CHINA JO-JO DRUGSTORES, INC.
Form 424B1
April 23, 2010

PROSPECTUS

Filed pursuant to Rules 424(b)(1) and 430A
Registration No. 333-163879

CHINA JO-JO DRUGSTORES, INC.

This is a firm commitment public offering of 3,500,000 shares of our common stock at a price of $5.00 per share.

Our common stock is currently traded on The NASDAQ Capital Market. On April 9, 2010, we effected a reverse stock split on a 1-for-2 basis as well as a corresponding reduction in the number of shares of our authorized common stock on a 1-for-2 basis. In connection with the reverse stock split, our stock symbol is currently "CJJDD" until May 11, 2010, and will thereafter become "CJJD". On April 20, 2010, the last reported sale price for our common stock was $6.25 per share.

Investing in our securities involves certain risks. See "Risk Factors" beginning on page 8 of this prospectus for a discussion of information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Public Offering Price	Underwriting Discount and Commissions (1)	Proceeds, to Us, Before Expenses (2)
Per share	$ 5.00	$ 0.3425	$ 4.6575
Total	$ 17,500,000.00	$ 1,198,750.00	$ 16,301,250.00

(1) Does not include an expense allowance equal to 0.5% of the gross proceeds of this offering payable to the underwriters.

(2) We estimate that the total expenses of this offering, excluding the underwriters' discount and expense allowance, will be approximately $1.0 million.

We have granted a 45-day option to the underwriters to purchase up to 525,000 additional shares of common stock (15% of the shares sold) solely to cover over-allotments, if any. The shares issuable upon exercise of the underwriter over-allotment option are identical to those offered by this prospectus and have been registered under the registration statement of which this prospectus forms a part.

In connection with this offering, we have also agreed to sell to the underwriters an option to purchase up to 3% of the shares sold, for $100. If the option is exercised, each share of common stock may be purchased at $6.25 per share (125% of the price of the shares sold in the offering). The option is exercisable commencing on October 23, 2010 and expiring on April 22, 2015.

We are offering the shares of common stock on a firm commitment basis. The underwriters expect to deliver our shares to purchasers in the offering on or about April 27, 2010.

MADISON WILLIAMS AND COMPANY

RODMAN & RENSHAW, LLC

The date of this prospectus is April 22, 2010.

(1) Adjoining pharmacy and medical clinic entrances at the Wenhua Branch, which opened in September 2004.
(2) Free physician consultation at the Daguan No. 2 branch, which opened in June 2009.
(3) Grand opening of the Linping branch, which opened in October 2009.

No dealer, salesperson or any other person is authorized to give any information or make any representations in connection with this offering other than those contained in this prospectus and, if given or made, the information or representations must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which the offer or solicitation is not authorized or is unlawful.

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You should rely only on the information contained or incorporated by reference to this prospectus in deciding whether to purchase our common stock. We have not authorized anyone to provide you with information different from that contained or incorporated by reference to this prospectus. Under no circumstances should the delivery to you of this prospectus or any sale made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus. To the extent that any facts or events arising after the date of this prospectus, individually or in the aggregate, represent a fundamental change in the information presented in this prospectus, this prospectus will be updated to the extent required by law.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information. Nevertheless, we are responsible for the accuracy and completeness of the historical information presented in this prospectus, as of the date of the prospectus.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in our securities. You should read the entire prospectus carefully, including the section entitled “Risk Factors” and our consolidated financial statements and the related notes. In this prospectus, we refer to China Jo-Jo Drugstores, Inc. as “Jo-Jo Drugstores” and “our Company,” and to Jo-Jo Drugstores, its subsidiaries and affiliated companies sometimes collectively as “we,” “us” and “our.”

Where indicated, information regarding share amounts and prices takes into account the 1-for-2 reverse stock split and corresponding reduction of authorized common shares on a 1-for-2 basis effected on April 9, 2010.

Overview

We own and operate a retail pharmacy chain in the People’s Republic of China (“PRC” or “China”). We currently have 25 stores in Hangzhou, the capital of Zhejiang Province approximately 112 miles south of Shanghai. Our stores provide customers with a wide variety of medicinal products, including prescription and over-the-counter (“OTC”) drugs, nutritional supplements, traditional Chinese medicine (“TCM”) products, personal care products, family care products, medical devices, as well as convenience products including consumable, seasonal and promotional items. Each of our stores typically carries approximately 2,500 to 7,500 different products. In addition to these products, we have licensed doctors of both western medicine and TCM onsite for consultation, examination and treatment of common ailments at scheduled hours. Two of our stores have adjacent medical clinics offering urgent care (to provide treatment for minor ailments such as sprains, minor lacerations and dizziness which can be treated on an outpatient basis), TCM (including acupuncture, therapeutic massage and cupping) and minor outpatient surgical treatments (such as suturing). Our store locations vary in size; however, our 25 stores presently average approximately 3,000 square feet. We attempt to tailor our product offerings, physician access and operating hours based on the community where each individual store is located.

