



China Nepstar Chain Drugstore Ltd.

(NYSE: NPD)

4Q and FY08 Earnings Conference Call
March 16, 2009



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. Ian Wade

Co-Chief Executive Officer



Mr. Jiannong Qian

Co-Chief Executive Officer



Mr. William Dai

Chief Financial Officer



Ms. Lucia Qian

VP Investor Relations

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Company Overview



Who We Are

- 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*

- 2,709 drugstores (including 355 stores of Yunnan subsidiary, which ceased to be Nepstar's subsidiary in Jan. 2009)
- National presence in 76 cities

*(*As of December 31, 2008)*

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

Fourth Quarter 2008 Results



4Q 2008 Highlights



Revenue: +25.2% YoY to RMB656M (US\$96M)

Same Store Sales: up 0.9%

Net income: RMB46M (US\$7M)

Net cash flow from operations: RMB46M (US\$7M)

87 new stores added in our retail network

4Q 2008 Revenue by Segment



	Three-Month Period Ended	
	December 31, 2008	December 31, 2007
Total revenue	RMB 656M	RMB 524M
Revenue growth	25.2%	
Same-store sales - after taxes (1379 stores opened before 12/31/06)	RMB 3,559 per store per day	RMB 3,527 per store per day
Same-store sales growth	YoY +0.9%	
Prescription drugs	19.7%	21.8%
OTC drugs	38.3%	37.2%
Nutritional supplements	20.4%	16.6%
Herbal products	3.4%	3.0%
Other merchandise sales	18.2%	21.4%

Private-Label Products (PLPs)



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

First PLP Launched:	Sept. 2005
# of PLPs at end of 4Q 2008:	1,455
PLPs as % of revenue in 4Q 2008:	26.0%
PLPs as % of gross profit in 4Q 2008:	39.6%
PLPs as % of revenue in fiscal year 2008:	24.4%
PLPs as % of gross profit in FY 2008:	37.0%

4Q 2008 Income Statement



	Three-Month Period Ended	
	December 31, 2008	December 31, 2007
<i>(in Millions of RMB, except earnings per share)</i>		
Revenue	655.8	524.1
Revenue growth	25.2%	
Gross profit	299.0	254.1
Gross profit growth	17.7%	
Gross margin	45.6%	48.5%
Income from operations	38.4	61.4
Net Income	46.1	58.5
Diluted earnings per share	0.22	0.29

Fiscal Year 2008 Results



Fiscal Year 2008 Revenue by Segment



Fiscal Year Ended

December 31, 2008

December 31, 2007

	December 31, 2008	December 31, 2007
Total revenue	RMB 2.4B	RMB 1.96B
Revenue growth	22.6%	
Same-store sales - after taxes (1379 stores opened before 12/31/06)	RMB 3,509 per store per day	RMB 3,535 per store per day
Same-store sales growth	- 0.8%	
Prescription drugs	21.5%	23.4%
OTC drugs	36.1%	35.6%
Nutritional supplements	20.2%	18.3%
Herbal products	3.1%	2.6%
Other merchandise sales	19.1%	20.1%

Fiscal Year 2008 Income Statement



(in Millions of RMB, except earnings per share)

	Fiscal Year Ended	
	December 31, 2008	December 31, 2007
Revenue	2,396.6	1,954.7
Revenue growth	22.6%	
Gross profit	1,138.9	862.7
Gross profit growth	27.5%	
Gross margin	47.5%	44.1%
Income from operations	141.4	180.8
Net income	192.7	148.2
Diluted earning per share	0.88	0.80

Strong Balance Sheet



	Fiscal Year Ended	
	December 31, 2008	December 31, 2007
<i>(in Millions of RMB)</i>		
Cash & cash equivalent + held to maturity securities	2,438.9	2,768.9
Receivables	88.1	54.8
Inventories	373.7	285.3
PP&E, net	240.4	172.2
Total assets	3,498.8	3,438.5
Total current liabilities	490.7	464.4
Retained earnings	173.7	71.4
Shareholders' equity	2,959.5	2,955.1

Other Operating Highlights



- Completed Chengdu Ruihua Medical acquisitions in Sept.
 - ▶ Acquisition agreement for aggregate of 16 stores
 - ▶ Total cash consideration RMB7.5 million
 - ▶ Post acquisition, Nepstar has over 76 drugstores in Chengdu
 - ▶ Acquired stores produced RMB3,500 per store in the fourth quarter
- Partnership with China Merchants Bank & Lakala Billing Service in Nov
 - ▶ Install electronic payment terminals in all Nepstar stores, enable consumers to make personal bill payments
 - ▶ By year end, terminals installed in over 700 stores
 - ▶ Focus on increasing foot traffic in stores
- Completed Phase I implementation of SAP ERP system

New Developments – Jan. 2009



- New Management Additions

- ▶ Ian Wade, Co-CEO, joined with 25 years retail experience and proven record. Former Group Managing Director with AS Watson, the leading global retailer of over 8,000 stores
- ▶ William Dai, CFO, joined with 15 years financial experience. Former CFO of Microport, and senior China executive at Mundipharma Pharmaceuticals, Boston Scientific and Case Corporation

- Yunnan Subsidiary

- ▶ Nepstar board approved termination of 30% voting rights in Yunnan JianZhiJia Chain Drugstore (JZJ)
- ▶ Beginning in Jan 2009, deconsolidation of JZJ revenue from Nepstar and remaining 40% minority income from JZJ

Business Outlook



Strategic Initiatives for 2009



- Enhance operating efficiencies
- Control costs
- Continue to generate positive operating cash-flow
- Leverage strong balance sheet for future growth
- Maintain market leadership

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Questions and Answers

Thank you!

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