

# 2010 Annual Results Announcement

28 March 2011



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# New Chairman Zhang Da Zhong Will Take GOME to New Heights



I am glad to be joining GOME Electrical Appliances Holding Limited. I will lead the Group to effectively execute the five-year strategic plan, to solidify market leadership in response to the market demand. The Group will focus on a host of initiatives including: rapid but rational expansion of store network, improving supply chain management, setting up national and regional logistics centers, refining the stores nationwide, expanding the range of product offerings, raising profit margins by introducing high-margin differentiated products, improving consumer's experiences and relations with banks and suppliers. We will accelerate the store expansion plan with enhanced operating margins. The net results will enhance our core competency and benefit all shareholders in the long run. I am confident that I will lead GOME into the new times ahead and take the Group to new heights.

Mr. Zhang Da Zhong, born in March 1948 in Beijing, was the founder of Beijing Dazhong Electrical Appliances Co. Ltd., one of the leading domestic appliances retail chains in China. Mr. Zhang sold Dazhong Electrical to GOME in Dec. 2007. Mr. Zhang has been honored as "China's Outstanding Entrepreneur" with deep industry experience in operations and management. He was appointed as GOME's Chairman of Board since March 2011.



# New Board Structure

Chairman	Independent Directors	Executive Directors	Non-Executive Directors
ZHANG Da Zhong	SZE Tsai Ping	NG Kin Wah	HUANG Yan Hong
	CHAN Yuk Sang	ZOU Xiao Chun	ZHU Jia
	LEE Kong Wai	WANG Jun Zhou	Ian Andrew REYNOLDS
	Thomas Joseph MANNING	WEI Qiu Li	WANG Li Hong




# The Board Committees

■ Chairman of Committee

Remuneration Committee	Nomination Committee	Audit Committee	Independent Committee	Executive Committee
Sze Tsai Ping	Sze Tsai Ping	Sze Tsai Ping ■	Sze Tsai Ping	Zou Xiao Chun
Chan Yuk Sang ■	Chan Yuk Sang	Chan Yuk Sang	Chan Yuk Sang	Wang Jun Zhou
Thomas Joseph Manning	Thomas Joseph Manning	Thomas Joseph Manning	Thomas Joseph Manning ■	Wei Qiu Li
Lee Kong Wai	Lee Kong Wai	Lee Kong Wai	Lee Kong Wai	
Huang Yan Hong	Zhu Jia		Zhang Da Zhong	
Zhu Jia	Zou Xiao Chun		Zhu Jia	
Wang Jun Zhou	Wei Qiu Li ■		Wang Li Hong	

# GOME Launches Five-Year Blueprint

 Adjusted Strategies based on market changes

1 Establish regional dominance and scale expansion	2 Improve operating efficiency	3 Improve consumer and vendor relationships	4 Strengthen infrastructure	5 Develop new businesses
<ul style="list-style-type: none"> <li>■ Accelerate store expansion in priority regions</li> <li>■ Vigorously strengthen leadership in T1 markets and continue to optimize store network</li> <li>■ Open stores in T2 markets and rural areas</li> <li>■ Adjust the number of stores opened in T2 markets</li> </ul>	<ul style="list-style-type: none"> <li>■ Tailor store formats to local markets</li> <li>■ Improve in-store execution</li> <li>■ Drive incremental revenue via VAS</li> <li>■ Improve T2 markets supply chain</li> <li>■ Implement effective compensation scheme to motivate employees to deliver stronger operating performance</li> </ul>	<ul style="list-style-type: none"> <li>■ Enhance brand image and consumer loyalty</li> <li>■ Improve shopping experience, e.g. better merchandise varieties</li> <li>■ Boost the growth rate of 3C products in T1 markets</li> <li>■ Collaborate with vendors to optimize product mix, pricing and marketing</li> <li>■ Strengthen strategic cooperation with major suppliers</li> </ul>	<ul style="list-style-type: none"> <li>■ Implement upgraded ERP system</li> <li>■ Strengthen management team and its execution</li> <li>■ Strengthen retail capabilities</li> </ul>	<ul style="list-style-type: none"> <li>■ E-commerce</li> <li>■ Revise E-commerce operational targets</li> <li>■ Execute in-depth cooperation with telecom operators</li> <li>■ Others</li> </ul>

# 2010 Review



# 2010 – Main Business Initiatives

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<b>Optimized Store Network</b>	<ul style="list-style-type: none"><li>Opened 139 stores and closed 39 stores with 826 stores in total at 2010 year end, representing a net increase of 100 stores from 726 at the end of 2009. Opened 85 new stores in Tier 1 markets and 54 new stores in Tier 2 markets, penetrated into 10 new markets and SSSG increased 21.8%.</li></ul>
<b>Tier 2 Markets</b>	<ul style="list-style-type: none"><li>SSSG in Tier 2 markets achieved 32%, through improvements in supply chain management and store reformatting.</li></ul>
<b>Store Reformatting</b>	<ul style="list-style-type: none"><li>Launched 16 super flagship stores (New Life Plaza), reformatted 73 stores in Tier 2 markets and another 210 flagship stores and standard stores in priority regions.</li></ul>
<b>Product Differentiation</b>	<ul style="list-style-type: none"><li>Continued to expand differentiated products including ODM/OEM products, exclusive selling rights, accessories and etc.</li></ul>
<b>ERP Leader Project</b>	<ul style="list-style-type: none"><li>Completed the design of the blue print and the purchase of necessary hardware. Entered into the phase of software development simulation. System will be launched in 2011.</li></ul>
<b>E-Commerce</b>	<ul style="list-style-type: none"><li>Better positioned in B2C CE online market by acquisition of Coo8.com and integration of key resources such as suppliers, logistics, after-sale services, membership and information management.</li></ul>

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# Income Statement Summary and Analysis

RMB Million	2009	2010	Change %
Revenue	42,668	50,910	19.3%
Consolidated Gross profit	7,391	9,360	26.6%
Operating Profit	1,704	2,706	58.8%
Profit before Tax	1,833	2,510	36.9%
Net Profit Attributable to Shareholders	1,409	1,962	39.2%
Basic Earnings Per Share (RMB fen)	10.3	12.7	23.3%
Diluted Earnings Per Share (RMB fen)	9.5	12.0	26.3%

Consolidated Gross Profit Margin	17.3%	18.4%	110 bp
Operating Profit Margin	4.0%	5.3%	130 bp
Effective Tax Rate <sup>(1)</sup>	18.3%	18.0%	(30) bp
Net Profit Margin (Attributable to Shareholders)	3.3%	3.9%	60 bp

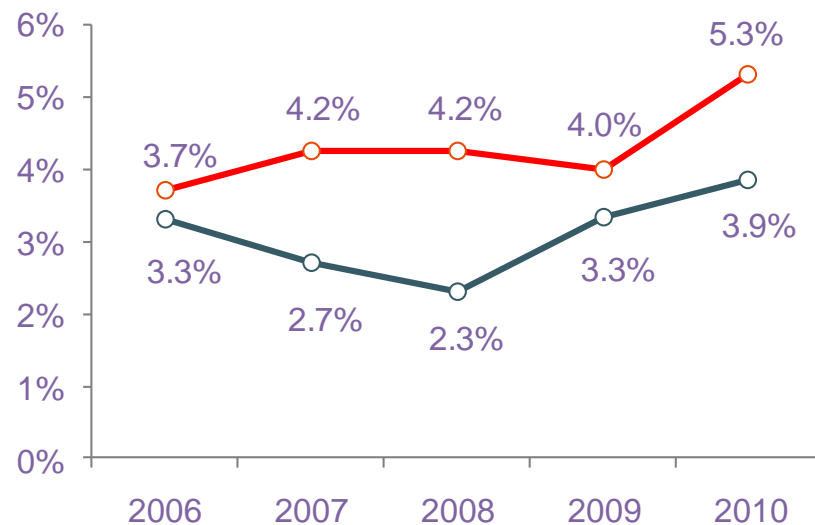
(1) Effective Tax Rate = Tax charge / Profit Before Tax adjusted for non-tax deductible items

