

1H2010 Results and Shareholder Circular

August 23, 2010



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Today's Presentation

1. 1H2010 Review

- Strong sales growth with improved gross margin and operating leverage

2. Recovery and stability

- The crisis
- Our response and achievement

3. Strong future

- Strategic transformation
- Five-year blueprint
- Maintain industry leadership

4. The SGM

- Unwarranted requisition
- Board's recommendation

1H 2010 Review

“A return to near record margins”



Income Statement Summary

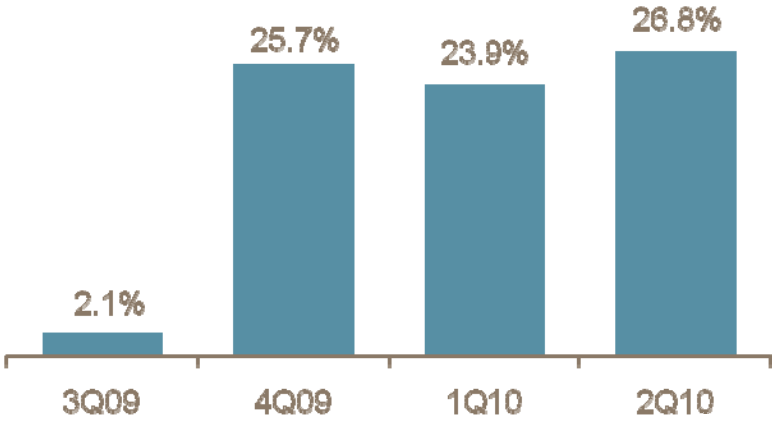
RMB Million	1H2010	1H2009	Change %
Revenue	24,873	20,463	21.6%
Consolidated Gross profit	4,238	3,372	25.7%
Operating Profit	1,249	671	86.1%
Profit before Tax	1,256	750	67.5%
Net Profit Attributable to Shareholders	962	580	65.9%
Basic Earnings Per Share (RMB fen)	6.4	4.5	42.2%
Diluted Earnings Per Share (RMB fen)	5.8	4.5	28.9%
Consolidated Gross Profit Margin	17.04%	16.48%	56bps
Operating Profit Margin	5.02%	3.28%	174bps
Effective Tax Rate ⁽¹⁾	19.50%	22.03%	(253)bps
Net Profit Margin (Attributable to Shareholders)	3.87%	2.84%	103bps

(1) Effective Tax Rate = Tax charge / Profit Before Tax adjusted for non-tax deductible items

Revenue Driven by Improved Productivity

Same Store Sales Growth

1H2010: 24.8%

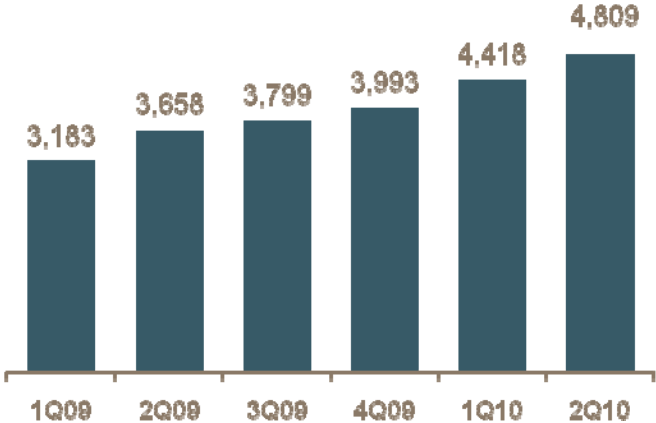


Comparable stores :

562 532 660 651

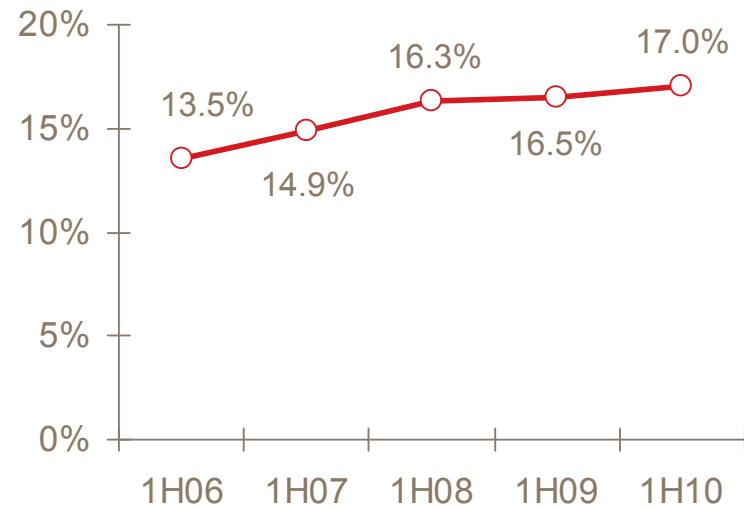
Average Sales Per Sqm

RMB

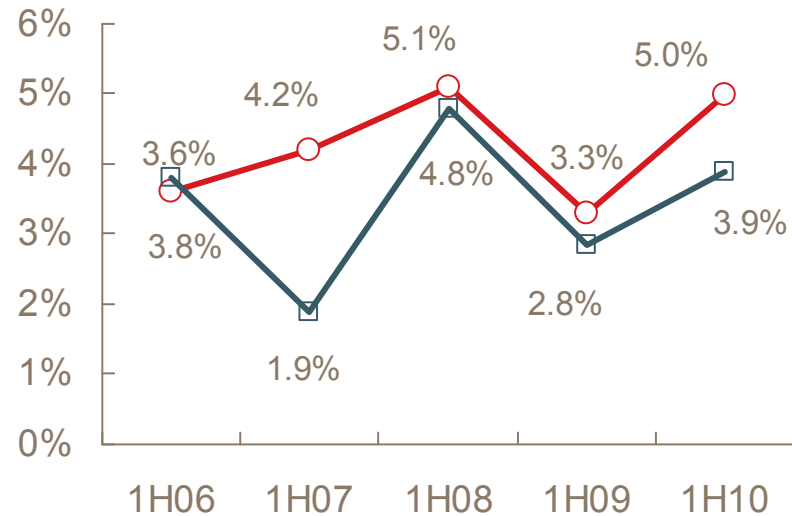


Profit Margins Near All-Time High

Consolidated Gross Margin



Operating profit margin Net Profit Margin

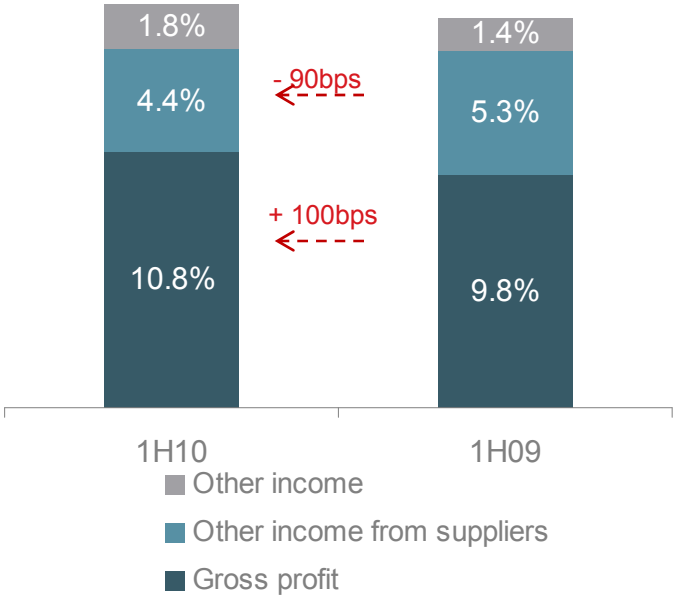


New Contract Structure – Reflecting a Successful Transformation

Consolidated Gross Profit and Margin

% of Revenue **17.0%** **16.5%**

RMB million **4,238** **3,372**



RMB Million	1H2010	1H2009
Revenue	24,873	20,463
Total Other Income	6.29%	6.67%
Include:		
Income from suppliers	4.43%	5.26%
Management fee from non-listed GOME parent co. and Dazhong	0.74%	0.52%
Others	1.12%	0.89%