Industry Background

In 2004, the Chinese government initiated regulation towards separation of drug prescribing and drug dispensing. Since then, the number of retail pharmacies in China has grown significantly. According to Business Monitor International, an independent research firm, it is estimated that approximately 15% to 30% of all prescription drugs are sold by retail drug stores with the remaining 70% to 85% sold by state run hospitals. Over time, we believe that more and more prescription drugs will be sold via retail drugstores versus state-run hospitals due to the immediate accessibility that retail storefront drugstores provide. The retail drugstore segment is highly fragmented consisting of several chains and a large number of single-location businesses. According to Snapshot International Ltd., China had approximately 391,500 non-hospital drugstores in 2008, up from 239,800 in 2004. According to Business Monitor International, in 2007, the amounts spent in China on prescription drugs (including patented drugs and generics) was $26.42 billion USD while over the counter drugs accounted for $7.45 billion USD and TCM accounted for $21 billion USD.

Our Business

Our sales are derived from prescription drugs, OTC drugs, nutritional supplements, TCM, sundries and medical devices. Our sales as a percentage of total revenue for the nine months ended December 31, 2009 and 2008 were:

	% of Revenues	
	for the nine months ended	for the nine months ended

	December 31, 2009 (unaudited)	December 31, 2008 (unaudited)
Prescription Drugs	36%	37%
OTC Drugs	31%	26%
Sundries	5%	5%
TCM	14%	11%
Nutritional Supplements	12%	17%
Medical Devices	2%	4%
TOTAL	100%	100%

The medical consultations at our locations without adjoining clinics are provided without charge to our customers and the revenue generated from medical services at our clinics is nominal. However, providing access to these services is an important part of differentiating ourselves from our competition.

All of the products that we sell are manufactured by and purchased from third parties. We presently do not sell any self-branded products. Prior to purchasing from a manufacturer and selling their product at our drugstores, we review the manufacturer's quality control standards and Good Manufacturing Practice ("GMP") and other regulatory standards when applicable.

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We carefully select our store locations. As our growth has been self-funded to date, we have been able to choose locations which do not compete against one another. Prior to opening a store, we have a pre-marketing process which includes handing out flyers, signing up new customers for our discount card program, and providing access to our physicians. In opening a new location, there are many factors we consider including: maximizing foot traffic, demographics, and leasehold costs. We incur significant initial store opening costs, including inventory stocking, annual or semi-annual lease prepayments, and leasehold improvements. Our target location is approximately 3,000 square feet, but varies by location and local market conditions. Historically, our stores have been certified as compliant with the Good Supply Practice (“GSP”) standard, which is required for all retail drugstores, within forty days from leasehold acquisition. Our logistics are outsourced to a third party that has the ability to distribute throughout Zhejiang Province.

During the fiscal year ended March 31, 2009, we had revenues of $44.8 million, operating income of $9.1 million and net income of $6.8 million as compared to revenues of $31.3 million, operating income of $5.4 million and net income of $3.4 million for the fiscal year ended March 31, 2008. For fiscal year ended March 31, 2009, approximately 80% of our sales were made in cash and approximately 15% under government insurance program which are reimbursed to us 30 days after submittal. During the nine months ended December 31, 2009, we had revenues of $38.9 million, operating income of $7.9 million and net income of $5.9 million as compared to revenues of $33.1 million, operating income of $7.1 million and net income of $5.3 million for the same period of 2008, with approximately 83% of sales made in cash and approximately 17% from government insurance programs.

Growth Strategy

Management believes that its model of providing quality products at affordable prices combined with customer access to physicians will enable us to continue to grow within Hangzhou. To date, we have not completed any public financing and all growth has been internally funded with store openings being financed by operating cash flow.

In order to expand beyond Hangzhou to other cities within Zhejiang Province, we will need to complete a financing. We would more than likely enter a new market by initially acquiring existing drugstores, rebranding them, and then operating them as our own. After establishing ourselves in a city, we would either open new locations or acquire additional existing drugstores. Within each city that we expand into, we will strive to have at least one full-service clinic adjoining one of the larger drugstore locations, staffed with eastern and or western medicine physicians similar to our clinics in Hangzhou. Our logistics provider is certified to operate and distribute the products we presently sell in Hangzhou throughout Zhejiang Province. Although we will need to establish an administrative office in each new city that we expand into, we believe that our current headquarters in Hangzhou will adequately serve as the base for procurement, general marketing and accounting.

