



China Nepstar Chain Drugstore Ltd.

NYSE:NPD

Presentation to Investors
August 2012



Safe Harbor

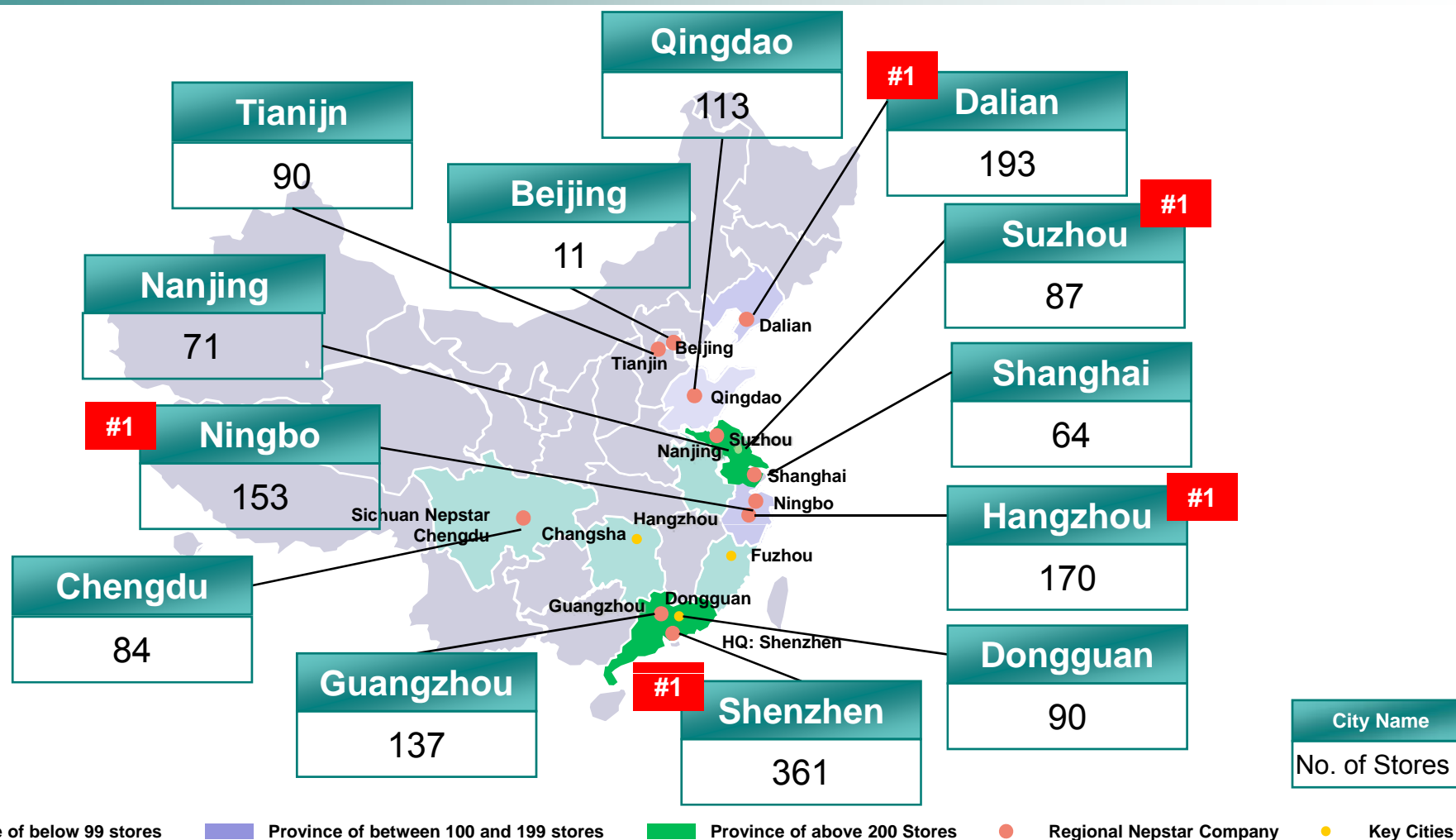


This presentation contains forward-looking statements. These statements constitute “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements 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 2,257 stores in operation● National presence in 76 cities <p>(*As of June 30, 2012)</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">● Broaden product offerings and bring convenience to customers● Grow store productivity to drive customer spending per visit● Improve operation efficiency and service quality

