $10,648,000. The Company has two credit line agreements from two local banks as displayed in detail in Note 14. Approximately $1.52 million bank credit line was still available for further borrowing as of September 30, 2018. Any borrowing therefrom is guaranteed by a third-party guarantor company, and secured by the Company's assets pursuant to a collateral agreement, as well as the personal guarantees of some of its principal shareholders.

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

8

Note 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries and VIEs. All significant inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation.

Consolidation of variable interest entities

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

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

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

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

Risks and Uncertainties

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

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

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

Use of estimates

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

Fair value measurements

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

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

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

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

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

The Company’s financial assets and liabilities, which include financial instruments as defined by FASB ASC 820, include cash and cash equivalents, accounts receivable, accounts payable, long-term debt and derivatives. The carrying amounts of cash and cash equivalents, financial assets available for sales, accounts receivable, notes receivables, and accounts payable are a reasonable approximation of fair value due to the short maturities of these instruments (Level 1). The carrying amount of notes payable approximates fair value based on borrowing rates of similar bank loan currently available to the Company (Level 2) (See Note 14). The carrying amount of the Company’s derivative instruments is recorded at fair value and is determined based on observable inputs that are corroborated by market data (Level 2). As of September 30, 2018, the fair values of our derivative instruments that were carried at fair value (See Note 18).

	Active Market for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Carrying Value
Cash and cash equivalents	6,922,357	-	$ -	6,922,357
Notes payable	-	15,509,129	-	15,509,129
Warrants liability	-	227,635	$ -	227,635
Total	6,922,357	15,736,764	$ -	22,659,121

<u>Revenue recognition</u>

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

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

10

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

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

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

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

Restricted cash

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

Accounts receivable

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

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

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

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

Advances to suppliers

Advances to suppliers consist of prepayments to our vendors, such as pharmaceutical manufacturers and other distributors. Since the acquisition of Jiuxin Medicine, we have transferred almost all logistics services of our retail drugstores to Jiuxin Medicine. Jiuzhou Pharmacy only directly purchases certain non-medical products, such as certain nutritional supplements. As a result, almost all advances to suppliers are made by Jiuxin Medicine.

Advances to suppliers for our drug wholesale business consist of prepayments to our vendors, such as pharmaceutical manufacturers and other distributors. We typically receive products from vendors within three to nine months after making prepayments. We continuously monitor delivery from, and payments to, our vendors while maintaining a provision for estimated credit losses based upon historical experience and any specific supplier issues, such as discontinuing of inventory supply, that have been identified. If we have difficulty receiving products from a vendor, we take the following steps: cease purchasing products from such vendor, ask for return of our prepayment promptly, and if necessary, take legal action. If all of these steps are unsuccessful, management then determines whether the prepayments should be reserved or written off.

Inventories

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

Farmland assets

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

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

Property and equipment

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

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

Buildings	35 years

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

Intangible assets

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

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

	Estimated Useful Life
Land use rights	50 years
Software	3 years

The Company evaluates intangible assets for impairment whenever events or changes in circumstances indicate that the assets might be impaired.

Impairment of long lived assets

The Company evaluates long lived tangible and intangible assets for impairment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability is measured by comparing the assets' net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. There were no fixed assets and farmland assets impaired for the three and six months ended September 30, 2018.

Notes payable

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

Income taxes

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

The Company has adopted FASB ASC Topic 740-10-25, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company performed a self-assessment and the Company’s liability for income taxes includes liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company’s liability for income taxes. Any such adjustment could be material to the Company’s results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of September 30, 2018 and March 31, 2018, the management of the Company considered that the Company had no additional liabilities for uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in the future. There are no estimated interest costs and penalties provided in the Company’s consolidated financial statements for the three months ended September 30, 2018 and 2017, respectively. The Company’s tax positions related to open tax years are subject to examination by the relevant tax authorities, the most significant of which is the China Tax Authority.

Value added tax

Sales revenue represents the invoiced value of goods, net of VAT. All of the Company’s products are sold in the PRC and are subject to a VAT on the gross sales price. Since April 2018, The VAT rates have been adjusted to range up to 16%, depending on the type of products sold. The VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products. The Company recorded a VAT payable net of payments in the accompanying financial statements.

The accounting standards clarify the accounting and disclosure requirements for uncertain tax positions and prescribe a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. The accounting standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. No significant penalties, uncertain tax provisions or interest relating to income taxes were incurred during the periods ended September 30, 2018 and 2017.

Stock based compensation

The Company follows the provisions of FASB ASC 718, "Compensation — Stock Compensation," which establishes accounting standards for non-employee and employee stock-based awards. Under the provisions of FASB ASC 718, the fair value of stock issued is used to measure the fair value of services received as the Company believes such approach is a more reliable method of measuring the fair value of the services. For non-employee stock-based awards, fair value is measured based on the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is calculated and then recognized as compensation expense over the requisite performance period. For employee stock-based awards, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight–line basis over the requisite service period for the entire award.

Advertising and promotion costs

Advertising and promotion costs are expensed as incurred and amounted to $213,382 and $180,639 for the three months ended September 30, 2018 and 2017, respectively, and $405,409 and $320,734 for the six months ended September 30, 2018 and 2017, respectively. Such costs consist primarily of print and promotional materials such as flyers to local communities.

Operating leases

The Company leases premises for retail drugstores, offices and wholesale warehouse under non-cancellable operating leases. Operating lease payments are expensed over the term of lease. A majority of the Company's retail drugstore leases have a 3 to 10 year term with a renewal option upon the expiration of the lease; the wholesale warehouse lease has a 10-year term with a renewal option upon the expiration of the lease. The Company has historically been able to renew a majority of its drugstores leases. Under the terms of the lease agreements, the Company has no legal or contractual asset retirement obligations at the end of the lease. In addition, land leased from the government is amortized on a straight-line basis over a 30-year term.

Foreign currency translation

The Company uses the United States dollar (“U.S. dollars” or “USD”) for financial reporting purposes. The Company’s subsidiaries and VIEs maintain their books and records in their functional currency the Renminbi (“RMB”), the currency of the PRC.

In general, for consolidation purposes, the Company translates the assets and liabilities of its subsidiaries and VIEs into U.S. dollars using the applicable exchange rates prevailing at the balance sheet date, and the statements of income and cash flows are translated at average exchange rates during the reporting period. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Equity accounts are translated at historical rates. Adjustments resulting from the translation of the financial statements of the subsidiaries and VIEs are recorded as accumulated other comprehensive income.

The balance sheet amounts, with the exception of equity, at September 30, 2018 and at March 31, 2018 were translated at 1 RMB to 0.1456 USD and at 1 RMB to 0.1592 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the six months ended September 30, 2018 and 2017 were at 1 RMB to 0.1518 USD and at 1 RMB to 0.1478 USD, respectively.

Concentrations and credit risk

Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash and restricted cash. The Company has cash balances at financial institutions located in Hong Kong and PRC. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board’s insured limits. Since March 31, 2015, balances at financial institutions and state-owned banks within the PRC are covered by insurance up to RMB 500,000 (USD 75,916) per bank. As of September 30, 2018 and March 31, 2018, the Company had deposits totaling $23,688,866 and $31,433,969 that were covered by such limited insurance, respectively. Any balance over RMB 500,000 (USD 75,916) per bank in PRC will not be covered. To date, the Company has not experienced any losses in such accounts.

For the three months ended September 30, 2018, three largest vendors accounted for 56.6% of the Company’s total purchases and one vendor accounted for 23.3% of the Company’s total advances to suppliers. For the three months ended September 30, 2017, three largest vendors accounted for 61.3% of the Company’s total purchases and one vendor accounted for 16.8% of the Company’s total advances to suppliers.

For the six months ended September 30, 2018, two vendors accounted for 42.4% of the Company's total purchases and two vendors accounted for more than 10% of total advances to suppliers. For the six months ended September 30, 2017, the Company's two largest vendors accounted for 39.6% of the Company's total purchases and the two largest suppliers accounted for more than 10% of total advances to suppliers.

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”)2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In March 2016, the FASB issued ASU 2016-08,“Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net),” which amends the principal versus-agent implementation guidance and in April 2016 the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which amends the guidance in those areas in the new revenue recognition standard. On April 1, 2018, we adopted the guidance in ASC 606 and all the related amendments and applied the new revenue standard to all contracts using the modified retrospective method. Based on the new standard our revenue recognition policies related to membership rewards programs will change. But the impact of the new revenue standard was not material and there was no adjustment required to the opening balance of retained earnings. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an ongoing basis.

The following is a discussion of the Company's revenue recognition policies by segment under the new revenue recognition accounting standard:

Pharmacy retail sales

The physical pharmacies sell prescription drugs, OTC drugs, traditional Chinese medicine, nutritional supplements, medical devices and sundry products. Revenue from sales of prescription medicine at drugstores is recognized when the prescription is filled and the customer picks up and pays for the prescription. Revenue from sales of other merchandise at drugstores is recognized at the point of sale, which is when a customer pays for and receives the merchandise. Usually the majority of our merchandise, such as prescription and OTC drugs, are not allowed to be returned after the customers leave the counter. Return of other products, such as sundry products, are minimal. Sales of drugs reimbursed by the local government medical insurance agency and receivables from the agency are recognized when a customer pays for the drugs at a store. Based on historical experience, a reserve for potential loss from denial of reimbursement on certain unqualified drugs is made to the receivables from the government agency. Revenue from medical services is recognized after the service has been rendered to a customer. As revenue from medical services are minimal compared to pharmacy retail sales, it is included as part of the pharmacy retail sales.

