

China Jo-Jo Drugstores, Inc.
Drug Stores
CJJD: OTC/BB

December 3, 2009

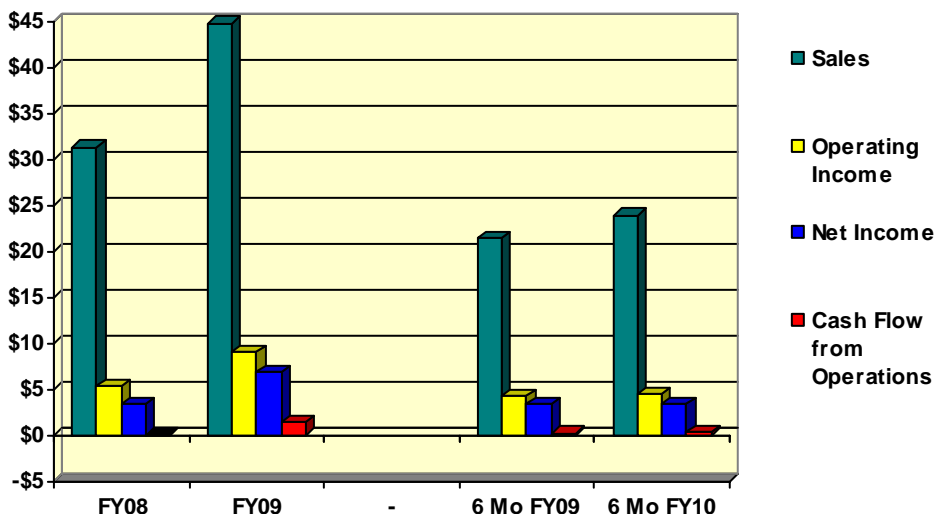
PROFILE

China Jo-Jo is a retail pharmacy with twenty-two stores in the city of Hangzhou in China's coastal Zhejiang Province. The chain is differentiated among China's highly fragmented drug store sector with a combined product offering of prescription, over-the-counter drugs, Western drugs, and Chinese Traditional Medicines. China Jo-Jo uniquely offers in-store access to physicians licensed in either Western or Eastern medicine. Two of the stores include clinics equipped for outpatient health care services.

Founded in 2003, China Jo-Jo has recently entered into a faster growth period, opening sixteen stores in the last three years. Sales reached \$44.8 million in the fiscal year ending March 2009. Starting the year with nine stores and ending with sixteen stores, we estimate average revenue per store was approximately \$3.6 million. The Company was also successful in growing profit margins, from 23.9% in fiscal year 2008 to 27.2% in fiscal year 2009, well above the industry average in China of 3.8%. The Company reported a net profit of \$6.8 million in fiscal year 2009, representing a net margin of 15.2%.

Management is executing on an ambitious strategic growth plan to expand the Company's footprint in Hangzhou through "green-start" store openings and then enter new metropolitan areas in Zhejiang Province through a combination of new stores and acquisitions. The management team includes the three founders who are experienced pharmacists and research professionals with extensive experience in drug store management and outpatient care. Along with extensive experience in the Zhejiang market, the Company also has the financial resources from internal cash flows to execute on its objectives for new store openings in Hangzhou.

FINANCIAL PERFORMANCE



Dollars in millions; fiscal year ends March.

Source: Company Reports



MARKET DATA

Price: \$2.65 (12/2/09)
 52 Wk Hi-Lo: \$2.70 - \$0.15
 Ave. Volume: 2 K
 Short Interest: <1%
 Beta: na

VALUATION

Price/Sales: 1.1 X
 Price/CFO: 33.1 X
 Price/EPS: 6.2 X
 Price/Book Value: 5.2 X

Based on TTM ending 9/30/09

EQUITY SECURITIES

Common Shares Out: 20.0 M
 Insiders: 63.8%
 Float:* 7.2 M
 Institutional: <1%
 5% Holders: -0-
 Common Dividend: -0-
 Options Out: -0-
 Warrants Out: -0-
 Preferred Shares Out: -0-