Balance Sheet Summary

RMB Million	1H2010	1H2009	Change%
Cash and Cash Equivalents	5,990	2,716	120.5%
Pledged Deposit	7,415	7,400	0.2%
Inventory	5,794	4,103	41.2%
Trade Payables	4,468	3,612	23.7%
Bill Payables	11,746	9,433	24.5%
Inventory Turnover Days	50 Days	47 Days	3 Days
Trade Payables Turnover Days	35 Days	39 Days	(4) Days
Bill Payables Turnover Days	95 Days	88 Days	7 Days
Pledged Deposit Ratio	59.6% ⁽¹⁾	69.0%	(940)Bps

(1) Pledged Deposit Ratio excludes offshore funds used for onshore bank acceptance bills

Operating Costs Under Control

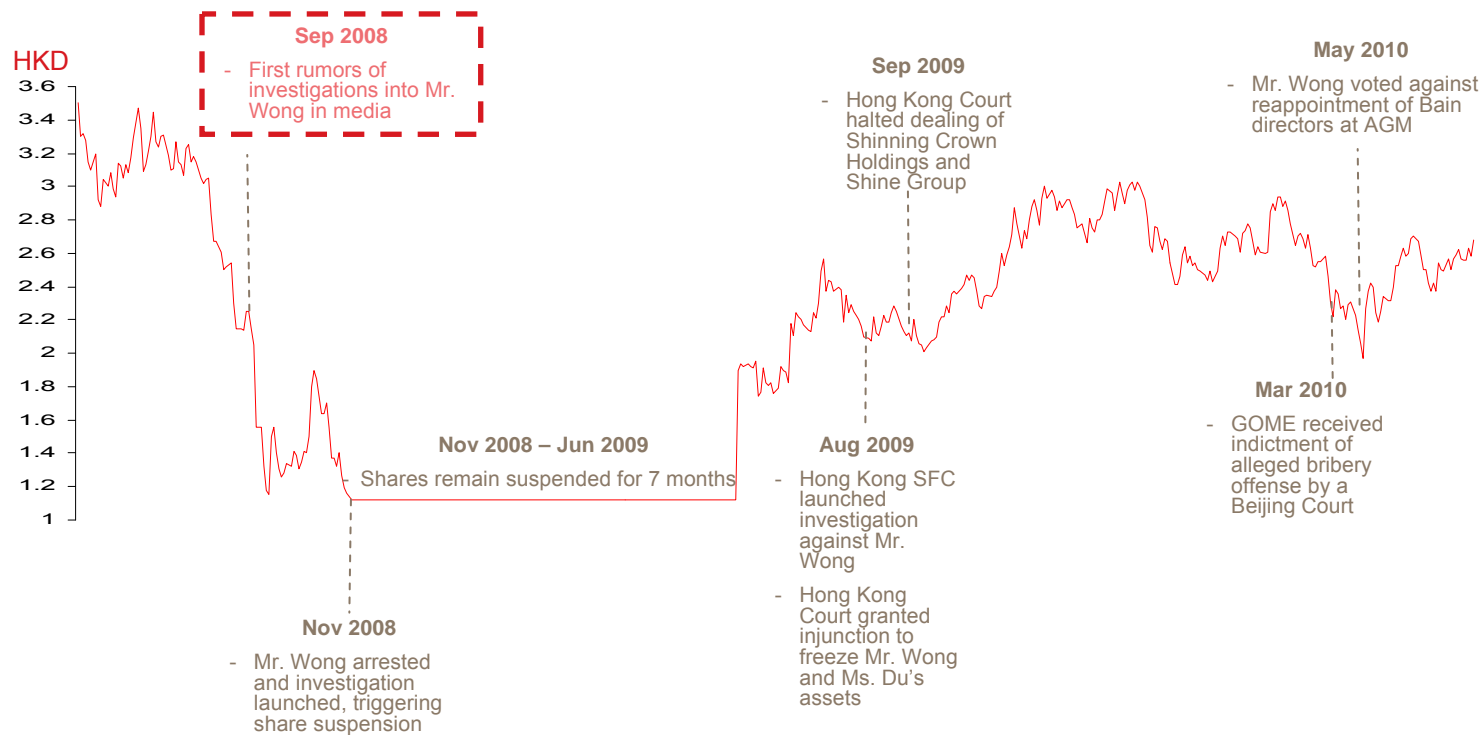
	1H2010	1H2009
Revenue (RMB Million)	24,873	20,463
Selling & Distribution	9.5%	10.2%
Rent	3.9%	4.8%
Sales Salaries	2.1%	2.6%
Other S&D	3.5%	2.8%
Administrative	1.8%	1.7%
Other	0.7%	1.3%
Total (% of revenue)	12.0%	13.2%

Recovery and Stability

“Fighting for survival
and winning”