Online pharmacy sales

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

Wholesale

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

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

Disaggregation of Revenue

The following table disaggregates the Company's revenue by major source in each segment for the three and six months ended September 30, 2018:

Three months ended September 30	2018	2017
Retail drugstores		
Prescription drugs	$5,270,412	$4,891,435
OTC drugs	7,660,287	6,780,715
Nutritional supplements	1,935,456	1,638,031
TCM	1,689,697	938,688
Sundry products	345,964	362,443
Medical devices	1,234,482	436,303
Total retail revenue	$18,136,298	$15,047,615
Online pharmacy		
Prescription drugs	$-	$-
OTC drugs	798,938	1,385,899
Nutritional supplements	211,990	334,806
TCM	20,703	10,182
Sundry products	517,123	422,388
Medical devices	574,094	911,741
Total online revenue	$2,122,848	$3,065,016
Drug wholesale		
Prescription drugs	$4,355,706	$3,077,232
OTC drugs	2,629,761	2,248,503
Nutritional supplements	48,216	12,279
TCM	57,458	604
Sundry products	10,775	-
Medical devices	47,984	39,794
Total wholesale revenue	$7,149,900	$5,378,412
Total revenue	$27,409,046	$23,491,043

Six months ended September 30	2018	2017
Retail drugstores		
Prescription drugs	$11,079,627	$9,486,789
OTC drugs	14,625,115	12,424,677
Nutritional supplements	2,880,662	2,675,363
TCM	3,272,265	1,951,199
Sundry products	550,825	624,479
Medical devices	1,696,145	905,478
Total retail revenue	$34,104,639	$28,067,985
Online pharmacy		
Prescription drugs	$-	$-
OTC drugs	1,574,931	2,503,291
Nutritional supplements	355,086	850,882
TCM	25,632	10,182
Sundry products	1,554,289	841,421
Medical devices	634,779	1,994,929
Total online revenue	$4,144,717	$6,200,705
Drug wholesale		
Prescription drugs	$7,775,242	$6,474,633
OTC drugs	3,904,680	4,349,153
Nutritional supplements	73,597	28,537
TCM	79,309	604
Sundry products	15,530	-
Medical devices	83,898	39,794
Total wholesale revenue	$11,932,256	$10,892,721
Total revenue	$50,181,612	$45,161,411

Contract Balances

Contract liabilities primarily represent the Company's obligation to transfer additional goods or services to a customer for which the Company has received consideration, for example membership points. The consideration received remains a contract liability until goods or services have been provided to the retail customer.

The following table provides information about receivables and contract liabilities from contracts with customers:

	September 30, 2018	March 31, 2018
Trade receivable(included in accounts receivable, net)	$ 7,830,713	$8,322,393
Contract liabilities (included in accrued expenses)	5,176,002	4,461,136

Impact of New Revenue Recognition Standard on Financial Statement Line Items

The Company adopted ASU 2014-09 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to accounts on the condensed statement of operation for the six months ended September 30, 2018:

	Impact of Change in Accounting Policy		
In thousands	As Reported Balances For the Three Months Ended September 30, 2018	Adjustments	Balance without Adoption of Topic 606
Condensed Consolidated Statement of Operations:			
Net revenues	27,409	(37)	27,372
Cost of revenues	21,612	-	21,612
Gross profit	5,797	(37)	5,760
SELLING EXPENSES	5,224	37	5,187
GENERAL AND ADMINISTRATIVE EXPENSES	2,215	-	2,215
Operating profit	(1,642)	-	(1,642)
Income (loss) before income tax provision	(1,603)	-	(2,243)
Income tax provision	-	-	-
Income (loss) from continuing operations	(1,603)	-	(1,603)
Net income (loss)	(1,603)	-	(1,603)

17

In thousands	Impact of Change in Accounting Policy As Reported Balances For the Six Months Ended September 30, 2018	Adjustments	Balance without Adoption of Topic 606
Condensed Consolidated Statement of Operations:			
Net revenues	50,182	144	50,326
Cost of revenues	38,768	-	38,768
Gross profit	11,414	144	11,558
SELLING EXPENSES	9,851	(144)	9,995
GENERAL AND ADMINISTRATIVE EXPENSES	3,770	-	3,770
Operating profit	(2,207)	-	(2,207)
Income (loss) before income tax provision	(2,243)	-	(2,243)
Income tax provision	57	-	57
Income (loss) from continuing operations	(2,299)	-	(2,299)
Net income (loss)	(2,299)	-	(2,299)

The adoption of ASU 2014-09 has no effect on consolidated balance sheet and statement of cash flow.

NOTE 4 – FINANCIAL ASSETS AVAILABLE FOR SALE

As of September 30, 2018 and March 31, 2018, financial assets available for sale amounted to $162,224 (RMB 1,114,500) and $175,140 (RMB 1,100,000), respectively. In the year ended March 31, 2018, the Company invested a total of $74,890 as a limited partner (LP) in a private equity fund, which is intended to invest in retail pharmaceutical business. The Company has signed an investment agreement with the private equity fund and agreed to invest a total of $295,096 (RMB 2,000,000). Additionally, the Company has signed an investment agreement with Inter Mongolia Songlu Pharmaceutical Co.("Songlu Pharmaceutical") and invested a total of $87,334 (RMB600,000), which accounts for 0.5% shares of Songlu Pharmaceutical.

NOTE 5 – TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following:

	September 30, 2018	March 31, 2018
Accounts receivable	$ 12,351,161	$ 12,883,707
Less: allowance for doubtful accounts	(4,520,448)	(4,561,314)
Trade accounts receivable, net	$ 7,830,713	$ 8,322,393

For the three months ended September 30, 2018 and 2017, $33,829 and $98,590 in accounts receivable were directly written off respectively. For the six months ended September 30, 2018 and 2017, $64,412 and $124,983 in accounts receivable were directly written off, respectively. As of September 30, 2018 and March 31, 2018, no trade accounts receivables were pledged as collateral for borrowings from financial institutions.

Note 6 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	September 30, 2018	March 31, 2018
Prepaid rental expenses [(1)]	$ 1,296,782	$ 1,984,856
Prepaid and other current assets	187,326	131,381
Total	$ 1,484,108	$ 2,116,237

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

18

Note 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2018	March 31, 2018
Building	$ 1,560,683	$ 1,707,145
Leasehold improvements	7,187,866	7,606,496
Farmland development cost	1,740,785	1,904,151
Office equipment and furniture	5,056,136	5,581,554
Motor vehicles	418,519	456,442
Total	15,963,989	17,255,788
Less: Accumulated depreciation	(11,133,655)	(11,905,893)
Impairment*	(2,291,433)	(2,506,255)
Property and equipment, net	$ 2,538,901	$ 2,843,640

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

Depreciation expenses for property and equipment totaled $212,214 and $171,051 for the three months ended September 30, 2018 and 2017, respectively. Depreciation expenses for property and equipment totaled $431,973 and $576,154 for the six months ended September 30, 2018 and 2017, respectively. There were no fixed assets impaired in the three and six months ended September 30, 2018.

Note 8 – ADVANCES TO SUPPLIERS

Advances to suppliers consist of deposits, with or advances to, outside vendors for future inventory purchases. Most of the Company’s suppliers require a certain amount of money to be deposited with them as a guarantee that the Company will receive its purchase on a timely basis. This amount is refundable and bears no interest. As of September 30, 2018 and March 31, 2018, advance to suppliers consist of the following:

	September 30, 2018	March 31, 2018
Advance to suppliers*	$ 6,533,976	$ 6,505,545
Less: allowance for unrefundable advances	(3,299,037)	(3,058,092)
Advance to suppliers, net	$ 3,234,939	$ 3,447,452

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

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

Note 9 – INVENTORY

Inventory consisted of finished goods, valued at $13,799,438 and $13,429,568 as of September 30, 2018 and March 31, 2018, respectively. The Company constantly monitors its potential obsolete products and is allowed to return products close to their expiration dates to its suppliers. Any loss on damaged items is immaterial and will be recognized immediately. As a result, no reserves were made for inventory as of September 30, 2018 and March 31, 2018.

Note 10 – FARMLAND ASSETS

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

	September 30, 2018	March 31, 2018
Farmland assets	$ 2,216,471	$ 2,416,839
Less: Impairment*	(1,481,520)	(1,620,553)
Farmland assets, net	$ 734,951	$ 796,286

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

19

Note 11 – LONG TERM DEPOSITS, LANDLORDS

As of September 30, 2018 and March 31, 2018, long term deposits amounted to $2,269,241 and $2,501,968, respectively. Long term deposits are money deposited with, or advanced to, landlords for the purpose of securing retail store leases that the Company does not anticipate being returned within the next twelve months. Most of the Company's landlords require a minimum payment of nine months' rent, paid upfront, plus additional deposits.

