CHINA JO-JO DRUGSTORES, INC.
Form 10-Q
February 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended: December 31, 2010

or

[ ] Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from ______________ to _______________

Commission File Number: 001-34711

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

Nevada (State or other jurisdiction of incorporation of origination)	98-0557852 (I.R.S. Employer Identification Number)
Room 507-513, 5th Floor A Building, Meidu Plaza Gongshu District, Hangzhou, Zhejiang Province People's Republic of China (Address of principal executive offices)	N/A (Zip code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes[ ] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller reporting company [X]

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date: 13,519,434 shares issued and outstanding as of February 11, 2011.

TABLE OF CONTENTS

TO QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2010

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

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

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2010 (Unaudited)	MARCH 31, 2010
A S S E T S		
CURRENT ASSETS		
Cash	$ 6,854,386	$801,593
Restricted cash	1,199,492	746,703
Accounts receivable, trade, net	3,480,746	1,228,294
Inventories	5,184,838	3,770,411
Other receivables	650,912	282,073
Advances to suppliers	18,070,653	6,850,240
Other current assets	1,795,162	1,331,167
Total current assets	37,236,189	15,010,481
PROPERTY AND EQUIPMENT, net	3,063,150	1,186,292
OTHER ASSETS		
Goodwill	460,602	
Long term deposit	2,390,449	2,311,661
Prepaid - noncurrent	5,927,597	5,508,963
Total other assets	8,778,648	7,820,624
Total assets	$ 49,077,987	$24,017,397
L I A B I L I T I E S A N D S H A R E H O L D E R S' E Q U I T Y		
CURRENT LIABILITIES		
Accounts payable, trade	$ 4,389,305	$2,330,317
Notes payable	2,689,880	1,464,241
Other payables	174,630	225,716
Other payables - related parties	880,058	935,000
Taxes payable	1,238,004	1,235,083
Accrued liabilities	115,828	257,091
Short-term loans	-	880,200
Total current liabilities	9,487,705	7,327,648
Purchase option derivative liability	310,905	-
Total liabilities	9,798,610	7,327,648
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock; $0.001 par value; 500,000,000 and 250,000,000		

shares authorized; 13,519,434 and 10,000,000 shares issued and outstanding as of December 31, 2010 and March 31, 2010, respectively	13,519	10,000
Paid-in capital	16,278,425	877,884
Statutory reserves	1,309,109	1,309,109
Retained earnings	20,872,382	14,855,016
Accumulated other comprehensive income (loss)	805,942	(362,260)
Total shareholders' equity	39,279,377	16,689,749
Total liabilities and shareholders' equity	$ 49,077,987	$ 24,017,397

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
(UNAUDITED)

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
REVENUES, NET	$18,042,309	$14,923,706	$48,927,907	$38,863,743
COST OF GOODS SOLD	12,713,181	10,156,871	34,576,771	27,574,136
GROSS PROFIT	5,329,128	4,766,835	14,351,136	11,289,607
SELLING EXPENSES	1,337,055	912,312	3,339,928	1,986,471
GENERAL & ADMINISTRATIVE EXPENSES	1,227,520	441,861	2,758,654	1,372,205
OPERATING EXPENSES	2,564,575	1,354,173	6,098,582	3,358,676
INCOME FROM OPERATIONS	2,764,553	3,412,662	8,252,554	7,930,931
OTHER INCOME (EXPENSE), NET	112,736	31,557	60,985	41,800
CHANGE IN FAIR VALUE OF PURCHASE OPTION DERIVATIVE LIABILITY	119,595	-	91,546	-
INCOME BEFORE INCOME TAXES	2,996,884	3,444,219	8,405,085	7,972,731
PROVISION FOR INCOME TAXES	759,431	797,866	2,387,719	2,023,621
NET INCOME	2,237,453	2,646,353	6,017,366	5,949,110
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustments	514,170	1,520	1,168,202	12,691
COMPREHENSIVE INCOME	$2,751,623	$2,647,873	$7,185,568	$5,961,801
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	13,500,002	10,000,000	13,220,002	8,704,745
Diluted	13,500,002	10,000,000	13,220,002	8,704,745
EARNINGS PER SHARES:				
Basic	$0.17	$0.26	$0.46	$0.68
Diluted	$0.17	$0.26	$0.46	$0.68

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Number of shares	Amount	Paid-in capital	Retained Earnings Statutory reserves	Unrestricted	Accumulated other comprehensive income (loss)	Total
BALANCE, March 31, 2009	7,900,000	$ 7,900	$ 669,700	$ 1,309,109	$ 5,033,275	$ (362,437)	$ 6,657,547
Shares issued for reorganization on September 17, 2009	2,100,000	2,100	(2,100)				-
Stock-based compensation			202,120				202,120
Net income					5,949,110		5,949,110
Shareholder contribution			8,164				8,164
Foreign currency translation adjustments						12,691	12,691
BALANCE, December 31, 2009 (Unaudited)	10,000,000	$ 10,000	$ 877,884	$ 1,309,109	$ 10,982,385	$ (349,746)	$ 12,829,632
Net income					3,872,631		3,872,631
Foreign currency translation adjustments						(12,514)	(12,514)
BALANCE, March 31, 2010	10,000,000	$ 10,000	$ 877,884	$ 1,309,109	$ 14,855,016	$ (362,260)	$ 16,689,749
Issuance of common stock	3,500,000	3,500	15,705,108				15,708,608
Fractional shares due to the one-for-two reverse split	2	-	-				-
Reclassification of purchase option to derivative liabilities			(402,451)				(402,451)
	19,432	19	97,884				97,903

Stock-based compensation							
Net income					6,017,366		6,017,366
Foreign currency translation adjustments						1,168,202	1,168,202
BALANCE, December 31, 2010 (Unaudited)	13,519,434	$ 13,519	$ 16,278,425	$ 1,309,109	$ 20,872,382	$ 805,942	$ 39,279,377

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$6,017,366	$5,949,110
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	627,387	389,809
Stock compensation	80,445	126,325
Allowance for uncollected accounts	130,170	-
Change in fair value of purchase option derivative liability	(91,546)	-
Changes in operating assets:		
Accounts receivable, trade	(2,292,087)	(655,559)
Inventories	(1,257,608)	(729,858)
Other receivables	(351,317)	(297,283)
Advances to suppliers	(10,724,139)	(1,320,177)
Advances to suppliers - related parties	-	(388,673)
Other current assets	(501,851)	(889,536)
Long term deposit	-	(308,803)
Prepaid - noncurrent	(337,058)	-
Changes in operating liabilities:		
Accounts payable, trade	1,935,978	(2,007,814)
Other payables and accrued liabilities	(282,608)	722,378
Taxes payable	(38,313)	313,101
Net cash (used in) provided by operating activities	(7,085,181)	903,020
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(329,824)	(57,110)
Additions to leasehold improvements	(755,402)	(263,619)
Payments on construction in progress	(1,011,271)	-
Cash paid for business acquisition	(593,440)	-
Net cash used in investing activities	(2,689,937)	(320,729)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	(417,930)	(362,349)
Proceeds from notes payable	1,149,847	-
Proceeds from equity financing	15,708,608	-
Proceeds from short-term loans	-	1,466,400
Payments on short-term loans	(890,160)	(1,466,400)
Payments on other payables-related parties	(54,942)	-
Net cash provided by (used in) financing activities	15,495,423	(362,349)
EFFECT OF EXCHANGE RATE ON CASH	332,488	10,685

INCREASE IN CASH	6,052,793	230,627
CASH, beginning of period	801,593	996,302
CASH, end of period	$6,854,386	$1,226,929
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$23,587	$53,519
Cash paid for income taxes	$2,474,812	$1,817,371

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

7

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KERRISDALE MINING CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Unaudited)

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"), where by 7,900,000 shares of common stock 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) is, 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 was incorporated on September 2, 2008, under the laws of Hong Kong Special Administrative Region (“Hong Kong”). Renovation has no substantive operations of its own except for its holding of Zhejiang Jiuxin Investment Management Co., Ltd. (“Jiuxin Management”), its wholly owned subsidiary. Through Jiuxin Management, the Company controls three companies through certain exclusive agreements discussed below, that operate a chain of pharmacies in the People’s Republic of China (“PRC” or “China”), namely, Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine (“Jiuzhou Clinic”) and Hangzhou Jiuzhou Medical and Public Health Service Co., Ltd. (“Jiuzhou Service”, and collectively with Jiuzhou Pharmacy and Jiuzhou Clinic as “HJ Group”).

All three HJ Group companies have been under the common control of the same three owners (the “Owners”) since their respective establishment dates, pursuant to agreements amongst the Owners to vote their interests in concert as memorialized in a voting agreement. Based on such voting agreement, the Company has determined that common control exists among the three HJ Group companies in accordance with the guidance of definition of common control accounting standard. Operationally, the Owners have operated the three HJ Group companies in conjunction with one another since each company’s respective establishment date. Each HJ Group company holds the licenses and approvals necessary to operate its business in China.