Leading Brand with National Footprint



Note: No. of stores as of June 30, 2012

2012 1H Income Statement Highlights



	Six-Month Period Ended	
	June 30, 2012	June 30, 2011
<i>(in Millions of RMB, except % analysis)</i>		
Revenue	1,243.4	1,224.7
Gross Margin	46.6%	47.7%
Operating Income	12.6	20.0
Interest Income	9.3	10.2
Net Income	9.5	17.1

Strong Balance Sheet and Cash Position

- **Cash, cash equivalents, restricted cash and bank deposits: RMB586.2MN (US\$92.3MN);**
- **Total shareholder's equity: RMB950.4MN(US\$149.6MN);**

*(*Balance Sheet, as of June 30, 2012)*

- **Weighted average number of ADS: 200.6MN shares for the first half of 2012;**
- **Operating cash flow of RMB31.1MN (US\$4.9MN) for the first half of 2012;**
- **No Debt.**

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

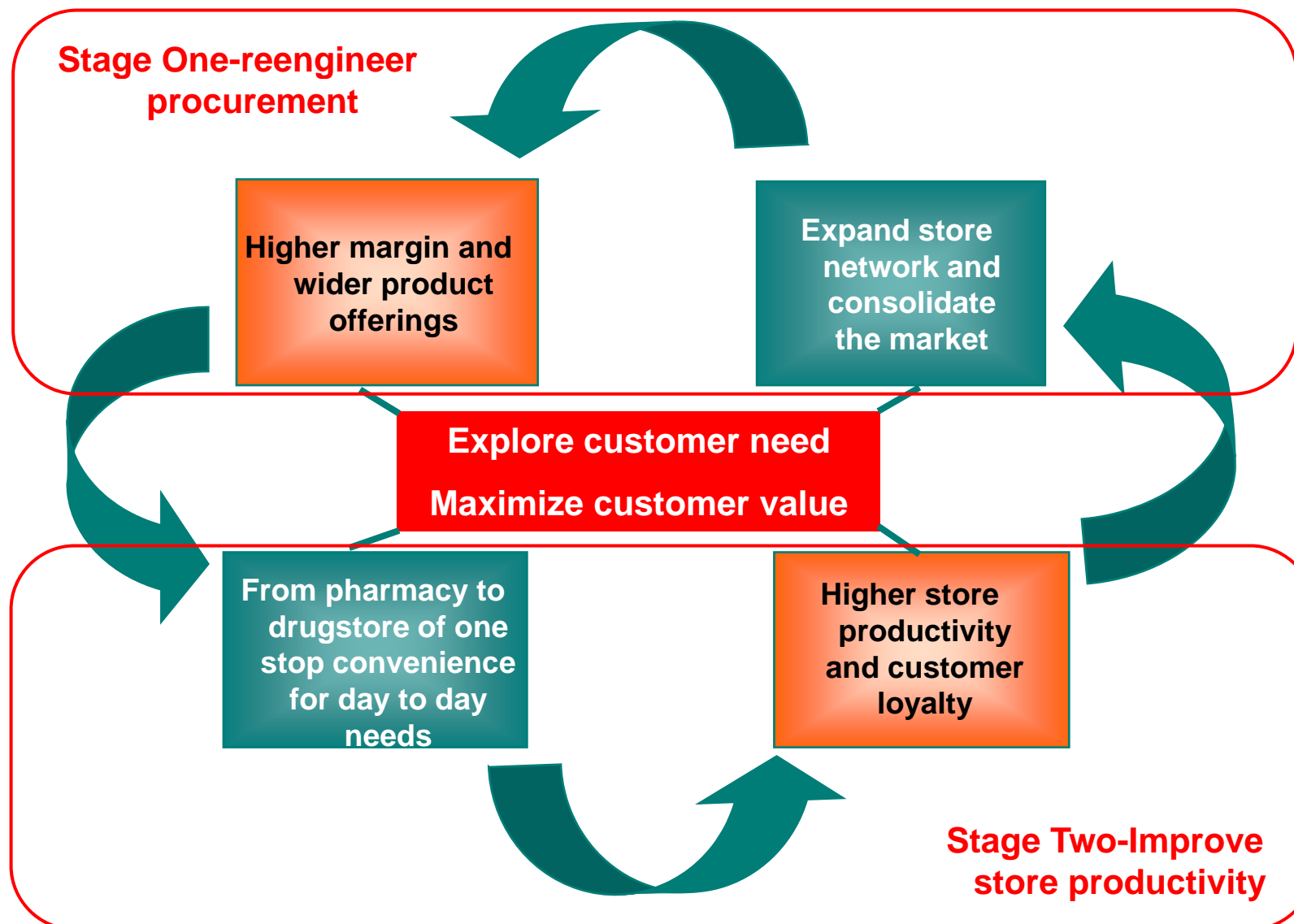
Long industry value chain with manufacturing and wholesaling both fragmented

