

# China Nepstar Chain Drugstore Ltd.

(NYSE: NPD)

4Q 2009 Earnings Conference Call  
March 3, 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.

# Conference Call Presenters



**Mr. William Dai**  
*Chief Financial Officer*



**Mr. Jason Wu**  
*Chief Operation Officer*



**Ms. Lucia Qian**  
*VP Investor Relations*

# Conference Call Agenda



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**Quarterly Result Overview (Lucia Qian)**

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**4Q09 and Fiscal 2009 Financial Highlights (William Dai)**

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**Business Outlook (William Dai)**

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**Q&A (William Dai, Jason Wu, Lucia Qian)**

# Company Overview



## Who We Are

- We are China's largest drugstore chain by the number of directly operated stores
- Awarded "Best Drugstore Chain of 2008 in China" by China Drugstore magazine

## Our Retail Network\*

- Nepstar had a total of 2,479 stores in operation.
- National presence in 71 cities

*(\*As of December 31, 2009)*

## Our Business Model

- Neighborhood drugstore of 80-120sqm in size
- Directly operated stores to ensure consistent service standard
- Optimized product offerings including private label products

## Our Key Strategies

- Expand network through organic growth and acquisitions
- Grow store productivity
- Improve operation efficiency and service quality

# Fourth Quarter 2009 Results



# 4Q 2009 Highlights



**Revenue was RMB621 million (US\$91 million), reflecting a 12.8% increase compared to revenue of RMB 551 million in the fourth quarter of 2008 on an adjusted basis**

**Same Store Sales: 10.5%**

**Net income: RMB43 million (US\$6 million)**

**Net cash flow from operations: RMB31 million (US\$4.5 million)**

**Opened 156 new stores and closed 14 stores**

\* Adjusted financial information is presented to show the accounting impact of the termination of the voting rights assignment agreement in JZJ as if that had been taken place in the beginning of the relevant period.



# 4Q 2009 Revenue by Segment



	Three-Month Period Ended	
	December 31, 2009	December 31, 2008
Total revenue	RMB 621M	RMB 656M
Revenue on adjusted basis		RMB 551M
Same-store sales (1577 stores opened before 12/31/07)	RMB 3,267 per store per day	RMB 2,956 per store per day
Same-store sales growth	YoY 10.5%	
Prescription drugs	27.0%	19.7%
OTC drugs	36.4%	38.3%
Nutritional supplements	19.7%	20.4%
Herbal products	3.3%	3.4%
Other merchandise sales	13.6%	18.2%



# Private-Label Products (PLPs)



**Private-label products offer high margin contribution, flexibility in pricing and more control over product quality**

<b>First PLP Launched:</b>	<b>Sept. 2005</b>
<b># of PLPs at end of 4Q 2009:</b>	<b>1,524</b>
<b>PLPs as % of revenue in 4Q 2009:</b>	<b>28.7%</b>
<b>PLPs as % of gross profit in 4Q 2009:</b>	<b>43.4%</b>

# 4Q 2009 Income Statement



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

	Three-Month Period Ended	
	December 31, 2009	December 31, 2008
Revenue	621	656
Revenue on an adjusted basis		551
Gross Margin	47.9%	45.6%
Gross Margin on an adjusted basis		49.4%
Selling & Mkting / Rev	37.1%	36.2%
S&M / Rev on an adjusted basis		38.6%
G&A / Rev	4.1%	3.6%
G&A / Rev on an adjusted basis		4.1%
Net income*	43	46

\* Interest income for the fourth quarter of 2009 was RMB15 million compared to RMB27 million for the same period in 2008 on an adjusted basis.

# Strong Balance Sheet



<i>(in Millions of RMB)</i>		December 31, 2009	December 31, 2008
Cash & cash equivalents		666	1,198
Restricted cash		765	-
Long-term Bank Deposit		-	200
Held-to-maturity investment securities		400	1,041
Inventory		370	374
Accounts Receivable		73	88
Total current liabilities		995	491
Shareholders' equity		1,778*	2,983

*\*On March 16, the Company declared an annual cash dividend of US\$0.35 per ADS, which was distributed in Q2.*

*On August 24, Nepstar declared a special dividend of US\$1.50 per ADS, or total US\$ 156 million, which was distributed to shareholders in Dec 2009.*

# Fiscal Year 2009 Results



# Fiscal Year 2009 Revenue by Segment



	Fiscal Year Ended	
	December 31, 2009	December 31, 2008
Total revenue	RMB 2.2B	RMB 2.4B
Revenue on an adjusted basis		RMB 2.0B
Same-store sales (1577 stores opened before 12/31/07)	RMB 2,941 per store per day	RMB 2,867 per store per day
Same-store sales growth	2.6%	
Prescription drugs	23.2%	21.5%
OTC drugs	36.9%	36.1%
Nutritional supplements	20.6%	20.2%
Herbal products	3.6%	3.1%
Other merchandise sales	15.7%	19.1%

# Fiscal Year 2009 Income Statement



*(in Millions of RMB, except earnings per share)*

	Fiscal Year Ended	
	December 31, 2009	December 31, 2008
Revenue	2,218	2,397
Revenue on an adjusted basis		2,014
Gross Margin	48.4%	47.5%
Gross margin on an adjusted basis		50.8%
Operating Income	110	141
Operating income on an adjusted basis		128
Interest income	75	122
Net income	140	193

# 4Q and Recent Operating Highlights



- In-store efficiency improvement
  - ▶ Improving product offerings in both EDL and non-EDL pharmaceuticals and non-pharma products
  - ▶ Focusing on enhancing store operation standards
- Revived new store opening in under-penetrated markets
  - ▶ Placing emphasis on pan-Beijing area, Northeast China and Central China
  - ▶ Adding new cities in Hubei province
- Continued “cherry-picking” acquisitions
  - ▶ Acquired Xiang Yun Kang Drugstore’s all 6 stores located in densely populated residential areas of Beijing
  - ▶ Acquired Ren Ren Hao Chain Drugstore’s 8 stores located in Wenzhou



# Dividend Announcement



- One-time Special Dividend
  - ▶ US\$1.50 per ADS or total of US\$156 million
  - ▶ Record date Sept. 25 and payment in Dec, 2009
  
- Post- Special Dividend
  - ▶ Maintain strong cash position and steady cash-flow generation
  - ▶ Long term growth strategy and market leadership remain unchanged
  - ▶ Near term dynamics – continue new store openings and acquisitions

# Strategic Focus for 2010



- Maintain same-store-sales growth momentum
- Enhance operating efficiencies
- Continue to generate positive operating cash-flow
- Continue new store openings in growth markets
- Seek high quality acquisition

# 4Q 2009 Highlights



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# Questions and Answers

# Thank you!



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