The paid-in capital of all three HJ Group companies was funded by the majority shareholders of Renovation. PRC law currently has limits on foreign ownership of companies in certain industries, including those of HJ Group. To comply with these foreign ownership restrictions, on August 1, 2009, Jiuxin Management entered into a series of exclusive agreements with HJ Group and the Owners (collectively the “Contractual Arrangements”) as follows:

(1) Under the Consulting Services Agreement, Jiuxin Management will provide exclusive consulting and services to HJ Group for a quarterly fee in the amount of each HJ Group company’s quarterly net income after tax. The Company has the right to receive the expected residual gains of each HJ Group company, and there is no cap on such expected residual gains. The Company is also obligated to absorb the risk of loss from the activities of each HJ Group company. The Company is not protected from such risk of loss and is not guaranteed a return

by HJ Group or by other parties involved with HJ Group. The Consulting Services Agreement shall remain in effect for the maximum period of time permitted by law, unless sooner terminated by Jiuxin Management or if either Jiuxin Management or an HJ Group company becomes bankrupt or insolvent, or otherwise dissolves or ceases business operations.

(2) Under the Equity Pledge Agreement, the Owners have pledged their rights, title and equity interest in HJ Group as security for Jiuxin Management to collect its fees from each HJ Group company under the Consulting Services Agreement. On May 18, 2010, all the owners effectively completed the registration of their equity pledge to Jiuxin Management.

(3) Under the Operating Agreement, Jiuxin Management has exclusive authority of all decision-making relating to HJ Group's ongoing major operations, including establishing compensation levels and employment decisions on key personnel. In order to ensure HJ Group's normal operation, Jiuxin Management agrees to act as the guarantor for HJ Group in any contract, agreement or transaction with third parties relating to HJ Group's operations, and to guarantee HJ Group's performance of such contract, agreement or transaction. As a counter guarantee, each HJ Group company agrees to pledge all of its assets including receivables to Jiuxin Management which have not been pledged to any third parties at the execution date of this agreement. The Operating Agreement shall remain in effect unless terminated by Jiuxin Management.

(4) Under the Voting Rights Proxy Agreement, the Owners have authorized any designee of Jiuxin Management to exercise all of their respective voting rights as owners of HJ Group. The Voting Rights Proxy Agreement shall remain in effect for the maximum period of time permitted by law.

(5) Under the Option Agreement, the Owners have granted Jiuxin Management the exclusive right and option to acquire all of their equity interests in HJ Group. The Option Agreement shall remain in effect for the maximum period time permitted by law.

As a result of the Contractual Arrangements, which obligate the Company to absorb all of the risks of loss from HJ Group's activities and enable the Company to receive all of HJ Group's expected residual returns, the Company accounts for each HJ Group company as a Variable Interest Entity ("VIE") under Financial Accounting Standards Board's ("FASB") accounting standard. Accordingly, the financial statements of HJ Group are consolidated into the financial statements of the Company.

On July 16, 2010, Zhejiang Shouantang Pharmaceutical Technology Co., Ltd (“Shouantang”) was established in the PRC by Renovation with registered capital of $20,000,000. As of December 31, 2010, $11,000,000 was paid, and the remaining $9,000,000 of registered capital is to be paid within two years by July 16, 2012. On November 19, 2010, Shouantang entered into Equity Ownership Transfer Agreements with the owners of Zhejiang Quannuo Technology Co., Ltd. (“Quannuo Technology”) to acquire 100% of the equity interests of Quannuo Technology and its subsidiary, Quannuo Grand Pharmacy Co., Ltd. (“Quannuo Pharmacy”), which includes one drugstore. (See Note 15) Quannuo Technology focuses on developing software for online drugstores. Due to the reorganization, Quannuo Technology has had limited operation since the acquisition.

On August 10, 2010, Hangzhou Jiuxin Qianhong Agriculture Development Co., Ltd. (“Qianhong”) was established in the PRC by Jiuxin Management with registered capital of $1,480,000 (RMB 10,000,000). As of December 31, 2010, all of the registered capital was contributed.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The reporting entities

The Company’s consolidated financial statements reflect the activities of the Company and the following subsidiaries and VIEs:

Subsidiaries	Incorporated in	Percentage of Ownership
Renovation	Hong Kong	100%
Jiuxin Management	PRC	100%
Shouantang	PRC	100%
Qianhong	PRC	100%
Jiuzhou Pharmacy	PRC	VIE by Contractual Arrangements
Jiuzhou Clinic	PRC	VIE by Contractual Arrangements
Jiuzhou Service	PRC	VIE by Contractual Arrangements

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by U.S. Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. In the opinion of management, the accompanying consolidated balance sheets, and related interim consolidated statements of income and other comprehensive income, shareholders’ equity, and cash flows, include all adjustments, consisting only of normal recurring items. However, these consolidated financial statements are not indicative of a full year of operations. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended March 31, 2010 included in the Company’s Annual Report on Form 10-K.

Principles of consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries and its VIEs. All significant inter-company transactions and balances between the Company, its subsidiaries and VIEs have been eliminated in 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 that Jiuzhou Pharmacy, 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 three companies, and enable the Company, through Jiuxin Management, to receive a majority of their respective expected residual returns. Such conclusion is based on the terms of the Contractual Arrangements as described in Note 1.

Additionally, as the three HJ Group companies 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 is 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 Lei Liu, Li Qi, and Chong'an Jin collectively own 100% of HJ Group and have agreed to vote their interests in concert since the establishment of each HJ Group company as memorialized the Voting Rights Proxy Agreement, the Company believes that these three individuals collectively have control and common control of HJ Group. 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.

Although the Company has determined that the accounting standards regarding consolidation of VIEs do not provide for retroactive accounting treatment, HJ Group in substance were controlled by the same three individuals on September 9, 2003, October 10, 2003, and November 2, 2005, the establishment dates of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service, respectively. Such common control conditions resulted in the share exchange transaction to be a capital transaction in substance, reflected as a recapitalization, and the Company has accordingly recorded the consolidation of Renovation at its historical cost.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements relate to the assessment of the carrying values of accounts receivable and related allowance for doubtful accounts, useful lives of property and equipment, and fair value of 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 values of financial instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosure requirements for fair value measures. The carrying amounts reported in the accompanying consolidated balance sheets for receivables, payables, notes payable and short-term loans qualify as financial instruments and are a reasonable estimate of fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

In connection with the public offering of the Company's common stock that closed on April 28, 2010, the Company issued to its underwriters, Madison Williams and Company and Rodman & Renshaw, LLC, an option for $100 to purchase up to a total of 105,000 shares of common stock (3% of the shares sold in the public offering) at $6.25 per share (125% of the price of the shares sold in the public offering). The option is exercisable commencing on October 23, 2010 and expires on April 22, 2015.

The Company is treating the common shares underlying the option as a derivative liability as the strike price of the option is denominated in U.S. dollars, a currency other than the Company's functional currency, the Chinese RMB. As a result, the option is not considered indexed to the Company's own stock, and as such, all future changes in the fair value of the option are recognized currently in earnings until such time as the option is exercised or expired.

On April 22, 2010, the issue date of the option, the Company classified the fair value of this option as a liability resulting in a decrease of additional paid-in capital of $402,451 and the establishment of a $402,451 in liability to recognize the option's fair value. The Company recognized a gain of $119,595 and $91,546 from the change in fair value of the option liability for the three and nine months ended December 31, 2010, respectively. There was no option outstanding as of December 31, 2009.

This option does not trade in an active securities market, and as such, the Company estimates the fair value of this option using the Black-Scholes Option Pricing Model ("Black-Scholes Model") on the date that the option was originally issued and as of December 31, 2010 using the following assumptions:

	Underwriter Purchase Option	
	April 22, 2010 (Unaudited)	December 31, 2010 (1) (Unaudited)
Stock price	$ 4.78	$ 4.20
Exercise price	$ 6.25	$ 6.25
Annual dividend yield	0 %	0 %
Expected term (years)	5.00	4.30
Risk-free interest rate	2.57 %	2.01 %
Expected volatility	120 %	110 %

(1) As of December 31, 2010, the option to purchase 105,000 shares of common stock had not been exercised.

Expected volatility is based on historical volatility. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the option. The Company believes this method produces an estimate that is representative of future volatility over the expected term of this option. The Company has no reason to believe future volatility over the expected remaining life of this option is likely to differ materially from historical volatility. The expected life is based on the remaining term of the option. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the option.

As required by the FASB's accounting standards, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Depending on the product and the terms of the transaction, the fair values of option liability are modeled using a series of techniques, including closed-form analytic formula, such as the Black-Scholes Model, which does not entail material subjectivity because the methodology employed does not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets.

The fair value of the 105,000 shares underlying the option outstanding as of December 31, 2010 was determined using the Black-Scholes Model, with certain inputs significant to the valuation methodology as level 2 inputs, and the Company recorded the change in fair value in earnings. As a result, the option liability is carried on the consolidated balance sheets at fair value.

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value as of December 31, 2010:

	Carrying Value at December 31, 2010	Fair Value Measurement at December 31, 2010		
		Level 1	Level 2	Level 3
Purchase option derivative liability (unaudited)	$ 310,905	$ —	$ 310,905	$ —

Revenue recognition

Revenue from sales of prescription medicine at the 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 the drugstores is recognized at the point of sale, which is when the customer pays for and receives the merchandise.

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

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 de minimis.

The Company’s revenue is net of value added tax (“VAT”) collected on behalf of PRC tax authorities in respect of the sale 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.

Cash

Cash consists of cash on hand, cash in the drugstores, and cash at banks.

Restricted cash

The Company’s restricted cash consists of cash 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. Restricted cash and notes payable amounted to $1,199,492 and $2,689,880 as of December 31, 2010, respectively, and $746,703 and $1,464,241 as of March 31, 2010, respectively.

