



China Nepstar Chain Drugstore Ltd.

NYSE:NPD

Presentation to Investors
August 2010



Safe Harbor



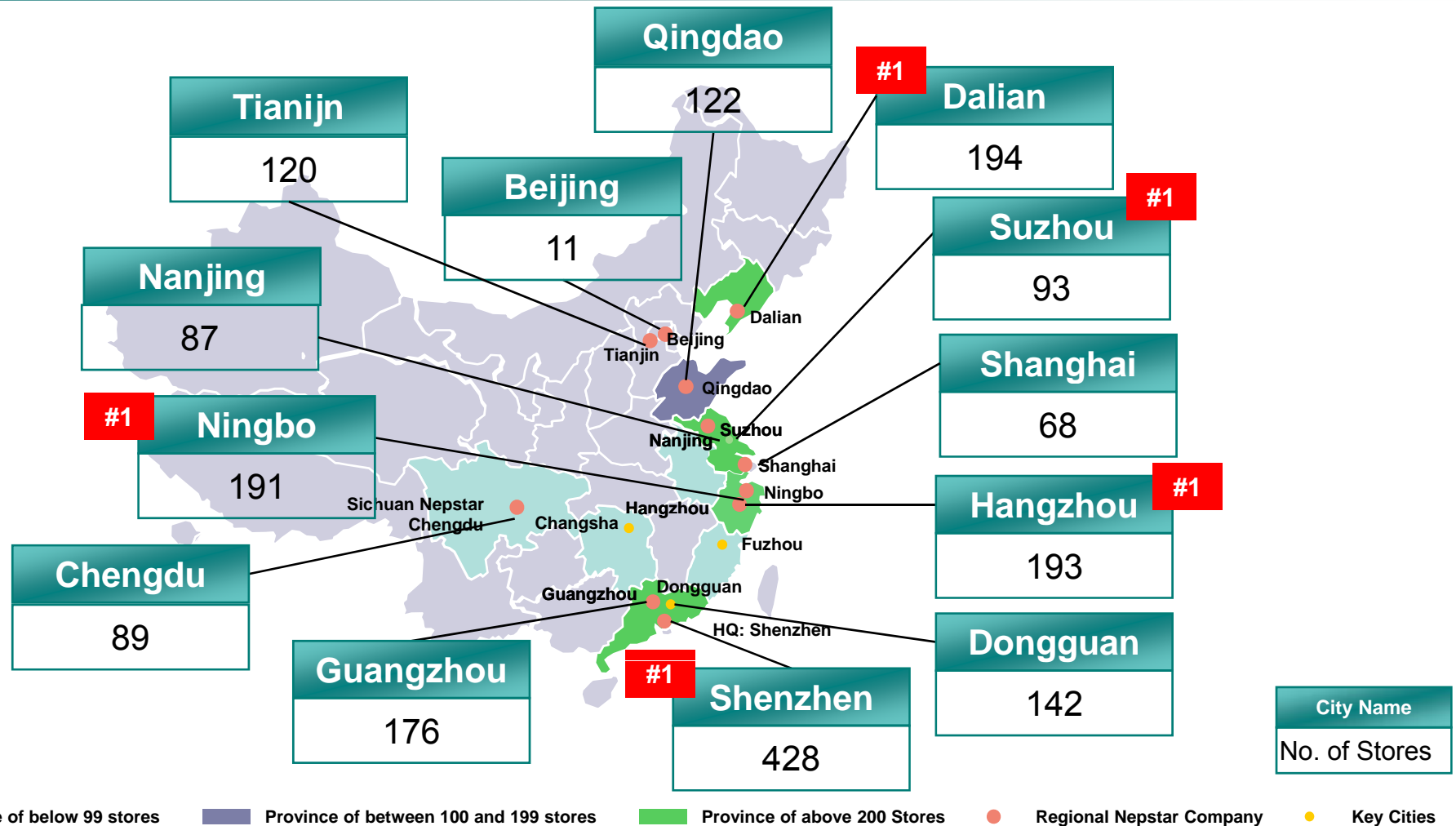
This presentation contains forward-looking statements. These statements constitute “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as “will,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates” and similar statements. Among other things, the quotations from management in this press release and the Company’s strategic operational plans, contain forward-looking statements. Such statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Further information regarding these and other risks is included in the Company’s filings with the U.S. Securities and Exchange Commission, including its annual report on Form 20-F. The Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under applicable law.