# Operating Efficiency Steadily Improved

Consolidated Gross Margin



EBIT Margin Net Profit Margin



# Controlled Expenses

As % of Revenue	2009	2010	
<b>Selling &amp; Distribution</b>	<b>10.20%</b>	<b>10.05%</b>	↓
Rent	4.67%	3.90%	↓
Sales Salaries	2.38%	2.33%	↓
Advertising	0.71%	1.21% (1)	↑
Delivery	0.43%	0.55% (2)	↑
Utilities	0.86%	0.73%	↓
Other S&D	1.15%	1.33% (3)	↑
<b>Administrative</b>	<b>1.98%</b>	<b>2.29%</b> (4)	↑
<b>Other</b>	<b>1.15%</b>	<b>0.73%</b>	↓
<b>Total</b>	<b>13.33%</b>	<b>13.07%</b>	↓

(1) Increase in advertising fees was driven by the Group's adjustment in the structure of suppliers contract, the advertising fees outside of contract was included into contract.

(2) Affected by the increase of T2 stores.

(3) Increase in other S&D fees was driven by the Group's adjustment in the structure of suppliers contract, the promotion fees outside of contract was included into contract.

(4) Include RMB 108.23 million of rental expense in 2009 & 2010 for the headquarters building Peng Run Building , and RMB 93.80 million of employee stock option expense.



# Operating Financials and Analysis

RMB Million	2009	2010	Change%
Cash and Cash Equivalents	6,029	6,232	3.4
Pledged Deposit	8,796	6,268	(28.7)
Inventory	6,532	8,085	23.8
Trade Payables	4,160	5,758	38.4
Bill Payables	11,656	11,142	(4.4)
Inventory Turnover Days – Annual	57 days	59 days	2 days <sup>(1)</sup>
Trade Payables Turnover Days	41 days	40 days	(1) days <sup>(2)</sup>
Bill Payables Turnover Days	96 days	92 days	(4) days <sup>(2)</sup>
Pledged Deposit Ratio	75.5%	56.3%	(19.2)%
Debt – to – Equity	48.3%	13.8%	(34.5)%
Cash flow from operating activities	(175)	3,873	----
Cash flow from investing activities	(294)	(553)	----
Cash flow from financing activities	3,467	(3,102) <sup>(3)</sup>	----

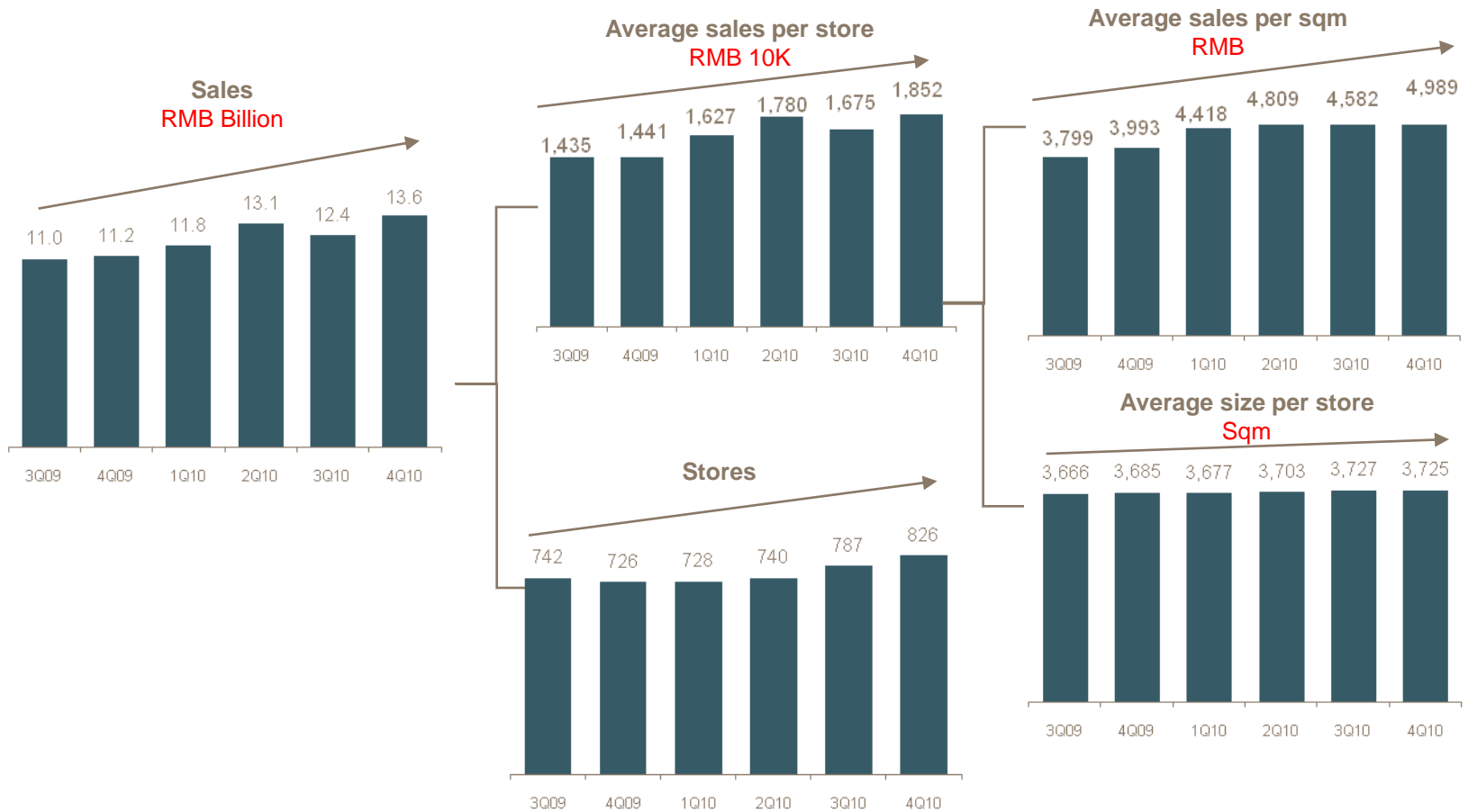
(1) Affected by the increase in scale of sales and increase in Tier 2 stores.

(2) The Group had stronger cash position, was able to speed up payments to suppliers and banks.

(3) The cash flow from financing activities was negative due to the redemption of the old 2014 convertible bond.



