

Comjoyful International Co  
Form 8-K/A  
May 09, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 8-K**

**(Amendment No. 2)**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported): January 17, 2014

**COMJOYFUL INTERNATIONAL COMPANY**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation)

**000-08299**

**84-0691531**

(Commission File Number) (IRS Employer Identification No.)

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

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

**Chaoyang District, Beijing 100600, China**

(Address of principal executive offices and zip code)

**0086 10 8589 2903**

(Registrant's telephone number including area code)

(Registrant's former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12(b) under the Exchange Act (17 CFR 240.14a-12(b))
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))



## **Forward-Looking Statements**

*This Amendment No. 2 to Form 8-K (“Form 8-K”) and other reports filed by Comjoyful International Company from time to time with the Securities and Exchange Commission (collectively the “Filings”) contain or may contain forward-looking statements and information that is based upon beliefs of, and information currently available to, Comjoyful International Company’s management as well as estimates and assumptions made by management. When used in the Filings the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan” or the negative of the and similar expressions as they relate to us or our management identify forward-looking statements. Such statements reflect our current view with respect to future events and are subject to risks, uncertainties, assumptions and other factors (including the risks contained in the section of this report entitled “Risk Factors”) relating to industry, our operations and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.*

*Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results. The following discussion should be read in conjunction with the audited consolidated financial statements of Wuxi Kangjiafu Royal Traditional Investment Management Co., Ltd. (“Wuxi KJF”) for the fiscal years ended December 31, 2012 and 2011, and the related notes thereto, and the unaudited interim consolidated financial statements as of September 30, 2013, and the related notes thereto, filed as exhibits to this Form 8-K.*

*In this Form 8-K, references to “we,” “our,” “us,” or the “Company” refer to Comjoyful International Company, a Nevada company, and its consolidated subsidiaries, variable interest entities, including Wuxi KJF, on a combined basis.*

### **Item 1.01 Entry Into A Material Definitive Agreement**

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

The following is a summary of the VIE Agreements, all of which were entered into on January 17, 2014 among Nanjing KJF, Wuxi KJF, and Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu, who collectively owned all of the equity interest of Wuxi KJF. Each such agreement is governed by PRC law.

For accounting purposes, the Transaction was accounted for as a reverse recapitalization.

*Entrusted Management Agreement*

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

*Shareholders’ Voting Proxy Agreement*

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

*Exclusive Option Agreement*

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

*Exclusive Technology Service Agreement*

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

*Share Equity Pledge Agreement*

In order to guarantee the performance by Wuxi KJF and Wuxi KJF Shareholders of their respective obligations under the VIE Agreements, Wuxi KJF, the Wuxi KJF Shareholders and Nanjing KJF entered into a Share Equity Pledge Agreement, pursuant to which the Wuxi KJF Shareholders pledged to Nanjing KJF all of their rights, titles and equity interest in Wuxi KJF, including the right to all dividends, money, interest, voting and other rights and benefits arising in respect of such equity interests. The Share Equity Pledge Agreement also prohibits the Wuxi KJF Shareholders from transferring their equity interests in Wuxi KJF while the agreement remains in effect.

We believe entering into the VIE Agreements listed above will enable us to:

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exercise effective control over the business management and shareholder voting rights of Wuxi KJF;

receive substantially all of the economic benefits of Wuxi KJF through service fees and management fees, in consideration for the consulting services and the business management provided by Nanjing KJF; and

have an exclusive option to purchase all or part of the equity interests/assets/business in Wuxi KJF when and to the extent permitted under PRC laws.

We do not have an equity interest in Wuxi KJF. However, as a result of these contractual arrangements, we are considered the primary economic beneficiary of Wuxi KJF and we treat it as a Variable Interest Entity (“VIE”) under the Generally Accepted Accounting Principles in the United States, or U.S. GAAP. Accordingly, we will consolidate the financial statements of Wuxi KJF in our consolidated financial statements from January 17, 2014.

Copies of the VIE Agreements are included as exhibits to this Current Report on Form 8-K and is hereby incorporated by reference. All references to the VIE Agreements and other exhibits to this Current Report are qualified, in their entirety, by the text of such exhibits.

## **Item 2.01 Completion of Acquisition or Disposition of Assets**

### **Closing of the Exchange Agreement**

Upon signing the VIE Agreements on January 17, 2014 we acquired Wuxi KJF, a company based in Wuxi, Jiangsu province, China, in the business of operating healthcare clubs specialized in providing Chinese traditional physiotherapy services.

Our current corporate structure is set forth below:

Prior to the Signing Date, we were a “shell company” (as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, pursuant to the requirements of Item 2.01 (f) of Form 8-K, set forth below is the information that would be required if we were filing a general form for registration of securities on Form 10 under the Exchange Act, reflecting our common stock, par value \$0.01 (the “Common Stock”), which is the only class of our securities subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act upon consummation of the transactions contemplated by the VIE Agreements, with such information reflecting us and our securities upon consummation of such transactions.

## CORPORATE HISTORY

Wuxi KJF was incorporated in Wuxi, Jiangsu Province of China on September 17, 2010, as a limited liability company, which was 60% owned by Wuxi KangJiaFu Biotech Technology Co., Ltd. ("KJF Biotech") and 40% owned by 20 individual shareholders with 2% each (the "KJF Founders").