Note 12 – OTHER NONCURRENT ASSETS

Other noncurrent assets consisted of the following:

	September 30, 2018	March 31, 2018
Forest land use rights*	$ 1,129,275	$1,235,253
Others	150,376	18,099
Total	$ 1,279,651	$1,253,352

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

The amortization of the prepayment for the lease of forest land use right was approximately $6,579 and $7,042 for the three months ended September 30, 2018 and 2017, respectively.The amortization of the prepayment for the lease of forest land use right was approximately $13,675 and $13,888 for the six months ended September 30, 2018 and 2017, respectively.

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

For the year ending September 30,	Amount
2019	$28,529
2020	28,529
2021	28,529

2022	28,529
2023	28,529
Thereafter	986,630

Note 13 – INTANGIBLE ASSETS

Net intangible assets consisted of the following at:

	September 30, 2018	March 31, 2018
License [(1)]	$ 1,994,508	$1,967,934
SAP software[(2)]	503,136	764,104
Land use rights [(3)]	1,419,416	1,552,622
Total intangible assets	3,917,060	4,284,660
Less: accumulated amortization	(350,016)	(228,246)
Intangible assets, net	$ 3,567,044	$4,056,414

Amortization expense of intangibles amounted to $87,478 and $7,334 for the three months ended September 30, 2018 and 2017, respectively, and $161,187 and $14,464 for the six months ended September 30, 2018 and 2017, respectively.

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

(2) In 2017, we have installed a leading ERP system, SAP from Germany. SAP is a well-known management system used by many fortune 500 companies. As of September 30, 2018, the system has been completely installed and running for eight months in the Company. By automatically connecting commodity flow data with accounting recording, the system minimizes the manual errors made by accounting staff. Additionally, the system provides a view of overall and instant cash information by electronically linking local banking systems with SAP. Additional benefits include automatically-generated customized monthly company performance reports, instant inventory monitoring and reporting, and punctual maintenance of customer and supplier accounts.

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

20

Note 14 – NOTES PAYABLE

The Company has credit facilities with Hangzhou United Bank ("HUB"), Bank of Hangzhou ("BOH"), and China Merchant Bank ("CMB") that provided working capital in the form of the following bank acceptance notes at September 30, 2018 and March 31, 2018:

Beneficiary	Endorser	Origination date	Maturity date	September 30, 2018	March 31, 2018
Jiuzhou Pharmacy(1)	HUB	10/10/17	04/10/18		2,552,769
Jiuzhou Pharmacy(1)	HUB	11/24/17	05/24/18		21,972
Jiuzhou Pharmacy(1)	HUB	12/05/17	06/05/18		377,347
Jiuzhou Pharmacy(1)	HUB	12/29/17	06/29/18		1,194,135
Jiuzhou Pharmacy(1)	HUB	12/29/17	06/29/18		1,443,554
Jiuzhou Pharmacy(1)	HUB	02/05/18	08/05/18		2,618,500
Jiuzhou Pharmacy(1)	HUB	03/05/18	09/05/18		3,072,638
Jiuzhou Pharmacy(1)	HUB	11/06/17	05/06/18		3,553,014
Jiuzhou Pharmacy(1)	HUB	12/05/17	06/05/18		1,937,683
Jiuzhou Pharmacy(1)	HUB	12/29/17	06/29/18		1,687,711
Jiuzhou Pharmacy(1)	HUB	04/09/18	10/09/18	1,502,176	-
Jiuzhou Pharmacy(1)	HUB	05/04/18	11/04/18	2,167,359	-
Jiuzhou Pharmacy(1)	HUB	06/29/18	12/29/18	1,860,231	-
Jiuzhou Pharmacy(1)	HUB	07/05/18	01/05/19	2,993,503	
Jiuzhou Pharmacy(1)	HUB	08/06/18	02/06/19	1,358,819	
Jiuzhou Pharmacy(1)	HUB	08/17/18	02/17/19	278,003	
Jiuzhou Pharmacy(1)	HUB	08/31/18	02/28/19	2,303,019	
Jiuzhou Pharmacy(1)	HUB	09/05/18	03/05/19	1,878,948	
Jiuxin Medicine(2)	CMB	02/02/18	08/02/18		71,648
Jiuxin Medicine(2)	CMB	02/07/18	08/07/18		95,531
Jiuxin Medicine(2)	CMB	03/07/18	09/07/18		538,857
Jiuxin Medicine(2)	CMB	03/15/18	09/15/18		44,842
Jiuxin Medicine(2)	CMB	04/09/18	10/09/18	282,080	-
Jiuxin Medicine(2)	CMB	05/14/18	11/14/18	884,991	-
Total				$ 15,509,129	$ 19,180,200

(1) As of September 30, 2018, the Company had $14,342,058 (RMB 98,531,558) of notes payable from HUB. The Company is required to hold restricted cash in the amount of $14,342,058 (RMB 98,531,558) with HUB as collateral against these bank notes. Included in the restricted cash is a total of $10,206,912 three-year deposit (RMB 70,122,647) deposited into HUB as a collateral for current and future notes payable from HUB. As of March 31, 2018, the Company had $18,429,322 (RMB 115,748,985) of notes payable from HUB. The Company is required to hold restricted cash in the amount of $13,565,300 (RMB 85,199,540) with HUB as collateral against these bank notes. Included in the restricted cash is a total of $7,269,509 three-year deposit (RMB 45,657,584)

deposited into HUB as a collateral for current and future notes payable from HUB.

(2) As of September 30, 2018, the Company had $1,167,071 (RMB 8,017,920) of notes payable from CMB, with restricted cash in the amount of $1,167,072 (RMB 8,017,920) held at the bank. As of March 31, 2018, the Company had $750,878 (RMB 4,716,037) of notes payable from CMB, with restricted cash in the amount of $750,878 (RMB 4,716,037) held at the bank.

As of September 30, 2018, the Company had a credit line of approximately $3.64 million in the aggregate from HUB and BOH. By putting up three-year deposit of $10.21 million and the restricted cash of $3.76 million deposited in the banks, the total credit line was $17.61 million. As of September 30, 2018, the Company had approximately $15.51 million of bank notes payable and approximately $2.10 million bank credit line was still available for further borrowing. The bank notes are secured by a shop of Jiuzhou Pharmacy and guaranteed by the Company's major shareholders.

Note 15 – TAXES

Income tax

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

The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled.

Entity	Income Tax Jurisdiction
Jo-Jo Drugstores	United States
Renovation	Hong Kong, PRC
All other entities	Mainland, PRC

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

	For the three months ended September 30,		For the six months ended September 30,	
	2018	2017	2018	2017
Current:				
Federal	-	-	-	-
State	-	-	-	-
Foreign	(415)	18,047	56,754	38,585
	(415)	18,047	56,754	38,585
Deferred:				
Federal	-	-	-	-

State	-	-	-	-
Foreign	-	-	-	-
	-	-	-	-
Provision for income taxes	(415)	18,047	56,754	38,585

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

	For the three months ended September 30,		For the six months ended September 30,	
	2018	2017	2018	2017
U.S. Statutory rates	21.0 %	34.0 %	21.0 %	34.0 %
Foreign income not recognized in the U.S.	(21.0)	(34.0)	(21.0)	(34.0)
China income taxes	25.0	25.0	25.0	25.0
Change in valuation allowance (1)	(15.5)	(18.4)	8.2	(22.9)
Non-deductible expenses-permanent difference (2)	(9.5)	(8.2)	(35.7)	(3.6)
Effective tax rate	0.0 %	(1.6)%	(2.5)%	(1.5)%

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

(2) The (9.5)% and (8.2)% rate adjustments for the three months ended September 30, 2018 and 2017 and the (35.7)% and (3.6)% rate adjustments for the six months ended September 30, 2018 and 2017 represent expenses that primarily include stock option expenses and legal, accounting and other expenses incurred by the Company that are not deductible for PRC income tax.

Jo-Jo Drugstores is incorporated in the U.S. and incurred a net operating loss for income tax purposes for the three and six months ended September 30, 2018 and 2017. As of September 30, 2018, the estimated net operating loss carry forwards for U.S. income tax purposes amounted to $1,503,000, which may be available to reduce future years' taxable income. These carry forwards will expire if not utilized by 2032. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at September 30, 2018. There was no net change in the valuation allowance for the three and six months ended September 30, 2018 and 2017. Management reviews this valuation allowance periodically and makes adjustments as necessary.

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

	As of 9/30/2018	As of 9/30/2017
Allowance	679,109	380,025
Long-lived assets impairment	-	-
Depreciation and Amortization	139,483	147,655
Accrued expense	195,760	59,781
Net operating loss carryforward	2,858,926	1,755,691
Foreign Tax Credit Carryover	195,000	195,000
Total deferred tax assets (liabilities):	4,068,277	2,538,152
Valuation allowance	(4,068,277)	(2,538,152)
Net deferred tax assets (liabilities)	-	-

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

As of September 30, 2018 and September 30, 2017, the estimated net operating loss carry forwards for U.S. income tax purposes amounted to $816,908, which may be available to reduce future years' taxable income. These carry forwards will expire if not utilized by 2032. In addition, the Company carries a foreign tax credit of $195,000. As of September 30, 2018 and September 30, 2017, the estimated net operating loss carry forwards for Hong Kong income tax purposes amounted to $1,899,812 and $1,713,633, which may be available to reduce future years' taxable income. As of September 30, 2018 and September 30, 2017, the estimated net operating loss carry forwards for China income tax purposes amounted to $13,553,030 and $7,097,939, which may be available to reduce future years' taxable income. These carry forwards will expire if not utilized in next five years.