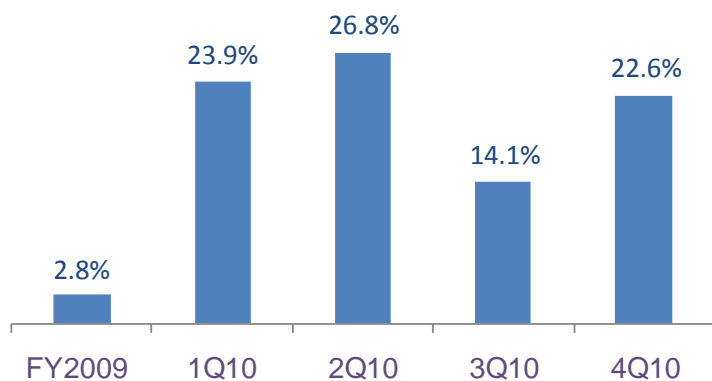
# Optimized Retail Network and Operational Efficiency



# 2010 Sales Rebounded Progressively

## Same Store Sales Growth

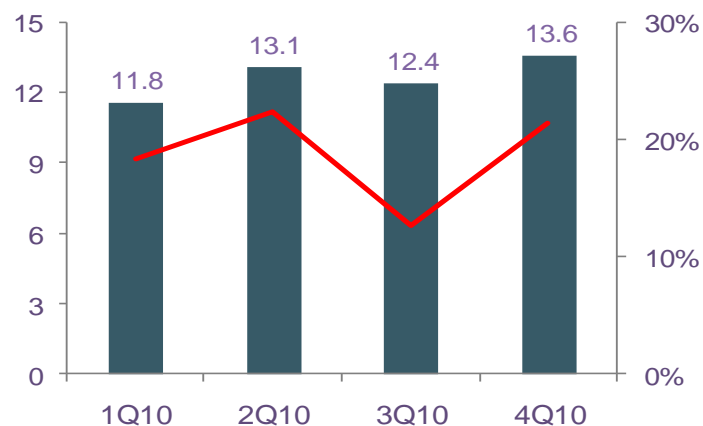
**FY 2010 SSSG: 21.8%**



## Comparable stores :

532      662      651      647      638

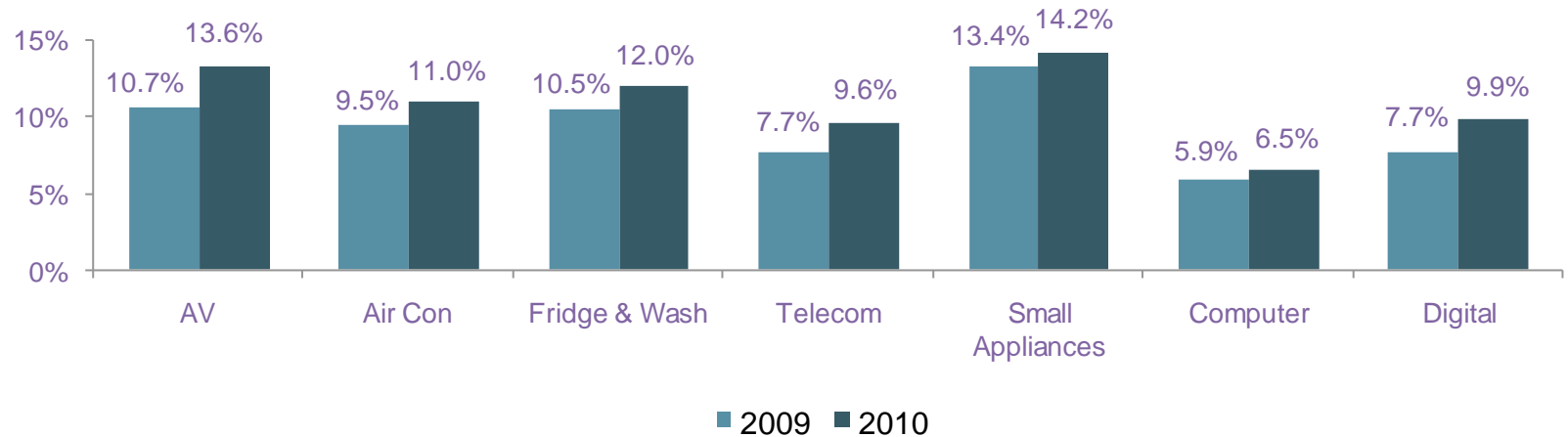
— Sales (RMB billion)  
— Same Period Sales Growth



# Improved Category Gross Margins

Primary drivers for improved gross margins:

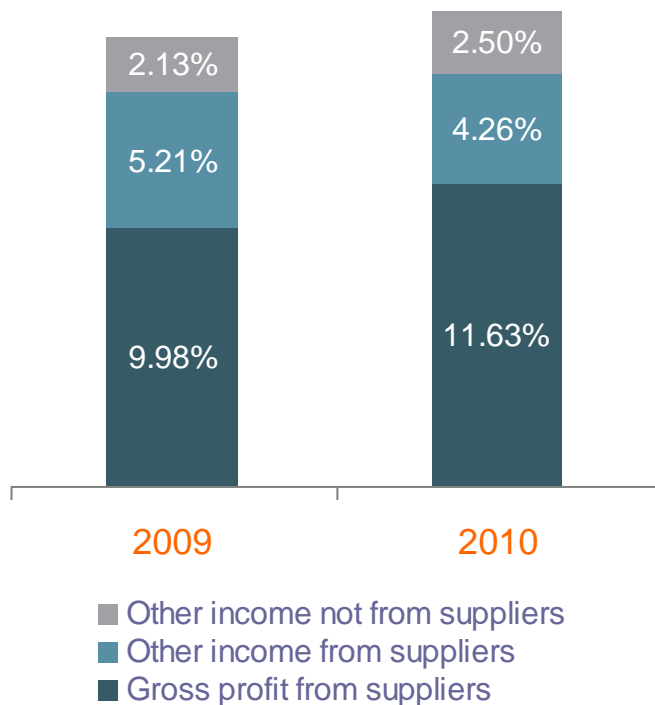
- Optimized mix of higher margin products (e.g. small appliances, accessories and ODM/OEM products)
- Improved rebate rates from suppliers



# Higher Consolidated Gross Profit Margins

**% of Revenue**    **17.32%**                      **18.39%**

**RMB million**        **7,391**                                      **9,360**



Items	2009	2010
Revenue	42,688	50,910
Total Other Income	7.34%	6.76%
Include:		
Income from suppliers	5.21%	4.26%
Management fee from non-listed GOME parent co.	0.55%	0.49%
Air conditioner installation	0.23%	0.27%
Government Subsidy	0.22%	0.27%
Sublease	0.30%	0.37%
Extended Warranty	0.24%	0.30%
Management fee from Dazhong Appliances	0.06%	0.20%
Others	0.53%	0.60%