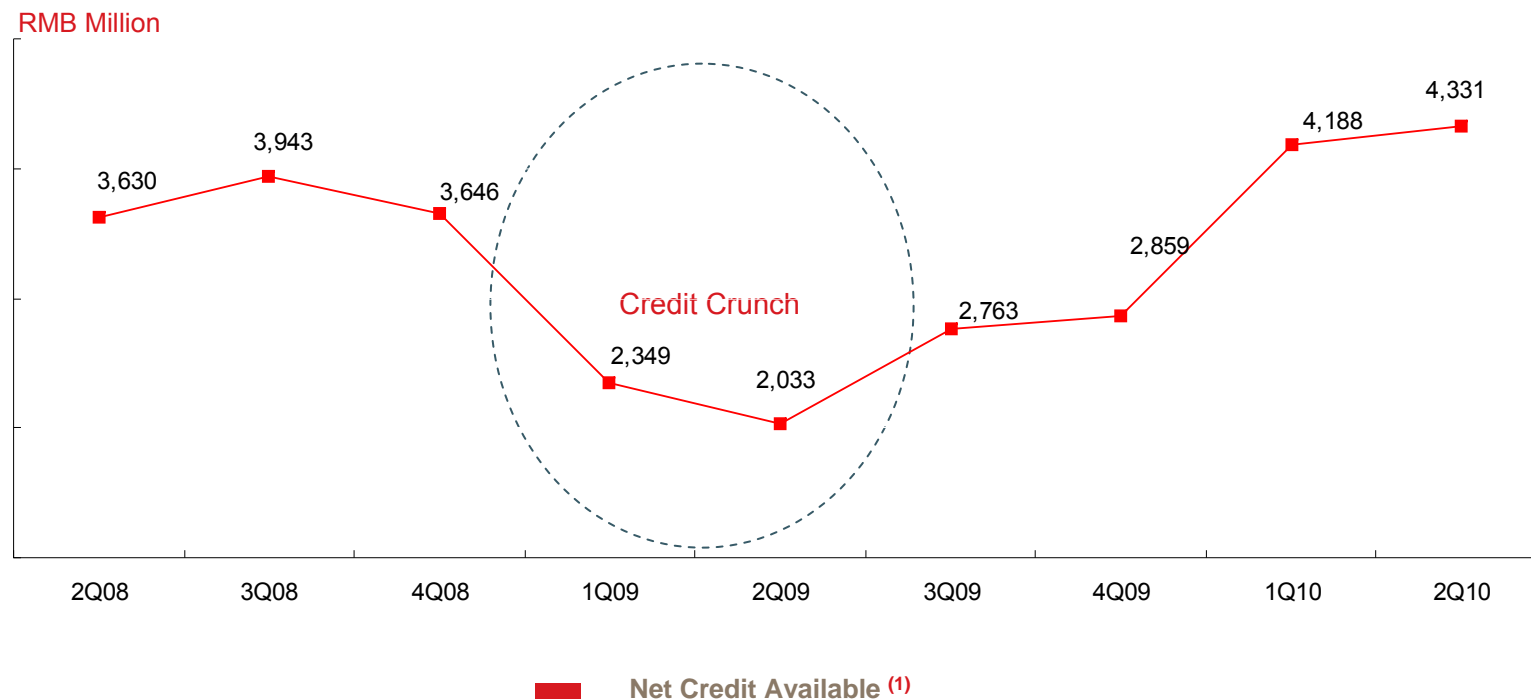


The Impact of Mr. Wong's Arrest: Two Years of Distraction



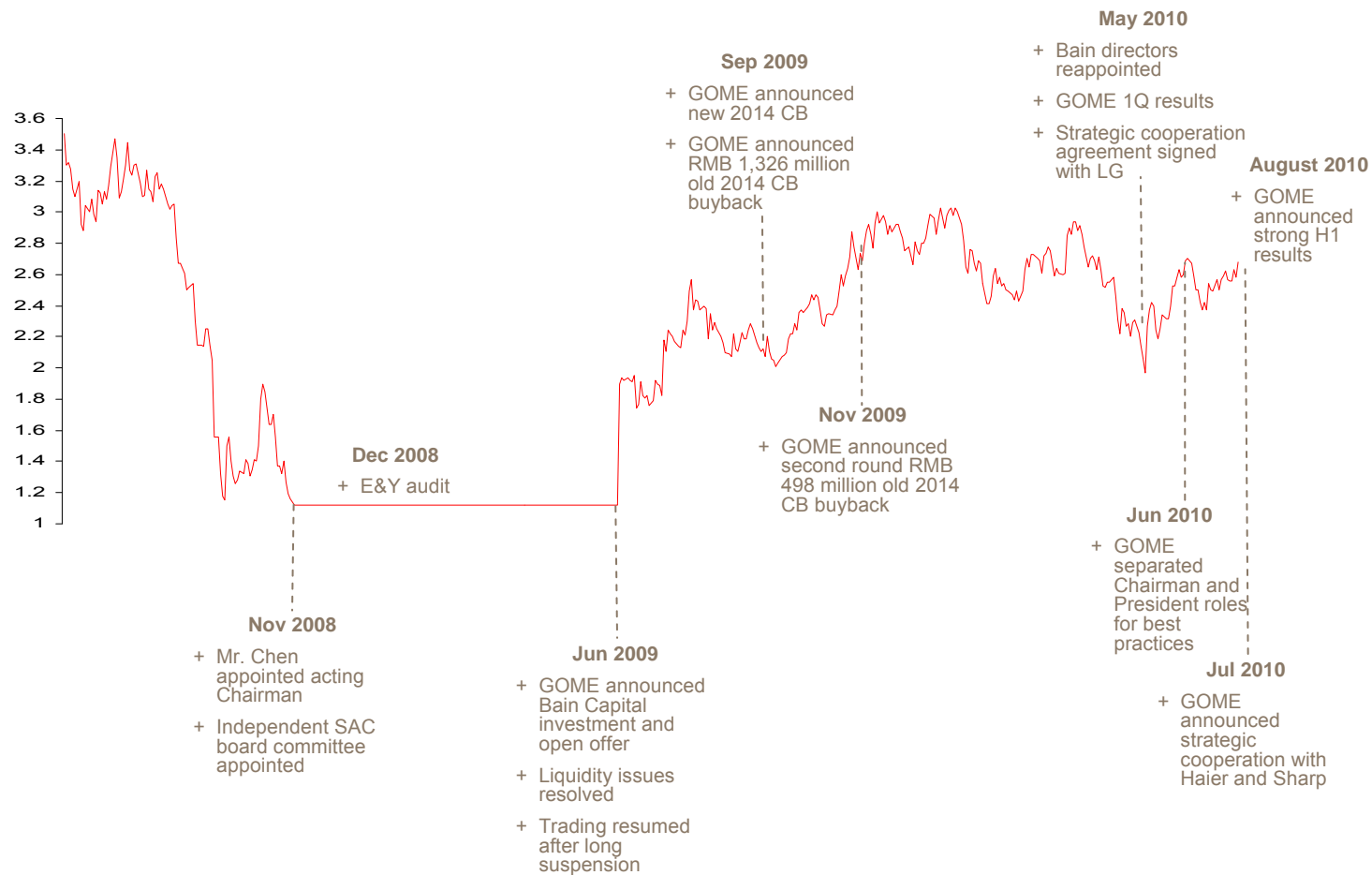
Impact of Mr. Wong's Arrest: Illiquid, Strained and Tarnished

- Pushed company into liquidity crisis
- Banks and supplier relations strained
- Brand and company image tarnished