Competitive Strengths

Onsite Physicians Provide Invaluable Consulting Service to Customers

Among our competitors, we are one of the very few retail drug stores that have licensed physicians onsite and available at scheduled hours. Furthermore, our Dagun and Wenhua stores have adjoining medical clinics that offer our customers health consulting and minor outpatient surgical treatments. We believe the customers appreciate the onsite physician services thereby increasing our customer appeal. Customer feedbacks to this medical consulting service that we provide have been overwhelmingly positive and therefore we will continue to integrate this service into our business model going forward. This is a key distinction between our stores and competitors and is a service that customers associate with Jo-Jo Drugstores.

Directly Operated Business to Provide a High Quality Customer Experience

We operate all of our stores directly, which we believe is critical in building a strong brand name and offering a consistent customer experience across our store network. Moreover, we believe direct operation of our drugstores is critically important to our success in the retail drugstore chain business in Zhejiang Province, given the highly fragmented market. We have developed uniform standards among various aspects of drugstore operations and are able to provide a consistently high quality of services in all of our stores. Direct operation also enables us to select store locations that meet the consumer traffic requirements, target new neighborhoods and allows us to leverage our existing distribution centers. In addition, our direct operation business model allows us to operate a relatively centralized and streamlined organizational structure, which enables us to expedite decision making and thus deploy our financial, operational and management resources more effectively. Furthermore, our business model also allows us to address local demand for specific products and services more accurately, to control our corporate overhead expenses and to provide uniform and high quality training for our employees.

Optimized, Diverse and High Quality Product Offerings

We have developed an optimized and diverse merchandise portfolio. In particular, we have rigorously analyzed a large quantity of prescription and OTC drugs available for sale in China, as well as sales data accumulated through our direct operation of drugstores. Moreover, we monitor product quality and continuously review and refine our product selection in order to respond to changing demographics, lifestyles, habits and product preferences of our customers.

Proven Ability to Expand Rapidly While Increasing Profitability

We have expanded our store network at a rapid pace in recent years, while maintaining and increasing our gross margin. In particular, the number of our directly operated drugstores increased from 9 as of March 31, 2008 to 16 as of March 31, 2009. As of December 31, 2009, we operated 23 drugstores. Our gross profit increased from $7.5 million for fiscal year ended March 31, 2008 to $12.2 million for fiscal year ended March 31, 2009. Our gross profit increased from $8.9 million for the nine months ended December 31, 2008 to $11.3 million for the nine months ended December 31, 2009. Our gross margin percentage increased from 27.1% for the nine months ended December 31, 2008 to 29.0% for the nine months ended December 31, 2009. Our rapid expansion is supported by our central third-party distribution center near our headquarters in Hangzhou. We believe our distribution network enables us to provide effective support to our store outlets, cope with distinctive regional factors such as local regulatory requirements and demographics, and reduce the incremental cost of opening additional outlets in cities close to our existing distribution centers. These attributes have allowed us to effectively shorten the amount of time required for us to open new stores and for new stores to become profitable.

Experienced Management Team with Proven Track Record

Over the past few years, Lei Liu, our chief executive officer and chairman, and other members of our senior management team have successfully led our operations and increased our revenue and profit. Many members of our senior management team have worked with us since our inception or otherwise have broad experience in the retail industry. Mr. Liu has extensive experience in chain store retailing, gained from his six years of service with Tai He Drugstore as a general manager.

Material Risks Affecting Our Business

We are subject to a number of risks, which the reader should be aware of before deciding to purchase the securities in this offering. These risks, the most material of which are summarized below, are discussed in the section titled "Risk Factors" beginning on page 8 of this prospectus. While our management fully intends to make concerted efforts to manage these risks, we cannot provide assurances that we will be able to do so successfully.

Highly Competitive and Rapidly Evolving Marketplace

Because we operate in a highly competitive and rapidly evolving marketplace, our ability to be successful is dependent upon many factors, including our abilities to timely identify and/or respond to changing customer preferences, conduct effective advertising, marketing and promotional programs, optimize our inventory and distribution, attract and retain skilled personnel both for our current operations and to expand our store chain, and manage our growth. A failure to execute any of the foregoing may negatively affect our ability to compete against our competitors, many of whom have greater financial resources and stronger brand recognition, which in turn may materially and adversely affect our business operations.