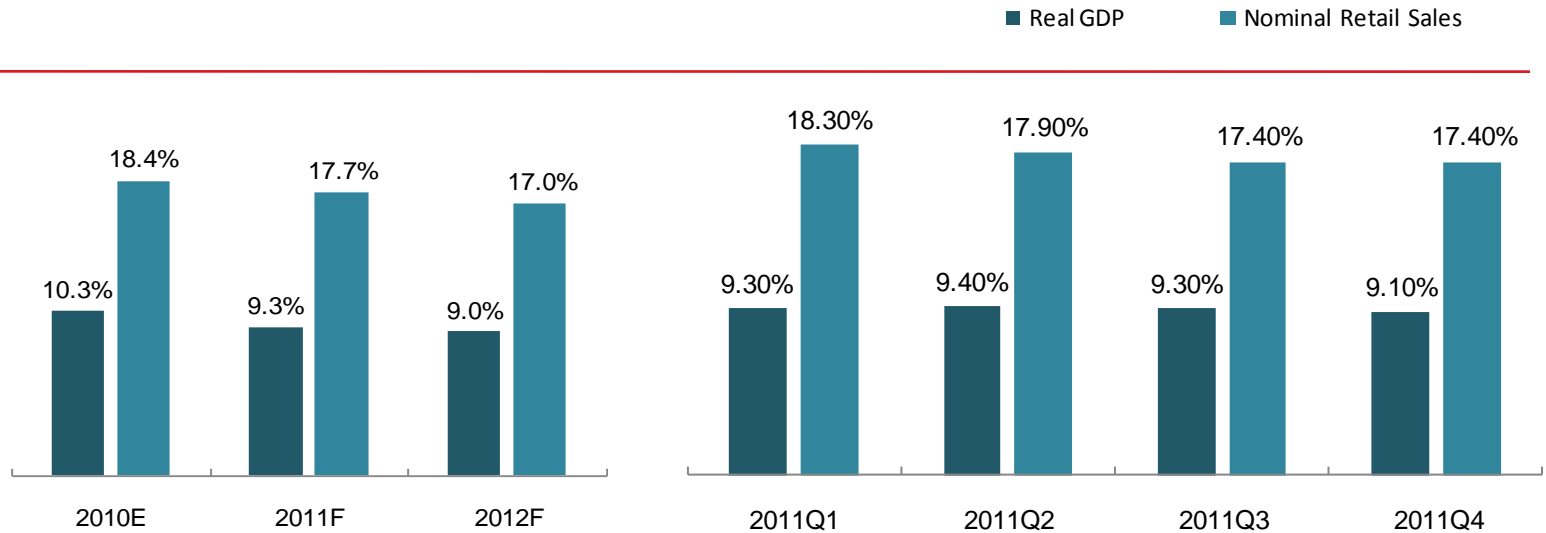


# 2011 Prospect & Outlook



# Strong Macro Economic Outlook

## Real GDP and Nominal Retail Sales Growth Forecast (% YoY)



Source: Analyst Reports, National Bureau of Statistics



# Beneficial Government Policies

## Reform in Income distribution

■ The Government's 12<sup>th</sup> Five-year plan for the first time binds personal income growth with economic growth and proposes that per capita disposable income of urban and rural residents should increase faster than GDP.

## The Livelihood Improvement Policy Removes Concerns of Consumers

■ The basic pension and medical insurance systems for urban and rural residents will cover the entire country, and % of welfare housing will increase to 20%.

Resource: CICC Research

## Accelerate Development in Service Industry and Promote Upgrade in Consumption Structure

■ The Government's 12<sup>th</sup> Five-year plan pointed out growth in services industries should increase by 4%, 1.5% more than real growth in the 11<sup>th</sup> Five-year plan period.

## Government Continues the Home Appliance Subsidy Programs

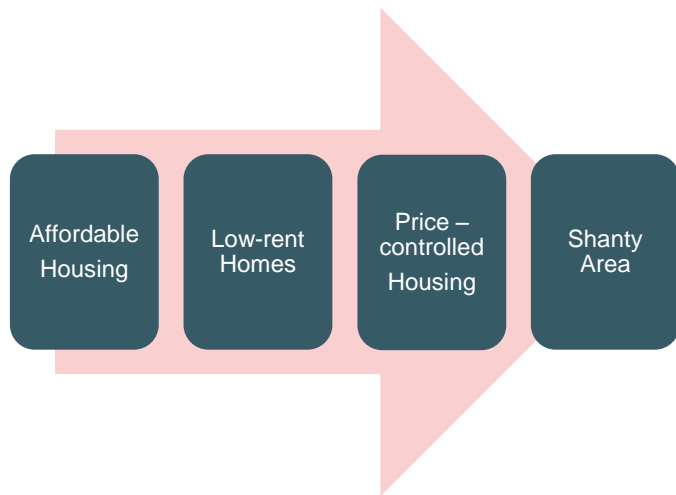
■ The government will continue to provide "Exchange-Old-for-New", "Go Rural" and "Energy Efficiency" subsidy programs in 2011.



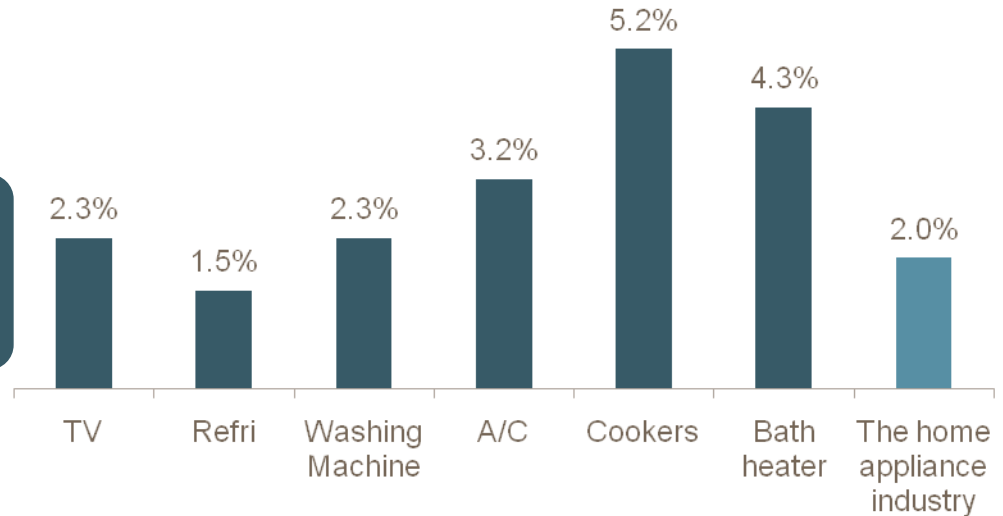
# Welfare Housing Policy: Enhance the Mid- to Long-Term Demand for Home Appliances

China vowed to promote public housing construction

10 mn units to be built in 2011



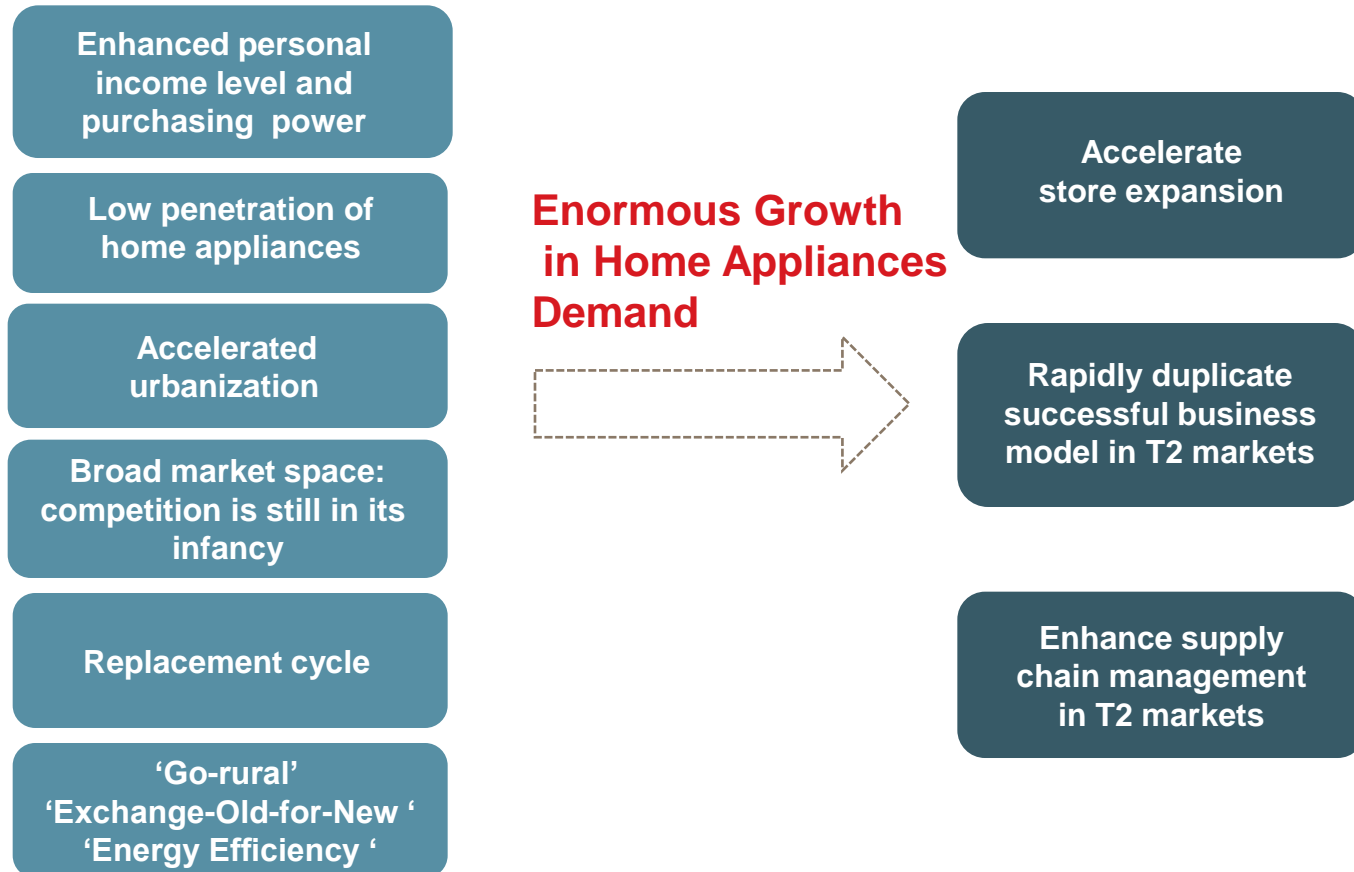
Expected sales growth attributable to every 1mn units