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

deferred tax assets at the 21% future tax rate. At December 31, 2017, according to the 2017 Tax Act for estimating our foreign undistributed earnings, we estimated an aggregate deficit in "accumulated earnings and profits," which is how foreign undistributed earnings are determined for the one-time transition tax and for U.S. income tax purposes. As a result, the one-time transition tax did not have a significant impact on the Company's FY18 tax provision and there was no undistributed accumulated earnings and profits as of September 30, 2018.

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

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

Audit periods remain open for review until the statute of limitations has passed, which in the PRC, the Company's most significant tax jurisdiction, is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period.

Note 16 – POSTRETIREMENT BENEFITS

Regulations in the PRC require the Company to contribute to a defined contribution retirement plan for all permanent employees. The contribution for each employee is based on a percentage of the employee's current compensation as required by the local government. The Company contributed $346,876 and $276,490 in employment benefits and pension for the three months ended September 30, 2018 and 2017, respectively. The Company contributed $712,512 and $559,734 in employment benefits and pension for the six months ended September 30, 2018 and 2017, respectively.

Note 17 – RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts payable to related parties are summarized as follows:

	September 30, 2018	March 31, 2018
Due to a director and CEO [1] :	726,670	850,342
Total	$ 726,670	$ 850,342

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

As of September 30, 2018 and March 31, 2018, notes payable totaling $0 and $3,253,630 were secured by the personal properties of certain of the Company's shareholders, respectively. The lien on such shareholders' properties has been released since July 2018.

The Company leases from Mr. Lei Liu a retail space; the lease expires in September 2018. Rent expenses totaled $4,578 and $4,435 for the three months ended December 31, 2018 and 2017, respectively. Rent expenses totaled $9,110 and $8,870 for the six months ended September 30, 2018 and 2017, respectively. All amounts due and payable have been paid to Mr. Liu as of September 30, 2018.

Note 18 – WARRANTS

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

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

	Common Stock Warrants September 30, 2018 [1]	Common Stock Warrants March 31, 2018
Stock price	$ 1.61	$ 1.35
Exercise price	$ 3.10	$ 3.10
Annual dividend yield	0 %	0 %
Expected term (years)	2.55	2.80
Risk-free interest rate	2.63 %	1.98 %
Expected volatility	67.96 %	68.73 %

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

Upon evaluation, the warrants meet the definition of a derivative under FASB ASC 815, as the Company cannot avoid a net cash settlement under certain circumstances. Accordingly, the fair value of the warrants was classified as a liability of $138,796 as of March 31, 2018. For the three and six months ended September 30, 2018, the Company recognized a loss of $81,865 and $88,840 for the investor warrant and placement agent warrant, from the change in fair value of the warrant liability. As a result, the warrant liability is carried on the consolidated balance sheets at the fair value of $227,635 for the investor warrant and placement agent warrant, collectively, as of September 30, 2018.

Note 19 – STOCKHOLDER’S EQUITY

Common stock

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

Stock-based compensation

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

On March 30, 2018, the Company granted a total of 3,947,100 shares of restricted common stock to its key employees in its retail drugstores and online pharmacy under the Company’s 2010 Equity Incentive Plan, as amended (the “Plan”). The stock awards vested on the grant date. On June 28, 2018, the compensation committee of the Company canceled 225,000 shares granted to the CEO in order to conform aggregate issuances to the 675,000 share limitation set forth in the Plan. The Tax Cuts and Jobs Act of 2017 removed the 162(m) qualified performance based compensation exemption to the $1 million cap on deductions for compensation to covered executives. Section 1.3.2 was in the Plan to permit grants under the Plan to fit within that exemption. As that exemption no longer applies for grants made in 2018 or thereafter, the Plan has been amended to remove the provisions intended to comply with that exemption, including the one in Section 1.3.2. of the Plan. All $5,328,585 expense has been recorded as a service compensation expense in the year ended March 31, 2018.

Stock option

On November 18, 2014, the Company granted a total of 967,000 shares of stock options under the Plan to a group of a total of 46 grantees including directors, officers and employees. The exercise price of the stock option is $2.50. The option vests on November 18, 2017, provided that the grantees are still employed by the Company on such a date. The options will be exercisable for five years from the vesting date, or November 18, 2017 until November 17, 2022. For the three months ended September 30, 2018 and 2017, $0 and $221,859 was recorded as compensation expense. For the six months ended September 30, 2018 and 2017, $0 and $441,306 was recorded as service compensation expense, respectively. As of September 30, 2018, all compensation costs related to stock option compensation arrangements granted have been recognized.

Statutory reserves

Statutory reserves represent restricted retained earnings. Based on their legal formation, the Company is required to set aside 10% of its net income as reported in their statutory accounts on an annual basis to the Statutory Surplus Reserve Fund (the “Reserve Fund”). Once the total amount set aside in the Reserve Fund reaches 50% of the entity’s registered capital, further appropriations become discretionary. The Reserve Fund can be used to increase the entity’s registered capital upon approval by relevant government authorities or eliminate its future losses under PRC GAAP upon a resolution by its board of directors. The Reserve Fund is not distributable to shareholders, as cash dividends or otherwise, except in the event of liquidation.

Appropriations to the Reserve Fund are accounted for as a transfer from unrestricted earnings to statutory reserves. During the three and six months ended September 30, 2018 and 2017, the Company did not make appropriations to statutory reserves.

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

Note 20 – (LOSS) INCOME PER SHARE

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

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

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Net income attributable to controlling interest	$(1,587,417)	$(1,168,709)	$(2,233,270)	$(2,588,013)

Weighted average shares used in basic computation	28,936,778	25,214,678	28,936,778	25,214,678
Diluted effect of purchase options and warrants	-	-	-	-
Weighted average shares used in diluted computation	28,936,778	25,214,678	28,936,778	25,214,678
Income per share – Basic:				
Net (loss) attributable to controlling interest	$(0.06)	$(0.05)	$(0.08)	$(0.10)
Loss per share – Diluted:				
Net (loss) attributable to controlling interest	$(0.06)	$(0.05)	$(0.08)	$(0.10)

For the three and six months ended September 30, 2018, 967,000 shares underlying employee stock options and 600,000 shares underlying outstanding purchase options to an investor, and 72,000 shares underlying outstanding purchase option to an investment placement agent were excluded from the calculation of diluted loss per share as the options were anti-dilutive.

Note 21 – SEGMENTS

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

The Company's reportable business segments are strategic business units that offer different products and services. Each segment is managed separately because they require different operations and markets to distinct classes of customers.

The following table presents summarized information by segment of the continuing operations for the three months ended September 30, 2018.

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	$18,136,298	$2,122,848	7,149,900	-	27,409,046
Cost of goods	13,277,943	1,909,403	6,424,599	-	21,611,945
Gross profit	$4,858,355	$213,445	725,301	-	5,797,101
Selling expenses	4,156,319	477,348	589,856	-	5,223,523
General and administrative expenses	1,899,147	57,617	258,720	-	2,215,484
(Loss) income from operations	$(1,197,111)	$(321,520)	(123,275)	-	(1,641,906)
Depreciation and amortization	$400,295	$-	1,227	-	401,522
Total capital expenditures	$216,443	$-	6	-	216,449

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

	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total
Revenue	$15,047,615	$3,065,016	5,378,412	-	23,491,043
Cost of goods	10,804,453	2,665,299	4,463,694	-	17,933,446
Gross profit	$4,243,162	$399,717	914,718	-	5,557,597
Selling expenses	2,582,089	459,785	1,308,898	-	4,350,772
General and administrative expenses	2,742,437	107,616	5,361	141	2,855,555
(Loss) income from operations	$(1,081,364)	$(167,684)	(399,541)	(141)	(1,648,730)
Depreciation and amortization	$(416,231)	$-	121,767	(119,461)	(413,925)
Total capital expenditures	$149,568	$-	45,451	-	195,019

The following table presents summarized information of the continuing operation by segment for the six months ended September 30, 2018:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	$34,104,639	$4,144,717	11,932,256		50,181,612
Cost of goods	24,441,166	3,650,307	10,676,235		38,767,708
Gross profit	$9,663,473	$494,410	1,256,021		11,413,904
Selling expenses	7,633,996	878,710	1,337,795		9,850,501
General and administrative expenses	3,200,615	244,841	324,556		3,770,012
(Loss) income from operations	$(1,171,138)	$(629,141)	406,330		(2,206,609)

Depreciation and amortization	$530,952	$-	7,013	537,965
Total capital expenditures	$373,715	$-	1,123	374,838

27

The following table presents summarized information of the continuing operation by segment for the six months ended September 30, 2017:

	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total
Revenue	$28,067,985	$6,200,705	10,892,721		45,161,411
Cost of goods	20,540,661	5,509,797	9,375,695		35,426,153
Gross profit	$7,527,324	$690,908	1,517,026		9,735,258
Selling expenses	5,001,645	975,172	2,290,814		8,267,631
General and administrative expenses	4,012,213	177,905	380,833	10,047	4,580,998
(Loss) income from operations	$(1,486,534)	$(462,169)	(1,154,621)	(10,047)	(3,113,371)
Depreciation and amortization	$(329,242)	$-	204,374		(124,868)
Total capital expenditures	$206,142	$-	6,216		212,358