On September 10, 2012, Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu signed a series of equity transfer agreements with KJF Biotech and KJF Founders, according to which KJF Biotech and KJF Founders transferred all of their equity interest in Wuxi KJF to Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu. As a result of such transfer, Mr. Yazhong Liao, Ms. Zhangmei Zhang and Mr. Huiwen Qu owned 60.004%, 27.498%, and 12.498% of the equity interest in Wuxi KJF, respectively.

As of the date of this current report, Wuxi KJF operates and manages three healthcare clubs: the Wuxi Binhu District KangJiaFu Royal Traditional Health Preserving Club (the "Wuxi Club"), the Nanjing KangJiaFu Royal Traditional Health Preserving Club (the "Nanjing Club") and Jintan KangJiaFu Royal Traditional Health Preserving Club (the "Jintan Club").

The Wuxi Club was incorporated on January 26, 2011 in Wuxi, Jiangsu Province of China as a limited partnership, with 39.8% of the equity interest owned by Wuxi KJF, 60% owned by 10 individual limited partners, and 0.2% owned by a general partner, Huiwen Qu. Through contractual arrangements, the 10 individual limited partners and the general partner entrusted Wuxi KJF to manage and operate the Wuxi Club. On December 18, 2012, the 10 individual limited partners transferred all of their shares in the Wuxi Club to Wuxi KJF and some other individual limited partners. As a result of such transfer, Wuxi KJF, Ms. Qiuqiu Qian, Mr. Mingjie Xu, Mr. Xinhua Gu, and Mr. Huiwen Qu owned 96.2%, 1.2%, 1.2%, 1.2%, and 0.2% equity interest of the Wuxi Club, respectively.

The Nanjing Club was incorporated on August 31, 2012 in Nanjing, Jiangsu Province of China as a limited partnership with 58.33% of the equity interest owned by Wuxi KJF, 41.59% owned by 20 individual limited partners and 0.08% owned by a general partner, Huiwen Qu. Through contractual arrangements, the 20 individual limited partners and the general partner entrusted Wuxi KJF to manage and operate the Nanjing Club. The Nanjing Club was temporarily closed in December 2013 due to a construction of a shopping mall around the location of Nanjing Club and is expected to re-open by the end of June 2014.

On October 10, 2013, Jintan Kangjiafu Royal Traditional Investment Management Company Limited (the "Jintan Club") was incorporated in Jintan, Jiangsu Province of China as a limited liability company. Wuxi KJF was its sole owner.

**Advances from Investors**

We have been receiving advances from individual investors since the inception of our business. We have entered into partnership co-investment agreements with 401 individual investors, according to which we have committed to co-invest and establish new clubs and expand business in the cities of Wuxi, Nanjing, Jintan, Nantong, Yixing, Changzhou, Jiangyin, and Shanghai. While the clubs in Wuxi and Nanjing have been established, we are in the process of establishing and opening another six clubs in six cities. As of December 31, 2013 and 2012, advances from investors of clubs to be established amounted to \$3,743,333 and \$3,626,795, respectively. The amounts are non-interest bearing and will be invested into the new clubs as capital contribution once they are established.

For the Jintan Club established in October 2013, Wuxi KJF had originally committed to co-invest RMB4,800,000 (approximately \$770,000), representing 60% of the proposed total capital contribution to the club. As of September 30, 2013, we have received advances of RMB1,060,000 (approximately \$170,000) from 36 individual investors for the Jintan Club. Since we had agreement with these individual investors afterwards that direct or indirect shares of the Company will be issued to the individual shareholders instead of ownership in Jintan Club, Wuxi KJF was registered as 100% owner of Jintan Club by its inception, and we kept to record advance from the 36 individual investors as liability until the consummation of the reverse recapitalization.

For the club to be established in Nantong (the "Nantong Club"), Wuxi KJF has committed to co-invest RMB3,600,000 (approximately \$580,000), representing 60% of the proposed total capital contribution to the club. As of December 31, 2013, we have received advances of RMB1,440,000 (approximately \$232,000) from 49 individual investors for the Nantong Club.

For the club to be established in Yixing (the "Yixing Club"), Wuxi KJF has committed to co-invest RMB3,600,000 (approximately \$580,000), representing 60% of the proposed total capital contribution to the club. As of December 31, 2013, we have received advances of RMB920,000 (approximately \$148,000) from 23 individual investors for the Yixing Club.

For the club to be established in Changzhou (the "Changzhou Club"), Wuxi KJF has committed to co-invest RMB4,800,000 (approximately \$770,000), representing 60% of the proposed total capital contribution to the club. As of December 31, 2013, we have received advances of RMB380,000 (approximately \$61,000) from 17 individual investors for the Changzhou Club.

For the club to be established in Jiangyin (the "Jiangyin Club"), Wuxi KJF has committed to co-invest RMB4,800,000 (approximately \$770,000), representing 60% of the proposed total capital contribution to the club. As of December 31, 2013, we have received advances of RMB1,090,000 (approximately \$175,000) from 39 individual investors for the Jiangyin Club.

For the club to be established in Shanghai (the "Shanghai Club"), Wuxi KJF has committed to co-invest RMB27,000,000 (approximately \$4,354,000), representing 60% of the proposed total capital contribution to the club. As of December 31, 2013, we have received advances of RMB18,000,000 (approximately \$2,903,000) from 179 individual investors for the Shanghai Club.