Company Overview

Who We Are	<ul style="list-style-type: none">● We are China's largest drugstore chain by the number of directly operated stores● Awarded "Best Drugstore Chain of 2007 in China" by China Drugstore magazine
Our Retail Network*	<ul style="list-style-type: none">● Nepstar had a total of 2,582 stores in operation● National presence in 74 cities <p style="text-align: right;"><i>(*As of June 30, 2010)</i></p>
Our Business Model	<ul style="list-style-type: none">● Neighborhood drugstore of 80-120sqm in size● Directly operated stores to ensure consistent service standard● Optimized product offerings including private label products
Our Propositioning	<ul style="list-style-type: none">● Leading drugstore brand with absolute quality assurance● Neighborhood drugstores with one stop convenience for many day to day needs

Leading Brand with National Footprint

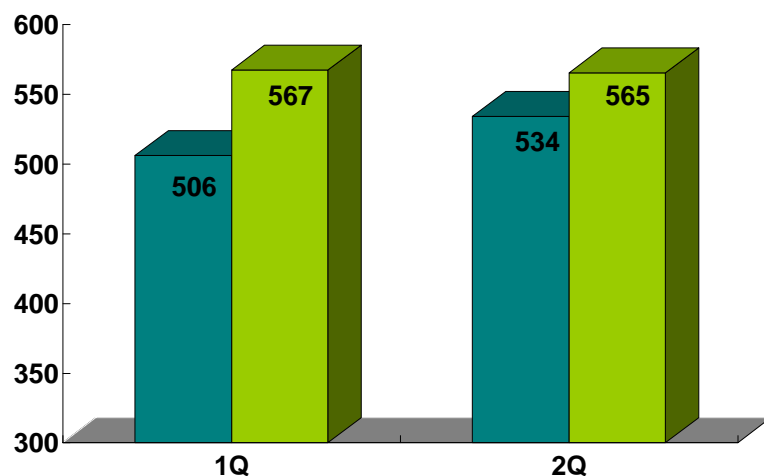


Note: No. of stores as of June 30, 2010

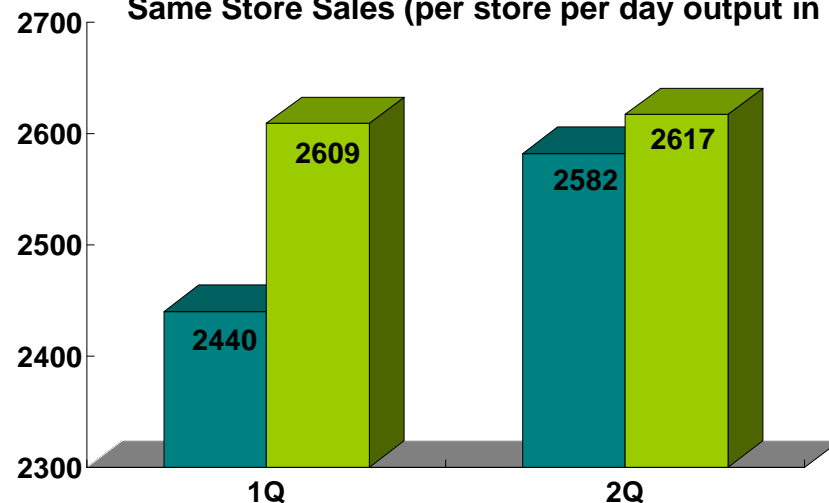
Financial Snapshots of 1H 2010



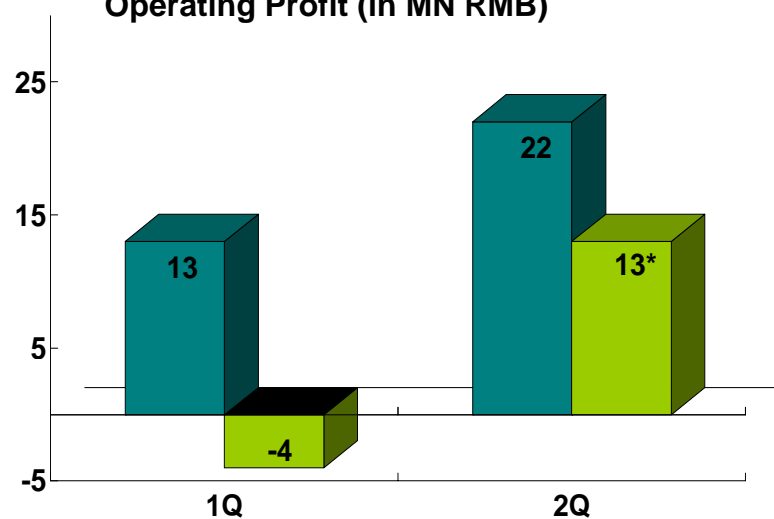
Revenue (in MN RMB)



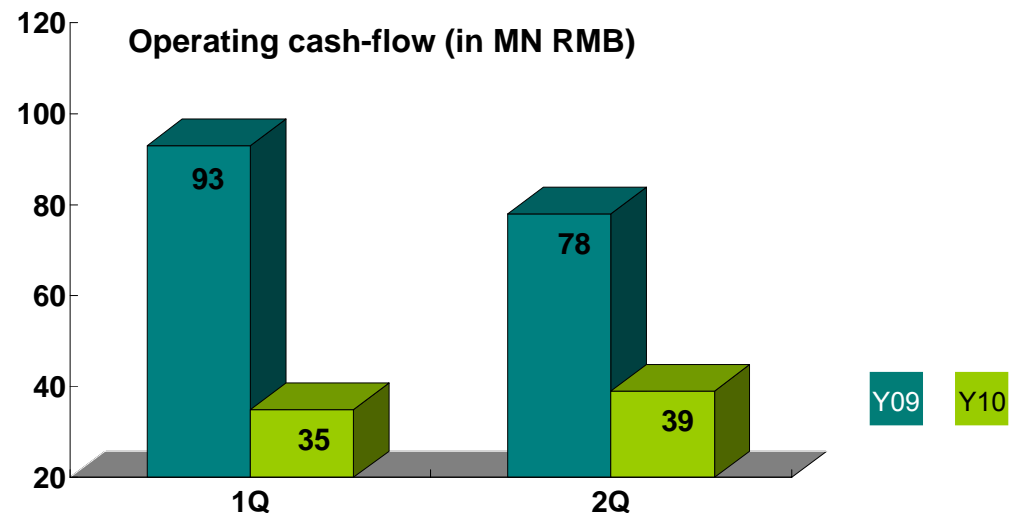
Same Store Sales (per store per day output in RMB)



Operating Profit (in MN RMB)



Operating cash-flow (in MN RMB)



(*Before charging the SAFE penalty of RMB 26MN)

Strong Balance Sheet

- Cash and cash equivalents: 1,161MN RMB (171MN USD);
 - Total shareholder's equity: 1,577MN RMB (233MN USD);
 - Weighted average number of ADS: 105.5MN shares
-

*(*Balance Sheet, as of June 30, 2010)*

- Strong cash flow from operating activities;
- No Debt;
- 2009 annual dividend of 0.28USD/ADS paid in May.

