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NEPSTAR  
DRUGSTORE

# China Nepstar Chain Drugstore Ltd.

NYSE:NPD

Presentation to Investors  
August 2014



# Safe Harbor

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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

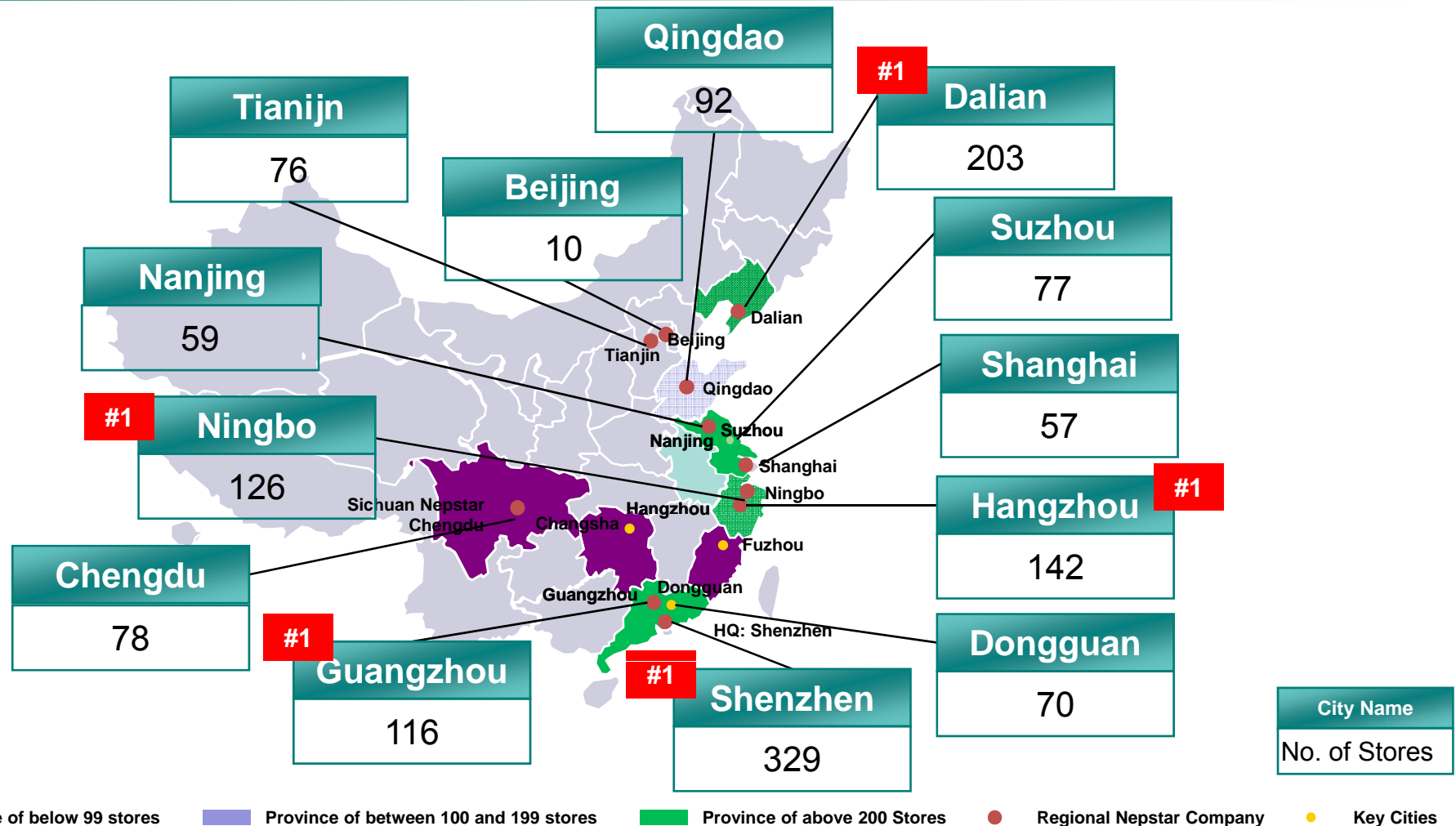
<b>Who We Are</b>	<ul style="list-style-type: none"><li>● We are a leading drugstore chain with a network of 2,048 directly operated stores across China</li></ul>
<b>Our Retail Network*</b>	<ul style="list-style-type: none"><li>● Nepstar has a total of 2,048 stores in operation</li><li>● National presence in 77 cities</li></ul> <p>(*As of June 30, 2014)</p>
<b>Our Business Model</b>	<ul style="list-style-type: none"><li>● Neighborhood drugstore of 80-120sqm in size</li><li>● Directly operated stores to ensure consistent service standard</li><li>● Optimized product offerings including private label products</li></ul>
<b>Our Propositioning</b>	<ul style="list-style-type: none"><li>● Broaden product offerings and bring convenience to customers</li><li>● Grow store productivity to drive customer spending per visit</li><li>● Improve operation efficiency and service quality</li></ul>