Inherent Exposure to Certain Legal Claims

As an operator of both pharmacies and medical clinics, we are exposed to risks inherent to such businesses, which risks may be heightened in certain instances by the prevalence of counterfeit pharmaceutical products in China. Our inability to manage such risks could result in product liability, personal injury and/or medical malpractice claims against us. If we are found liable for any such claims, we could be required to pay substantial monetary damages. Even if we are successful in defending ourselves, significant management, financial and other resources may be drained as a result, in addition to damages to our reputation and brand name. We currently do not maintain insurance against such claims and, as a result, could face significant disruption to our business operations and decrease in our revenue and profitability should such claims materialize.

Substantial Uncertainties in Chinese Laws that are Applicable to Us

All of our business operations are in China and are subject to Chinese laws and regulations. Because many of these laws and regulations are relatively new and evolving, there are substantial uncertainties regarding their interpretation and application, especially in light of the broad discretion enjoyed by the PRC government. In addition to the PRC government regulations applicable to our business operating drugstores and clinics and the medical professionals we employ, the foreign ownership of Chinese businesses is also heavily regulated. For example, in order to comply with Chinese regulations limiting foreign ownership, we conduct our business operations through companies that we do not own any equity interest in, but control through contractual arrangements. While we have been advised by our PRC counsel that such structure complies with all applicable Chinese laws and regulations, PRC regulatory authorities may nevertheless determine otherwise, and impose punitive measures that may severely disrupt our ability to conduct business and have a material adverse effect on our financial condition, results of operations and prospects.

Additional Capital is Required for Our Expansion and Unanticipated Expenditures

Our growth strategy includes expanding beyond Hangzhou into other cities in Zhejiang Province. We expect our existing resources and internally generated funds to be sufficient for our current operations. However, if circumstances arise that require additional expenditures than anticipated, or if we wish to expand beyond Hangzhou into other parts of Zhejiang Province, we will need to raise additional funds. While we can raise funds by selling equity or debt securities or obtaining credit facility, our ability to do so may depend on factors that are beyond our control, such as the economic and political conditions in China and the general market conditions for capital-raising, and we cannot assure you that the terms of any fund raising, if any, will be acceptable to us. If we are unable to raise additional capital, we may be unable to meet unanticipated cash needs or to expand, which will have a negative impact on our financial condition and results of operations which could affect our stock price. Even if we are able to raise funds, doing so by issuing equity securities could result in dilution to our existing stockholders, while doing so by debt could result in restrictions on our business operations as may be imposed by the debt holders.

Our History and Corporate Structure

We were incorporated in Nevada on December 19, 2006, originally under the name “Kerrisdale Mining Corporation.”

On September 17, 2009, we entered into a share exchange agreement (the “Exchange Agreement”) with Renovation Investment (Hong Kong) Co., Ltd., a Hong Kong limited liability company (“Renovation”), and the holders of 100% of Renovation’s issued and outstanding capital stock (the “Renovation Stockholders”), pursuant to which we agreed to issue an aggregate of 7,900,000 shares of our common stock (taking into account the 1-for-2 reverse stock split effected on April 9, 2010) to the Renovation Stockholders in exchange for all of the issued and outstanding capital stock of Renovation (the “Share Exchange”). On September 17, 2009, the Share Exchange closed and Renovation became our wholly-owned subsidiary. On September 24, 2009, in connection with the Share Exchange, we changed our name from “Kerrisdale Mining Corporation” to “China Jo-Jo Drugstores, Inc.” to better reflect our business operations.

All of our business operations are carried out by three PRC companies: (1) Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), (2) Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine (General Partnership) (“Jiuzhou Clinic”), and (3) Hangzhou Jiuzhou Medical & Public Health Service Co., Ltd. (“Jiuzhou Service”). Throughout this prospectus, we will sometimes refer to Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service collectively as “HJ Group.”

We do not own any equity interests in any of the three HJ Group companies, but control and receive the economic benefits of their business operations through contractual arrangements. The contractual arrangements are between these companies and their owners, on the one hand, and Zhejiang Jiuxin Investment Management Co., Ltd. (“Jiuxin Management”), Renovation’s wholly-owned subsidiary in the PRC. Through these contractual arrangements, we have the ability to substantially influence the daily operations and financial affairs of each HJ Group company, since we are able to appoint its senior executives and approve all matters requiring stockholder approval. As a result of these contractual arrangements, which enable us to control each HJ Group company and to receive, through our subsidiaries, all of its profits, we are considered the primary beneficiary of HJ Group and each HJ Group company is deemed our variable interest entity (“VIE”). Accordingly, we consolidate HJ Group’s results, assets and liabilities in our financial statements.