Currently the Company generates cash to meet short- and long-term cash requirements by several means. 1) The current main source of cash is to sell "VIP cards for Kang Jia Fu Royal Traditional Health Clubhouse" to our customers

coming to our clubs to take the services. 2) In the year 2014, relying on the mature sales channels, the Company has started to develop new products or services to expand our revenue sources. We have developed Health Recuperation Program, Royal Tea and Royal Condiment Products, which will start to be sold in the year 2014. The Company will also implement sales agent mechanism, and set up city-level agents. We expect to develop 15 city-level agents during the year 2014. 3) Wuxi KangJiaFu Biotech Technology Co., Ltd has also committed to repay \$2,423,615 to the Company during the years 2014. 4) The owners of the Company would provide any capital shortfall. However, there is no assurance that the Company will be successful in achieving these goals.

## DESCRIPTION OF BUSINESS

### Overview

We manage and operate healthcare clubs specialized in providing Chinese traditional physiotherapy services and other relaxing treatments in China. As of the date of this current report, we manage and operate three healthcare clubs located in Wuxi, Nanjing (temporarily closed in December 31, 2013 and is expected to re-open by the end of June 2014) and Jintan. We differentiate ourselves from other Chinese healthcare clubs based on our traditional style, cultural background, and services.

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

In addition to its healthcare or rejuvenation benefits, foot massage, body massage, and other relaxing activities has emerged in China as a social activities. Friends and families enjoy conversing and enjoying television, beverages and simple foods while having foot massages or other similar activities. In addition, business people often use massage clubs for conversing and socializing with customers and fostering key relationships. We believe the social aspect of massage clubs has been one of the major drivers for the industry growth in recent years.

We provide four major services in our clubs, including traditional Chinese-style foot massage, the “Royal Steam” spa, “Royal” body massage, and “Royal” moxibustion. Originated from ancient and traditional Chinese medical treatments since the Ming & Tsing Dynasties, we believe all the treatments we provide to customers are derived from the archives in the Palace Museum in China.



## Industry Overview

According to the Chinese health practice known as reflexology, each point on the sole of the body corresponds (or “reflects”) to an internal organ, and applied therapy to these spots can have a healing effect on the corresponding organ. The belief is that the nerve ending in the sole of the body is connected with internal organs of the body via invisible energy pathways, sometimes called meridians. Therapist applies varying amounts of high pressure to certain spots of the body, over a time period typically ranging from 45-120 minutes. While foot massage and other massage treatments are widely believed in China to have therapeutic benefit, often it is purchased as a leisure and/or social service, where groups of friends or business acquaintances may gather to enjoy a foot massage while socializing and having tea and simple food.

Most healthcare clubs in China offer Chinese and Thai style foot/full body massages. In Chinese full body massage, the therapists can use arms, hands, fingers, elbows and knees to apply pressure to different parts of the body. According to Chinese beliefs, foot and body massages are seen as a moderate but valid therapy to treat illnesses and body discomfort. Thai full body massage has been widely adopted into Chinese culture and is offered at many massage spas throughout China. In Thai massage, therapists manipulate body parts by stretching them and applying gentle pressure. Thai massage is intended to be energizing and to stretch muscles and help retain or enhance flexibility.

Massage clubs can be found in most Chinese cities and towns, as well as in moderate and upper class hotels, in airports and in shopping malls. Despite massage clubs having become a mainstream service in the PRC, we are aware of no national associations or agencies that have collected national data on the massage club industry. We believe that national massage club data is scarce in large part because the business has traditionally been done on a small operator basis, with the typical owner having one store. Despite the lack of national industry data, we believe that it is common knowledge that massage and other relaxing physiotherapy treatments have become a mainstream service that is offered widely throughout the country.

While massage and other relaxing physiotherapy treatments have become commonplace all over the PRC, the industry in the PRC is highly fragmented, with many spas being individually owned and operated. For example, Wuxi, where the Company is located, with a population of 6 million and we believe that it has more than 1,000 massage spas or regimen clubs, many of which are individually owned and operated.

According to a September 8, 2008 article in the New York Times, there was an estimated 50,000-60,000 massage therapists in Beijing. In 2009, the Health and Recreation Specialty Council of the China Health Care Association reported that there were over 600,000 leisure and health enterprises in the PRC, and about three million companies producing related products, with combined annual revenues exceeding 200 billion RMB (US\$26.5 billion). This category is wider than just massage parlors or spas and includes many other health and leisure companies.

## **Our Services**

Our healthcare clubs feature Chinese traditional physiotherapy services, including foot massage and other relaxing treatments. The main services in our clubs are based on ancient Chinese traditional medical royal regimen since the Ming and Tsing Dynasties, including foot massage, body massage, and other physiotherapy treatments. We also receive revenues from providing beverages including beer, tea, and juice, and simple foods including fruits, nuts, and dumplings. A majority of our revenue come from foot massage and other relaxing treatments, which are our core services. We consider other services and products as high-margin, add-on items. We train and provide financial incentives to our local managers and massage therapists to promote these items.

We believe that our therapists are consistent with the principals of traditional Chinese Medicine.