Store Economics

- Cash break-even achieved once new stores reach daily revenue of above 1,750RMB/Day

New Store Break-Even Model in Y09			(monthly in RMB)	Economics for a typical store			(monthly in RMB)
Revenue	52,500	(1,750RMB/Store/Day)		Revenue	75,000	(2,500RMB/Store/Day)	
Gross Profit	<u>25,200</u>	(Gross margin 48%)		Gross Profit	<u>36,000</u>	(Gross margin 48%)	
Labor	-10,000	(2,000RMB / person, 5 store staff)		Labor	-12,000	(2,000RMB / person, 6 store staff)	
Rental & Utility	-12,000			Rental & Utility	-11,000		
D&A	-1,667			D&A	-1,667		
Miscellaneous	-1,500			Miscellaneous	-1,500		
TTL Expenses	<u>-25,167</u>			TTL Expenses	<u>-26,167</u>		
							NOPAT/store/month =7,000 RMB

Unique Operation Environment

Hospital pharmacy still dominates the market; policies moving towards separating drug prescribing from drug dispensing

Pharmaceutical retailing industry is highly fragmented as well as crowded

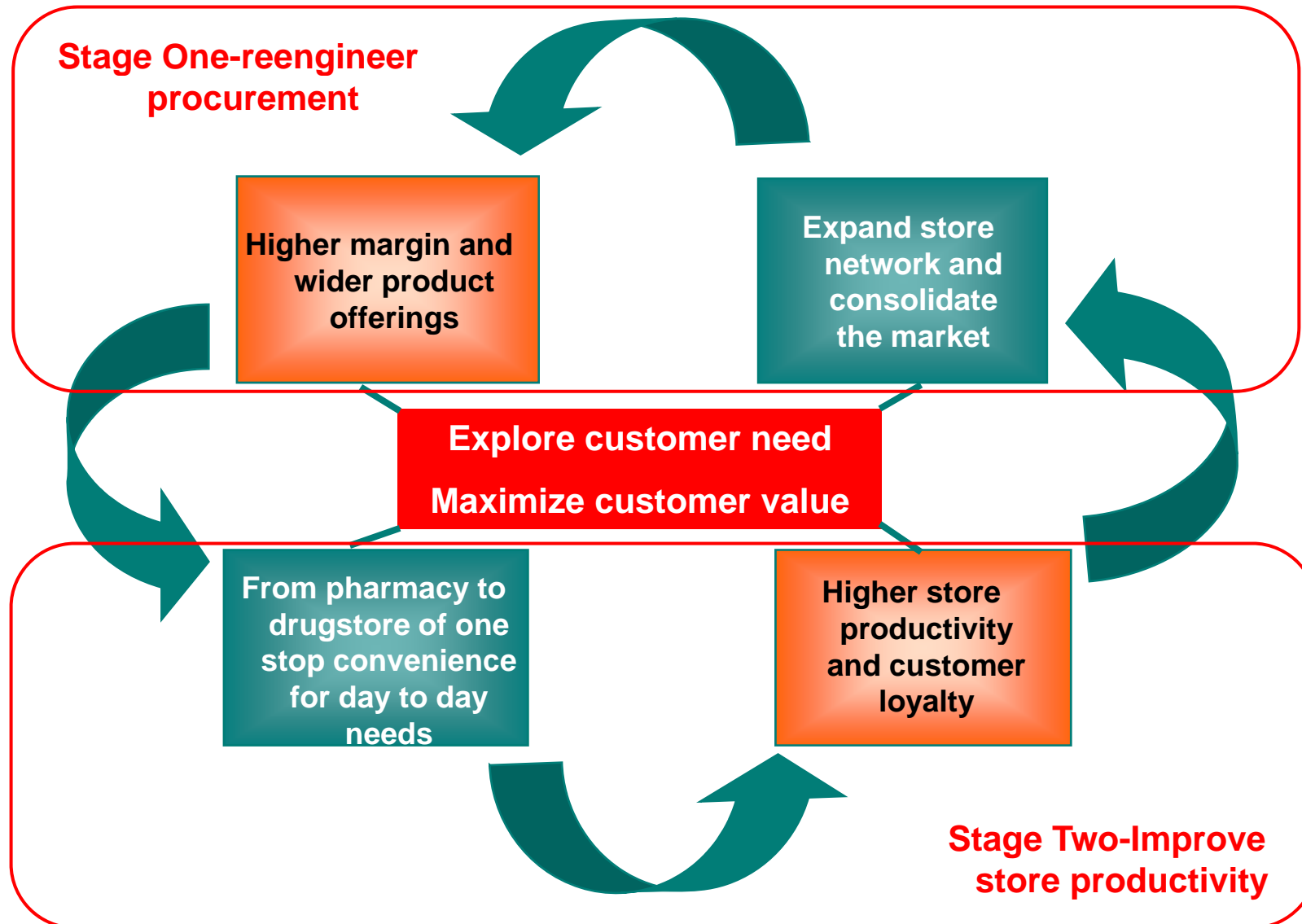
Long industry value chain with manufacturing and wholesaling both fragmented