*Excluding restricted shares constructive float is approximately 4.2 M

As of 9/30/09

INVESTMENT HIGHLIGHTS

Positives

- Significant opportunity in building market as China's per capita income and disposable income climbs; positioned in Hangzhou metropolitan area and Zhejiang Province with above average demographics in terms of family income, education and employment
- Recent regulatory changes favoring purchase of prescription medicines outside China's government-run hospital network
- Highly fragmented retail drug store market with numerous undifferentiated competitors in single store or small groups
- Distinguished business model with unique product line composed of Traditional and Western Medicines with in-store outpatient services and access to physicians
- Excellent track record in "green start" growth strategy through identifying lucrative locations and launching new stores
- Modern store format with a broad product line composed of Western and Traditional medicines, OTC drugs, medical devices
- Well qualified management team with extensive experience in pharmacy operations and management of retail drug store environment
- Cash flow from operations adequate to support growth strategy through "green-start" stores in immediate Hangzhou metropolitan market
- No-debt balance sheet and no outstanding derivatives

Negatives

- Significant competition in immediate metropolitan Hangzhou and greater Zhejiang regional markets from larger, better known drug store chains and brands
- Sale of prescription drugs in China is highly regulated and subject to price controls by China central government authorities
- Expansion beyond Hanzhou may require capital investment in store equipment, distribution infrastructure and staffing that is greater than the Company's current resources or cash flows from operations
- Potential dilutive effects or an increase in risk of leverage from future capital raises if the Company elects to build capital resources through the issuance of common stock or debt
- Limited trading history in CJJD shares; stock could be subject to significant price volatility and could be characterized by wide spreads between bid and ask prices
- Majority of outstanding stock is owned by three insiders who have effective control over the Company's future direction
- Changes in the exchange rates between China's renminbi (functional currency) and the U.S. dollar (reporting currency) may negatively impact reported earnings and balance sheet values

OUTLOOK

China Jo-Jo has brought a highly differentiated and innovative drug store format to the China market with its broad product offering and physician services. We believe the Company's sales growth record and above average profit margins are two indicators that the approach helps drive sales and profits.

The Company is just recently public in the U.S. and has limited exposure to investors. We expect the unique business model coupled with strong comparisons in the coming quarters to attract new investor interest.

Some investors may be concerned about possible dilution from future capital raising activities as the Company moves to expand into Zhejiang province. However, we believe that event would likely be followed by a potentially accretive acquisition.

In our view, CJJD shares appropriate for risk-tolerant investors with a long-term investment horizon and tolerance for price volatility and limited liquidity.

STOCK CHART



SELECTED COMPARABLE SECURITIES

U.S. Listed, China-based Retail/Wholesale Drugs	Symb	Recent Price	Sales (MM)	Gross Margin	Return Equity	Price/Sales	Price/CFO	Price/ EPS	Price/ Est E	Price/ BkVal
China Medicine Corporation	CHME	\$2.53	\$ 60	9.7%	15.2%	0.6	5.9	6.4	na	0.9
China Nepstar Chain Drugstore	NPD	\$7.45	\$338	6.2%	5.0%	2.3	20.2	28.4	38.8	1.9
China Yongxin Pharmaceuticals	CYXN	\$0.58	\$ 53	9.4%	30.8%	0.4	3.5	4.5	na	1.2
Tongjitang Chinese Medicine Co.	TCM	\$4.11	\$ 66	-14.7%	-5.7%	2.1	neg	neg	51.3	0.8