(1) Net Credit Available = Bills Payable – Pledged Deposits

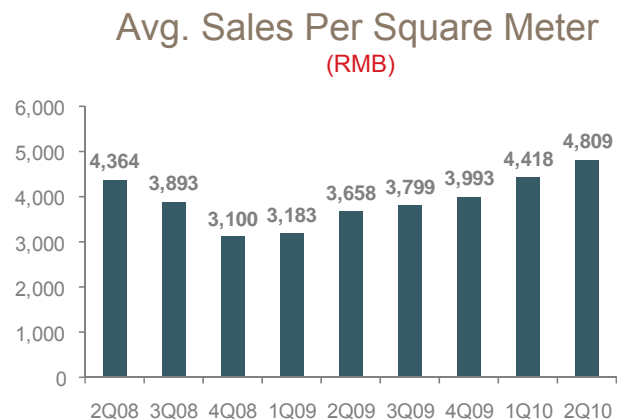
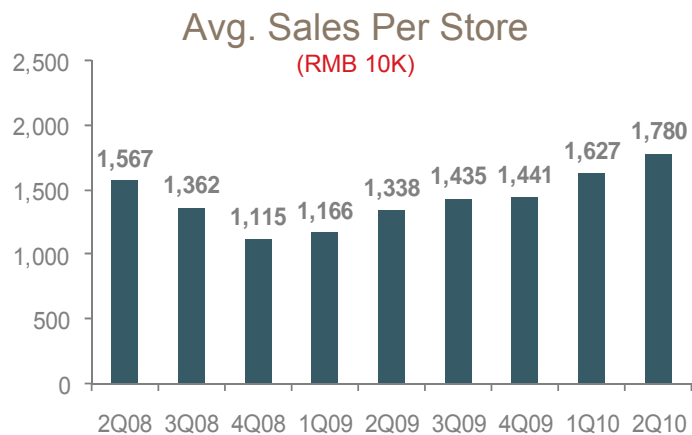
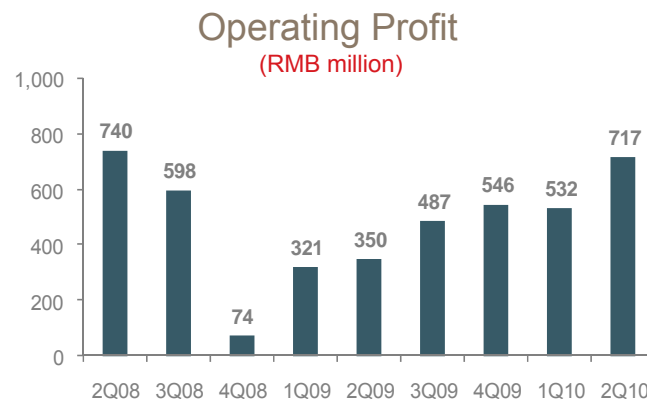
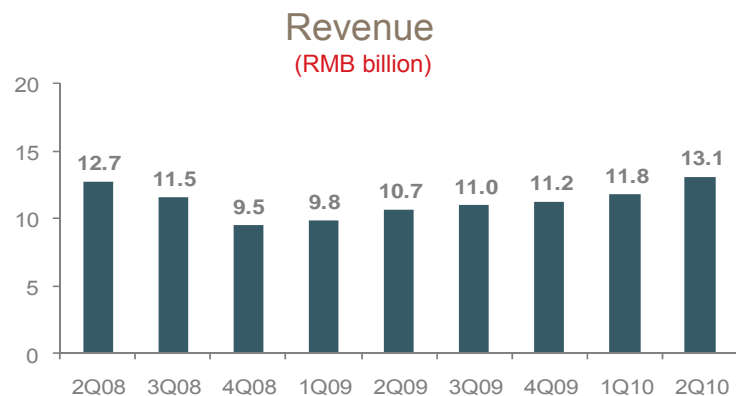
Management Fights Back: Stability and Good Governance



Management Fights Back: Relentlessly Focused on Operations

- Store network optimization
 - Closed 214 underperforming stores from beginning of 2009 to 20101H to improve overall profitability
 - Opened 95 stores from beginning of 2009 to 20101H
- Enhanced overall profitability
 - Designed and implemented new supplier contract structure aimed at consolidating all out of contract terms into the contractual agreements
 - Enhanced product management expertise, Introduced differentiated product mix with higher margins (ODM/OEM), and Added over 200 new brands and over 20,000 new inventory storage units
 - Remodeled and transformed existing store layout from brand-oriented to product-oriented
 - Improved after sale services
 - Provided training to sales associates to better serve customers
- Further initiatives
 - ERP system upgrade
 - Continued cost control
 - Designed and launched 5-year blueprint aimed at maximizing value for all shareholders

Financial Performance Since the Crisis



Strong Future

“Powerful demographics
and a plan to capture
the benefits”



Macro Environment Improving

Policy Tail Wind

Exchange Old For New

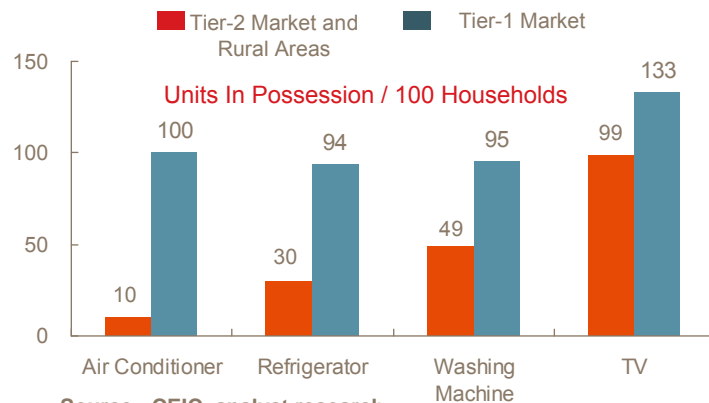
- Jan – May sales reached RMB 50.0 billion with 13.1 million units sold
- Policy extended to 2011 year end

Go Rural – Volume Up, ASP Stable

- Jan – May sales reached RMB 54.2 billion with 25.7 million units sold
- Policy effective till end of 2014

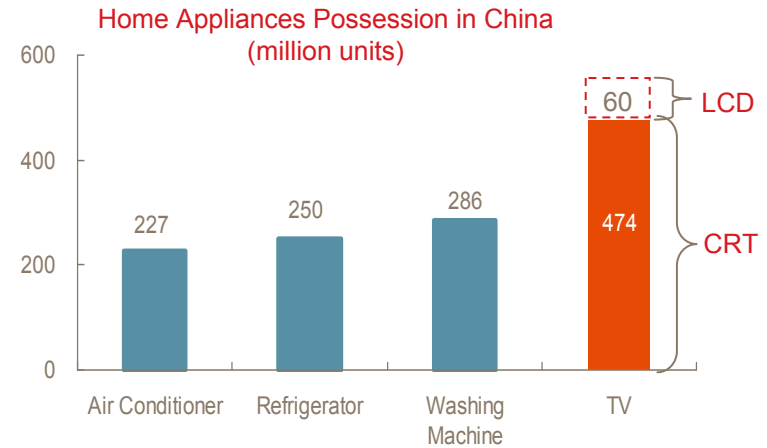
▪ Source: “Old For New” and “Go Rural” websites, analyst research

Tier 2 Market Growth



▪ Source: CEIC, analyst research
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Replacement Cycle Led By CRT To LCD