Pharmaceuticals are mostly paid out-of-pocket

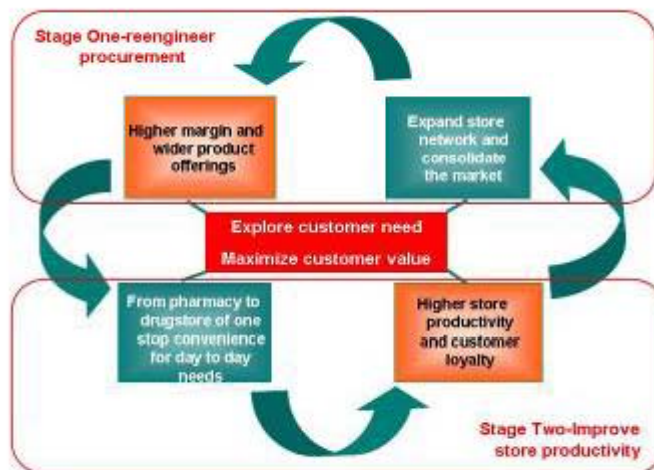
Front-end sales gradually tie in with the growth of retail pharmacy

High entry barriers for foreign players

Overall Business Strategy



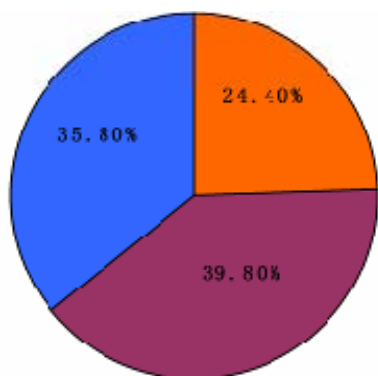
Reengineer Procurement



Stage One – Reengineer Procurement
Optimizing supply chain management to realize high margin through central procurement and private labeling

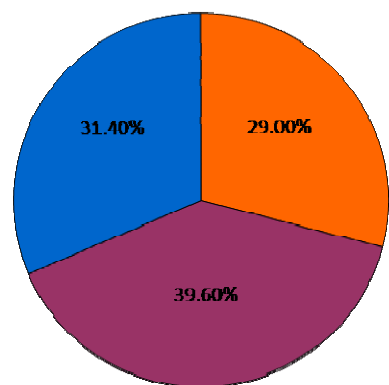
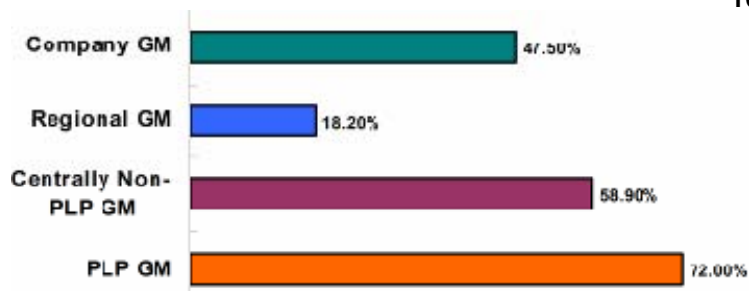
Reengineer Procurement