Source: Crystal Equity Research

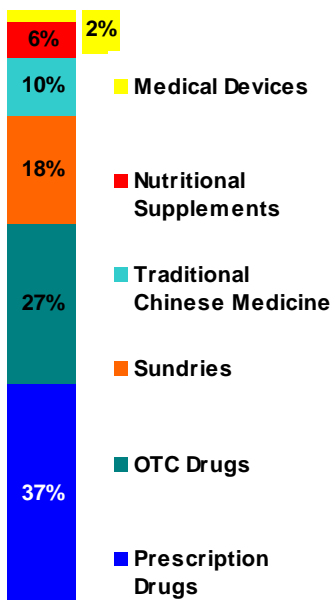
PRODUCT LIST

- ♦ **Prescription Drugs**
2,300 different regulated drugs
- ♦ **Over-the-Counter Drugs**
1,500 Western and Traditional Chinese Medicines
- ♦ **Nutritional Supplements**
1,300 different items
- ♦ **Sundry Products**
Personal Hygiene
Beauty and Hair Care
Household Consumables
Snacks and Candies
- ♦ **Medical Devices**
Birth Control
Home Health Care

RELATIONSHIPS

- ♦ **Legal Counsel** - Richardson & Patel LLP
- ♦ **Auditor** - Moore, Stephens, Wurth, Frazier & Torbet LLP
- ♦ **Supply Chain Logistics** - Zhejiang Yingte Logistics Co.
- ♦ **Supply Chain** -
275 unnamed suppliers
46 unnamed wholesalers
229 direct manufacturers

SALES MIX - FY09



Source: Company Reports

BUSINESS STRATEGY

China Jo-Jo Drugstores is penetrating its market with a retail pharmacy and health care center format that is unique in China's highly fragmented retail drug store market. The combination of both Western medicine and Traditional Chinese medicines accompanied by nutritional supplements, medical devices and sundry products offers the consumer a broad selection and exceptional convenience. We believe China Jo-Jo is the only drug store chain in China to offer access to physicians licensed in either Western or Traditional Chinese medicine. Two of the stores have fully equipped clinics staffed with physicians and medical personnel who can offer outpatient services such as stitches, acupuncture and cupping. The other stores offer scheduled appointments with staff physicians.



All twenty-two of China Jo-Jo stores are located in the metropolitan area of Hangzhou in China's coastal Zhejiang Province. The average store is approximately 3,000 square feet in size with a modern, bright format that enables a positive customer experience. In addition to China Jo-Jo's own sales and health care staff, customers are served by over 200 representatives of drug manufacturers who provide in-store demonstrations and information about their respective company's products.

The format and staffing configuration appears to encourage customer interest and a building recognition of the China Jo-Jo brand name. The Company has accumulated over 300,000 members in its loyalty program, which features a rewards card and discounts. Management estimates over 8,100 customers visited their stores each day in fiscal year 2009, representing an average of over 400 customers per day per store.



China Jo-Jo has partnered with Zhejiang Yingte Logistics for warehouse and distribution services. The group specializes in contract management of hospital pharmacies and third party logistics for pharmacies. China Jo-Jo estimates the present logistics arrangement would support up to fifty stores in the Hangzhou metropolitan area.

MARKETING STRATEGY

China Jo-Jo uses a combination of print advertising and media campaigns to build brand awareness in the immediate community. New store openings are celebrated with grand openings that include special discounts and offers to encourage consumer interest. To build its reputation in each community, the stores sponsor health fairs and other public events.



Sales personnel are an integral part of the Company's promotional strategy. Employees hand out flyers inside and outside China Jo-Jo stores and stage campaigns to sign-up new members for the Rewards Program. The Rewards Program allows the Company to gather phone number and e-mail addresses that are used for phone messaging and e-mail notices of new products, specials and discounts.

INDUSTRY CALENDAR

- ♦ Nov. 17-18, 2009 - **Credit Suisse 2nd Annual Health-care Conference**, Beijing
- ♦ Nov. 18-20, 2009 - **Morgan Stanley Asia Pacific Summit**, Singapore
- ♦ Dec. 2-4, 2009 - **China Bio-Pharma Congress 2009**, Shanghai
- ♦ Mar. 26-28, 2009 - **Pharma Pricing and Market Access Outlook 2010**, London