Accounts receivable

Accounts receivable represent amounts due from banks relating to retail sales that are paid or settled by the customers’ debit or credit cards, amounts due from government social security bureaus relating to retail sales of drugs, prescription medicine, and medical services that are paid or settled by the customers’ medical insurance cards, and 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 needed. The Company uses the aging method to estimate the allowance for anticipated uncollectible receivable balances. Under the aging method, bad debt percentages determined by management, based on historical experience and 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. The ultimate collection of the Company’s accounts receivable may take one year. Delinquent account balances are reserved after management determines that the likelihood of collection is not probable, and known bad debts are written-off against allowance for doubtful accounts when identified. As of December 31, 2010 and March 31, 2010, the allowance for doubtful accounts was $133,100 and $0, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average cost method. Market 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 to ensure that the amounts reflected in the consolidated financial statements at each reporting period are properly stated and valued. The Company records write-downs to inventories for shrinkage losses and damaged merchandise that are identified during the inventory counts. Historically, these amounts have not been material to the consolidated financial statements.

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 following 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	5 years
Office equipment & furniture	3-5 years

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

Impairment of long lived assets

The Company evaluates long lived tangible and intangible assets for impairment, at least annually, but more often 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 asset's 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. Based on its review, the Company believes there was no impairment as of December 31, 2010 and March 31, 2010.

Income taxes

The Company records income taxes pursuant to the accounting standards for income taxes. These standards require the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due and the net change in deferred taxes. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized. As of December 31, 2010 and March 31, 2010, the Company did not have any net deferred tax assets or liabilities.

The FASB's accounting standards clarify the accounting and disclosure 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. Under these standards, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Penalties or interest incurred relating to underpayment of income taxes are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the three and nine months ended December 31, 2010 and 2009.

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Value added tax

Sales revenue represents the invoiced value of goods, net of a value-added tax ("VAT"). All of the Company's products are sold in the PRC and are subject to a VAT on the gross sales price. The VAT rates vary from 0% to 17%, depending on the type of products sold. This 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 VAT payable and VAT receivable net of payments in the accompanying financial statements. The VAT tax return is filed offsetting the payables against the receivables.

Stock based compensation

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with the FASB's accounting standards regarding accounting for stock-based compensation and accounting for equity instruments that are issued to other than employees for acquiring or in conjunction with selling goods or services. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably determinable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services as defined by these accounting standards. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

Advertising and promotion costs

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs amounted to $169,609 and $185,551 for the three months ended December 31, 2010 and 2009, respectively, and $312,267 and $311,659 for the nine months ended December 31, 2010 and 2009, respectively. Advertising and promotion costs consist primarily of print and television advertisements.

Pre-opening costs

Expenditures related to the opening of new drugstores, other than expenditures for property and equipment, are expensed as incurred.

Vendor allowances

The Company accounts for vendor allowances by reducing the carrying value of inventories which are subsequently transferred to cost of goods sold when the inventories are sold, unless those allowances are specifically identified as reimbursements for advertising, promotion and other services, in which case they are recognized as a reduction of the related advertising and promotion or other service costs.

The Company recognized vendor allowances of $102,883 and $81,498 in cost of goods sold for the three months ended December 31, 2010 and 2009, respectively, and $484,521 and $188,278 for the nine months ended December 31, 2010 and 2009, respectively.

Distribution costs

Distribution costs represent the costs of transporting merchandise from warehouse to stores. These costs are expensed as incurred and are included in sales, marketing and other operating expenses.

Operating leases

The Company leases premises for retail drugstores, warehouse, offices, and land under non-cancelable operating leases. Operating lease payments are expensed on a straight-line basis 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 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. Land leased from government is amortized on a straight-line basis over a 30-year term.

Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Historically, the Company has experienced no product liability or malpractice claims.

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, being the primary currency of the economic environment in which their operations are conducted.

In general, for consolidation purposes, the Company translates the subsidiaries' and VIEs' assets and liabilities 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 subsidiaries' and VIEs' financial statements are recorded as accumulated other comprehensive income.

The accounting standard, "Reporting Comprehensive Income", requires disclosure of all components of comprehensive income and loss on an annual and interim basis. Comprehensive income and loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's accumulated other comprehensive income and loss consist only of changes in foreign currency exchange rates. Accumulated other comprehensive income in the statement of shareholders' equity amounted to $805,942 as of December 31, 2010. Accumulated other comprehensive loss in the statement of shareholders' equity amounted to $362,260 as of March 31, 2010. The balance sheet amounts with the exception of equity at December 31, 2010 and March 31, 2010 were translated at 1 RMB to $0.1517 USD and at 1 RMB to $0.1467 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the nine months ended December 31, 2010 and 2009 were at 1 RMB to $0.14836 USD and at 1 RMB to $0.14664 USD, respectively. The average translation rates applied to income statement amounts for the three months ended December 31, 2010 and 2009 were at 1 RMB to $0.15042 USD and at 1 RMB to $0.14667 USD, respectively.

Concentrations and credit risk

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

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 insured limits. Balances at financial institutions or state-owned banks within the PRC are not covered by insurance. As of December 31, 2010 and March 31, 2010, the Company had deposits totaling $8,053,878 and $1,533,175 that were not covered by insurance, respectively. To date, the Company has not experienced any losses in such accounts.

For the nine months ended December 31, 2010 and 2009, all of the Company’s sales and purchases arose in the PRC. No single customer accounted for 10% or more of the Company’s total revenues for the three and nine months ended December 31, 2010 and 2009, respectively.

For the three months ended December 31, 2010, three vendors collectively accounted for 28% of the Company’s total purchases and 11% of total inventory prepayment as of December 31, 2010. For the three months ended December 31, 2009, two vendors collectively accounted for 24% of the Company’s total purchases and 32% of total accounts payable, and 16% of total purchase deposits as of December 31, 2009.

For the nine months ended December 31, 2010, three vendors collectively accounted for 35% of the Company’s total purchases and 27% of total inventory prepayment as of December 31, 2010. For the nine months ended December 31, 2009, one vendor accounted for 17% of the Company’s total purchases and 15% of the total accounts payable as of December 31, 2009.

Recently issued accounting pronouncements

In December 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-16, Accounting for Transfers of Financial Assets. This ASU improves financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This ASU is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company has determined that this standard did not have material effect on the Company’s consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This ASU replaces the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this ASU also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. This ASU is effective for fiscal years beginning on or after November 15, 2009, and interim periods within those fiscal years. The Company has determined that this ASU did not have a material impact on its consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this ASU clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topic 505, Equity, and Topic 260, Earnings Per Share. The amendments in this ASU are effective for interim and annual periods ending on or after December 15, 2009, and are to be applied on a retrospective basis. The adoption of this ASU did not have a material impact on the accompanying consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-02, Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect the accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts accounting standards regarding non-controlling interests in consolidated financial statements. If an entity has previously adopted the accounting standards regarding non-controlling interests as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted the accounting standards regarding non-controlling interests. The Company has determined that the adoption of this did not have a material impact on its consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: (1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. (2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: (1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. (2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the disclosures standards, except for the disclosures to be adopted for fiscal year beginning after December 15, 2010, and the adoption of this ASU did not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU 2010-13, Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. This ASU provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity’s risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in this ASU encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

In September 2010, FASB issued Accounting Standard Update 2010-25, “Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans” or ASU 2010-25. The ASU clarifies how loans to participants should be classified and measured by defined contribution plans and how IFRS compare to these provisions. The amendments in this update are effective for fiscal years ending after December 15, 2010. The Company does not expect the adoption of this ASU to have a material impact on the Company’s consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend “Intangibles- Goodwill and Other” (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual testes if an event occurs or circumstances changes that would more likely than not reduce the faire value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic 805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expected the adoption of this ASU will have an impact on its future business combinations.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income or cash flows as previously reported.

Note 3 – OTHER CURRENT ASSETS

Other current assets consist of the following:

	December 31, 2010 (unaudited)	March 31, 2010
Prepaid rental expenses	$ 1,426,557	$ 1,205,881
Lease rights transfer fees (1)	251,109	92,021
Prepaid expenses and other current assets	87,496	33,265
Total	$ 1,765,162	$ 1,331,167

(1) Lease rights transfer fees are paid by the Company to secure store rentals in coveted areas. These additional costs of acquiring the right to lease new store locations are capitalized and amortized over the period of the initial lease term.

Note 4 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2010 and March 31, 2010 consisted of the following:

	December 31, 2010 (unaudited)	March 31, 2010
Leasehold improvements	$ 3,449,263	$ 2,588,627
Office equipment and furniture	763,568	379,668
Motor vehicles	229,803	162,665
Total	4,442,634	3,130,960
Less: Accumulated depreciation	(2,413,522)	(1,944,668)
Construction-in-progress	1,034,038	-
Property and equipment, net	$ 3,063,150	$ 1,186,292

Construction in progress included two store locations that the Company purchased during the fourth quarter of 2010. The stores are currently under remodeling and are not in operation. No depreciation is provided for construction in progress until such time as the assets are completed and placed into service.

Total depreciation expense for property and equipment was $89,006 and $141,062 for the three months ended December 31, 2010 and 2009, respectively, and $393,708 and $389,809 for the nine months ended December 31, 2010 and 2009, respectively.