We seek to serve mainstream Chinese in urban centers, with a quality service at affordable prices. Our typical retail price for a 90-minute foot massage is RMB168 (USD27.1). Prices of other services are from RMB258 (USD41.6) to RMB888 (USD143.2). We customize special services for our clients based on their own conditions. Customer may apply our VIP card to obtain discount.

The following are the four major services we currently provide to our customers.

### *Traditional Chinese-style Foot Massage*

While enjoying ordinary foot massages given by professional therapists, customers put their feet in a special steam barrel bathed by a variety of traditional Chinese medicinal materials. The barrel, made by blue and white porcelain, contains vapor generator that will vaporize the medicinal materials and stimulate customers' foot acupoints. It is believed that this process is originated from royal hospitals from the Tsing Dynasty.

*“Royal Steam” Spa*

The “Royal Steam” spa is a unique spa that customers lie on a special steam bed with small intensive holes. The bed containing Lan Tian jade will vaporize traditional Chinese medicinal materials and stimulate customers’ body acupoint. It is believed that this process is originated from royal hospitals from the Tsing Dynasty.

*“Royal” Body Massage*

The “Royal” body massage is a kind of massage that therapists use a combination of pushing, pressing, pinching, and kneading techniques to treat customers with hands. Different treatments are used for different parts of a body. This massage can help promote blood circulation, increase body metabolism and eliminate fatigue. It is a traditional widespread health preservation method in China with a long history.

*“Royal” Moxibustion*

Professional therapists put a pottery jar with mugwort on acupoints of customer’s body, permeating the medicine into the body meridian points by heat. It is believed that this therapy helps dredging the meridians, relieving rheumatism and will keep the body’s youth. Our “Royal” moxibustion was improved from the traditional moxibustion therapy by enhancing the effectiveness.

**Competitive Strengths**

We believe the following are our main competitive strengths:

*Strong Background in Program and Culture, Unique Consumption Experience*

We believe that the core competences of this industry are moving to environment, services, features of therapy and culture background. The cultural element of our services will provide us with a unique advantage as compared to our competitors.

*Quality Service at Affordable Prices*

We are building a brand known for quality and consistency while being affordable to mainstream Chinese living in urban centers. We provide value to our customers by pricing our services at competitively acceptable market prices, while assuring consistency and quality across our chain.

*Training Program and Standardize Services*

We have a complete training program for our therapists and employees. Our training program helps ensure a consistent and high quality level of service to our customers.

**Business Strategies**

*Expanding Health Care Clubs under the brand “Kangjiafu”*

For expanding market presence, we plan to gradually establish health clubs under our brand “Kangjiafu”, many of which are expected to be opened in 2014. We believe that the “Kangjiafu” brand as well as our Chinese traditional physiotherapy services will differentiate our clubs from other similar health clubs, spas, and foot massage stores.

*Standardized, High-Quality Services with Competitive Price*

We provide our customers with high-quality treatments by professionally trained therapists while offering competitive prices, as compared to our competitors in the region. We price range of our services is from RMB168 to RMB888, which we believe is within a reasonable range.

*Enhance and Widen Customer Loyalty Program*

We plan to enhance our customer loyalty program. We currently offer VIP Card which offer prepaid customers various discounts and other benefits. We have a card acceptance system in every single club allowing our customers to use their VIP card in all spas.

*Enhance our IT and Club Management System*

We plan to increase the functionality, tracking and reporting capability of our club management and accounting systems. Our current systems are focused on preventing leakage and assuring full cash collection. We plan to enhance our IT systems to give us more detailed reporting and allow us to more closely track and analyze trends in our business based on such things as geography, season, service types, customer type and price levels.

*New Club Design*

We are currently introducing new club designs that feature more luxurious and retro layouts. The new designs will have more luxurious decorations and accommodations. We believe this will improve our image as a high quality brand.

**Club Size and Location**

The size of our Wuxi and Nanjing clubs are 1,011 and 1,828 square meters, and can accommodate approximately 73 and 97 people at the same time, respectively. Our clubs are leased, and we expect to open and operate our new clubs in locations that are unique and we evaluate these locations on a case-by-case basis. We expect a new club leasehold be a minimum of 1500 square meters. We favor locations that feature stable, positive economic conditions and larger populations. For smaller cities we plan to pay special attention to economic output and the level of competition. We expect to place our clubs in prominent city centers and highly trafficked areas such as central business districts, and shopping centers.

**Sales and Marketing**

Due to the nature of the business, our marketing activities are focusing on the local areas. Individual club managers are responsible for club promotions. This can include publishing of flyers and local newspaper as well as street sign advertising. We also market to businesses. We offer special packages to companies who frequently use massage as way to entertain their clients. Many companies in China have an entertainment budget to entertain customers, and foot and body massages are used to build or deepen business-customer relationships. We plan to actively promote our services corporate clients. As we grow, we plan to increase our marketing efforts on a larger scale. We plan to purchase TV and national magazine advertisements to help promote our brand on a national level.

### **Customer Loyalty Programs**

We currently only offer VIP Card. Our VIP Card is a prepaid massage card that provides customers priority services such as allowing them to book a massage room during peak hours and participate in card member only promotions. Customers that prepay certain amounts, start from RMB2,000 to RMB100,000, can receive a VIP Card. The VIP Card entitles customers to up to 10%-20% discount as well as preferred customer services, such as preferred reservation times or the ability to reserve a particular massage therapist, as well as certain rewards at holidays. When our customers purchase one of our cards, we record the customer's name, age, gender, and business background.