GROWTH DRIVERS

- ♦ Growing, aging population throughout China
- ♦ Building middle class society
- ♦ Increasing per capita income in China Jo-Jo target market
- ♦ Increasing disposable income, improving living standards
- ♦ Regulatory reform in pharmacy policy favoring non-hospital drug stores
- ♦ Enforcement of anti-corruption laws in retail drug sector
- ♦ Changes in consumer preferences favoring retail drug stores over hospitals

COMPETITORS

- ♦ China Nepstar Chain Drugstore, Ltd.
- ♦ Tian Tian Hao Grand Pharmacy
- ♦ Hunan Laobaixing Big Drugstore Chain Co., Ltd.
- ♦ Hangzhou Wulin Drugstore Co., Ltd.
- ♦ Liaoning Cheng Da Fang Yuan Pharmaceutical Chain Co., Ltd.
- ♦ Ningbo Siming Dayaofang Co., Ltd.
- ♦ People's Pharmacy

COMPETITION

The retail drug store sector in China is highly fragmented and populated by numerous small chains and any number of local, family operated pharmacies. The Southern Pharmaceutical Economic Research Institute estimated that at the end of 2008 there were 319,000 drug stores in China. The proliferation of drug stores in China is due in part to regulatory changes in 2005 to encourage the separation of pharmacy functions from medical services in hospitals.

China Jo-Jo competes with other retail drug store chains such as China Nepstar, Tian Tian Hau Grand Pharmacy and Lao Bai Xing Grand Pharmacy all with stores in Hangzhou. The Company also competes with grocery and other retailers with pharmacy counters, government-run hospitals that dispense prescription medicine, and private hospitals with pharmacies. Expansion beyond Hangzhou and into other communities in Zhejiang would bring the Company into competition with additional players such as Ningo Siming Dayaofang and the People's Pharmacy.

The Company believes that has clear competitive advantage over its competition through its modern format. Above-average square footage, up-to-date merchandising practices, more numerous choices among medicines and over-the-counter products, and in-store medical consultants are all vital features of the China Jo-Jo franchise.

MARKET OPPORTUNITY

China Jo-Jo's primary target market is the city of Hangzhou. Hangzhou is the capital city of Zhejiang Province in the Southeast coast of China near Shanghai. With a population near 8.0 million, Hangzhou boasts an international airport and a major rail station with connections to 20 major cities. The Hangzhou Metropolitan Rail is currently under construction with the first of eight lines expected to begin serving passengers in 2011. Approval was recently given to begin construction in 2010 of the Shanghai-Hangzhou Maglev Trail Line.

The city also has 14 universities, suggesting a well educated and cosmopolitan society. It is known for its beautiful natural scenery such as West Lake and the Yangtze River. Considered one of the ten most beautiful cities in China, Hangzhou has a building tourist trade in addition to a well established industrial base.

Hangzhou has been one of China's most prosperous cities throughout its 1,000-year history. The economy has been especially robust since China's so-called "opening" in 1992. GDP tripled in the period 2001 to 2008 to RMB 478.1 billion (US\$70 billion). Per capita income was RMB 69,600 (US\$10,199) in 2008, well above the national average per capita income near RMB 16,220.

China Jo-Jo intends to eventually expand into Zhejiang Province through a combination of new stores and acquisitions of small chains that are conducive to reconfiguration and rebranding under the China Jo-Jo name. Zhejiang Province has several metropolitan areas that could be prime targets, including Jinhua, Ningbo, Sanmen and Wenzhou.



LEADERSHIP

Lei Liu, Chief Executive Officer and Chairman, is one of three founders of the Company. Liu is experienced as a general manager of a drug store. He is a PRC licensed researcher and teaches anatomy.

Bennet Tchaikovsky, Chief Financial Officer, has previous experience in senior finance positions and is presently part-time CFO for Skystar Bio Pharmaceutical Company (SKBI: Nasdaq). He is a certified public accountant in the U.S. and holds a juris doctorate degree.

Li Qi, General Manager of Jiuzhou Grand Pharmacy and Director, is one of the three founders. She is experienced in drug store management and in health care as a nurse. Ms. Qi is a licensed TCM pharmacist.