▪ Source: CEIC, analyst research

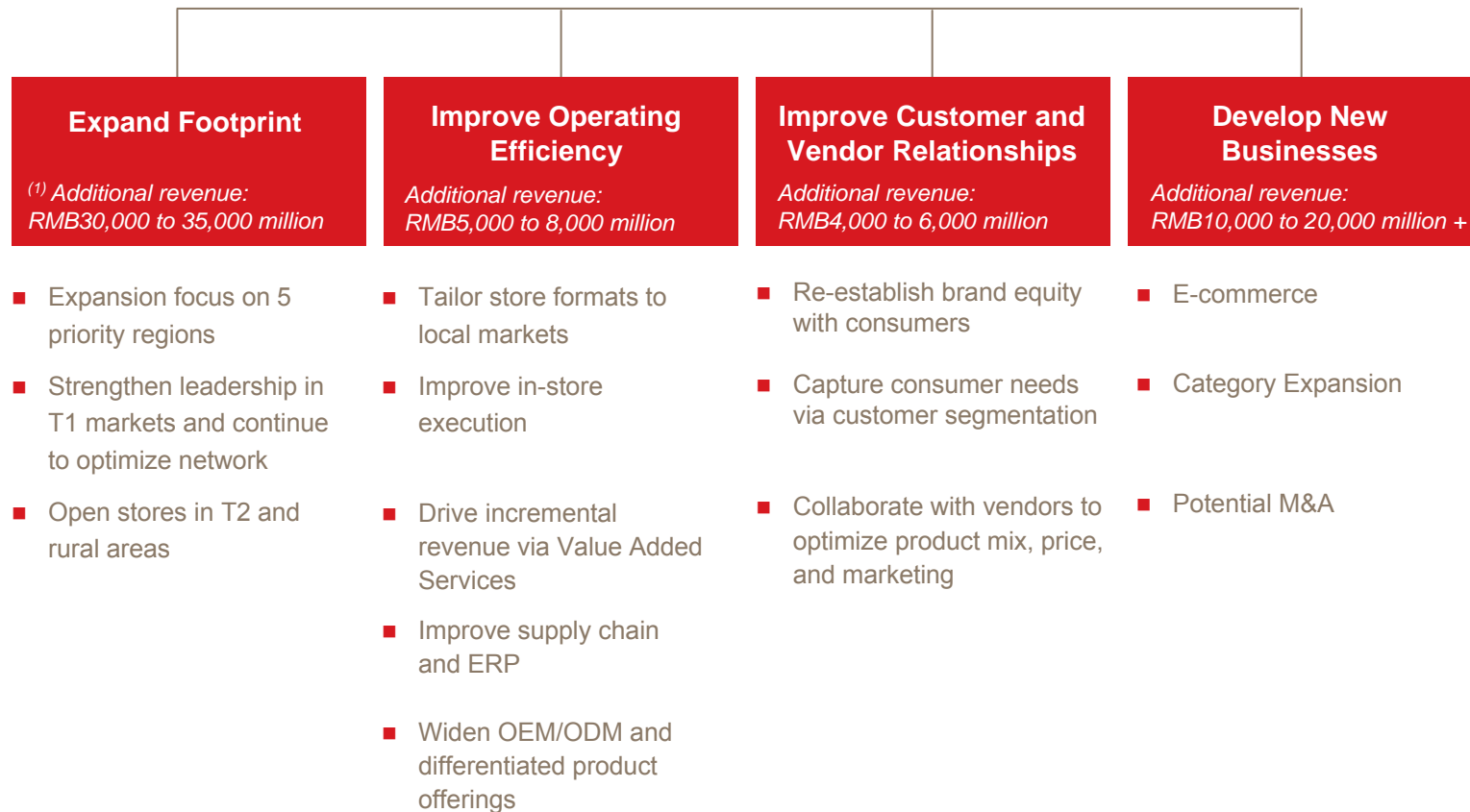
Limited Impact From Housing Market

	Impact On Home Appliances Sales	Tightening Impact
Living Property Sales	High	Low
Investing Property Sales	Low	High