36 mn units to be built in next 5 years

Source: CICC Research

# Capture Enormous Market Growth in T2 Markets



# GOME Has Large Market Growth Opportunities



Source: Analyst Reports

	GOME	BESTBUY	WALMART	YAMADA
Total store number (Domestic + International)	1,320 <sup>(1)</sup>	4,027	7,820	1,976 <sup>(2)</sup>
Market Share <sup>(3)</sup>	10%	30%	10%	22%

<sup>(1)</sup> Including 826 list co stores, 435 non-listed stores, 59 Dazhong Electrical stores by the end of Dec, 2010, San Lian & Hong Kong stores are not included

<sup>(2)</sup> Including 563 list co stores and 1,413 non-listed stores by the end of Mar,2010

<sup>(3)</sup> Domestic market share in consumer electronics retail industry

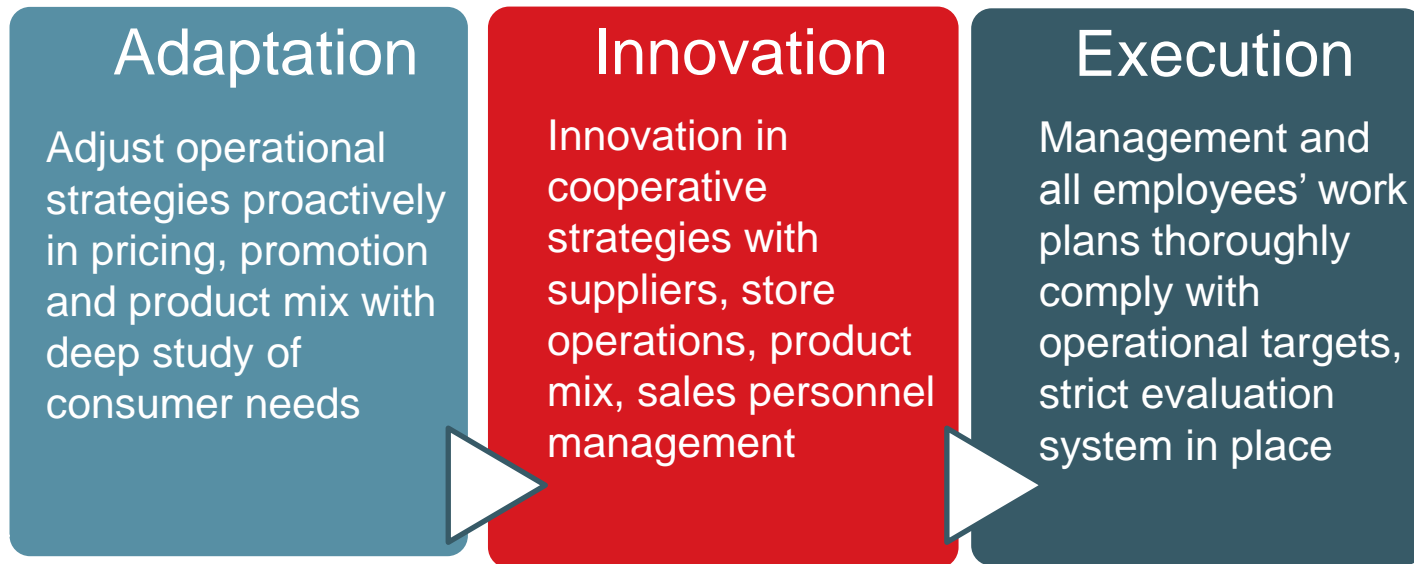


GOME will capture enormous market share growth with rapid store expansion, further solidifying market leadership



# GOME's Unique Business Model Fits Chinese Market

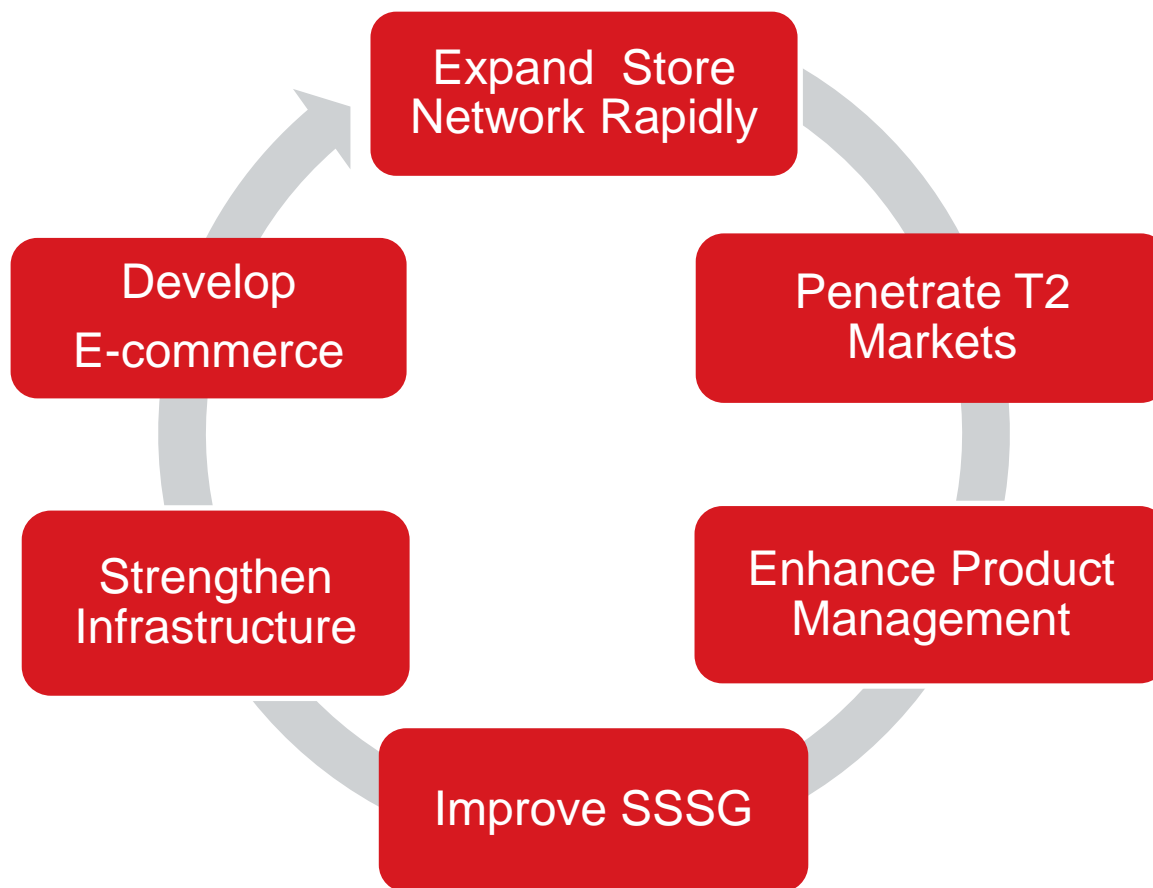
## Deep Understanding of Chinese Consumers