We plan to collect more customer information and build a customer information database. We believe this information will allow us to better serve our customers.

### **Pricing**

We determine the prices of our services based on a variety of factors such as customer purchasing power, economic conditions and prices of competitors' services. Our customers purchase our services with cash, debit card or credit card. A majority of our sales are made with cash. We target mainstream Chinese in urban centers through quality services at affordable prices.

## **Intellectual Property Rights**

As of the date of this current report, we use the trademark “Kangjiafu” and its Chinese characters “康家福” by licensing from KJF Biotech, our related party. We are also in the process of applying for the domain name “comjoyful.com”.

## **Insurance**

We do not currently have insurance. We believe this in line with standards for massage and physiotherapy companies in the PRC.

## **LEGAL PROCEEDINGS**

We are not engaged in any material litigation, arbitration or claim, and no material litigation, arbitration or claim is known to be pending or threatened by or against us that would have a material adverse effect on our operation results or financial condition.

## **PROPERTIES**

We do not own any real property and all of our locations are leased. The average lease for our clubs is nine to ten years. Our executive management team is located at Baotong Center, No. 567 Jianzhu Road, Wuxi, Jiangsu Province, China. The size of our Wuxi and Nanjing clubs are 1,011 and 1,828 square meters, respectively. Average rents are RMB44,295 per month (approximately \$7,097) and RMB122,768 per month (approximately \$19,767), respectively. The size of our Jintan Club is 2,518 square meters, and average rent is RMB 78,694 per month (approximately \$12,900).

## **RISK FACTORS**

### **Risks Related to Our Business and Industry**

***Our limited operating history makes it difficult to evaluate our future business prospects and to make decisions based on our historical performance.***

We have a limited operating history, which makes it difficult to evaluate our business on the basis of historical operations. As a consequence, it is difficult to forecast our future results based upon our historical data. Reliance on our historical results may not be representative of the results we will achieve. Because of the uncertainties related to our lack of historical operations, we may be hindered in our ability to anticipate and timely adapt to increases or decreases in sales, product costs or expenses. If we make poor budgetary decisions as a result of unreliable historical data, we could incur greater losses, which may result in a decline in our stock price.

***For our operating entities in PRC, from the inception to December 31, 2013, we have incurred accumulated net loss in the amount of approximately USD 5.47 million and may continue to incur losses in the future.***

From our PRC operating entities' inception to December 31, 2013 we have incurred accumulated net loss in the amount of approximately USD 5.47 million, including net losses in the amount of USD3,092,587 and USD2,593,198 in 2013 and 2012, respectively, primarily due to at the early stage of development of our business.

Our operating results have been in the past and will continue to be subject to a number of factors, many of which are largely outside our control. Any one or more of the factors set forth below could adversely impact our business, financial condition, and/or results of operations:

(i) Lower customer traffic or average value per transaction, which negatively impacts comparable club sales, net revenues, operating income, operating margins and earnings per share, due to:

- the impact of initiatives by competitors and increased competition generally;
- customers trading down to lower priced services within our spas, and/or shifting to competitors with lower priced services;
- lack of customer acceptance of new services or price increases necessary to cover costs of new services and/or higher input costs;
- the attractiveness of the venues to consumers and competition from comparable venues in terms of, among other things, accessibility and cost;
- declines in general consumer demand for specialty services;

(ii) Cost increases that are either wholly or partially beyond our control, such as:

- labor costs such as general market wage levels;
- litigation against us;
- construction costs associated with new club openings; or
- information technology costs and other logistical resources necessary to maintain and support the growth of our business.

Therefore, due to the factors mentioned above as well as our historical losses, although we expect our net loss to decrease as a percentage of our total net revenues in the foreseeable future, we may continue to incur net losses in the future. We may also continue to incur net losses in the future due to changes in the macroeconomic and regulatory environment, competitive dynamics and our inability to respond to these changes in a timely and effective manner.

***Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.***

Our operating results may fluctuate as a result of a number of factors, many outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly, year-to-date and annual expenses as a percentage of our revenues may differ significantly from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in Risk Factors and the following factors may affect our operating results:

- Our ability to continue to attract customers to our clubs;
- Our ability to generate revenue from our members and customers for the services and products we offer;
- The amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our businesses, operations and infrastructure; and
- Our focus on long-term goals over short-term results.

Because our business is changing and evolving, our historical operating results may not be useful to you in predicting our future operating results.

***We may not be successful in implementing important strategic initiatives, which may have a material adverse impact on our business and financial results.***

There is no assurance that we will be able to implement important strategic initiatives in accordance with our expectations, which may result in a material adverse impact on our business and financial results. These strategic initiatives are designed to drive long-term shareholder value and improve our company's results of operations.

***Economic conditions in the PRC market could adversely affect our business and financial results.***

As a leisure service provider that is dependent upon discretionary consumer spending, the results of our operations are sensitive to changes in macro-economic conditions. Our customers may have less money for discretionary purchases as a result of job losses, foreclosures, bankruptcies, reduced access to credit and falling home prices. Any resulting decreases in customer traffic or average value per transaction will negatively impact our financial performance as reduced revenues result in sales de-leveraging, which creates downward pressure on margins. There is also a risk that if negative economic conditions persist for a long period of time, consumers may make long-lasting changes to their discretionary purchasing behavior, including less frequent discretionary purchases on a more permanent basis.