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# Leading Brand with National Footprint



Note: No. of stores as of June 30, 2014

# 2014 Q2 Income Statement Highlights



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*(in Millions of RMB, except % analysis)*

## Three-Month Period Ended

June 30, 2014

June 30, 2013

<b>Revenue</b>	<b>687</b>	<b>639</b>
<b>Gross Margin</b>	<b>42.7%</b>	<b>44.0%</b>
<b>Income/(loss) from Operations</b>	<b>(11.5)</b>	<b>(1.0)</b>
<b>Interest Income</b>	<b>1.9</b>	<b>4.2</b>
<b>Net Income/(loss)</b>	<b>(15.9)</b>	<b>(3.9)</b>



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## Strong Balance Sheet and Cash Position

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- **Cash, cash equivalents, restricted cash and short-term and long-term bank deposits: RMB306.0 MN (US\$49.3 MN);**
- **Total shareholder's equity: RMB811.3 million (US\$130.8 MN);**

*(\*Balance Sheet, as of June 30, 2014)*

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- **Operating cash outflow of RMB 79.0 MN (US\$12.7 MN) for the second quarter of 2014;**
- **No Debt.**

# Unique Operation Environment

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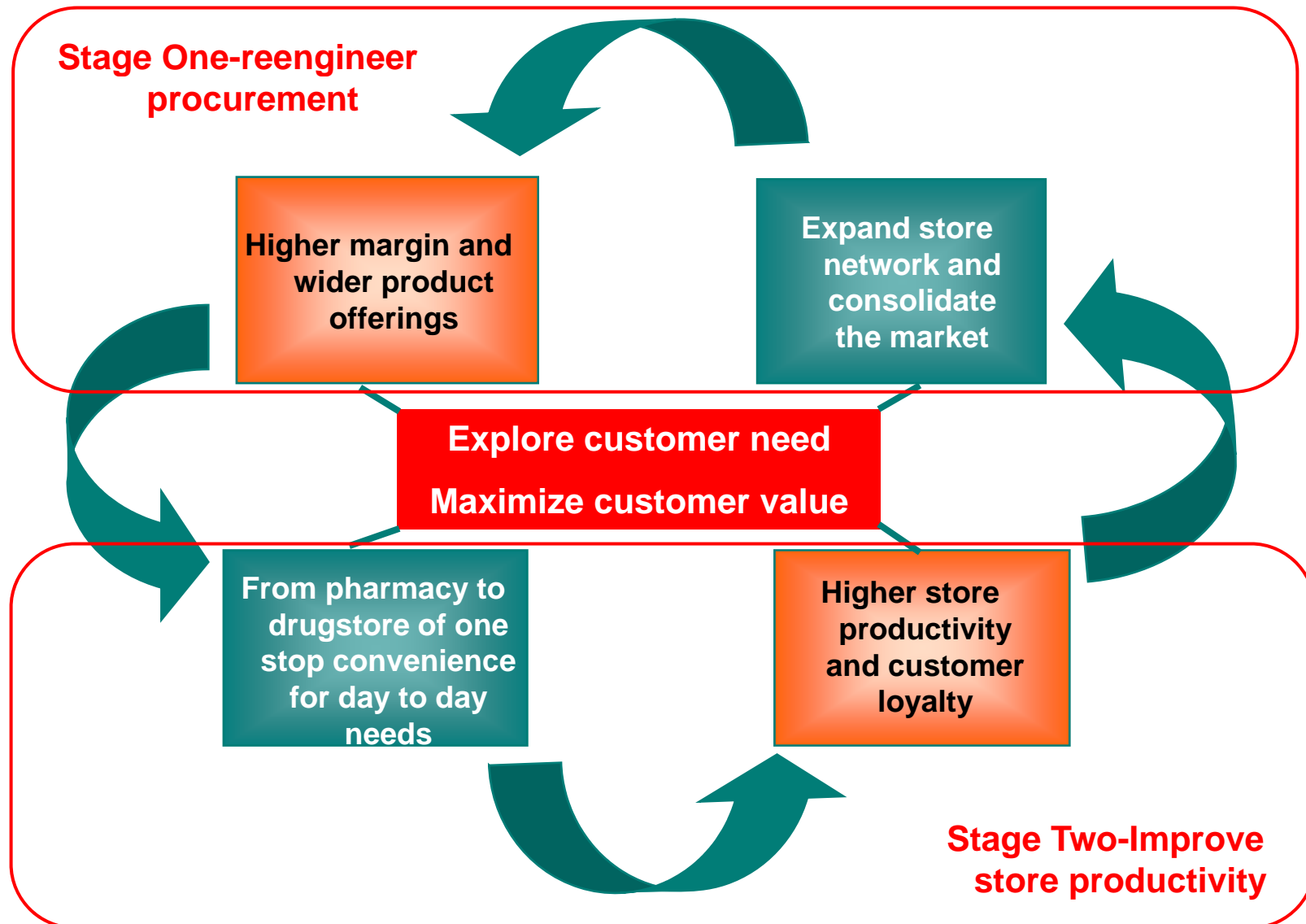
Hospital pharmacy still dominates the market; policies moving towards separating drug prescribing from drug dispensing