Note 5 – ADVANCES TO SUPPLIERS

Advances to suppliers are money deposited with or advanced to outside vendors for future inventory purchases. Most of the Company's vendors 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 December 31, 2010 and March 31, 2010, advances to suppliers amounted to $18,070,653 and $6,850,240, respectively.

Note 6 – LONG TERM DEPOSITS

Long term deposits include money deposited with or advanced to landlords for securing retail store leases for which the Company does not anticipate applying or being returned within the next twelve months. Most of the Company's landlords require a minimum of nine months' rent being paid upfront plus additional deposits. As of December 31, 2010 and March 31, 2010, long term deposits for retail leases amounted to $2,390,449 and $2,311,661, respectively.

Note 7 – PREPAID - NONCURRENT

Prepaid – noncurrent consist of the following:

	December 31, 2010 (unaudited)	March 31, 2010
Prepayment for lease of land use right – noncurrent (1)	$ 4,285,525	$ 4,254,300
Prepayment for new entity (2)	1,061,900	1,026,900
Lease rights transfer fees-noncurrent	580,172	227,763
Total	$ 5,927,597	$ 5,508,963

(1) Prepayment for lease of land use right is a payment made to a local government in connection with entering into a 30-year operating land lease agreement.

(2) In connection with the same lease agreement, the Company prepaid $1,047,900 (RMB 7,000,000) to establish Qianhong.

Note 8 – STATUORY RESERVES

Statutory reserves represent restricted retained earnings. Based on their legal formation, all PRC entities are required to set aside 10% of their net incomes 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 an entity’s registered capital, further appropriations are 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 dividend 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 nine months ended December 31, 2010 and 2009, the Company did not make any appropriations to the Reserve Fund, as Jiuzhou Pharmacy fulfilled the 50% registered capital requirement as of March 31, 2009. The other subsidiaries were still in the development stage and had not allocated any contribution to the statutory surplus reserve fund.

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 9 – TAXES

Income tax

The Company is registered in Nevada whereas its subsidiary, Renovation, is registered in Hong Kong, and conducts all of its business through Renovation’s subsidiary, Jiuxin Management, and the three PRC VIEs, Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service. Jiuxin Management and the VIEs are subject to PRC tax laws. Renovation's other subsidiary, Shouantang, and Jiuxin Management's subsidiary, Qianhong, are also subject to PRC tax laws.

Beginning in January 2008, the Chinese Enterprise Income Tax (“EIT”) law replaced China’s former income tax laws. The standard EIT rate of 25% replaced the 33% rate previously applicable to PRC enterprises. Therefore, starting from January 2008 Jiuzhou Pharmacy has been subject to an effective tax rate of 25%. Jiuzhou Clinic and Jiuzhou Service are subject to the regular income tax rate of 25% in calendar year 2009 and 2010.

The following table reconciles the U.S. statutory tax rates to the Company's effective tax rate for the three months ended December 31, 2010 and 2009:

	2010 (Unaudited)		2009 (Unaudited)	
U.S. Statutory rates	34	%	34	%
Foreign income not recognized in the U.S.	(34	)	(34	)
China income taxes	25		25	
Effective tax rate	25	%	25	%

The following table reconciles the U.S. statutory tax rates to the Company's effective tax rate for the nine months ended December 31, 2010 and 2009:

	2010 (Unaudited)		2009 (Unaudited)	
U.S. Statutory rates	34	%	34	%
Foreign income not recognized in the U.S.	(34	)	(34	)
China income taxes	25		25	
Other (a)	3		-	
Effective tax rate	28	%	25	%

(a) The 3% for the nine months ended December 31, 2010 represents expenses incurred by the Company that were not deductible for PRC income tax.

Jo-Jo Drugstores is incorporated in the U.S. and has incurred a net operating loss for income tax purposes for 2010. As of December 31, 2010, the estimated net operating loss carryforwards for U.S. income tax purposes amounted to $684,000 which may be available to reduce future years' taxable income. These carryforwards will expire, if not utilized by 2030. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at December 31, 2010. The valuation allowance at December 31, 2010 was $232,000. The Company's management reviews this valuation allowance periodically and makes adjustments as necessary. The Company did not have operating loss as of March 31, 2010.

The Company had cumulative undistributed earnings of foreign subsidiaries of approximately $22.6 million as of December 31, 2010, which are included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

Value added tax

VAT on sales and on purchases amounted to $2,942,855 and $2,187,304 for the three months ended December 31, 2010, respectively, and $2,379,548 and $1,672,385 for the three months ended December 31, 2009, respectively.

VAT on sales and on purchases amounted to $8,049,193 and $6,078,982 for the nine months ended December 31, 2010, respectively, and $6,213,137 and $4,524,153 for the nine months ended December 31, 2009, respectively.

Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

27

Taxes payable at December 31, 2010 and March 31, 2010 consisted of the following:

	December 31, 2010 (unaudited)	March 31, 2010
VAT	$ 419,209	$ 341,989
Income tax	759,526	875,868
Others	59,269	17,226
Total taxes payable	$ 1,238,004	$ 1,235,083

Note 10 – SHORT-TERM LOANS

Short-term loans represent amounts due to various banks and are normally due on demand or within one year. These loans generally can be renewed with the banks. Short-term bank loans at December 31, 2010 and March 31, 2010, consisted of the following:

	December 31, 2010 (unaudited)	March 31, 2010
Two loans with Hangzhou Bank, due September 2010 with annual interest at 4.86%, secured by the personal properties of certain of the Company's shareholders	$ -	$ 586,800
Hangzhou Bank, due July 2010 with annual interest at 4.86%, secured by the personal properties of certain of the Company's shareholders	$ -	$ 293,400
Total	$ -	$ 880,200

Interest expense amounted to $0 and $18,009 for the three months ended December 31, 2010 and 2009, respectively, and $23,587 and $53,519 for the nine months ended December 31, 2010 and 2009, respectively.

Note 11 – POSTRETIREMENT BENEFITS

Regulations in the PRC require the Company to contribute to a defined contribution retirement plan for all permanent employees. The contribution is based on a percentage of an employee's current compensation as required by the local government. The Company contributed $34,686 and $33,717 in employment benefits and pension during the three months ended December 31, 2010 and 2009, respectively, and $75,446 and $67,858 during the nine months ended December 31, 2010 and 2009, respectively.

Note 12 – RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Amounts receivable from and payable to related parties are summarized as follows:

	December 31, 2010 (unaudited)	March 31, 2010
Amount due to directors (1):	$ 880,058	$ 935,000

(1) As of December 31, 2010 and March 31, 2010, amount due to directors represents contributions from Li Qi, Chong'an Jin, and Lei Liu to Jiuxin Management to enable Jiuxin Management to meet its approved PRC registered capital requirements. Such contributions are to be returned to these directors upon demand.

Note 13 – EARNINGS PER SHARE and CAPITAL TRANSACTIONS

Stock-based compensation

On September 1, 2009, pursuant to agreements entered on July 30, 2009, the shareholders of Renovation sold shares of Renovation to service providers including the Company’s chief financial officer and legal counsel which shares, after the share exchange transaction between the Company and Renovation on September 17, 2009, collectively represented 2.50% of the Company’s issued and outstanding common stock.

Using the fair value of services provided as of March 31, 2010, the Company estimated that the total stock compensation expense to be recognized from these transactions was $202,120. The Company recognized $126,325 as stock compensation expense for the year ended March 31, 2010. The remaining $75,795 was applied to accrued legal fees, which were expensed during the year ended March 31, 2009.

On March 15, 2010, the Company agreed to issue 6,897 shares (taking into account the 1-for-2 reverse stock split effected on April 9, 2010) of restricted common stock to a non—executive director for his annual service. The shares are vested in quarterly installments beginning on March 31, 2010 as follows: 321 shares on March 31, 2010, 1,720 shares on June 30, 2010, 1,739 shares on September 30, 2010, 1,730 shares on December 31, 2010 and 1,379 shares on March 13, 2010. The trading value of the Company’s common stock on March 15, 2010 was $5.80 (as adjusted for the 1-for-2 reverse split). $10,080 and $30,137 was charged to general and administrative expense for the three and nine months ended December 31, 2010, respectively.

On April 9, 2010, the Company effected a 1-for-2 reverse split of its issued and outstanding common shares and a proportional reduction of its authorized common shares. Therefore, all share and per share amounts used in the Company’s consolidated financial statements and notes thereto have been retroactively restated to reflect the 1-for-2 reverse stock split.

On April 28, 2010, the Company closed a public offering of 3.5 million shares of common stock at $5.00 per share with gross proceeds, prior to deducting underwriting discounts, commissions and offering expenses, of approximately $17.5 million and net proceeds of approximately $16 million.

On May 1, 2010, the Company agreed to issue 2,340 shares of common stock to its legal counsel as partial payment for six months of legal services. The trading value of the Company's common stock on May 1, 2010 was $4.80. $7,488 and $11,232 was charged to general and administrative expense for the three and nine months ended December 31, 2010, respectively.

On May 14, 2010, the Company entered into an agreement pursuant to which the Company agreed to issue 10,000 shares of restricted common stock to its chief financial officer upon the adoption of a stock incentive plan (the "Plan") as part of his annual compensation. The shares are to vest as follows: 1,753 shares on June 30, 2010, 2,521 shares on September 30, 2010, 2,521 shares on December 31, 2010, 2,466 shares on March 31, 2011 and 739 shares on April 27, 2011. The trading value of the Company's common stock on May 14, 2010 was $4.66 $11,748 and $31,665 was charged to general and administrative expense for the three and nine months ended December 31, 2010, respectively.