***Liability for Service-related injuries and other potential claims could adversely affect us.***

The nature and use of services and the products we use to provide our services could give rise to liability for service-related injuries and other claims if a customer were injured while receiving one of our services (including those performed by students at our schools) or were to suffer adverse reactions following the service. Adverse reactions could be caused by various factors beyond our control, including hypoallergenic sensitivity with the products we use. Although service-related injuries lawsuits in the PRC are rare, and we have not, to date, incurred litigation expense involving service-related injuries, there is no guarantee that we will not face such liability in the future. As we do not carry insurance to help cover the costs of any such litigation or any judgments against us, such liability could be substantial and the occurrence of such loss or liability may have a material adverse effect on our business, financial condition and prospects.

***Our success depends substantially on the value of our brand.***

We believe we have built an excellent reputation for the quality of our massage services, and for delivery of a consistently positive consumer experience. Brand value is based in part on consumer perceptions as to a variety of subjective qualities. Even isolated business incidents that erode consumer trust, particularly if the incidents receive considerable publicity or result in litigation, can significantly reduce brand value. Consumer demand for our services and brand equity could diminish significantly if we fail to preserve the quality of our massage services, or are

perceived to act in an unethical or socially irresponsible manner, or fail to deliver a consistently positive consumer experience in each of our markets.

***Effectively managing our growth into new geographic areas will be challenging.***

Effectively managing growth can be challenging, particularly as we expand into new markets geographically where we must balance the need for flexibility and a degree of autonomy for local management against the need for consistency with the our goals, philosophy and standards. Growth can make it increasingly difficult to locate and hire sufficient numbers of key employees to meet our financial targets, to maintain an effective system of internal controls, and to train employees nationally to deliver a consistently high quality service and customer experience.

***We face risks related to maintaining our computer networks ..***

Our business relies to a significant extent on our computer networks, which control our point-of-sale system, which monitors our sales on a real-time basis. These networks may be vulnerable to service interruptions, delays or failures, including those related to unauthorized access, computer hackers, computer viruses and other security threats. The occurrence of any of these events could have a material adverse effect on our business, resulting adversely on our operations and financial condition. Any damage or failure that interrupts or delays our operations could have a material adverse effect on our business, results of operations and financial condition.

***We may face difficulties in protecting our intellectual property.***

We have “Kangjiafu” trademarks registered in the PRC by licensing from KJF Biotech, a related party (please refer to the section entitled “Intellectual Property Rights” in this Current Report). Although these intellectual properties are protected through registration, enforcement of measures for the protection of intellectual property rights in the PRC is currently not as certain or effective as compared to some developed countries. We believe our trademarks are critical to our success and that the success of our business depends in part upon our continued ability to use or further develop and increase brand awareness. The infringement of our trademarks would diminish the value of our brand and its market acceptance, as well as our competitive advantages.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand, trade names, copyrights and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Furthermore, application of laws governing intellectual property rights in the PRC and abroad is uncertain and evolving and could involve substantial risks to us. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, we may lose these rights and our business, results of operations, financial condition and prospects could be materially and adversely affected.

***We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel or hire qualified personnel, we may not be able to grow effectively.***

Our performance largely depends on the talents and efforts of highly skilled individuals, including massage instructors, club managers and massage therapists. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. Our continued ability to compete effectively depends on our ability to train new employees, and to retain and motivate our existing employees.

***The loss of key executives or difficulties recruiting and retaining qualified executives could jeopardize our ability to meet financial targets.***

Our success depends substantially on the contributions and abilities of key executives, consisting of Mr. Yazhong Liao, CEO and President. We must continue to recruit, retain and motivate key executives to maintain our current business and support our projected growth. A loss of a key executive could jeopardize our ability to meet financial targets.

***We may need additional capital to execute our business plan and fund operations and may not be able to obtain such capital on acceptable terms or at all.***

Capital requirements are difficult to plan in our rapidly changing industry. Although we currently expect to have sufficient funding for the next 12 months, we expect that we will need additional capital to fund our future expansion efforts.

We may be required to pursue sources of additional capital through various means, including debt or equity financings. There is no assurance that we will be successful in locating a suitable financing transaction in a timely fashion or at all.

If we cannot raise additional funds on favorable terms or at all, we may not be able to carry out all or parts of our strategy to maintain our growth and competitiveness or to fund our operations. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs, even to the extent that we reduce our operations accordingly, we may be required to cease operations.

***Our future performance is dependent on the PRC economy and, in particular, the level of growth of the PRC consumer market.***

We derive substantial portion of our revenue from sales of our massage services in the PRC. The success of our business depends on the condition and growth of the PRC consumer market, which in turn depends on macro-economic conditions and individual income levels in the PRC. There is no assurance that projected growth rates of the PRC economy and the PRC consumer market will be realized under current economic situation. Any future slowdowns or declines in the PRC economy or consumer spending may adversely affect our business, operating results and financial condition.