Central Procurement Margin Contribution



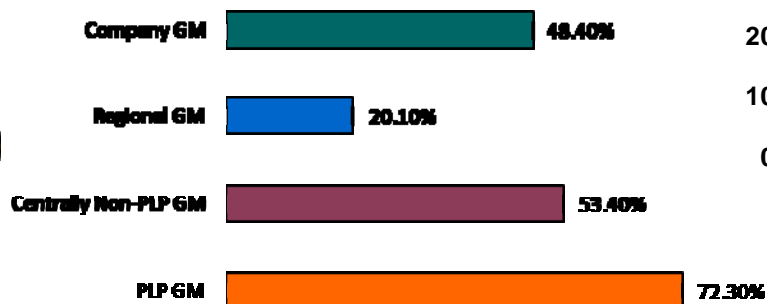
Revenue contribution

Y2008

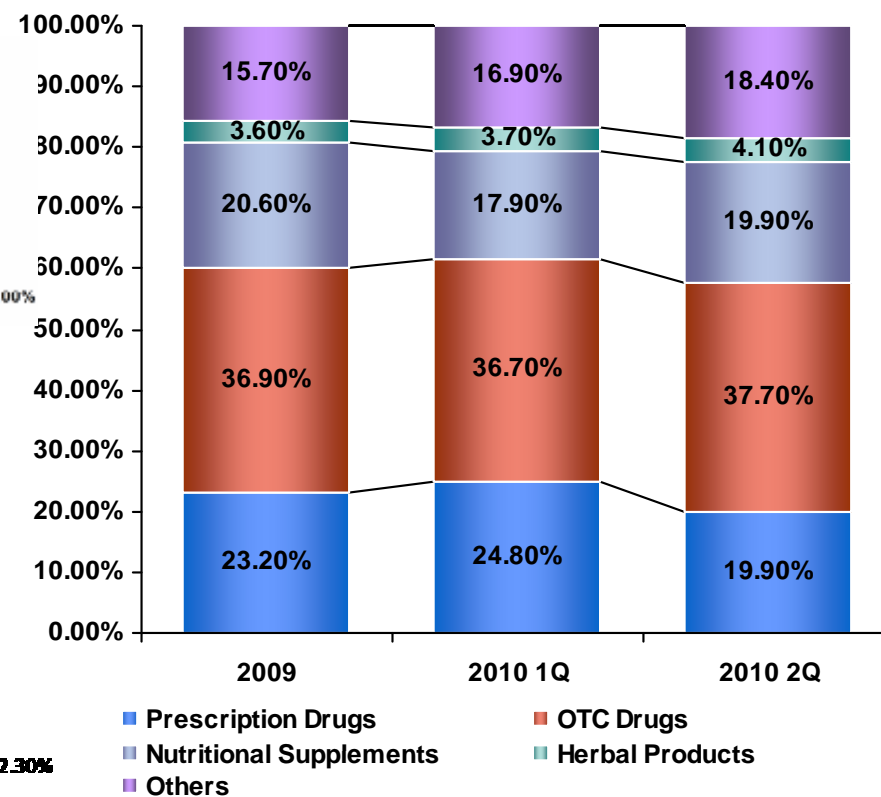


Revenue contribution

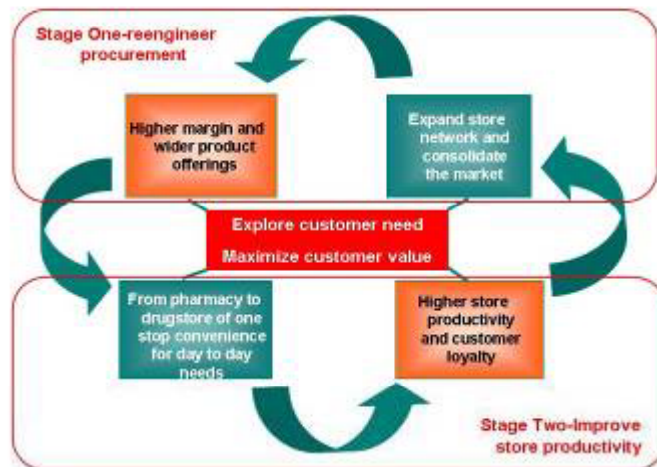
Y2009



Current product mix


































Improve Store Productivity



Stage Two – Improve Store Productivity
expand offerings into general food, personal care and household consumables to address broader needs of customers for a healthy and convenient lifestyle

Address a broader needs of Customers

Nepstar, with established store footprint, proven central procurement, and developed logistics network, is well positioned to deliver the value of one stop convenience for day to day needs.

Community Customers' Needs 	Hospital pharmacy 	Super markets 	Traditional pharmacy 	Beauty shops 	
Quality assurance					
Wide range of pharmaceutical products					
Professional healthcare assistance					
Wide selection of day-to-day consumables					
Accessibility and convenience					

Meet the Challenges this Year

Challenging operational environment

- ▶ Increasing pressure on operation expenses driven by inflation and drastic minimum wage increase mandated;