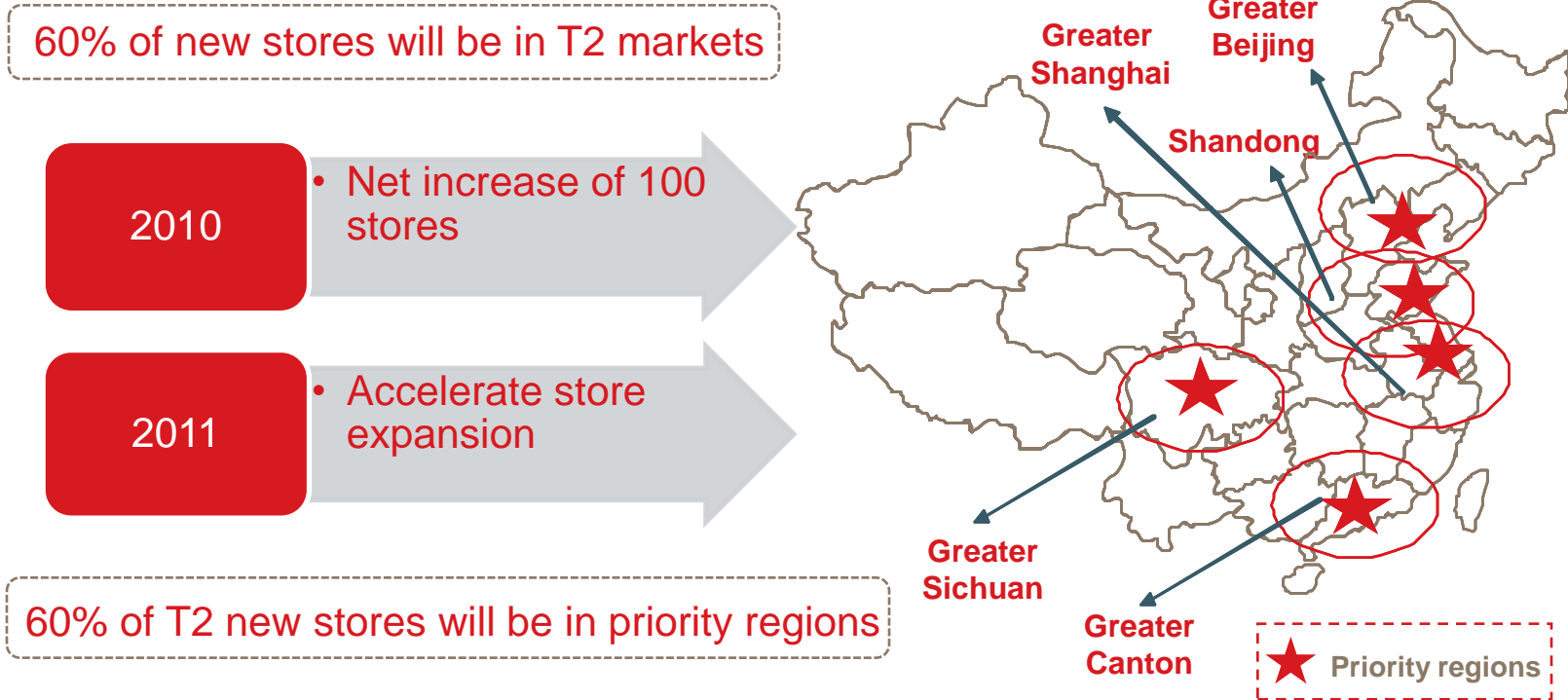
## Unique Business Model Fits Chinese Market