Pharmaceutical retailing industry is highly fragmented as well as crowded

Long industry value chain with manufacturing and wholesaling both fragmented

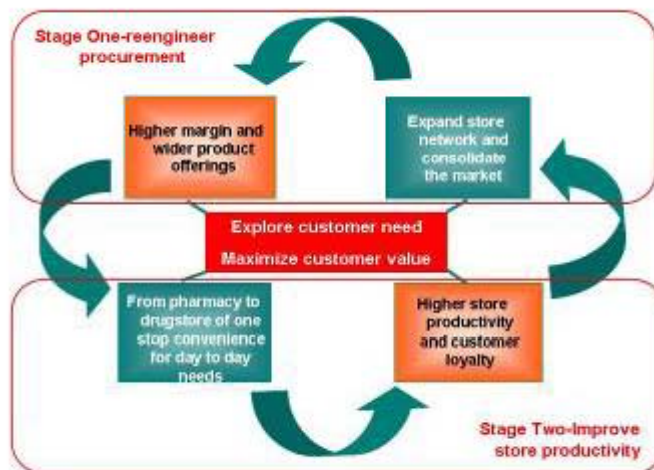
High entry barriers for foreign players

# Overall Business Strategy





# Reengineer Procurement

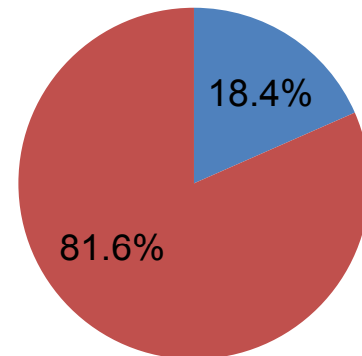


**Stage One – Reengineer Procurement**  
Optimizing supply chain management to realize high margin through central procurement and private labeling