Pharmaceuticals are mostly paid out-of-pocket

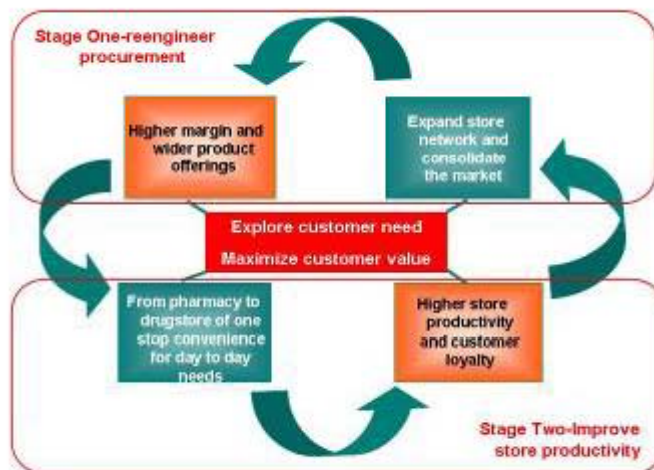
Front-end sales gradually tie in with the growth of retail pharmacy

High entry barriers for foreign players

Overall Business Strategy



Reengineer Procurement

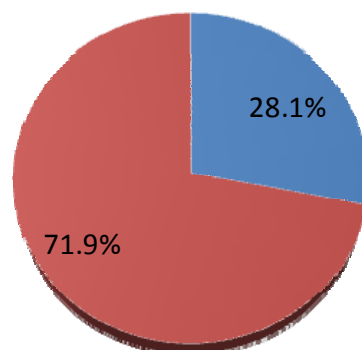


Stage One – Reengineer Procurement
Optimizing supply chain management
to realize high margin through central
procurement and private labeling