The Company also agreed under the agreement to issue 4,000 shares of restricted common stock from the Plan as a bonus to its chief financial officer. The trading value of the Company's common stock on May 14, 2010 was $4.66. $0 and $18,640 was charged to general and administrative expense for the three and nine months ended December 31, 2010, respectively.

On November 1, 2010, the Company agreed to issue 2,340 shares of common stock to its legal counsel as partial payment for six months of legal services. The trading value of the Company's common stock on November 1, 2010 was $5.00, $3,900 was recorded as service compensation expense for the three and nine months ended December 31, 2010, respectively.

Shareholders Contribution

On June 8, 2009, the three Owners of Jiuzhou Pharmacy acquired 100% equity interest of Kuaileren Pharmacy Co., Ltd. ("Kuaileren") from its owner for stock consideration. On August 21, 2009, the three Owners contributed their 100% equity interests of Kuaileren to Jiuzhou Pharmacy, and Kuaileren became a wholly-owned subsidiary of Jiuzhou Pharmacy. The registered capital of Kuaileren is $15,000 (RMB 100,000). The transfer of the equity interest has been treated as a contribution to owner's equity and has been valued at $8,164, the estimated fair value of the equity interest transferred.

Earnings 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 earnings per share computation:

	Three Months Ended December 31,			
		2010 (unaudited)		2009 (unaudited)
Net income for earnings per share	$	2,237,453	$	2,646,353
Weighted average shares used in basic computation		13,500,002		10,000,000
Diluted effect of purchase options		-		-
Weighted average shares used in diluted computation		13,500,002		10,000,000
Earnings per share – Basic:	$	0.17	$	0.26
Earnings per share – Diluted:	$	0.17	$	0.26

	Nine months Ended December 31,			
		2010 (unaudited)		2009 (unaudited)
Net income for earnings per share	$	6,017,366	$	5,949,110
Weighted average shares used in basic computation		13,220,002		8,704,745
Diluted effect of purchase options		-		-
Weighted average shares used in diluted computation		13,220,002		8,704,745
Earnings per share – Basic:	$	0.46	$	0.68
Earnings per share – Diluted:	$	0.46	$	0.68

For the three and nine months ended December 31, 2010, 105,000 shares underlying outstanding purchase options were excluded from the diluted earnings per share calculation as they are anti-dilutive. For the three and nine months ended December 31, 2009, there was no outstanding purchase option.

Note 14 – SEGMENTS

The Company sells prescription and over-the-counter medicines, traditional Chinese medicines, which are medicines derived from Chinese herbs, Chinese herbs, dietary supplement, medical instruments and sundry items. The class of customers, selling practice and distribution process are the same for all products. The Company's chief operating decision-makers (i.e. chief executive officer and his direct reports) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by product lines for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Based on qualitative and quantitative criteria established by the accounting standard, "Disclosures about Segments of an Enterprise and Related Information," the Company considers itself to be operating within one reportable segment.

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 by main segment is as follows:

	Three Months Ended December 31,	
	2010 (unaudited)	2009 (unaudited)
Prescription Drugs	$ 6,517,673	$ 5,389,120
Over-The-Counter (OTC) Drugs	5,121,520	4,516,533
Nutritional Supplements	1,247,007	1,234,362
Traditional Chinese Medicine Products	2,484,452	2,776,579
Sundry Products	2,476,279	321,155
Medical Devices	195,378	685,957
Total	$ 18,042,309	$ 14,923,706

	Nine months Ended December 31,	
	2010 (unaudited)	2009 (unaudited)
Prescription Drugs	$ 18,808,425	$ 14,181,479
Over-The-Counter (OTC) Drugs	16,462,132	11,895,897
Nutritional Supplements	4,746,812	4,568,279
Traditional Chinese Medicine Products	5,161,941	5,416,461
Sundry Products	3,125,282	983,974
Medical Devices	623,315	1,817,653
Total	$ 48,927,907	$ 38,863,743

Note 15 – Business combination

On November 19, 2010, Shouantang entered into Equity Ownership Transfer Agreements with the owners of Quannou Technology to acquire 100% of equity interests of Quannou Technology and its subsidiary, Quannou Pharmacy. Quannou Technology focuses on developing software for online drugstores.

Shouantang acquired all assets and assumed all liabilities of Quannou Technology. The consideration of the transaction included a cash payment of $606,800 (RMB 4,000,000) to pay off outstanding loans with the former owners, with the excess recording as goodwill of approximately $460,600.

32

The following table summarizes the net book value of the assets acquired and liabilities assumed at the date of acquisition. Fair value of assets acquired and liabilities assumed approximated their book value.

		Net Book Value
Current assets	$	109,784
Property and equipment, net		95,302
Total assets		205,086
Total liabilities		(58,888)
Net assets	$	146,198

Due to the reorganization, Quannou Technology has had limited operation since the acquisition. The actual amounts of revenue and earnings of Quannou Technology was not included in the Company's consolidated income statement from the date of the acquisitions, on November 19, 2010.

Note 16 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company recognizes lease expense on a straight line basis over the term of the lease in accordance with the relevant accounting standards. The Company has entered into various tenancy agreements for its store premises and for the land that it has leased from a local government to be used potentially for the cultivation of Chinese medicinal herbs.

One of the Company's retail spaces and its corporate office are leased from Lei Liu, a director of the Company, under long-term operating lease agreements from August 2010 to August 2012 and from January 2008 to March 2012, respectively. The rent expense for the retail space and the corporate office amounted to $45,000 and $44,004 for the three months ended December 31, 2010 and 2009, respectively, and $133,524 and $131,976 for the nine months ended December 31, 2010 and 2009, respectively. Rent paid to Mr. Liu amounted to $0 and $175,968 for the three months ended December 31, 2010 and 2009, respectively, and $44,190 and $175,968 for the nine months ended December 31, 2010 and 2009, respectively.

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

Years ending March 31,		Amount
2011	$	627,000
2012		2,337,000
2013		1,985,000
2014		1,667,000
2015		1,302,000
Thereafter		983,000

Total rent expense amounted to $624,177 and $416,702 for the three months ended December 31, 2010 and 2009, respectively, and $1,619,987 and $926,795 for the nine months ended December 31, 2010 and 2009, respectively.

As of December 31, 2010 and March 31, 2010, prepayment on retail and office leases amounted to $1,426,557 and $1,205,881, respectively.

Logistics services commitments

The Company renewed its agreement for logistics services ("Logistics Agreement") with Zhejiang Yingte Logistics Co., Ltd. ("Yingte") to provide logistics and other related services from January 1, 2011 to December 31, 2011. Pursuant to the Logistics Agreement, Yingte accepts goods from the Company's suppliers, stores the goods and then delivers the goods to the Company's store locations as directed by the Company, and the Company is required to pay Yingte 1% of the purchase price of the delivered goods. The Company is obligated to pay a minimum of RMB 3,900,000 annually (1% of RMB 390 million, the total minimum amount of goods to be delivered under the Logistics Agreement).

As of December 31, 2010 and March 31, 2010, the Company did not have any contingent liabilities.

Legal proceedings

In December 2009, Jiuzhou Pharmacy filed suit against The Ventana Group, LLC and Michael Hom in the California Superior Court for the County of San Mateo, alleging breach of contract of an agreement entered into with the defendants in 2008 and seeking damages of $25,000. The suit was subsequently amended to remove Michael Hom as a defendant. In May 2010, Jiuzhou Pharmacy sought for default judgment against the defendants, which was granted on July 14, 2010. Jiuzhou Pharmacy is in the process of executing the judgment against The Ventana Group, LLC.

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 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 the Company's current report on Form 8-K filed with the SEC on September 24, 2009. 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 at various pertinent dates and for pertinent periods.

Overview

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 the share exchange transaction described below.

On September 17, 2009, the Company completed a share exchange transaction with Renovation Investment (Hong Kong) Co., Ltd. ("Renovation"), a Hong Kong company, and Renovation became a wholly-owned subsidiary of the Company. On the closing date, the Company issued 7,900,000 of its common stock to the stockholders of Renovation in exchange for 100% of the capital stock of Renovation. Prior to the share exchange transaction, the Company had 2,100,000 shares of common stock issued and outstanding. After the share exchange transaction, the Company had 10,000,000 shares of common stock issued and outstanding, of which 79% were owned by the stockholders of Renovation. The management members of Renovation became the directors and officers of the Company. 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) is, 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 is a holding company that, through its wholly-owned PRC subsidiary, Zhejiang Jiuxin Investment Management Co., Ltd. ("Jiuxin Management"), controls the three HJ Group companies in the PRC, namely Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. ("Jiuzhou Pharmacy"), Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine General Partnership ("Jiuzhou Clinic"), and Hangzhou Jiuzhou Medical & Public Health Service Co., Ltd. ("Jiuzhou Service," and with Jiuzhou Pharmacy and Jiuzhou Clinic collectively as "HJ Group"), by a series of contractual arrangements. All of our business operations are carried out by HJ Group.

On July 16, 2010, Zhejiang Shouantang Pharmaceutical Technology Co., Ltd (“Shouantang”) was established in the PRC by Renovation with registered capital of $20,000,000. As of December 31, 2010, $11,000,000 was contributed, and the remaining $9,000,000 due within two years by July 16, 2012.