# Six Major Operational Initiatives in 2011

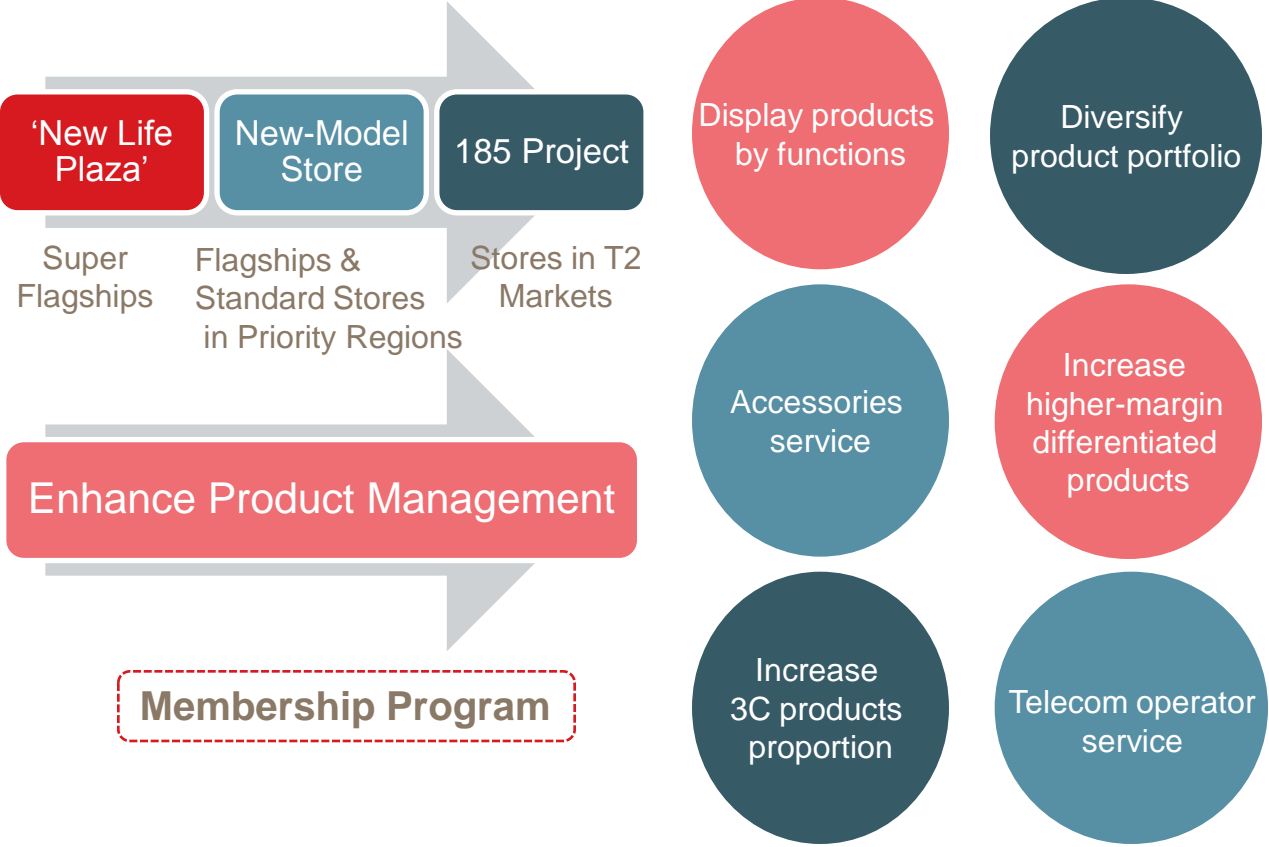


# Accelerate Store Expansion Solidify Market Leadership



# SSS Improvement Enhance Core Competency

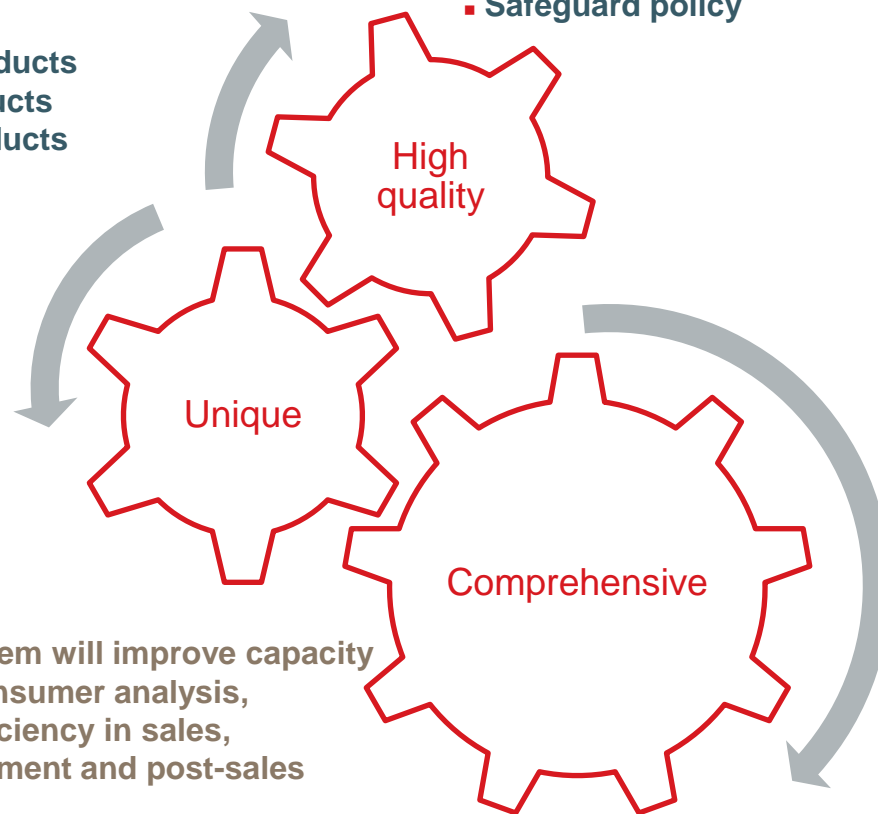
## Continue Store Reformatting Plan in 2011



# Enhance Product Management

- OEM/ODM products
- Flagship products
- Exclusive products

- Customer-centric
- Design product mix by functionality & quality
- Professional guidance by sales reps
- Safeguard policy



- Increase product varieties
- Cover 7 major product categories
- Increase SKUs for 3C products
- Increase SKUs for small appliances and accessories

The new ERP system will improve capacity for market and consumer analysis, support better efficiency in sales, inventory management and post-sales services

# 2011 ERP Leader Navigation Project



Software Supplier:  
SAP



Implementation  
Service Provider:  
Hewlett-Packard



**Efficient Information System**



# Establish Modern and Highly Efficient Logistics System

## Logistics Construction

## Logistics Development

### Logistics Base Center

- 35 in T1 cities, 96 in T2 cities, total area: 625,100 sq.m.
- Deploy centers in priority regions (Greater Beijing, Greater Shanghai, Greater Canton, Sichuan, Shandong)
- Two types : self-owned and rented
- Accelerate the process of site selection, design, and construction

### Distribution Capacity

- Support B2C logistics management and multi-level distributional network
- Laid a solid foundation for further expansion of store network and E-commerce

### Information Processing

- Adopt collaborative management and modern ERP system

Establish Efficient Logistics to Support Store Expansion

# Strategic Alliances with Operators

## Explore New Profit Opportunities



- 1 Presence in all GOME stores
- 2 GOME offers 3 million 3G numbers
- 3 GOME's income includes new subscriber bonus, consolidated sales expense subsidy and award for acquisition of high value users

- 1 All services provided in GOME stores
- 2 Promote 3G SIM card, iPhone, smartphone
- 3 Revenue includes channel development service fee and annual bonus