***Political, economic and social policies of the PRC government and PRC laws and regulations could affect our business and results of operations and may result in our inability to sustain our growth.***

The economy of the PRC differs from the economies of most developed countries in a number of respects, including:

- its structure;
- level of government involvement;

- level of development;
- level of capital reinvestment;
- control of capital reinvestment;
- control of foreign exchange; and
- allocation of resources.

Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since then, the PRC government has been reforming the PRC's economic system, and has begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasized autonomous enterprises and the utilization of market mechanisms, especially where these policies apply to privately-owned businesses. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have an adverse impact on our current or future business, results of operations or financial condition.

Our ability to continue to expand our business is dependent on a number of factors, including general economic, capital market conditions and credit availability from banks or other lenders. In the past few years, the PRC government has articulated a need to control the rate of economic growth and may tighten its monetary policies, including increasing interest rates on bank loans and deposits and tightening the money supply to control growth in lending. Under current economic situation, financial institutions have tightened their lending. Stricter lending policies may, among other things, affect our ability to obtain financing, which may, in turn, adversely affect our growth and financial condition.

As we conduct a significant portion of our business through operating entities in China, we are subject to PRC laws and regulations on labor and employee benefits. In recent years, the PRC government has implemented policies to strengthen the protection of employees and obligate employers to provide more benefits to their employees. In addition, an employment contract law came into effect in China on January 1, 2008. The PRC employment contract law and related legislations require more benefits to be provided to employees, such as an increase in pay or compensation for termination of employment contracts. As a result, we expect to incur higher labor costs, which could have an adverse impact on our current or future business, results of operations or financial condition. Additional changes in the PRC's political, economic and social conditions, laws, regulations and policies could have an adverse effect on our business, results of operations or financial condition.

***PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.***

SAFE issued a public notice in October 2005, or Circular 75, requiring PRC residents to register with the local SAFE branch for establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies owned by such PRC residents, referred to in the notice as an “offshore special purpose vehicle.” The term “control” under Circular 75 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE has further issued a series of implementation guidelines. These regulations require PRC residents and PRC corporate entities to register their direct or indirect offshore investment in offshore special purpose vehicles with competent local branches of SAFE. These regulations may apply to our shareholders and beneficial owners who are PRC residents or which have PRC residents as their ultimate owners and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who establish or control, or have previously established or controlled prior to October 2005, offshore special purpose vehicles are required to register those investments. In addition, any PRC resident that is a shareholder or beneficial owner of an offshore special purpose vehicle is required to amend the SAFE registration with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China or other material changes in share capital. Moreover, any subsidiary of such offshore special purpose company in China is required to urge the PRC resident shareholders and beneficial owners to update their registration with the local branch of SAFE. If any shareholder or beneficial owner who is considered as a PRC resident by SAFE fails to make the required registration or to update the previously filed registration, the subsidiary of such offshore special purpose company in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the offshore special purpose company, and the offshore special purpose company may also be prohibited from making additional capital contribution into its subsidiary in China.

We have requested all of our current shareholders and/or beneficial owners to disclose whether they or their shareholders or beneficial owners fall within the ambit of Circular 75 and its guidance and will urge relevant shareholders and beneficial owners, upon learning they are PRC residents, to register with the local SAFE branch as required under Circular 75 and its guidance. However, we may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC residents, and as Circular 75 and its related foreign exchange regulations are relatively new and evolving and their interpretation and enforcement involve significant uncertainties, we cannot provide any assurance that all of our shareholders and beneficial owners who are PRC residents have fully complied or will comply with our request to make, obtain or update any applicable registrations or have fully complied or will fully comply with other requirements required by Circular 75 or other related rules in a timely manner. For example, Mr. Liao, one of our founders and a PRC resident, is currently in the process of applying for amendments to his SAFE registration under Circular 75 with respect to recent changes in our share capital. We cannot assure you that Mr. Liao will successfully obtain such SAFE registration in accordance with applicable PRC law.

In case of any non-compliance by any of our shareholders or beneficial owners who are PRC residents, Nanjing KJF and such shareholders and beneficial owners may be subject to fines and other legal sanctions, including restrictions on our ability to contribute additional capital into Nanjing KJF and Nanjing KJF's ability to distribute dividends to our offshore holding companies, any of which would adversely affect our business.

***Our revenues are denominated in RMB, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility.***

We are exposed to the risks associated with foreign exchange controls and restrictions in China, as our revenues are denominated in RMB, which is currently not freely exchangeable. The PRC government imposes control over the convertibility of RMB into foreign currencies. Under the rules promulgated under the PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with the PRC State Administration of Foreign Exchange and repayment of loan principal,

distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions. There can be no assurance that we will be able to meet all of our foreign currency obligations or to remit profits out of China.

***Fluctuation in the value of the RMB and of the U.S. dollar may have a material adverse effect on your investment.***

Any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, as well as on the value of, and any dividends payable on, our ordinary shares in foreign currency terms. For instance, a decline in the value of RMB against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in us and the dividends we may pay in the future, if any.

There remains significant international pressure on the PRC government to liberalize further its currency policy, which could result in a further and more significant appreciation in the value of the RMB against the U.S. dollar. The RMB may be revalued further against the U.S. dollar or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the RMB against the U.S. dollar or other currencies.

***We rely principally on dividends paid by entities under our control to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC operating entities to pay dividends to us could have a material adverse effect on our ability to conduct our business.***

The registrant is a Nevada company, which relies principally on dividends paid by its subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries or operating entities incur debt in their own name in the future, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us.