On August 10, 2010, Hangzhou Jiuxin Qianhong Agriculture Development Co., Ltd. (“Qianhong”) was established in the PRC by Jiuxin Management with registered capital of $1,480,000 (RMB 10,000,000). As of December 31, 2010, all of the registered capital was contributed.

Developments during the Quarter

On November 2, 2010, we held our annual meeting of shareholders and voted upon (1) the election of nine directors to our board of directors, (2) the appointment of Frazer Frost, LLP ("Frazer Frost") as our independent registered public accounting firm for our fiscal year ending March 31, 2011; and (3) our 2010 Equity Incentive Plan (the "Plan"). Pursuant to the votes, Lei Liu, Li Qi, Chong'an Jin, Shike Zhu, Marc Thomas Serrio, Bowen Zhao, Yuehai Ke, Shuizhen Wu and Xiaomeng Yu were elected to serve as directors, Frazer Frost was ratified as our independent registered public accounting firm, and the Plan was approved.

On November 19, 2010, Shouantang entered into Equity Ownership Transfer Agreements with the owners of Zhejiang Quannuo Technology Co., Ltd. ("Quannuo Technology") to acquire 100% of equity interests of Quannuo Technology and its subsidiary, Quannuo Grand Pharmacy Co., Ltd., which includes one drugstore. Quannuo Technology focuses on developing software for online drugstores. Due to the reorganization, Quannuo Technology has had limited operation since the acquisition.

In December 2011, we obtained retail licenses to sell alcohol for 40 of our pharmacies, and commenced selling Wu Liang Ye and Maotai, both well known brands of baijiu, or Chinese white liquor. We currently have two suppliers for the alcohol, with whom we enter into one-time purchase agreement each time we place order. We expect to continue with liquor distribution for the foreseeable future.

Critical Accounting Policies and Estimates

In preparing our 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. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements. We have not made any material changes in the methodology used in these accounting policies during the past eighteen months.

Revenue recognition

Revenue from sales of prescription medicine at the 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 the drugstores is recognized at the point of sale, which is when the customer pays for and receives the merchandise.

Revenue from medical services (which is nominal) is recognized after the service has been rendered to the customer.

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 immaterial.

Our revenue is net of value added tax ("VAT") collected on behalf of tax authorities in respect of the sale of merchandise. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the balance sheet until it is paid to the tax authorities.

Vendor allowances

The Company accounts for vendor allowances according the accounting standards, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, and by Reseller to Sales Incentives Offered to Consumers by Manufacturers. Vendor allowances reduce the carrying value of inventories and subsequently transferred to cost of goods sold when the inventories are sold, unless those allowances are specifically identified as reimbursements for advertising, promotion and other services, in which case they are recognized as a reduction of the related advertising and promotion costs.

Slotting allowances are a major portion of total allowances. With slotting allowances, our vendors reimburse us for the cost of placing new product on the shelf. We have no obligation or commitment to keep the product on the shelf for a minimum period.

A small portion of total allowance also includes advertising and promotion allowances for the promotion of vendors' products in our stores. The promotion may be any combination of a temporary price reduction or a feature in print ads.

Depreciation and Amortization

Our non-current assets include property and equipment, leasehold improvements, long term deposits, and long term prepayment. We depreciate our equipment assets using the straight-line method over the estimated useful lives of the assets. We make estimates of the useful lives of the equipment (including the salvage values), in order to determine the amount of depreciation expense to be recorded during any reporting period. We amortize leasehold improvements of our retail drugstores and other business premises over the shorter of lease term or remaining lease periods. Our leases have a three to ten year term. We estimate the useful lives of our other property and equipment at the time we acquire the assets based on our historical experience with similar assets as well as anticipated technological and other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, we may shorten the useful lives assigned to these assets as appropriate, which will result in the recognition of increased depreciation and amortization expense in future periods. There has been no change to the estimated useful lives and salvage values during the three and nine months ended December 31, 2010 and 2009.

Impairment of Long-Lived Assets

We evaluate our long lived tangible and intangible assets for impairment, at least annually, but more often 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 asset's 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. Based on our review, we believe that, as of December 31, 2010, there was no impairment.

Inventories

We state our inventory at the lower of cost or market. Cost is determined using the weighted average cost method. Market is the lower of replacement cost or net realizable value. We carry out physical inventory counts on a monthly basis at each store and distribution location to ensure that the amounts reflected in the consolidated financial statements at each reporting period are properly stated and valued. We record write-downs to inventory for shrinkage losses and damaged merchandise that are identified during the inventory counts. The inventory write-downs for the three and nine months ended December 31, 2010 and 2009 have been immaterial.

Recent Accounting Pronouncements

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update improves financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company adopted this standard and the standard did not have material effect on the Company's consolidated financial statements.

In December, 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update replaces the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The adoption of this ASU did not have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and are to be applied on a retrospective basis. The adoption of this ASU did not have a material impact on its consolidated statements.

In January 2010, FASB issued ASU No. 2010-02, Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts accounting standards regarding non-controlling interests. If an entity has previously adopted the non-controlling interests accounting standards as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted non-controlling interests accounting standards. The adoption of this ASU did not have a material impact on its consolidated statements.

In January 2010, FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the disclosures standards, except for the disclosures to be adopted for fiscal year beginning after December 15, 2010, and the adoption of this ASU did not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades." ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend “Intangibles- Goodwill and Other” (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual testes if an event occurs or circumstances changes that would more likely than not reduce the faire value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic 805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pri forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expected the adoption of this ASU will have an impact on its future business combinations.

Results of Operations

Three Months ended December 31, 2010 as compared to the Three Months ended December 31, 2009

The following table summarizes our results of operations for the three months ended December 31, 2010 and 2009.

	Three Months Ended December 31,			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
Revenues	$ 18,042,309	100.0%	$ 14,923,706	100.0%
Gross Profit	$ 5,329,128	29.5%	$ 4,766,835	31.9%
Selling Expenses	$ 1,337,055	7.4%	$ 912,312	6.1%
General and Administrative Expenses	$ 1,227,520	6.8%	$ 441,861	3.0%
Income from Operations	$ 2,764,553	15.3%	$ 3,412,662	22.9%
Other Income (Expense), Net	$ 112,736	0.6%	$ 31,557	0.2%
Change in Fair Value of Purchase Option Derivative Liability	$ 119,595	0.7%	$ -	-%
Income Tax Expenses	$ 759,431	4.2%	$ 797,866	5.3%
Net Income	$ 2,237,453	12.4%	$ 2,646,353	17.7%

Revenue. Our revenue increased by $3,118,603 or 20.9% to $18,042,309 for the three months ended December 31, 2010 from $14,923,706 for the three months ended December 31, 2009 due to the opening of new store locations and the introduction of liquor sales. The revenue components for the three months ended December 31, 2010 consisted of liquor sales of $2,198,971, sales from stores opened subsequent to December 31, 2009 of $1,906,101 and comparable store sales of $13,937,237. During the three months ended December 31, 2010, our same store sales decreased by $986,469 or 6.6% which was a result of a decrease in sales of traditional Chinese medicines and medical devices. We operated 49 stores as of December 31, 2010, as compared to 22 stores as of December 31, 2009. We opened 3 stores during the three months ended December 31, 2010. We anticipate that our overall revenue will continue to increase as we open additional stores.

Gross Profit. Our gross profit increased by $562,293 or 11.8% to $5,329,128 for the three months ended December 31, 2010 from $4,766,835 for the three months ended December 31, 2009. Our gross margin, however, decreased slightly period over period from 31.9% to 29.5%. We anticipate that our overall gross profit will continue to increase as our sales increase. However, in order to increase sales volume we may lower our prices which may have an adverse effect on our margins. We presently do not privately label any of our products and are constantly adjusting our product mix to meet customer demand and to maximize our gross margin.

Selling Expenses. Our selling expenses increased by $424,743 or 46.6% to $1,337,055 for the three months ended December 31, 2010 from $912,312 for the three months ended December 31, 2009. The increase was primarily a result of operating additional store locations. Selling expenses as a percentage of our revenue increased to 7.4% for the three months ended December 31, 2010 from 6.1% for the three months ended December 31, 2009. We expect that our selling expenses will increase as we continue to expand our store network.

General and Administrative Expenses. Our general and administrative expenses increased by $785,659 or 177.8% to $1,227,520 for the three months ended December 31, 2010 from $441,861 for the three months ended December 31, 2009. General and administrative expenses as a percentage of our revenue increased to 6.8% for the three months ended December 31, 2010 as compared to 3.0% for the three months ended December 31, 2009. The increase in absolute dollars and a percentage of revenue of general administrative expenses primarily relate to our operating as a publicly traded company. As we continue to open drugstores, further develop our infrastructure, and incur expenses related to being a publicly traded company, we anticipate that our general and administrative expenses will increase in absolute dollars as well as a percentage of total revenues.

Income from Operations. As a result of the increased selling and general and administrative expenses, our income from operations decreased by $648,109 or 19.0% to $2,764,553 for the three months ended December 31, 2010 from $3,412,662 for the three months ended December 31, 2009. Our operating margin for the three months ended December 31, 2010 and 2009 was 15.3% and 22.9%, respectively.