The Company does not have long-lived assets located outside the PRC. In accordance with the enterprise-wide disclosure requirements of FASB's accounting standard, the Company's net revenue from external customers through its retail drugstores by main product category is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Prescription drugs	$5,270,412	$4,891,435	$11,079,627	$9,486,789
OTC drugs	7,660,287	6,780,715	14,625,115	12,424,677
Nutritional supplements	1,935,456	1,638,031	2,880,662	2,675,363
TCM	1,689,697	938,688	3,272,265	1,951,199
Sundry products	345,964	362,443	550,825	624,479
Medical devices	1,234,482	436,303	1,696,145	905,478
Total	$18,136,298	$15,047,615	$34,104,639	$28,067,985

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

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Prescription drugs	$-	$-	$-	$-
OTC drugs	798,938	1,385,899	1,574,931	2,503,291
Nutritional supplements	211,990	334,806	355,086	850,882
TCM	20,703	10,182	25,632	10,182
Sundry products	517,123	422,388	1,554,289	841,421

Medical devices	574,094	911,741	634,779	1,994,929
Total	$2,122,848	$3,065,016	$4,144,717	$6,200,705

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

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Prescription drugs	$4,355,706	$3,077,232	$7,775,242	$6,474,633
OTC drugs	2,629,761	2,248,503	3,904,680	4,349,153
Nutritional supplements	48,216	12,279	73,597	28,537
TCM	57,458	604	79,309	604
Sundry products	10,775	-	15,530	-
Medical devices	47,984	39,794	83,898	39,794
Total	$7,149,900	$5,378,412	$11,932,256	$10,892,721

28

Note 22 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments

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

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

Periods ending September 30,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2019	$4,363,685	$ -	$ -	$ -	$4,363,685
2020	3,592,727	-	-	-	3,592,727
2021	2,835,408	-	-	-	2,835,408
2022	2,199,735	-	-	-	2,199,735
2023	1,440,756	-	-	-	1,440,756
Thereafter	2,063,945	-	-	-	2,063,945

Total rent expense amounted to $1,155,529 and $1,076,749 for the three months ended September 30, 2018 and 2017, respectively. Total rent expense amounted to $2,310,622 and $1,887,461 for the six months ended September 30, 2018 and 2017, respectively.

Note 23 – Subsequent Events

On October 9, 2018, Jiuxin Medicine signed a new credit line agreement with Hangzhou United Bank for a credit line up to $5,094,530 (RMB 35,000,000) for a period from October 9, 2018 to October 8, 2020. Jiuzhou Pharmacy and a third-party company act as guarantors of any borrowing within the credit line.

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

The following management's discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this item. In addition to historical information, the following discussion contains certain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "may," "will," "could," "expect," "anticipate," "intend," "believe," "estimate," "plan," "predict," and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of our annual report on Form 10-K for the year ended March 31, 2018 and filed with the SEC on June 29, 2018. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

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

Overview

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

Our drugstores offer customers a wide variety of pharmaceutical products, including prescription and over-the-counter ("OTC") drugs, nutritional supplements, TCM, personal and family care products, medical devices, and convenience products, including consumable, seasonal, and promotional items. Additionally, we have licensed doctors of both western medicine and TCM on site for consultation, examination and treatment of common ailments at scheduled hours. As of September 30, 2018, we had 121 pharmacies in Hangzhou under the store brand of "Jiuzhou Grand Pharmacy." During the six months ended September 30, 2018, we had relocated two of our stores in Hangzhou City.

Since May 2010, we have also been selling certain OTC drugs, medical devices, nutritional supplements and other sundry products online. Our online pharmacy sells through several third-party platforms such as Alibaba's Tmall, JD.com and Amazon.com, and the Company's own platform all over China. Our sales through our own platform are primarily generated by customers who use their private commercial medical insurances package.

We operate a wholesale business through Jiuxin Medicine distributing third-party pharmaceutical products (similar to those carried by our pharmacies) primarily to trading companies throughout China. We also planted gingkgo trees but have not incurred sales in the six months ended September 30, 2018.

Critical Accounting Policies and Estimates

In preparing our audited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, we are required to make judgments, estimates and assumptions that affect: (i) the reported amounts of our assets and liabilities; (ii) the disclosure of our contingent assets and liabilities at the end of each reporting period; and (iii) the reported amounts of revenue and expenses during each reporting period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ materially from those estimates.

We believe that any reasonable deviation from those judgments and estimates would not have a material impact on our financial condition or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of operations and corresponding balance sheet accounts would be necessary. These adjustments would be made in future financial statements.

When reading our financial statements, you should consider: (i) our critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. The critical accounting policies and related judgments and estimates used to prepare our financial statements are identified in Note 2 to our audited consolidated financial statements accompanying in this report.

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

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

31

Results of Operations

Comparison of the three months ended September 30, 2018 and 2017

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

	Three months ended September 30,			
	2018		2017	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
Revenue	$27,409,046	100.0 %	$23,491,043	100 %
Gross profit	$5,797,101	21.2 %	$5,557,597	23.7 %
Selling expenses	$5,223,523	19.1 %	$4,350,772	18.5 %
General and administrative expenses	$2,215,484	8.1 %	$2,855,555	12.2
Loss from operations	$(1,641,906)	(6.0)%	$(1,648,730)	(7.0)%
Interest income	$26,060	0.1 %	$358,344	1.5 %
Interest expenses	$-	- %	$-	- %
Other income, net	$94,582	0.3 %	$(8,703)	0.0)%
Change in fair value of derivative liability	$(81,866)	(0.3)%	$148,427	0.6 %
Income tax expense	$(415)	0.0 %	$18,047	0.1 %
Net income (loss)	$(1,602,715)	(5.8)%	$(1,168,709)	(5.0)%

Revenue

Due to the growth in our retail drugstores business, revenue increased by $3,918,003 or 16.7% for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, offset by the decrease in our online sales and wholesale business. The following table breaks down the revenue for our four business segments for the three months ended September 30, 2018 and 2017:

Revenue by Segment

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

	For the three months ended September 30,					
	2018		2017			
	Amount	% of total revenue	Amount	% of total revenue	Variance by amount	% of change
Revenue from retail drugstores	$18,136,298	66.2 %	$15,047,615	64.1 %	$3,088,683	20.5 %
Revenue from online sales	2,122,848	7.7 %	3,065,016	13.0 %	(942,168)	(30.7)%
Revenue from wholesale business	7,149,900	26.1 %	5,378,412	22.9 %	1,771,488	32.9 %
Revenue from farming business	-	- %	-	- %	-	- %
Total revenue	$27,409,046	100.0 %	$23,491,043	100.0 %	$3,918,003	16.7 %

32

Retail drugstores sales, which accounted for approximately 66.2% of total revenue for the three months ended September 30, 2018, increased by $3,088,683, or 20.5% compared to the three months ended September 30, 2017, to $18,136,298. Same-store sales increased by approximately $2,756,098, or 19.7%, while new stores contributed approximately $604,144 in revenue in the three months ended September 30, 2018.

The increase in our retail drugstore sales is primarily due to consumer-facing benefits such as emphasis on onsite medical care, chronic disease management services, incremental DTP (Direct-to-Patient) business caused by continuous hospital medical reform, promotional campaigns such as our fifteen year anniversary sales, and maturing of stores opened a year ago. Convenient onsite medical support at our pharmacies has been our hallmark from the beginning of our business. Suitable medical support from our doctors has proven to be critical to our superior store sales. Linking doctor care with drug sales has become our business guidance in the future. By adding more doctoral service at stores, we have been able to promote our store sales.

DTP drugs are usually low profit margin new medicines not sold at hospitals. As part of the PRC’s recent medical reform package, local governments require the revenue percentage from drug sales at public hospitals to decline year by year. In order to achieve lower drug sales percentage out of their total revenue, the public hospitals chose to abandon sales of low profit margin DTP products first. As the biggest drugstore network in Hangzhou City, quite a few of our stores are located adjacent to local hospitals. Additionally, we have actively contacted local vendors of certain DTP products that we were previously not selling and were able to sell these DTP products in our stores. By opening special counters at some stores and selling more DTP products, sales in our drugstores increased.

Implementing marketing campaigns suited to local communities has been an important tool in driving sales. We usually cooperated with brand-name pharmaceutical manufacturers in our marketing campaigns. Brand-name medical products sales improve our store reputation, which is beneficial to our long-term sales. As September 2018 is our 15 years anniversary, we executed grand store promotions, which contributed dramatically to our sales in the three months ended September 30, 2018.

Furthermore, starting from fiscal 2018, we have accelerated our expansion of new stores, which is expected to generate more retail drugstore revenues. 18 stores has become qualified for municipal government insurance reimbursement after about a year’s operation. Sales reimbursed from municipal government insurance program usually account for more than 50% of our total store sales. As these stores gained such qualification, their sales increased quickly as compared to the previous year. Our store count increased to 122 as of September 30, 2018, compared to 95 stores as of September 30, 2017.