A New 5 Year Blue Print to Create the Most Shareholder Value

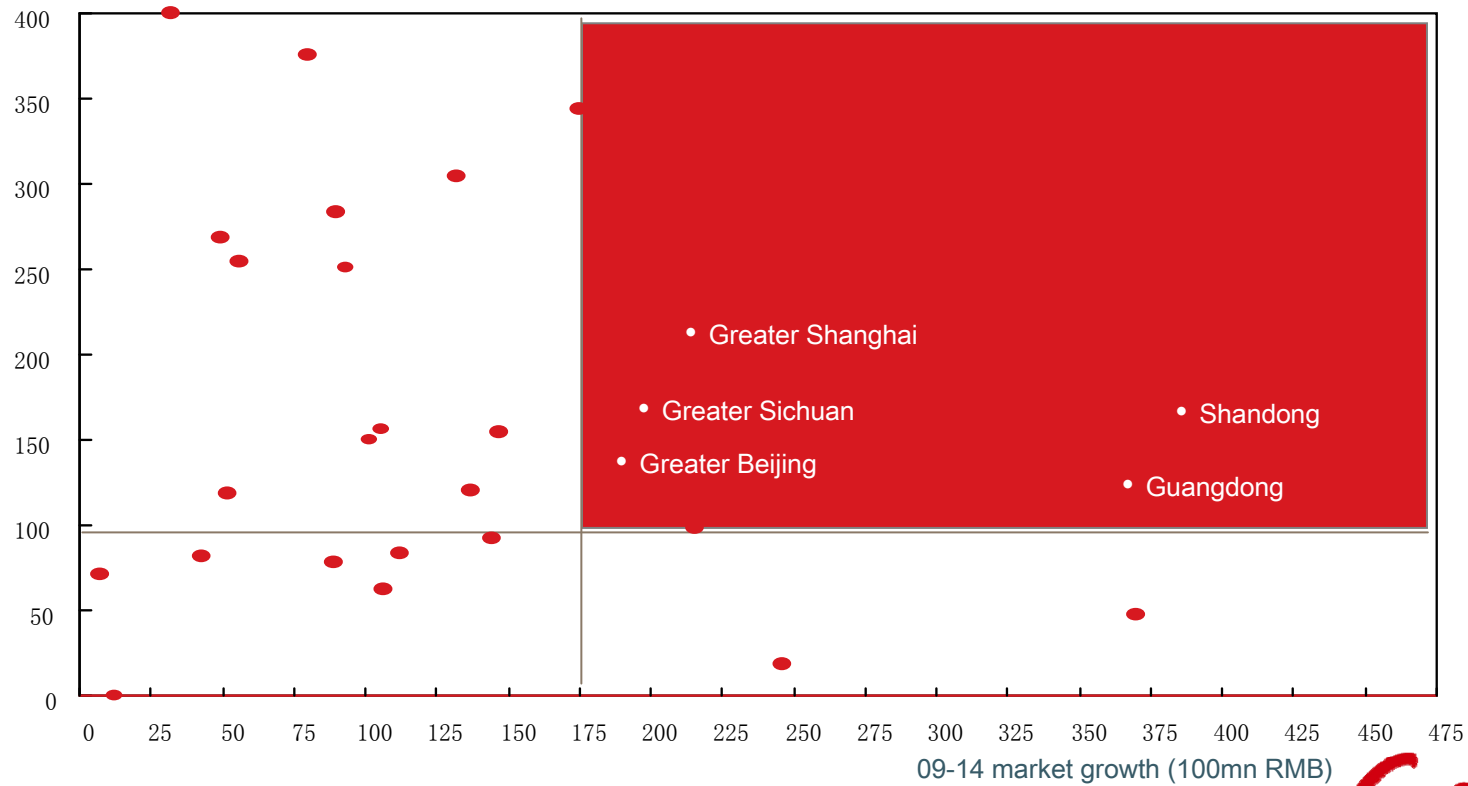
Blue Print



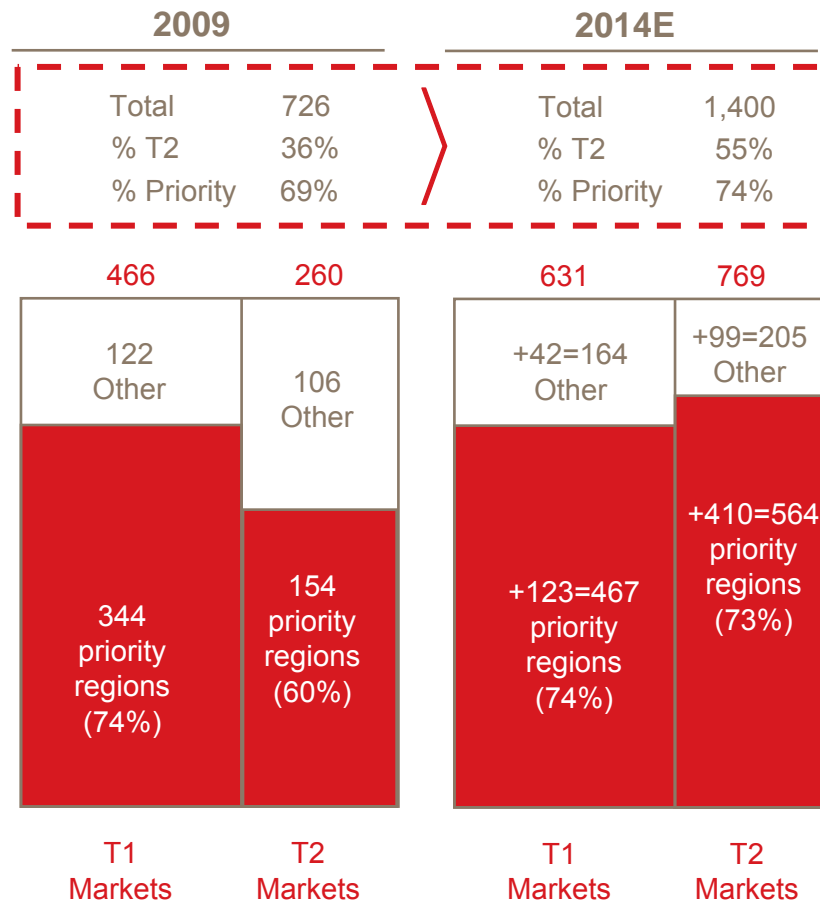
(1) Revenue: Expected 5 year additional revenue contribution from implementation

Real Estate – Market Prioritization

5 priority geographies with high market growth potential '09-'14



Expanding Foot Print to Maintain Leadership



Leverage hub resources and infrastructure to further penetrate Tier-2 markets

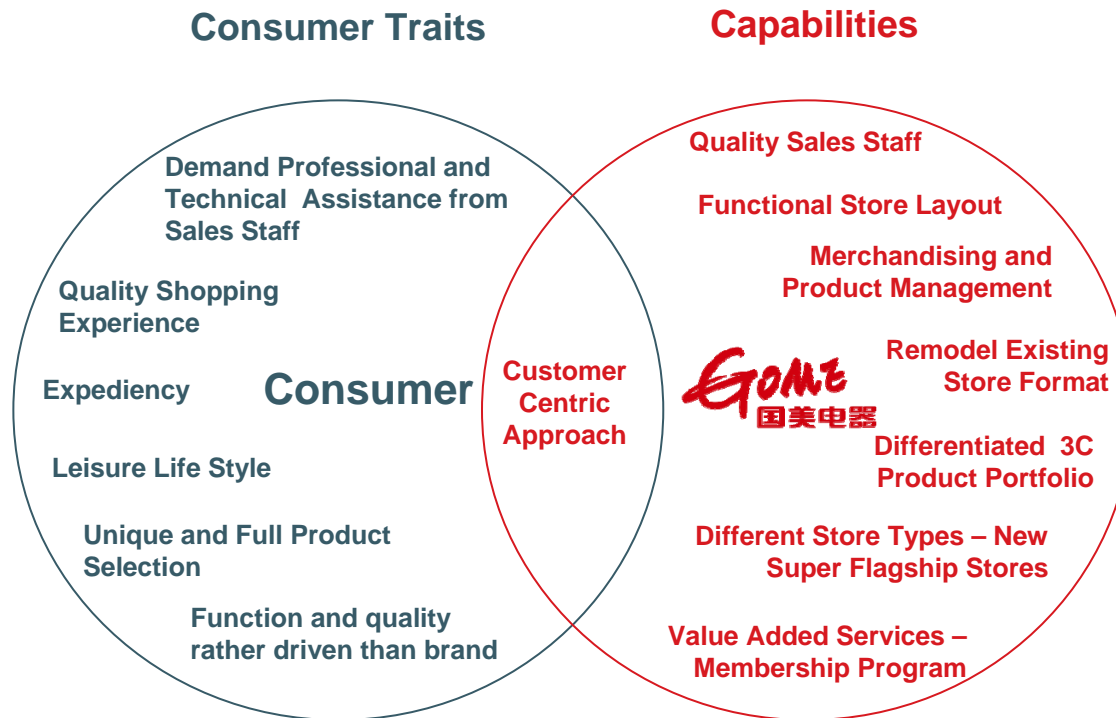


Critical Infrastructure Investments in the next 5 years

<p>Store Expansion Plan (~700 stores)</p>	<ul style="list-style-type: none"> ▪ Continue to expand store network with a view of to open ~700 more stores by 2014 ▪ Expected to cost between RMB 1 million to RMB 3 million per store
<p>National and Regional Distribution Centers (~11 centers)</p>	<ul style="list-style-type: none"> ▪ Store network under coverage will be able to pool inventory to improve inventory turnover ▪ Construction cost is expected to be approximately RMB 200-250 million for each regional center and approximately RMB 400-500 million for each national center
<p>Remodeling Program (~400 stores)</p>	<ul style="list-style-type: none"> ▪ Will continue to remodel existing stores to enhance shopping experience ▪ Expected to cost approximately RMB 1 million per store
<p>Self Constructed Super Flagship Stores (~11 stores)</p>	<ul style="list-style-type: none"> ▪ Key step in creating a differentiated store portfolio, 4 stores in Tier-1 cities and 7 stores in Tier-2 cities ▪ Construction cost is expected to cost approximately RMB 400 million per store in Tier-1 cities and approximately RMB 150 million per store in Tier-2 cities
<p>ERP Implementation and Upgrades</p>	<ul style="list-style-type: none"> ▪ The new ERP system is critical for improving GOME's retail and SCM capabilities ▪ Continued investment in the new ERP system is expected to be between RMB 400 to RMB 500 million

Enhance Core Capabilities to Maximize Customer Satisfaction

- Develop new and enhance existing capabilities to connect with the evolving consumer electronics consumption dynamics



The Special General Meeting

“It is a fight for the
best interests
of all shareholders”



Unwarranted Requisition

Context

Mr. Wong's Requisition

- A series of incidents related to Mr. Wong had dragged company into crisis
- To remove Mr. CHEN Xiao as Executive Director and Chairman of the Board, and Mr. Sun Yi Ding as Executive Director
- To nominate Mr. ZOU Xiao Chun and Ms. Huang Yan Hong as executive directors
- To cancel the Existing Issue Mandate that was approved by the Shareholders during the company's AGM on May 11, 2010

The requisition

Board and Management say:

- Management team successfully restored GOME from crisis to financial stability and operational strength
- Mr. Wong's claims are driven by the interests of one shareholder and unanimously opposed by the Board and management
- The Board and management team has always acted and continues to act in the best interest of GOME and its shareholders as a whole
- Mr. Wong's nominees don't have the same depth of industry experience and recognized leadership as Mr. Chen and Mr. Sun
- The cancellation of the Existing Issue Mandate could significantly restrict management's flexibility to access capital during times of crisis as evident between 2H2008 and 1H2009 and the ability to execute its 5 year blue print that requires significant on-going capital expenditures

The Right Management Team in Place

Name	Position	Age	Experience
CHEN Xiao	Chairman and Executive Director	52	<ul style="list-style-type: none"> Responsible for the Company's medium to long term planning and leading the Company's strategic transformation efforts Mr. Chen founded China Paradise Electronics Retail Limited
WANG Jun Zhou	President and Executive Director	48	<ul style="list-style-type: none"> Oversees the Company's daily operations and performance Mr. Wang has been with the company since 2001 and held various leadership positions including General Manager of operations center, strategy center, and head of the Company's operations in Southern China
WEI Qiu Li	Vice President and Executive Director	42	<ul style="list-style-type: none"> Responsible for organizational planning and human resources Ms. Wei has been the driving force behind the formation of key functional groups such as pricing, management training, and administration
SUN Yi Ding	Vice President and Executive Director	42	<ul style="list-style-type: none"> Responsible for the Company's business operations including logistics, store operations and development Mr. Sun has been instrumental to building and developing the Company's nationwide inventory management and logistics network
LI Jun Tao	Vice President, Purchasing	44	<ul style="list-style-type: none"> Leads the Company's home-appliances, small consumer appliances product groups Mr. Li spearheaded the Company's recent landmark strategic cooperation agreements with key suppliers such as LG, Haier and Sharp
HE Yang Qing	Vice President, Brand Management	46	<ul style="list-style-type: none"> In charge of brand management and customer satisfaction Mr. He has been a critical force behind the Company's ~RMB50 billion brand
MU Gui Xian	Vice President, 3C Products	38	<ul style="list-style-type: none"> Responsible for the Company's 3C product groups Mr. Mu's extensive experience has helped the Company develop its 3C products
GAO Qun	Director of Corporate Development and Investor Relations	41	<ul style="list-style-type: none"> Heads the Company's M&A, strategy implementation, and capital markets operations and oversees the investor relations department Mr. Gao has over 10 years of leadership experience in corporate development, financial management and corporate strategy with Fortune 500 companies
FANG Wei	Director of Finance and Acting Chief Financial Officer	38	<ul style="list-style-type: none"> Responsible for the Company's daily financial operations Solidified banking relationships during liquidity crisis



General Mandate Crucial For Long Term Growth and Maximizing Shareholder's Value



Recommendation

- The Board strongly recommends the support to the Company by endorsing the existing management team and by giving the management team the mandate to continue to build on the achievements since the launch of the formal investigation into Mr. Wong in November 2008

- The Board recommends all shareholders to **Vote FOR Resolutions:**
 1. THAT Mr. Zhu Jia be re-elected as a non-executive director of the Company;
 2. THAT Mr. Ian Andrew Reynolds be re-elected as a non-executive director of the Company;
 3. THAT Ms. Wang Li Hong be re-elected as a non-executive director of the Company;

- The Board recommends all shareholders to **Vote AGAINST Resolutions:**
 4. THAT the Company's general mandate to allot, issue and deal with the Company's shares, as passed at this year's annual general meeting of the Company held on 11 May 2010, be cancelled;
 5. THAT Mr. Chen Xiao be removed with immediate effect from his office as executive director and Chairman of the Board of the Company;
 6. THAT Mr. Sun Yi Ding be removed with immediate effect from his office as executive director of the Company;
 7. THAT Mr. Zou Xiao Chun be appointed as an executive director of the Company with immediate effect; and
 8. THAT Ms. Huang Yan Hong be appointed as an executive director of the Company with immediate effect.