Income Tax. Our income tax expense decreased slightly to $759,431 for the three months ended December 31, 2010 from $797,866 for the three months ended December 31, 2009, as a result of decreased operating income. Our effective tax rate increased from 23% for the three months ended December 31, 2009 to 25% for the three months ended December 31, 2010 as a result of certain expenses that we incurred in the U.S. as a publicly traded company not being deductible for PRC tax purposes.

Net Income. As a result of the foregoing, our net income decreased by $408,900 or 15.5% to $2,237,453 for the three months ended December 31, 2010 from $2,646,353 for the three months ended December 31, 2009.

40

Nine Months ended December 31, 2010 as compared to the Nine Months ended December 31, 2009

The following table summarizes our results of operations for the nine months ended December 31, 2010 and 2009.

	Nine Months Ended December 31,			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
Revenues	$ 48,972,907	100.0%	$ 38,863,743	100.0%
Gross Profit	$ 14,351,136	29.3%	$ 11,289,607	29.0%
Selling Expenses	$ 3,339,928	6.8%	$ 1,986,471	5.1%
General and Administrative Expenses	$ 2,758,654	5.6%	$ 1,372,205	3.5%
Income from Operations	$ 8,252,554	16.9%	$ 7,930,931	20.4%
Other Income (Expense), Net	$ 60,985	0.1%	$ 41,800	0.1%
Change in Fair Value of Purchase Option Derivative Liability	$ 91,546	0.2%	$ -	%
Income Tax Expenses	$ 2,387,719	4.9%	$ 2,023,621	5.2%
Net Income	$ 6,017,366	12.3%	$ 5,949,110	15.3%

Revenue. Our revenue increased by $10,064,164 or 25.9% to $48,927,907 for the nine months ended December 31, 2010 from $38,863,743 for the nine months ended December 31, 2009 due to the opening of new store locations and increased same store sales. The revenue components for the nine months ended December 31, 2010 consisted of liquor sales of $2,198,971, sales from stores opened subsequent to December 31, 2009 of $4,821,434, and comparable store sales of $41,907,502. During the nine months ended December 31, 2010, our same store sales increased by $3,043,759 or 7.8%, which was a result of an increase in prescription and over-the-the counter drug sales which was offset by a decrease in sales of traditional Chinese medicines and medical devices. We operated 49 stores as of December 31, 2010, as compared to 22 stores as of December 31, 2009. We anticipate that our overall revenue will continue to increase as we open additional stores.

Gross Profit. Our gross profit increased by $3,061,529 or 27.1% to $14,351,136 for the nine months ended December 31, 2010 from $11,289,607 for the nine months ended December 31, 2009. Our gross margin slightly increased from 29.0% for the nine months ended December 31, 2009 to 29.3% for the nine months ended December 31, 2010. We anticipate that our overall gross profit will continue to increase as our sales increase. However, in order to increase sales volume we may lower our prices which may have an adverse effect on our margins. We presently do not privately label any of our products and are constantly adjusting our product mix to meet customer demand and to maximize our gross margin.

Selling Expenses. Our selling expenses increased by $1,353,457 or 68.1% to $3,339,928 for the nine months ended December 31, 2010 from $1,986,471 for the nine months ended December 31, 2009. The increase in selling expenses was primarily a result of operating additional store locations. Selling expenses as a percentage of our revenue increased to 6.8% for the nine months ended December 31, 2010 from 5.1% for the nine months ended December 31, 2009. We expect that our selling expenses will increase as we continue to expand our store network.

General and Administrative Expenses. Our general and administrative expenses increased by $1,386,449 or 101.0% to $2,758,654 for the nine months ended December 31, 2010 from $1,372,205 for the nine months ended December 31, 2009. General and administrative expenses as a percentage of our revenue increased to 5.6% for the nine months ended December 31, 2010 as compared to 3.5% for the nine months ended December 31, 2009. The increase in general administrative expenses relate to our operating as a publicly traded company. As we continue to open drugstores, further develop our infrastructure, and incur expenses related to being a publicly traded company, we anticipate that our general and administrative expenses will increase in absolute dollars as well as a percentage of total revenues.

Income from Operations. As a result of the increased gross margin, our income from operations increased slightly by $321,623 or 4.1% to $8,252,554 for the nine months ended December 31, 2010 from $7,930,930 for the nine months ended December 31, 2009. Our operating margin for the nine months ended December 31, 2010 and 2009 was 16.9% and 20.4%, respectively.

Income Tax. Our income tax expense increased to $2,387,719 for the nine months ended December 31, 2010 from $2,023,621 for the nine months ended December 31, 2009, as a result of increased operating income. Our effective tax rate increased from 25% for the nine months ended December 31, 2009 to 28% for the nine months ended December 31, 2010 as a result of certain expenses that we incur in the U.S. as a publicly traded company not being deductible for PRC tax purposes.

Net Income. As a result of the foregoing, our net income increased slightly by $68,256 or 1.1% to $6,017,366 for the nine months ended December 31, 2010 from $5,949,110 for the nine months ended December 31, 2009.

Liquidity

In summary, our cash flows for the periods indicated are as follows:

	Nine months ended September 30,	
	2010	2009
Net cash (used in) provided by operating activities	$(7,085,181)	$903,020
Net cash used in investing activities	(2,689,937)	(320,729)
Net cash (used in) provided by financing activities	$15,495,423	$(362,349)

For the nine months ended December 31, 2010, we used cash in operating activities of $7,085,181, as compared to cash generated by operating activities of $903,020 for the nine months ended December 31, 2009. The decrease is primarily attributable to an increase in advances to suppliers of $9,403,962 from the nine months ended December 31, 2009 to December 31, 2010.

We used $2,689,937 in investing activities during the nine months ended December 31, 2010, as compared to cash used in investing activities of $320,729 during the nine months ended December 31, 2009 as a result of leasehold improvement additions, purchase of equipment and payment on construction in progress during the nine months ended December 31, 2010.

Cash provided by financing activities was $15,495,423 for the nine months ended December 31, 2010, as compared to cash used in financing activities of $362,349 for the nine months ended December 31, 2009. The increase is due to the equity offering which raised $16 million in net proceeds, after deducting underwriter discount, commission, and offering expenses.

As of February 11, 2011, we had cash of $6,677,892. Our total current assets as of December 31, 2010 were $37,236,189 and our total liabilities, excluding $310,905 derivative liability, were $9,487,705, which resulted in a net working capital of $27,748,484 as of December 31, 2010.

Capital Resources

In April 2010, we sold 3.5 million shares of common stock in a public offering at a price of $5.00 per share for gross proceeds of approximately $17.5 million. We anticipate that our existing capital resources will enable us to continue to add new drugstores. However, if we make a significant acquisition that cannot be financed with our working capital, we may need to raise 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:

Years ending March 31,

2011	$627,000
2012	2,337,000
2013	1,985,000
2014	1,667,000
2015	1,302,000
Thereafter	983,000

Logistics Services Commitments

We use a third party service provider, Zhejiang Yingte Logistics Co., Ltd., ("Yingte") to accept goods from our suppliers and to deliver the goods to our store locations. On January 1, 2010 we entered into a one year agreement with Yingte and are obligated to pay 1% of the purchase price of the goods received from our suppliers by Yingte during the term of the agreement, from January 1, 2010 to December 31, 2010, with a contractual minimum of RMB 2,900,000. We paid 4,571,000 to Yingte during the contract life.

On January 1, 2011, we renewed our agreement with Yingte for the calendar 2011 term. The terms and conditions of the renewed agreement are identical to our previous agreement, except we are obligated to pay a minimum of RMB 3,900,000 annually.

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 in the PRC and the HJ Group maintain their books and records in Renminbi (“RMB”), the lawful currency of the PRC. In general, for consolidation purposes, we translate their assets and liabilities into US$ 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 US$ for the purposes of preparing the consolidated financial statements or otherwise disclosed in this report were as follows:

	December 31,	March 31,	December 31,

	2010	2010	2009
Balance sheet items, except for the registered and paid-up capital, as of end of period/year	USD1:RMB 0.1517	USD1:RMB 0.14670	USD1:RMB 01.467
Amounts included in the statement of operations, statement of changes in stockholders' equity and statement of cash flows for the period/ year ended	USD1:RMB 0.14836	USD1:RMB 0.14664	USD1:RMB 0.14664

43

No representation is made that RMB amounts have been, or would be, converted into U.S. Dollars at the above rates.

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 December 31, 2010, 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 that 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.

In our annual report on Form 10-K for the year ended March 31, 2010, we reported certain weaknesses involving control activities, primarily accounting and finance personnel weaknesses. Our current accounting staff members remain relatively inexperienced in U.S. GAAP- based reporting and require additional training so as to meet with the higher demands necessary to fulfill the requirements of U.S. GAAP-based reporting and SEC rules and regulations.

The Company's management has identified the steps it believes are necessary to address the weaknesses described above, and expect that we will satisfactorily address the control deficiencies and weaknesses relating to these matters by the end of our fiscal year ending March 31, 2012, although there can be no assurance that compliance will be achieved in this time frame.

Management, including our chief executive officer and our chief financial officer, does not expect that our disclosure controls and internal controls will prevent errors and omissions, even as the same are improved to address any deficiencies and/or weaknesses. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and errors and omissions, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

Our financial reporting process includes extensive procedures we undertake in order to obtain assurance regarding the reliability of our published financial statements, notwithstanding the material weaknesses in internal control. As a result, management, to the best of its knowledge, believes that (i) this report does not contain any untrue statements of a material fact or omits any material fact and (ii) the financial statements and other financial information included in this report have been prepared in conformity with U.S. GAAP and fairly present in all material aspects our financial condition, results of operations, and cash flows.