# Reengineer Procurement

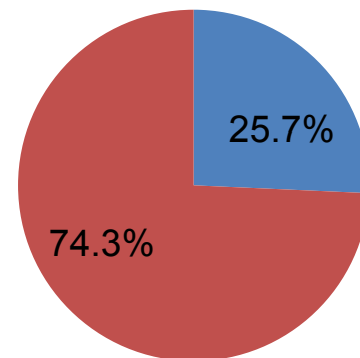
## 2014 Q2 Private Label Contribution

### Revenue Contribution



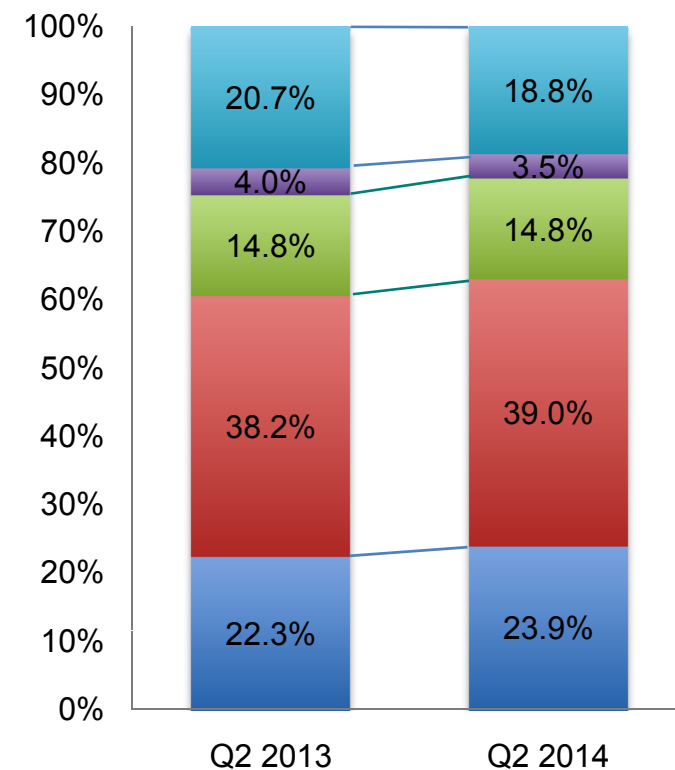
■ Private labels ■ Non-private labels

### Gross Profit Contribution



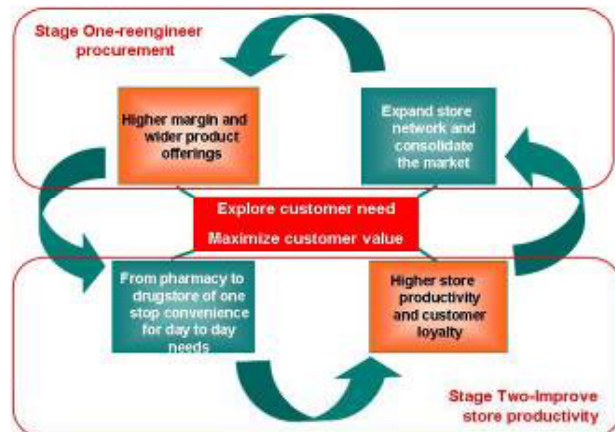
■ Private labels ■ Non-private labels

## Current product mix



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
















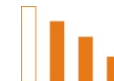















# Improve Store Productivity



**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 of 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.

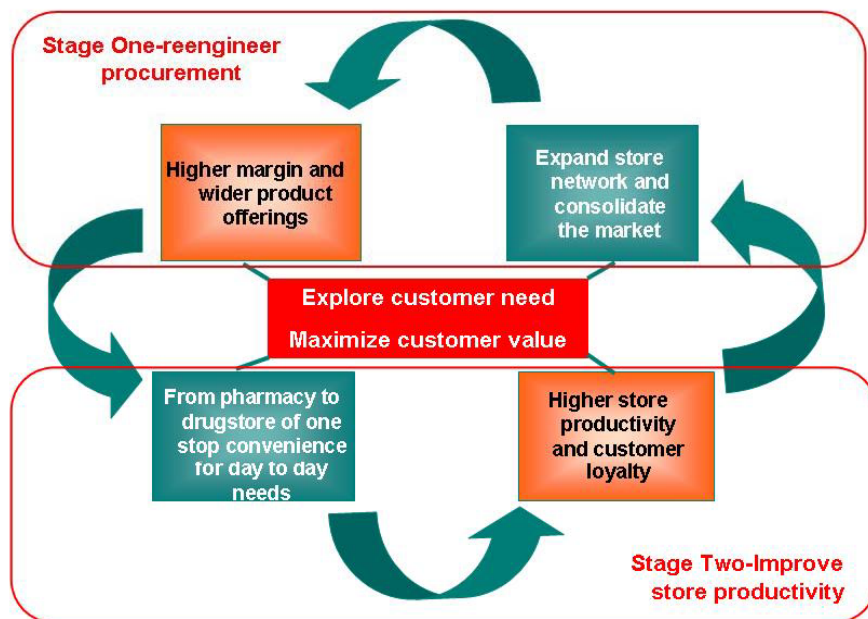
**Grow single store productivity through optimization of product offerings and daily operation management**

**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**





**China Nepstar Chain Drugstore Ltd.**