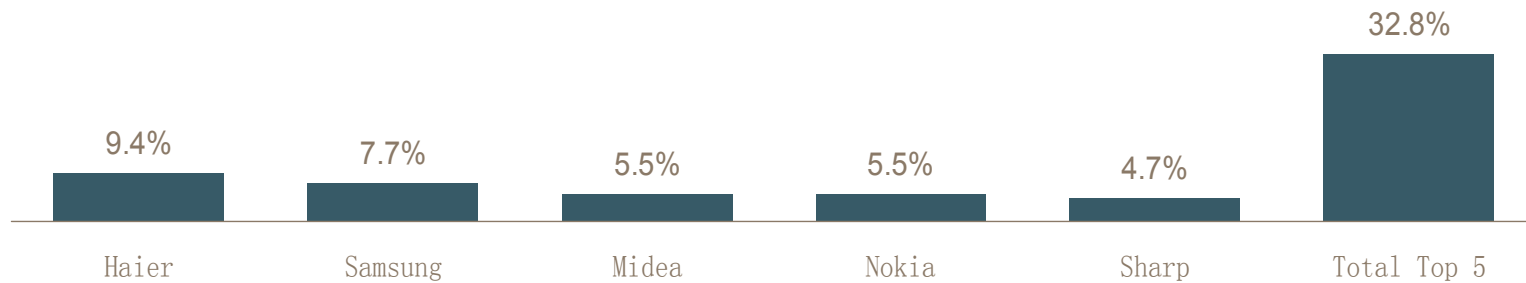


Thank you

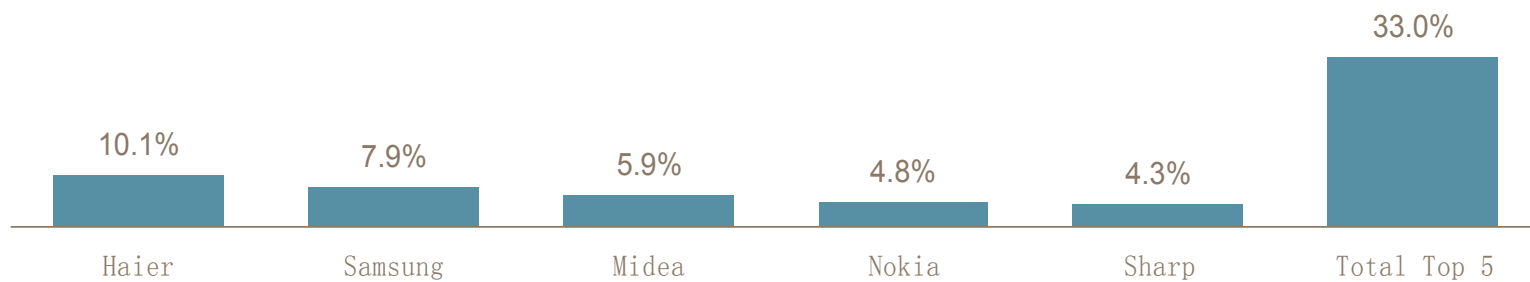
Appendix

Stable Supplier Relationships

Top 5 Supplier's for 1H2009



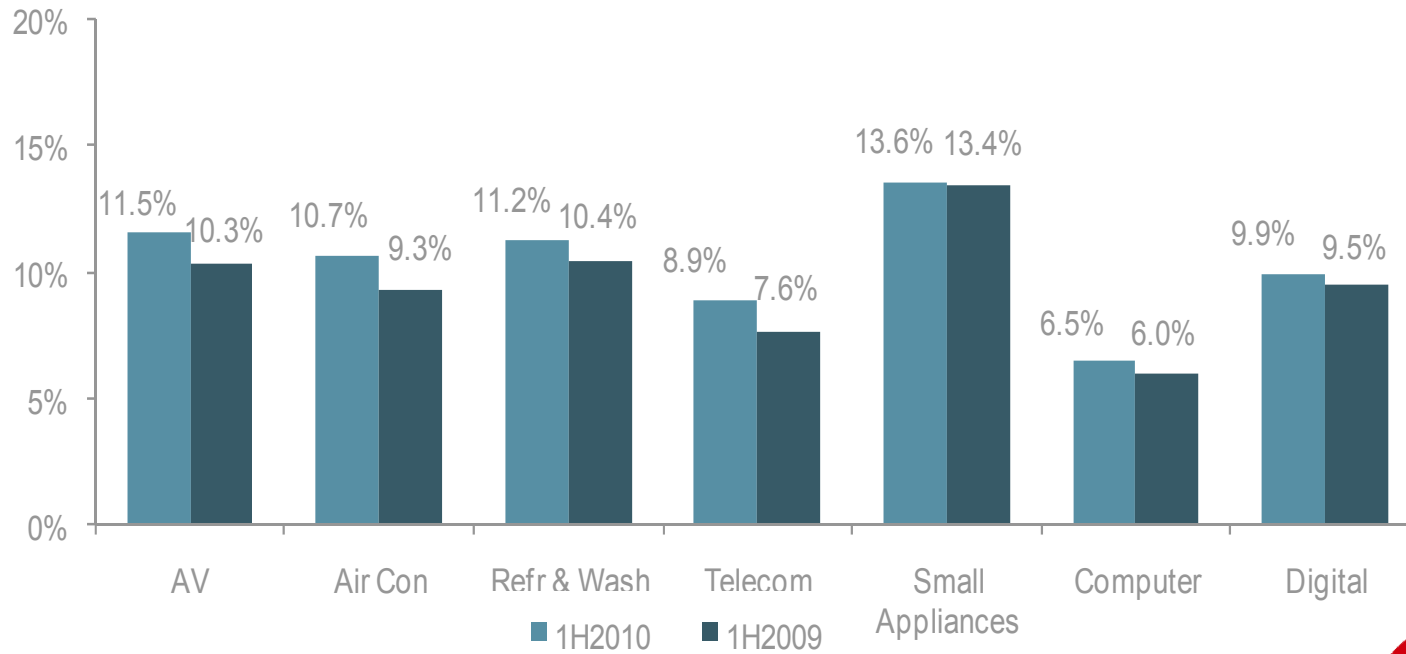
Top 5 Supplier's 1H2010



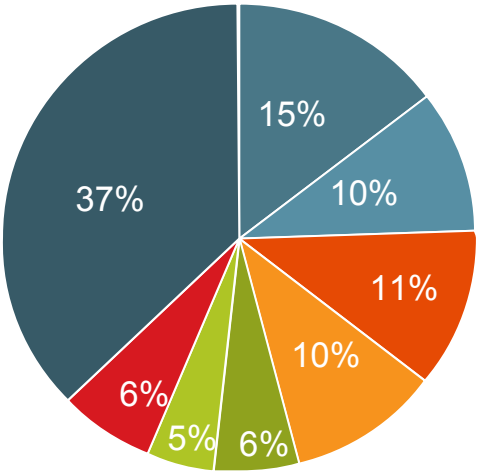
Improved Category Gross Margins

Primary drivers for improved gross margins:

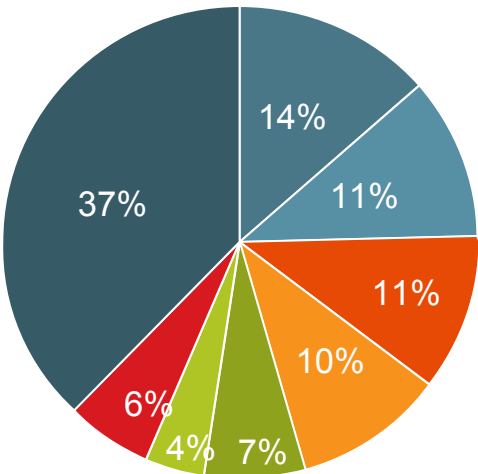
- Increased mix of higher margin products
- Improved purchasing agreements



Shanghai, Beijing and Guangzhou remain the largest market for GOME



Total: RMB 24.9 billion

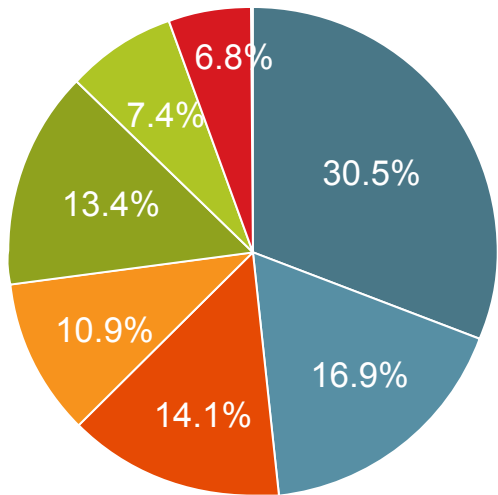


Total: RMB 20.5 billion

- Shanghai
- Beijing
- Guangzhou
- Shenzhen
- Tianjin
- Fuzhou
- Chengdu
- Other

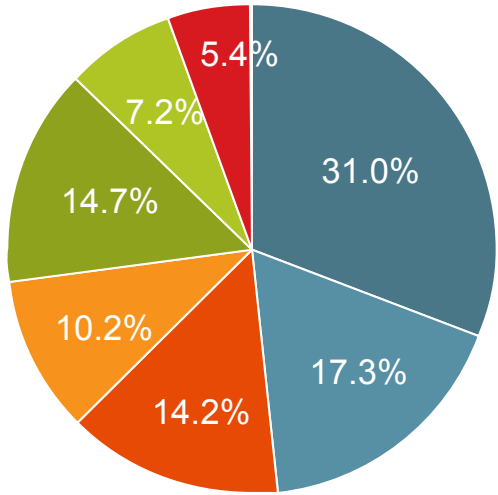


Product Mix Shifting to 3C Products



1H 2010

Total: RMB 24.9 billion



1H 2009

Total: RMB 20.5 billion

- AV
- Refrigerator and washing machine
- Telecommunication
- Small electrical appliances
- Air conditioner
- Digital
- Computer



Store Network

As of June 31, 2010	Group	GOME	China Paradise	CellStar
Flagship stores	79	63	16	0
Standard stores (incl. supermarket stores)	637	532	105	0
Specialized stores	24	3	1	20
Total:	740	598	122	20
Tier 1 Market	480	366	96	18
Tier 2 Market	260	232	26	2
Net store increase (decrease) in 1H2010:	14	18	(4)	0
Stores Opened	39	36	3	0
Stores Closed	25	18	7	0
Number of cities accessed:	200	168	52	6
Tier 1 Market	26	20	9	1
Tier 2 Market	174	148	43	5
Number of cities newly accessed	2	2	0	0