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 1. Legal Proceedings.

Except as described below, we know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our company.

On December 8, 2009, Jiuzhou Pharmacy filed suit against The Ventana Group, LLC and Michael Hom in the California Superior Court for the County of San Mateo (Case Number CV490272), alleging breach of contract of an agreement entered into with the defendants in 2008 and seeking damages of $25,000. The suit was subsequently amended to remove Mr. Hom as a defendant. In May 2010, Jiuzhou Pharmacy sought for default judgment against the remaining defendant, which was granted on July 14, 2010. Jiuzhou Pharmacy is in the process of executing the judgment against the defendant.

Item 1A. Risk Factors.

As of and for the three and nine months ended December 31, 2010, there were no material changes in our risk factors from those disclosed in Part I, Item 1A, of our annual report on Form 10-K as of and for the year ended March 31, 2010, except as described below.

Risks Relating to Our Business

The alcohol distribution industry is highly competitive and competitive pressures could have a material adverse effect on our business.

The alcoholic distribution industry in our region is intensely competitive. The principal competitive factors in the industry include product range, pricing, distribution capabilities and responsiveness to consumer preferences, with varying emphasis on these factors depending on the market and the product. We face significant competition from various regional distributors and wholesalers, who compete principally on price. The effect of this competition could adversely affect our results of operations.

Our alcohol sales are linked to economic conditions and shifts in consumer preferences, including a reduction in the consumption of alcohol.

Our results of operations are affected by the overall economic trends in the PRC, the level of consumer spending, the rate of taxes levied on alcohol and consumer confidence in future economic conditions. During a period of economic slowdown, reduced consumer confidence and spending may result in reduced demand for our alcohol and limitations on our ability to increase prices and finance marketing and promotional activities. A major shift in consumer preferences or a large reduction in sales of alcohol could have a material adverse effect on our business, financial condition and results of operations.

Our sales of alcohol are subject to extensive government regulation; changes in or violations of law or regulations could materially adversely affect our business and profitability.

Distribution of alcohol in the PRC is subject to regulation by national and local governmental agencies. These regulations and laws address such matters as licensing and permit requirements, competition, trade and pricing practices, taxes, distribution methods and relationships, required labeling and packaging, advertising, sales promotion and relations with wholesalers and retailers. Additionally, new or revised regulations or requirements or increases in income or sales taxes could materially adversely affect our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults upon Senior Securities.

None

Item 4. Reserved.

Item 5. Other Information.

None

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Description
2	Share Exchange Agreement among Kerrisdale Mining Corporation ("Kerrisdale"), certain of its stockholders, Renovation Investment (Hong Kong) Co., Ltd. ("Renovation") and its shareholders dated September 17, 2009 (3)
3.1	Articles of Incorporation of Kerrisdale (1)
3.2	Certificate of Amendment to Articles of Incorporation of Kerrisdale filed with the Nevada Secretary of State on July 14, 2008 (2)
3.3	Articles of Merger between Kerrisdale Mining and China Jo-Jo Drugstores, Inc. filed with the Nevada Secretary of State on September 22, 2009 (3)
3.4	Bylaws (2)
3.5	Text of Amendments to the Bylaws (2)
3.6	Certificate of Change Pursuant to NRS 78.209 with an effective date of April 9, 2010 (8)
4.1	Specimen of Common Stock Certificate (2)
4.2	2010 Equity Incentive Plan (11)
10.1	Consulting Services Agreement between Zhejiang Jiuxin Investment Management Co., Ltd. ("Jiuxin Management") and Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. ("Jiuzhou Pharmacy") dated August 1, 2009 (3)
10.2	Operating Agreement among Jiuxin Management, Jiuzhou Pharmacy and its owners dated August 1, 2009 (3)
10.3	Equity Pledge Agreement among Jiuxin Management, Jiuzhou Pharmacy and its owners dated August 1, 2009 (3)
10.4	Option Agreement among Jiuxin Management, Jiuzhou Pharmacy and its owners dated August 1, 2009 (3)
10.5	Voting Rights Proxy Agreement among Jiuxin Management, Jiuzhou Pharmacy and its owners dated August 1, 2009 (3)
10.6	Consulting Services Agreement between Jiuxin Management and Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine (General Partnership) ("Jiuzhou Clinic") dated August 1, 2009 (3)
10.7	Operating Agreement among Jiuxin Management, Jiuzhou Clinic and its owners dated August 1, 2009 (3)
10.8	

	Equity Pledge Agreement among Jiuxin Management, Jiuzhou Clinic and its owners dated August 1, 2009 (3)
10.9	Option Agreement among Jiuxin Management, Jiuzhou Clinic and its owners dated August 1, 2009 (3)
10.10	Voting Rights Proxy Agreement among Jiuxin Management, Jiuzhou Clinic and its owners dated August 1, 2009 (3)
10.11	Consulting Services Agreement between Jiuxin Management and Hangzhou Jiuzhou Medical & Public Health Service Co., Ltd. ("Jiuzhou Service") dated August 1, 2009 (3)
10.12	Operating Agreement among Jiuxin Management, Jiuzhou Service and its owners dated August 1, 2009 (3)

10.13	Equity Pledge Agreement among Jiuxin Management, Jiuzhou Service and its owners dated August 1, 2009 (3)
10.14	Option Agreement among Jiuxin Management, Jiuzhou Service and its owners dated August 1, 2009 (3)
10.15	Voting Rights Proxy Agreement among Jiuxin Management, Jiuzhou Service and its owners dated August 1, 2009 (3)
10.16	Amendment to Consulting Services Agreement between Jiuxin Management and Jiuzhou Pharmacy dated October 27, 2009 (4)
10.17	Amendment to Operating Agreement between Jiuxin Management and Jiuzhou Pharmacy dated October 27, 2009 (4)
10.18	Amendment to Option Agreement between Jiuxin Management and Jiuzhou Pharmacy dated October 27, 2009 (4)
10.19	Amendment to Voting Rights Proxy Agreement between Jiuxin Management and Jiuzhou Pharmacy dated October 27, 2009 (4)
10.20	Amendment to Consulting Services Agreement between Jiuxin Management and Jiuzhou Clinic dated October 27, 2009 (4)
10.21	Amendment to Operating Agreement between Jiuxin Management and Jiuzhou Clinic dated October 27, 2009 (4)
10.22	Amendment to Option Agreement between Jiuxin Management and Jiuzhou Clinic dated October 27, 2009 (4)
10.23	Amendment to Voting Rights Proxy Agreement between Jiuxin Management and Jiuzhou Clinic dated October 27, 2009 (4)
10.24	Amendment to Consulting Services Agreement between Jiuxin Management and Jiuzhou Service dated October 27, 2009 (4)
10.25	Amendment to Operating Agreement between Jiuxin Management and Jiuzhou Service dated October 27, 2009 (4)
10.26	Amendment to Option Agreement between Jiuxin Management and Jiuzhou Service dated October 27, 2009 (4)
10.27	Amendment to Voting Rights Proxy Agreement between Jiuxin Management and Jiuzhou Service dated October 27, 2009 (4)
10.28	Director Offer Letter with Marc Thomas Serrio dated March 15, 2010 (6)
10.29	Indemnification Agreement with Marc Thomas Serrio dated March 15, 2010 (6)
10.30	Loanout Agreement with Worldwide Officers, Inc. dated May 14, 2010 (9)
10.31	Indemnification Agreement with Mr. Bennet Tchaikovsky dated May 14, 2010 (9)
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 *
32.2	Section 906 Certification by the Corporation's Chief Financial Officer *
99.1	Agreement between Jiuzhou Pharmacy and Yingte Logistics Co., Ltd. ("Yingte Logistics") dated January 1, 2011 *
99.2	Form of CFO Services Agreement entered into between Jiuzhou Pharmacy and Worldwide Officers, Inc. on July 30, 2009 (5)
99.3	Agreement between Jiuzhou Pharmacy and Yingte Logistics dated January 1, 2010 (7)
99.4	Project Agreement between The People's Government of Qianhong Village, Lin'an, Zhejiang Province (the "Qianhong Local Government") and Jiuzhou Pharmacy dated February 27, 2010 (10)

99.5	Security Deposit Agreement between the Qianhong Local Government and Jiuzhou Pharmacy dated February 27, 2010 (10)

*	Filed herewith
(1)	Incorporated by reference from the Registrant's Registration Statement on Form SB-2 filed on November 28, 2007.
(2)	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on July 15, 2008.
(3)	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on September 24, 2009.
(4)	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on October 30, 2009.
(5)	Incorporated by reference from the Registrant's Registration Statement on Form S-1/A filed on January 27, 2010.
(6)	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on March 16, 2010.
(7)	Incorporated by reference from the Registrant's Registration Statement on Form S-1/A filed on March 23, 2010
(8)	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on April 14, 2010.
(9)	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on May 17, 2010.
(10)	Incorporated by reference from the Registrant's Annual Report on Form 10-K filed on June 29, 2010.
(11)	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on November 3, 2010.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	China Jo-Jo Drugstores, Inc. (Registrant)	
Date: February 14, 2011	By:	/s/ Lei Liu Lei Liu Chief Executive Officer
Date: February 14, 2011	By:	/s/ Bennet P. Tchaikovsky Bennet P. Tchaikovsky Chief Financial Officer