- ▶ Increasing revenue and gross margin erosion for pharmaceutical products due to the disruption from the healthcare reform policies.

Implement strategic transition to reposition as one stop convenience for day to day needs.

Carefully control the new store opening pace

Adopt stringent cost control measures to defend the inflation

New initiatives taken in 2H, 2010

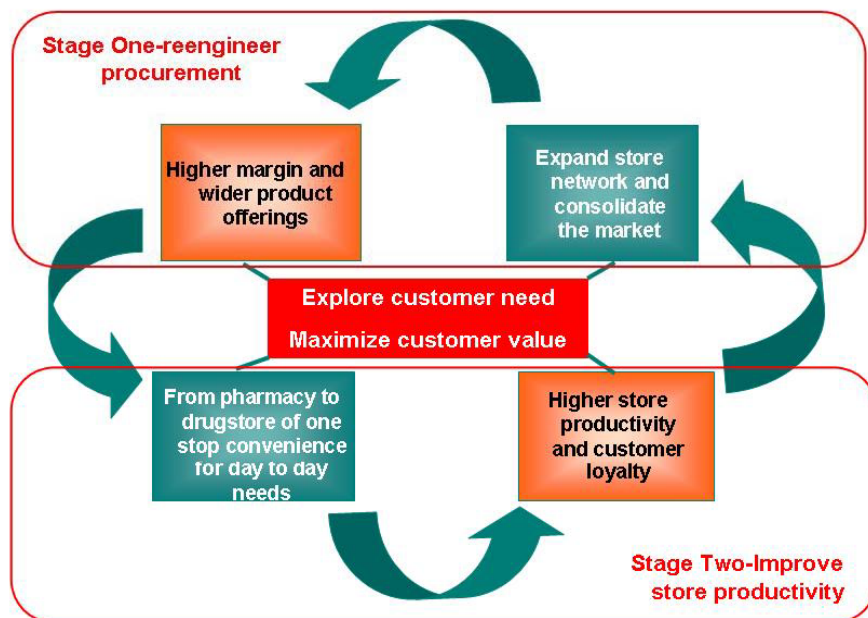


- Accelerate introduction of new convenience merchandise
- Launch Nepstar Shopper's Card
- Remodel and re-planogram the stores
- Adopt active marketing campaigns to communicate to consumers
- Upgrade the logistics systems to match the offering changes



Business Outlook

Adapt to the evolving operational environment, enhance store profitability, and further strengthen leading position in China



- **Expand store network organically and through synergetic acquisition**

- **Leverage on procurement scale to maintain high gross margin**

- **Address broader needs of community customers to realize high store productivity**



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