However, Chinese laws and regulations concerning the validity of the contractual arrangements are uncertain, as many of these laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement by the Chinese government involves substantial uncertainty. Additionally, the contractual arrangements may not be as effective in providing control over HJ Group as direct ownership, which we are restricted from under current Chinese law. Due to such uncertainty, we may take such additional steps in the future as may be permitted by the then applicable law and regulations in China to further strengthen our control over or toward actual ownership of each HJ Group company or its assets or business operations, which could include direct ownership of selected assets without jeopardizing any favorable government policies toward domestic owned enterprises. Because we rely on HJ Group for our revenue, any termination of or disruption to these contractual arrangements would detrimentally affect our business and financial condition.

The contractual arrangements, comprising of a series of five agreements, were entered into on August 1, 2009. Four of the agreements were subsequently amended on October 27, 2009, to remove an automatic termination provision. The following diagram illustrates our corporate structure as of the date of this prospectus (1):

(1) For risks relating to our current corporate structure, see "Risk Factors – Risks Related to Our Corporate Structure."

Corporate Information

Our principal executive offices are located at Room 507-513, 5th Floor, A Building, Meidu Plaza, Gonshu District, Hangzhou, Zhejiang Province, People's Republic of China. Our telephone number is +86-571-88077078.

We file reports under Section 13 of the Securities Exchange Act of 1934, as amended. Our shares of common stock are currently quoted on The NASDAQ Capital Market. In connection with the 1-for-2 reverse stock split effected on April 9, 2010, our symbol is currently "CJJDD" until May 11, 2010, and will become "CJJD" thereafter.

Reverse Stock Split

On April 9, 2010, we effected a 1-for-2 reverse stock split and concurrently reduced the number of shares of authorized common stock from 500,000,000 to 250,000,000. Under Section 78.207 of the Nevada Revised Statutes ("NRS"), a corporation may change the number of shares of a class of its authorized stock by increasing or decreasing the number of authorized shares of the class and correspondingly increasing or decreasing the number of issued and outstanding shares of the same class held by each stockholder of record by a resolution adopted by the board of directors without obtaining the approval of the stockholders. Accordingly, we effected the 1-for-2 reverse stock split without the approval of our stockholders by concurrently effecting a corresponding reduction in the number of shares of our authorized common stock pursuant to NRS Section 78.207. All share amounts and prices referred to herein have been adjusted to reflect the effect of the 1-for-2 reverse stock split.

THE OFFERING

Common stock offered	3,500,000 shares at a price of $5.00 per share
Number of shares outstanding before this offering	10,000,000 shares (1)
Number of shares outstanding after this offering	13,500,000 shares (1)
Use of proceeds	We intend to use the net proceeds of this offering to build additional drugstores throughout Zhejiang province organically as well as by acquisition, for marketing and as working capital for general corporate purposes. See "Use of Proceeds" on page 29 for more information on the use of proceeds.
NASDAQ Capital Market symbol	CJJD (2)
Lock-up Agreements	All of our officers, directors and 10% shareholders have agreed that, for a period of 180 days from the date of this prospectus, they will be subject to a lock-up agreement prohibiting any sales, transfers or hedging transactions of our securities owned by them. See "Lock-Ups" on page 66.
Risk factors	The securities offered by this prospectus are speculative and involve a high degree of risk and investors purchasing securities should not purchase the securities unless they can afford the loss of their entire investment. See "Risk Factors" beginning on page 8.
Underwriter common stock purchase option	In connection with this offering, we have also agreed to sell to the underwriters (or designee) an option for $100 to purchase up to 3% (105,000 shares) of the shares of common stock sold in the Offering, plus 3% of any overallotment option shares purchased. If this option is exercised, each share may be purchased at $6.25 per share (125% of the price of the shares sold in the offering.)

(1) The number of shares of our common stock to be outstanding after this offering is based on the number of shares outstanding as of April 20, 2010, taking into account the 1-for-2 reverse stock split effected on April 9, 2010. See page 64 for an explanation of the reverse stock split.

(2) In connection with the 1-for-2 reverse stock split effected on April 9, 2010, our stock symbol is currently "CJJDD" until May 11, 2010, and will become "CJJD" thereafter.

SUMMARY FINANCIAL INFORMATION

In the tables below we provide you with historical selected consolidated financial data for and as of the nine-month periods ended December 31, 2009 and 2008, derived from our unaudited consolidated financial statements included elsewhere in this prospectus, and for and as of the years ended March 31, 2009 and 2008, derived from our audited consolidated financial statements included elsewhere in this prospectus. Historical results are not necessarily indicative of the results that may be expected for any future period. When you read this historical selected financial data, it is important that you read along with it the appropriate historical consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.