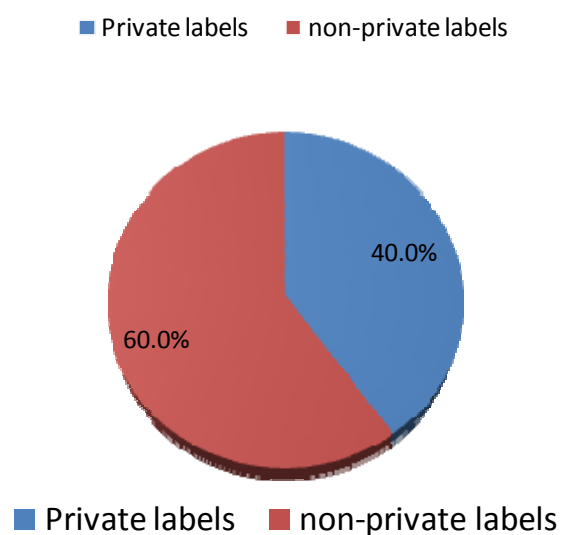
Reengineer Procurement

2012 First Half Private Label Contribution

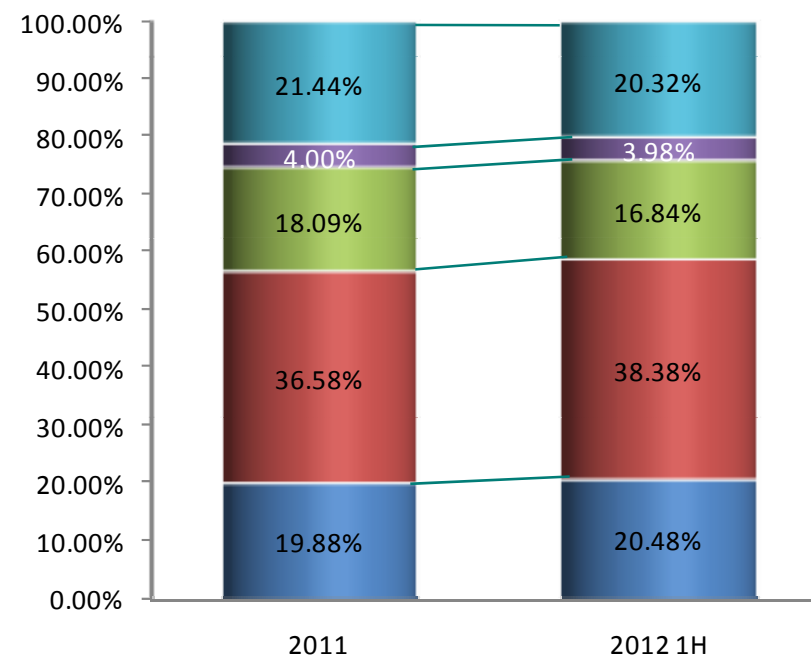
Revenue Contribution



Gross Profit Contribution

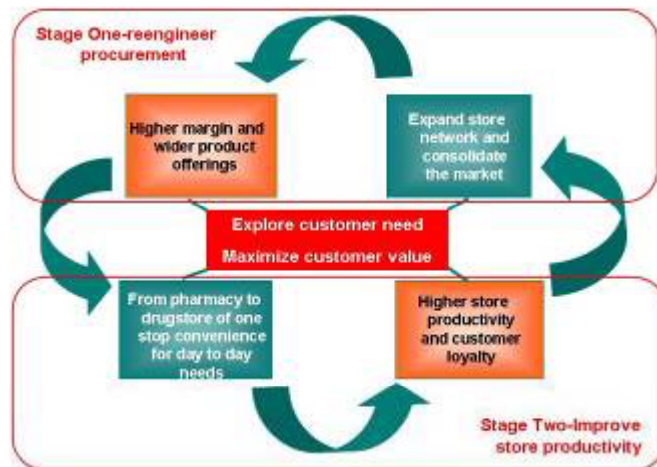


Current product mix



- Prescription drugs
- Over-the-counter drugs
- Nutritional supplements
- Herbal products
- Other product sales
































Improve Store Productivity



Stage Two – Improve Store Productivity
Expand offerings in nutritional supplements, household medical devices, personal care and household consumables to address broader needs of consumers

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 broader healthcare shopping.

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

Initiatives Implemented



- Continue to optimize and broaden the product offerings
- Improve display and re-planogram the stores
- Adopt active marketing campaigns to communicate with consumers
- Upgrade the logistics systems to match the offering changes



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.

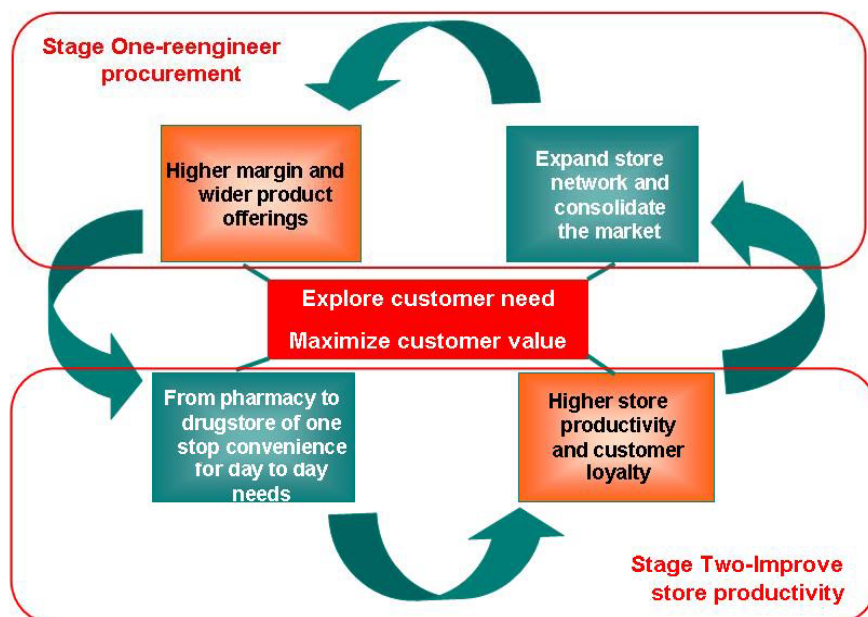
Grow single store productivity through optimization of product offerings and daily operation management

Closing underperforming stores with no sign of turnaround

Adopt stringent cost control measures to defend the inflation

Long-term 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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