Our online pharmacy sales decreased by approximately $942,168, or 30.7% for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017. The decrease was primarily caused by decline in our sales via various e-commerce platforms, offset by the increase in business referred from Pharmacy Benefit

Management ("PBM") providers, as further explained below, during this three month period. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. Such arrangements with third-party platforms have exposed our online presence to a wider consumer base.

Our official website sales increased by $84,032 or 18.5% period over period, primarily as we explored more PBM providers, who draw insured from private health insurance company to spend on health products at drugstores. In order to increase the popularity of our products, we have made considerable efforts to identify popular products that can drive sales, while keeping a close watch on cost. However, due to the official suspension of OTC drug sales on e-commerce platforms such as Alibaba and strong competition, our sales via these e-commerce platforms have been curtailed. As a result, our sales via these e-commerce platforms decreased by 31.6% period over period. We are adding more non-medical health products such as nutritional supplements into our sales menu to counteract the decline in sale of OTC drug category.

Wholesale revenue increased by $1,771,448 or 32.9%. As our retail drugstores achieved large quantity sales of certain brand name products, we were able to bargain for lower purchase prices than the market level on these merchandises. As a result, vendors who were unable to obtain a better price than ours, turned to us for these products, causing the increase in the wholesale volume. Additionally, we strategically act as provincial agent for Dong'e Ejiao and sold significant amount of Ejiao with in Zhejiang Province. However, hospitals are still dominating drug retailers in China. Local hospitals usually have stronger ties with their existing suppliers and we have not been able to make significant progress in becoming a major supplier to local hospitals.

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

Gross Profit

Gross profit increased by $239,504 or 4.3% period over period primarily as a result of an increase in revenue from the retail business, which increased significantly in the three months ended September 30, 2018. At the same time, gross margin decreased from 23.7% to 21.2% due to lower retail and online profit margins. The average gross margins for each of our four business segments are as follows:

	For the three months ended September 30, 2018	2017
Average gross margin for retail drugstores	26.8%	28.2%
Average gross margin for online sales	10.1%	13.0%
Average gross margin for wholesale business	10.1%	17.0%
Average gross margin for farming business	N/A	N/A

Retail gross margin decreased primarily due to the promotion campaigns such as the fifteen year anniversary celebration and government price restrictions on certain drugs sales reimbursed by the government medical insurance program. In order to promote sales in September as a celebration of our fifteen year anniversary, we provided sales discounts such as “buy 2 get 1 free” for certain commodities such as nutritional supplements, which are usually of high profit margin. Although our sales volume and overall gross profit increased, our profit margin decreased accordingly.

Additionally, as a response to national medical expense control, local government has implemented prices restrictions on certain drugs reimbursed by its government insurance program in the quarter ended September 30, 2018. In other words, in order to be reimbursed by the insurance program, local drugstores have to set sale prices of certain drugs in the price control list to be equal to or below the restricted prices the government set. As a result, our gross profit margin has been negatively affected. However, to compromise the effect, we have been choosing replacements for those restricted medicines. Furthermore, we have been actively negotiating with drug vendors to lower our purchase prices. It has proved that we are able to squeeze the prices down significantly as we are the largest drugstores chain in the City. In the future, we expect the gross margin will keep constant.

Gross margin of online pharmacy sales decreased primarily due to intense competition in the online pharmacy industry. We conduct our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website, www.dada360.com. The sales on our own official website usually have higher profit margins because customers referred by commercial insurance companies are premium customers who can afford premium products with higher profit margins. As prices become transparent and comparable online, customers are very sensitive to prices. In order to quickly promote sales of certain OTC drugs, we choose to lower their profit margin. Consequently, our online sales profit margin decreased in the three months ended September 30, 2018.

Wholesale gross margin varies period by period primarily as a result of different products we carry and sell to certain pharmaceutical vendors. In the three months ended September 30, 2018, we have acted as the provincial agent for Dong'e Ejiao and distributed significant amount of Ejiao in Zhejiang Province. As a result, our gross profit margin lowered significantly. Although we have attempted to market our products to major local hospitals and other pharmacies, we have not been able to make significant progress. Until we are able to obtain status as a provincial or national exclusive sales agent for certain popular drugs or have sales access to large local hospitals, we may have to maintain low profit margins in order to drive sales on our wholesale business.

Selling and Marketing Expenses

Selling and marketing expenses increased by $872,751, or 20.1%, as compared to the same period of the last fiscal year, primarily due to increases in marketing and sales staff expenses related to our store expansion, offset by decline in expenses of our wholesale business. We opened approximately more than forty new stores in Hangzhou and ten new stores in Lin'An under Lin'An Jiuzhou. To quickly attract local customers and expand our business, we hired additional in-store staff and arranged various promotion campaigns. For example, during the three months ended September 30, 2018, the total selling expense related to Lin'An Jiuzhou was $182,943 as compared to $77,217 in the three months ended September 30, 2017. Conversely, in the three months ended June 30, 2017, we had quite a few wholesale transactions referred by individual traders who require commissions based on the transaction amount. As a result, we incurred additional selling expenses. Overall, such expenses as a percentage of our revenue kept at 19.1% and 18.5%, in both the three months ended September 30, 2018 and 2017.

General and Administrative Expenses

General and administrative expenses decreased by $640,071, or 22.4%, as compared to the same period of last year. Such expenses as a percentage of revenue decreased to 8.1% from 12.2% for the same period a year ago. In the three months ended September 30, 2018, our bad debt expense decreased by $0.41 million from the same period a year ago. Excluding such an effect, the general and administrative expense only decreased by approximately $230,071 or 8.1%..

Loss from Operations

As a result of the above, we had loss from operations of $1,641,906 in the quarter ended September 30, 2018, as compared to loss from operations of $1,648,730 a year ago. Our operating margin for the three months ended September 30, 2018 and 2017 was (6.0)% and (7.0)%, respectively.

Income Taxes

Our income tax expense decreased by $18,462 period over period due to a decrease in overall profit.

Net (Loss) Income

As a result of the foregoing, net loss is $1,602,175 in the three months ended September 30, 2018 as compared to a net loss of $1,168,709 in the three months ended September 30, 2017.

Comparison of six months ended September 30, 2018 and 2017

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

	Six months ended September 30,			
	2018		2017	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
Revenue	$50,181,612	100.0 %	45,161,411	100.0 %
Gross profit	$11,413,904	22.7 %	9,735,258	21.6 %
Selling expenses	$9,850,501	19.6 %	8,267,631	18.3 %
General and administrative expenses	$3,770,012	7.5 %	4,580,998	10.1 %
Loss from operations	$(2,206,609)	(4.4)%	(3,113,371)	(6.9)%
Interest income	73,232	0.1 %	403,243	0.9 %
Other income, net	$(20,359)	0.0 %	(38,051)	(0.1)%
Change in fair value of derivative liability	$(88,840)	(0.2)%	198,751	0.4 %
Income tax expense	$56,754	0.1 %	38,585	0.1 %
Net income (loss)	$(2,299,330)	(4.6)%	(2,588,013)	(5.7)%

Revenue

Primarily due to the increase in our retail pharmacy business and wholesale business, our revenue increased by $5,020,201 or 11.1% for the six months ended September 30, 2018, as compared to the six months ended September 30, 2017, partially offset by the increase in our retail drugstores. The following table breaks down the revenue for our four business segments for the six months ended September 30, 2018 and 2017.

Quarterly Revenue by Segment

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

	Six months ended September 30,							
	2018			2017				
	Amount	% of total revenue		Amount	% of total revenue		Variance by amount	% of change
Revenue from retail drugstores	$34,104,639	68.0	%	$28,067,985	62.0	%	$6,036,654	21.5 %
Revenue from online sales	4,144,717	8.3	%	6,200,705	14.0	%	(2,055,988)	(33.2)%
Revenue from wholesale business	11,932,256	23.8	%	10,892,721	24.0	%	1,039,535	9.5 %
Revenue from farming business	-	-	%	-	-	%	-	- %
Total revenue	$50,181,612	100.0	%	$45,161,411	100.0	%	$5,020,201	11.1 %

Retail drugstores sales, which accounted for approximately 68.0% of total revenue for the six months ended September 30, 2018, increased by $6,036,654, or 21.5% as compared to the six months ended September 30, 2017, to $34,104,639. Same-store sales increased by approximately $3,583,819, or 13.3%, while new stores contributed approximately $2,153,583 in revenue in the six months ended September 30, 2018.

The increase in our retail drugstore sales is primarily due to consumer-facing benefits such as emphasis on onsite medical care, chronic disease management, incremental DTP (Direct-to-Patient) business caused by continuous hospital medical reform, and maturing of stores opened a year ago. Convenient onsite medical support at our pharmacies has been our hallmark from the beginning of our business. Suitable medical support from our doctors has proven to be critical to our superior store sales. It is our long-term goal to add more medical care into our store chain and create a new retail drugstore model. By adding more medical service at stores, we have been able to promote our store sales.

As the PRC medical reform goes on, more and more drug prescriptions have flowed out of hospitals. DTP drugs are usually low profit margin new medicines not sold at hospitals. As part of such medical reform package, local governments require the revenue percentage from drug sales at public hospitals to decline year by year. In order to achieve lower drug sales percentage out of their total revenue, the public hospitals chose to abandon sales of low profit margin DTP products first. As a biggest drugstores network in Hangzhou City, quite a few of our stores are located adjacent to local hospitals. Additionally, we have actively contacted local vendors of certain DTP products that we previously did not sell and were able to sell these DTP products in our stores. By opening special counters at some stores and selling more DTP products, sales in our drugstores increased.