Choongan Jin, Executive Director of Jiuzhou Service and Director, is the third founder. Mr. Jin is experienced in outpatient clinic management and is a PRC licensed pharmacist in Western medicine.

Shike Zhu, Director, is an entrepreneur and business executive and has a degree in engineering.

Huoqui Chen, Director, holds senior executive positions with technology and industrial concerns.

ORGANIZATION

The corporate organization of China Jo-Jo accommodates PRC restrictions on foreign ownership of Chinese operations.

Three operating companies known collectively as the HJ Group operate the pharmacies and outpatient services. Stock pledges by the founders and a purchase option further solidify commitments.

China Jo-Jo Drugstores, Inc.
U.S. Public Corporation

100%
owned

Renovation Investment Co., Ltd
Hong Kong Limited Liability Company

100%
owned

Zhejiang Jiuxin Investment Management
China Wholly Foreign Owned Enterprise

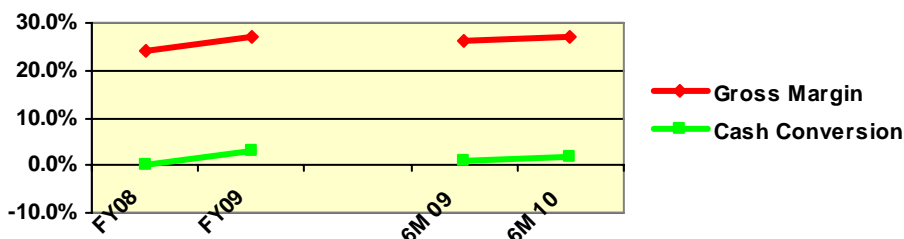
contracts

HJ Group
Operations

OPERATING RESULTS

	<u>FY08</u>	<u>FY09</u>	<u>6M FY10</u>	<u>FY10 Estimate</u>
Revenue	\$31,312	\$44,777	\$23,940	\$50,000
Operating Income	\$ 5,418	\$ 9,057	\$ 4,518	
Net Income	\$ 3,388	\$ 6,813	\$ 3,302	\$ 6,300
Earnings Per Share	na	na	\$0.21	\$0.32
Cash Flow	\$ 1,422	(\$ 231)	\$ 356	\$ 2,000
Capital Expenditures	\$ 348	\$ 474	\$ 234	\$ 600
Free Cash Flow	\$ 1,074	(\$ 705)	\$ 122	\$ 1,400

Dollars in thousands except EPS; Fiscal year ends March.



Source: Company Reports and Crystal Equity Research Estimates

BALANCES

	<u>3/09</u>	<u>9/09</u>
Cash	\$ 1.0	\$ 0.8
Current assets	\$13.0	\$16.2
PP&E, net	\$ 1.0	\$ 1.0
Total assets	\$16.0	\$19.7
Accts. Payable	\$ 5.9	\$ 5.9
Cur. Liabilities	\$ 9.3	\$ 9.5
Long-term debt	\$ -0-	\$ -0-
Equity	\$ 6.7	\$10.2
Return on Assets	42.5%	35.4%
Return on Equity	101.5%	66.7%
Tot. Debt/Equity	0.00	0.00
Days Sales Outstanding	10.3	9.5

Dollars in millions

Source: Company Reports

CAPITALIZATION

Recent Price: \$2.65 (11/16/09)
Shares Out: 20.0 M

Market Capital: \$53.0 M
+ Preferred Stock \$ -0- M
+ Debt \$ -0- M
- Cash \$ 0.8 M
Enterprise Val: \$52.2 M

Book Value: \$10.2 M
Working Capital: \$ 6.7 M

Balance sheet figures as of 9/30/09

FY10 CAPITAL NEEDS

Maintenance capex \$0.5 M

Capacity expansion - store with 3,000 sq. ft. retail space, configuration for scheduled physician hours:

New equipment \$0.1 M
Working capital \$0.2 M

Source: Crystal Equity Research Estimates



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