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by the consolidated PRC entities only out of their retained earnings, if any, determined in accordance with PRC accounting standards, which differ in many aspects from Generally Accepted Accounting Principles in other jurisdictions including IFRS. Based on PRC accounting standards, the consolidated PRC entities are also required to set aside a certain percentage of their after-tax profit each year to their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of associations, which are not available for distribution as cash dividends. As a result, the consolidated PRC entities are restricted in their ability to transfer a portion of their net income to the registrant whether in the form of dividends, loans or advances. Any limitation on the ability of our operating entities to pay dividends could materially adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Under the PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10%, unless relevant treaties provide for a lower rate, is applicable to dividends paid by enterprises incorporated in the PRC to “non-resident enterprises” (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax treaty that the PRC has entered into. If the registrant or our non-PRC incorporated subsidiaries are considered “nonresident enterprises,” any dividend that registrant or any such subsidiary receives from the PRC operating entities may be subject to PRC taxation at the 10% rate (or lower treaty rate).

***Any changes in PRC policies on enterprise income tax may adversely affect our ability to pay dividends and our financial condition.***

On March 16, 2007, the new PRC Enterprise Income Tax Law (the “new tax law”) was issued and on December 6, 2007, the Rules on the Implementation of Enterprise Income Tax Law of the PRC (“Implementation Rules”) were issued, both of which became effective on January 1, 2008. Under the new tax law, non-PRC tax resident enterprises will be taxed at a withholding tax rate of 10% for British Virgin Islands companies. If an entity is deemed to be a PRC tax resident enterprise, which is an enterprise that is set up under PRC law within the territory of the PRC, or set up under the law of a foreign country or region but which has “de facto management organization” within the PRC, then qualified dividend and profit distribution from equity investment between them shall be exempted from withholding

tax and income tax. Among other things, qualified dividend and profit distribution as stated in the new tax law shall refer to investment income derived by a PRC tax resident enterprise from the direct investment in other PRC tax resident enterprises, which shall exclude investment income from circulating stock issued publicly by PRC tax resident enterprises and traded on stock exchanges where the holding period is less than 12 months.

Our subsidiaries or PRC operating entities may trigger withholding tax requirements in the future under the new tax law and the Implementation Rules, depending on their classification as a PRC or non-PRC tax resident enterprise. The new tax law provides that if an enterprise incorporated outside of the PRC has “de facto management organization” within the PRC, it may be recognized as a PRC tax resident enterprise and may be subject to a 25% enterprise income tax on its worldwide income. According to the Implementation Rules, “de facto management organization” means the institution that materially and comprehensively manages and controls the enterprise’s business, personnel, finance and assets. Given the short history of the new tax law and the Implementation Rules, how an enterprise qualifies for tax exemptions remains unclear. Our ability to pay dividends and our financial condition may be adversely affected as a result of the new tax law and other changes in PRC policies and regulations on dividend distributions, withholding tax, and enterprise income tax.

As all of our management is currently substantially based in the PRC, we may be treated as a PRC resident enterprise for new tax law purposes. The tax consequences of such treatment are currently unclear as they will depend on the implementation regulations and on how local tax authorities apply or enforce the new tax law or the implementation regulations.

The levy and collection of enterprise income tax in the PRC are handled by various local governments, which in turn submit such tax revenues to their respective higher administrative authorities. Each local government has its own administrative practice with regard to the manner and the amount of tax submitted by the local government to its higher administrative authorities. PRC enterprises, including us, have no participation in or control over such administrative practices. Any discrepancies in implementation among the local governments of such administrative practice may result in uncertainties over the amount of tax for which a PRC enterprise is liable.

***Fulfilling our obligations incident to being a public company will be expensive and time consuming.***

Prior to the closing of the transactions contemplated under the VIE Agreements, our predecessor, as a company without operations, and Wuxi KJF, as a PRC private company, have maintained relatively small finance and accounting staffs. Although we maintained disclosure controls and procedures and internal control over financial reporting as required under the federal securities laws with respect to its very limited activities, it was not required to maintain and establish these disclosure controls and procedures and internal controls as will be required now that we have substantial operations. Under the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the U.S. Securities and Exchange Commission, we will need to implement additional corporate governance practices and adhere to a variety of reporting requirements and complex accounting rules. Compliance with these obligations will require significant management time, place significant additional demands on our finance and accounting staff and on our financial, accounting and information systems, and increase our insurance, legal and financial compliance costs. We may also need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

***Our failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.***

Companies operating in China are required to participate in social insurance and housing fund plans. We have not fully contributed to such plans as required by applicable PRC regulations. As of September 30, 2013, with regards to the outstanding contributions, including historical underpayments to such plans, we made a provision of RMB2.28 million (US\$0.37 million), which is reflected in our audited financial statements included in this filing. While we believe this provision is adequate, our failure to make sufficient payments to such plans does not fully comply with applicable PRC laws and regulations and we may be required to make up the contributions for such plans as well as to pay late fees and fines ..

*Our business will suffer if any necessary license cannot be maintained or renewed.*

Any entity that conducts business in the PRC must have a business license that covers a particular type of work, and Wuxi KJF, Nanjing KJF, and the clubs we operate each hold valid business licenses. Whi