Furthermore, starting in fiscal 2018, we have accelerated our new store expansion, which is expected to generate more retail drugstore revenues in the future. In fact, 18 stores has become qualified for municipal government insurance reimbursement after about a year's operation. Sales reimbursed from municipal government insurance program usually account for more than 50% of our total store sales. As these stores gained the qualification, their sales increased quickly as compared to the previous year. Our store count increased to 122 as of September 30, 2018, compared to 95 stores as of September 30, 2017.

Our online pharmacy sales decreased by approximately $2,055,988, or 33.2% for the six months ended September 30, 2018, as compared to the six months ended September 30, 2017. The decrease was primarily caused by decline in our sales via various e-commerce platforms, offset by the increase in business referred from Pharmacy Benefit Management ("PBM") providers and, as further explained below, during this three months. We carry our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website. Such arrangements with third-party platforms have exposed our online presence to a wider consumer base.

Our official website sales increased by $274,293 or 36.6% period over period, primarily as we explored more PBM providers, who draw insured from private health insurance company to spend on health products at drugstores. In order to increase the popularity of our products, we have made considerable efforts to identify popular products that can drive sales, while keeping a close watch on cost. However, due to the official suspension of OTC drug sales on e-commerce platforms such as Alibaba and strong competition, our sales via these e-commerce platforms have been curtailed. As a result, our sales via these e-commerce platforms decreased by 44.2% period over period. We are adding more non-medical health products such as nutritional supplements into our sales menu to counteract the decline in sale of OTC drug category.

Wholesale revenue increased by $1,039,535 or 9.5%, primarily as a result of our ability to resell certain products, which our retail stores made large orders on, to other vendors. As our retail drugstores achieved large quantity sales of certain brand name products, we were able to bargain lower purchase prices than the market level on these merchandises. As a result, vendors who were unable to obtain a better price than ours, turned to us for these products, causing the wholesale volume to grow. Additionally, we strategically act as provincial agent for Dong'e Ejiao and sold significant amount of Ejiao in September within Zhejiang Province. However, hospitals still act as a major source of drug retailers in China. Local hospitals usually have stronger ties with their existing suppliers and we have not been able to make significant progress in becoming a major supplier to local hospitals.

In the six months ended September 30, 2018 and 2017, we have not harvested and generated revenue from our farming business. We planted ginkgo and maidenhair trees during the year ended March 31, 2013. A ginkgo tree may have a growth period of up to twenty years before it is mature enough for harvest. Usually, the longer it grows the more valuable it becomes. We plan to continue cultivating the trees in order to maximize their market value in the future. During the six months ended September 30, 2018, we have been evaluating feasibility of planting other herbs with short period of growth. We anticipate that we will continue to grow ginkgo trees and start cultivating other herbs in the future.

Gross Profit

Gross profit increased by $1,678,646 or 17.2% period over period primarily as a result of an increase in gross margin of retail drugstores. At the same time, gross margin increased from 21.6% to 22.7% due to higher retail profit margins. The average gross margins for each of our four business segments are as follows:

	Six months ended September 30,	
	2018	2017
Average gross margin for retail drugstores	28.3%	26.8%
Average gross margin for online sales	11.9%	11.1%
Average gross margin for wholesale business	10.5%	13.9%
Average gross margin for farming business	N/A	N/A

Retail gross margins increased primarily because of corporate operational strategy adjustments to focus on high profit margin products, introducing new suppliers, and renegotiating prices with our suppliers periodically,. As mentioned in the above, in the three months ended September 30, 2018, we executed several promotion campaigns such as fifteen year anniversary and adjusted prices of certain drugs reimbursed by the government medical insurance program. However, in the first quarter of fiscal 2019, we were able to keep up with our sale profit margin. In addition, we are able to continuously renegotiate with our vendors and press price down to an acceptable level, we expect to keep our profit margin at a reasonable level in the future.

Gross margin of online pharmacy sales increased primarily due to the increase in our sales via our own official website, as well as due to decrease in sale via third-party platforms, which are usually subject to low profit margin. We conduct our business either through certain e-commerce platforms such as Tmall and JD.com or via our own official online pharmacy website, www.dada360.com. The sales on our own official website usually have higher profit margins because customers referred by commercial insurance companies are premium customers who can afford premium products with higher profit margins. As described in the above, during the six months ended September 30, 2018, we achieved more sales from our own official websites. As a result, we incurred higher profit margin. However, as mentioned in the above, in the three months ended September 30, 2018, we kept low profit margins for certain products in order to remain competitive. Excluding such an effect, we should be able to achieve higher profit margin.

Wholesale gross margin increased primarily as a result of different products we carried and sold to certain pharmaceutical vendors. In the six months ended September 30, 2018, we act as the provincial agent for Dong’e Ejiao and distributed significant amount of Ejiao in September within Zhejiang Province. As a result, our gross profit margin lowered significantly. Although we have attempted to market our products to major local hospitals and other pharmacies, we have not been able to make significant progress. Until we are able to obtain status as a provincial or national exclusive sale agent for certain popular drugs or have sales access to large local hospitals, we may have to maintain low profit margins in order to drive sales on our wholesale business.

Selling and Marketing Expenses

Sales and marketing expenses increased by $1,582,870 or 19.1% period over period, primarily due to increase in marketing and sales staff expense related to our store expansion, offset by decline in expense of our wholesale business. We opened 41 new stores in Hangzhou and ten new stores in Lin'An under Lin'An Jiuzhou. To quickly attract local customers and expand our business, we hired additional in-store staff and arranged various promotion campaigns. For example, during the six months ended September 30, 2018, the total selling expense related to Lin'An Jiuzhou was $338,321 as compared to $85,592 in the six months ended September 30, 2017. Additionally, labor expense included in Jiuzhou Pharmacy selling expense increased by $1.07 million. On the other side, in the six months ended June 30, 2017, we had quite a few wholesale business referred by individual traders who require reward based on the transaction amount. As a result, we incurred additional selling expense. Overall, such expenses as a percentage of our revenue kept at 19.6% and 19.1% in the six months ended September 30, 2018 and 2017.

General and Administrative Expenses

General and administrative expenses decreased by $810,986 or 17.7% period over period. Such expenses as a percentage of revenue decreased to 7.5% from 10.1% for the same period a year ago. In the six months ended September 30, 2018, our bad debt expense decreased by approximately $0.5 million from the same period a year ago.. Excluding such an effect, the general and administrative expense only decreased by $310,986 or 6.7%.

(Loss) from Operations

As a result of the above, we had loss from operations of $2,206,609, as compared to loss from operations of $3,113,371 a year ago. Our operating margin for the six months ended September 30, 2018 and 2017 was (4.4)% and (6.9)%, respectively.

Income Taxes

Our income tax expense increased by $18,169 period over period due to overall increase in operation loss in retail profit.

Net (Loss)

As a result of the foregoing, net loss increased by $288,683 period over period.

Accounts receivable

Accounts receivable, which are unsecured, are stated at the amount we expect to collect. We continuously monitor collections and payments from our customers (our distributors) and maintain a provision for estimated credit losses. To prepare for potential loss in such accounts, we made corresponding reserves.

Our accounts receivable aging was as follows for the periods described below:

From date of invoice to customer	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total amount
1- 3 months	$6,152,661	$320	$587,925	$ -	$6,740,905
4- 6 months	627,344	19,755	214,751	-	861,850
7- 12 months	221,240	39,074	450,193	-	710,507
Over one year	1,744,764	123,944	2,169,190		4,037,899
Allowance for doubtful accounts	(1,850,027)	(140,565)	(2,529,856)		(4,520,448)
Total accounts receivable	$6,895,982	$42,529	$892,203	$ -	$7,830,713

Accounts receivable from our retail business mainly consist of reimbursements from government health insurance bureaus and commercial health insurance programs. In the three months ended September 30, 2018, we wrote off an approximately $33,673 collectible from provincial and Hangzhou City government insurance, as such amount has been determined by the health insurance bureaus to be unqualified for reimbursement. In addition, as we gained experience in operating online pharmacies with good reputation and have provided online operating and network technical support and consulting services to an online business, which intends to run an online health products shop in Hong Kong in 2016. As a result, we recognized revenue and incurred accounts receivables. As the online business company was not able to make profit from its online shop, it has not paid off its account on time. As a result, we made additional reserve on these aged accounts.

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

Accounts receivable from our drug wholesale business and herb farming business consist of receivables from our customers such as pharmaceutical distributors. Our drug wholesale business transitioned away from focusing on sales volume beginning in the second half of fiscal 2013, and it tightened its customer credit policy and strengthened monitoring of uncollected receivables. Furthermore, the new management team expended significant efforts in clearing outstanding balances with certain customers and suppliers.

Subsequent to September 30, 2018 and through October 31, 2018, we collected approximately $2.7 million in receivables relating to our drugstore business, approximately $1.3 million in receivables relating to our online pharmacy business, approximately $1.7 million relating to our wholesale business, and $0 relating to our herb farming business.

Advances to suppliers

Advances to suppliers are mainly prepayments to secure certain products or services at favorable pricing. The aging of our advances to suppliers is as follows for the periods described below:

From date of cash prepayment to suppliers	Retail drugstores	Online Pharmacy	Drug wholesale	Herb farming	Total amount
1- 3 months	$206,284	$ -	$1,580,409	$ -	$1,786,693
4- 6 months	96,565	-	263,680	-	360,245
7- 12 months	1,470,467	-	510,904	-	1,981,370
Over one year	248,403	-	2,157,265	-	2,405,668
Allowance for doubtful accounts	(889.469)	-	(2,409,569)	-	(3,299,037)
Total advances to suppliers	$1,132,250	$ -	$2,102,689	$ -	$3,234,939

Since the acquisition of Jiuxin Medicine, we have gradually transferred almost all logistics services of our retail drugstores to Jiuxin Medicine. Jiuzhou Pharmacy only makes purchases on certain non-medical products. As a result, our retail chain had little advances to suppliers as of September 30, 2018.

Advances to suppliers for our drug wholesale business consist of prepayments to our vendors such as pharmaceutical manufacturers and other distributors. We typically receive products from vendors within three to nine months after making prepayments. We continuously monitor delivery from and payments to our vendors while maintaining a provision for estimated credit losses based upon historical experience and any specific supplier issues such as discontinuing of inventory supply that have been identified. If we are having difficulty receiving products from a vendor, we take the following steps: cease purchasing products from the vendor, ask for return of our prepayment promptly, and if necessary, take legal action. If all of these steps are unsuccessful, management then determines whether the prepayments should be reserved or written off. To facilitate its initial expansion, Jiuxin Medicine made significant prepayments to certain vendors. Lack of timely supplier account reconciliation caused by several sales staff rotations delayed the monitoring of such accounts. To accommodate potential loss in advances to suppliers, we made reserve for amounts considered to be uncollectible. To control credit risk, we have tightened our customer credit policy and strengthened monitoring of uncollected receivables.

Liquidity and Capital Resources

Our cash flows for the periods indicated are as follows:

	Six months ended September 30,	
	2018	2017
Net cash provided by/used in operating activities	$(2,921,456)	$(520,646)
Net cash provided by/used in investing activities	$(388,930)	$(1,095,979)
Net cash provided by/used in financing activities	$(4,137,342)	$(857,505)

39

For the six months ended September 30, 2018, cash used in operating activities amounted to $(2,921,456), as compared to $(520,646) a year ago. The change is primarily attributable to a decrease in cash provided by advances to suppliers of $1,569,881, a decrease in cash provided by accounts payable of $3,515,646 offset by an increase of $1,487,153 in other payables and accrued liabilities, an increase in accounts receivable of $1,304,976, and an increase in cash provided by the long term deposit of $832,133.

For the six months ended September 30, 2018, net cash used in investing activities amounted to $(388,930), as compared to $(1,098,979) provided by investing activities a year ago. The change is attributable to increase in construction-in-progress such as SAP system implementation in the six months ended September 30, 2017.

For the six months ended September 30, 2018, net cash provided by financing activities amounted to $(4,137,342), as compared to $(857.505) net cash used in financing activities a year ago. The decrease is primarily due to repayment of notes payable, offset by decrease in restricted cash.

As of September 30, 2018, we had cash of approximately $6,922,357. Our total current assets as of September 30, 2018, were $54,270,964 and total current liabilities were $49,209,385, which resulted in a working capital of $5,061,579.

In order to increase our competition advantages and gain more local retail pharmacy market share, during fiscal year 2018, we opened [57] new stores in Hangzhou. As a result, we incurred significant amount of expense related to rental, labor hiring and training, and marketing activities. As the retail pharmaceutical market becomes more competitive in recent years, a new store usually cannot make profit in its first year of operation. In fact, we incurred significant expense with limited incremental revenue in the period we opened new stores.

At their openings, except for four stores, almost all of the new stores were without government insurance reimbursement certificates. In fact, it usually takes more than one year for a new store to apply for and obtain the local government insurance reimbursement certificate. We have applied for and received certificates in 2 stores in January 2018 and 11 new stores in June 2018. Historically, sales reimbursed from the government insurance agency contribute more than half of total revenue in a mature store. We are actively in the process of applying certificates for all of our new stores. As more and more new stores obtain certificates, we expect our new store revenue will increase and eventually contribute positive operating cash flow.

On January 23, 2017, we completed a private placement with a single healthcare-focused institutional investor for the purchase of an aggregate of 4,840,000 of our common stock at a price of $2.20 per share and gross proceeds of approximately $10,648,000. As of September 30, 2018, we had approximately $1.52 million in our credit line available for further borrowing. We believe that the foregoing sources will collective to meet our liquidity and capital obligations for the next twelve months. However, if we are to acquire additional businesses or further expand our operations, we may need additional capital.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

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

Periods ending September 30,	Retail drugstores	Online pharmacy	Drug wholesale	Herb farming	Total Amount
2019	$4,363,685	$ -	$ -	$ -	$4,363,685
2020	3,592,727	-	-	-	3,592,727
2021	2,835,408	-	-	-	2,835,408
2022	2,199,735	-	-	-	2,199,735
2023	1,440,756	-	-	-	1,440,756
Thereafter	2,063,945	-	-	-	2,063,945

40

Off-balance Sheet Arrangements

We do not have any outstanding financial guarantees or commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Exchange Rates

Our subsidiaries and affiliated companies in the PRC maintain their books and records in RMB, the lawful currency of the PRC. In general, for consolidation purposes, we translate their assets and liabilities into USD using the applicable exchange rates prevailing at the balance sheet date, and the statement of income is translated at average exchange rates during the reporting period. Adjustments resulting from the translation of their financial statements are recorded as accumulated other comprehensive income.

The exchange rates used to translate amounts in RMB into USD for the purposes of preparing the audited consolidated financial statements or otherwise disclosed in this report were as follows:

	September 30, 2018		March 31, 2018	
Balance sheet items, except for the registered and paid-up capital, as of end of period	USD1: RMB	0.1456	USD1: RMB	0.1592
Amounts included in the statement of Operations and statement of cash flows for the period ended	USD1: RMB	0.1518	USD1: RMB	0.1510

Inflation

We believe that inflation has not had a material effect on our operations to date.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon such evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were ineffective at the reasonable assurance level. Such conclusion is based on the presence of the following material weakness in internal control over financial reporting as described in our annual report on Form 10-K for the year ended March 31, 2018:

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

Management's assessment of the control deficiency over accounting and finance personnel as of September 30, 2018 considered the same factors, including:

- the number of adjustments proposed by our independent auditors during our quarterly review and annual audit processes;
- how adequately we complied with U.S. GAAP on transactions; and
- how accurately we prepared supporting information to provide to our independent auditors on a quarterly and annual basis.

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

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 5. OTHER INFORMATION.

The following information is hereby filed to report the voting results of the annual meeting held earlier this year.

On March 26, 2018, the Company held its annual meeting of shareholders for its fiscal year ended March 31, 2017. A quorum was present at the meeting as required by the Bylaws of the Company, as amended. The final voting results for each matter submitted to a vote of shareholders at the meeting are as follows. At the discretion of the Company, no broker non-votes were counted for any of the proposals.

1. A proposal to elect five directors to the registrant's board of directors to hold office until the next annual meeting and until their successors are duly elected and qualified:

Director's Name	Votes For	Votes Against
Lei Liu	16,558,650	7,487
Li Qi	16,558,630	7,507
Caroline Wang	16,412,710	153,427
Taihong Guo	15,996,057	570,080
Genghua Gu	15,995,965	570,172

2. A proposal to amend the Company's 2010 Equity Incentive Plan to increase by 2,500,000 shares that are available for issuance thereunder:

For	Against	Abstain
15,934,653	627,392	4,092

3. A proposal to ratify the appointment of BDO CHINA SHU LUN PAN Certified Public Accountants LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2018:

For	Against	Abstain
16,557,230	5,350	3,557

4. A proposal to approve, on a non-binding, advisory basis, the compensation of our named executive officers pursuant to the compensation disclosure rules of the Securities and Exchange Commission.

For	Against	Abstain
16,558,278	3,279	4,580

Pursuant to the foregoing votes, Lei Liu, Li Qi, Caroline Wang, Taihong Guo, and Genghua Gu were elected to serve as directors; the Company's 2010 Equity Incentive Plan was amended to increase by 2,500,000 shares that are available for issuance thereunder; BDO CHINA SHU LUN PAN Certified Public Accountants LLP was ratified as the registrant's independent registered public accounting firm for the fiscal year ending March 31, 2018; the compensation of the named executive officers as set forth in the Company's 2017 proxy statement was approved, on an advisory, non-binding basis.

ITEM 6. EXHIBITS.

EXHIBIT INDEX

Exhibit Number	**Description**
31.1	Section 302 Certification by the Corporation's Chief Executive Officer
31.2	Section 302 Certification by the Corporation's Chief Financial Officer
32.1	Section 906 Certification by the Corporation's Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CHINA JO-JO DRUGSTORES, INC. (Registrant)
Date: November 14, 2018	By: /s/ Lei Liu Lei Liu Chief Executive Officer
Date: November 14, 2018	By: /s/ Ming Zhao Ming Zhao Chief Financial Officer