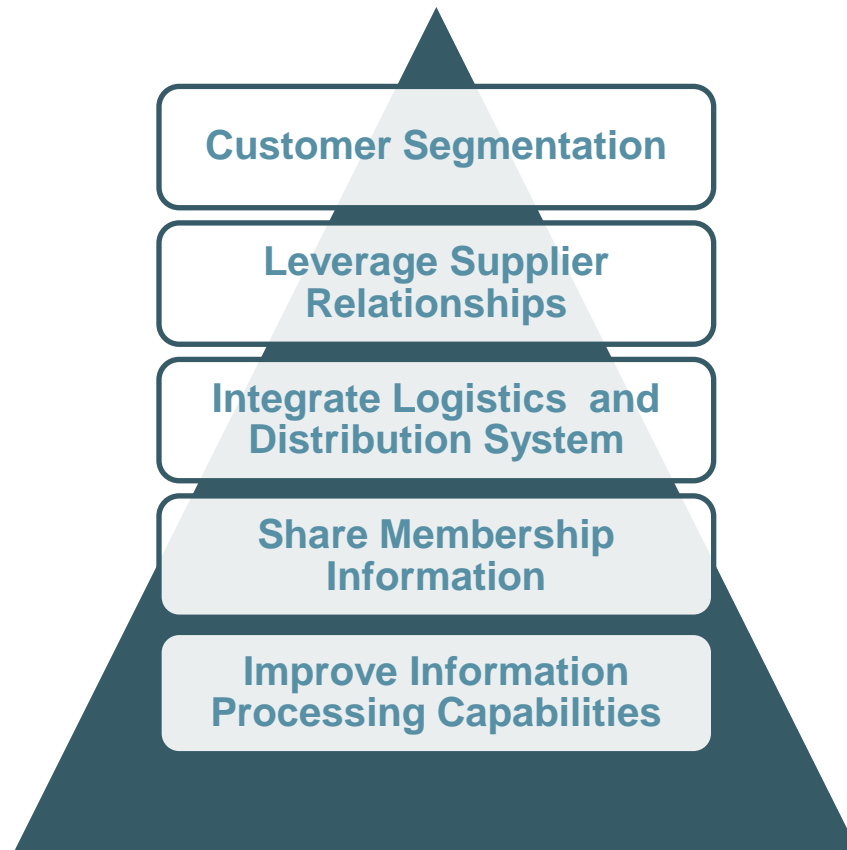
# Dual-Brand Strategy for E-Commerce



Acquired in  
October 2010

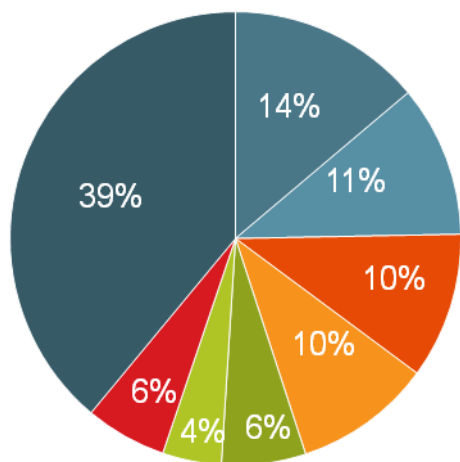


New platform to be  
launched in April 2011



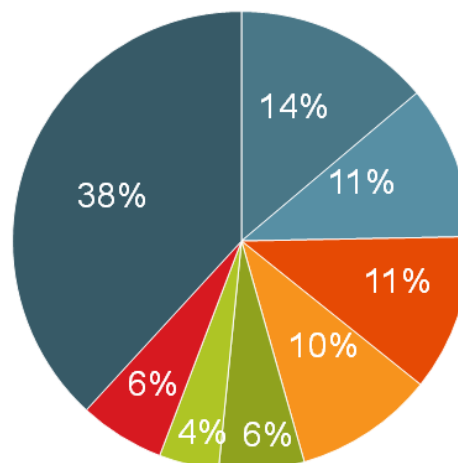
# Appendix

# Revenue Mix by Region



2009

Total: RMB 42.67 billion



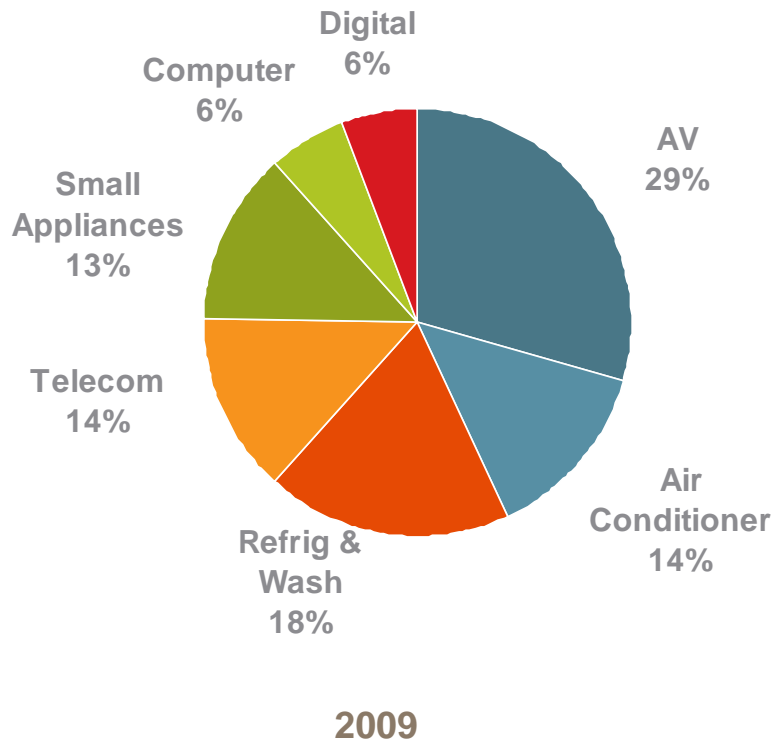
2010

Total: RMB 50.91 billion

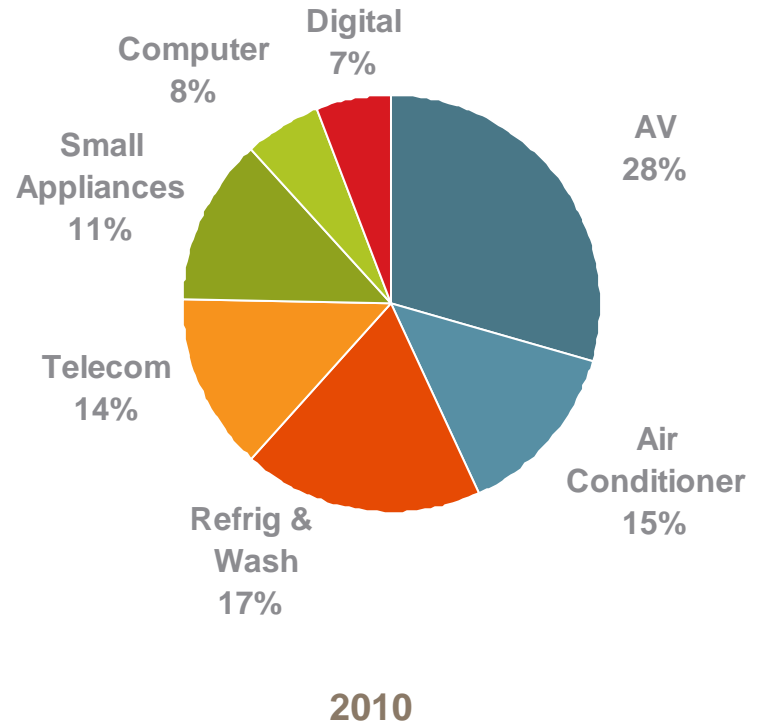
- Shanghai
- Beijing
- Guangzhou
- Shenzhen
- Tianjin
- Fuzhou
- Chengdu
- Others



# Revenue Mix by Products



Total: RMB 42.67 billion



Total: RMB 50.91 billion



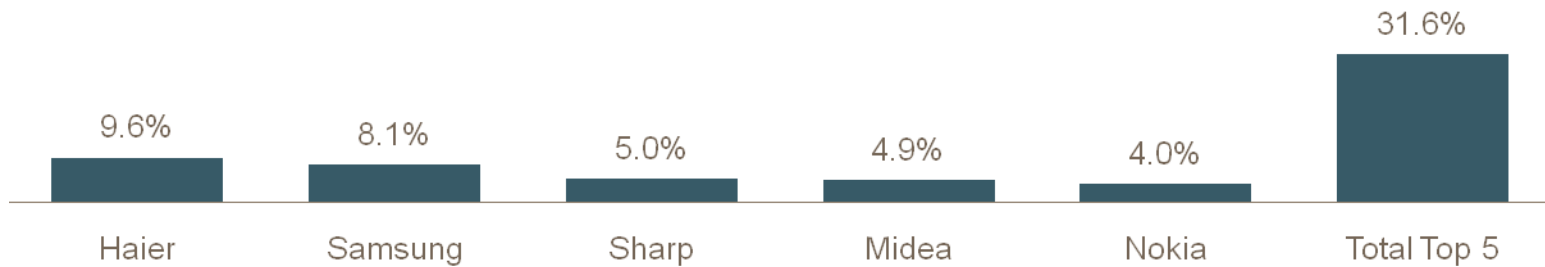
# Store Network

As of Dec 31 2010	Group	GOME	China Paradise	CellStar
Flagship stores	102	85	17	0
Standard stores (incl. supermarket stores)	700	590	110	0
Specialized stores	24	3	1	20
<b>Total:</b>	<b>826</b>	<b>678</b>	<b>128</b>	<b>20</b>
Tier 1 Market	522	404	100	18
Tier 2 Market	304	274	28	2
Net store increase in 2010:	100	97	3	0
Number of stores newly opened:	139	122	16	1
Tier 1 Market	85	73	11	1
Tier 2 Market	54	49	5	0
Number of cities accessed:	208	178	52	6
Tier 1 Market	26	20	9	1
Tier 2 Market	182	158	43	5
Number of cities newly accessed	10	9	1	0

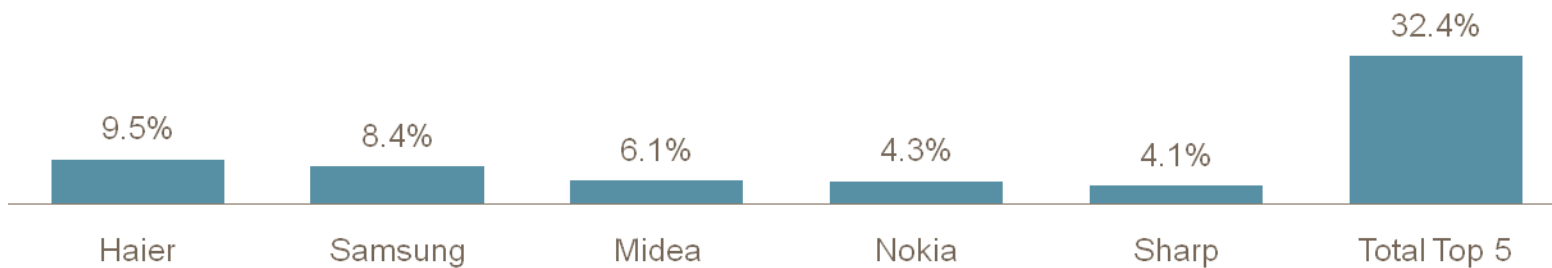


# Stable Supplier Relationships

Top 5 Supplier's for 2009



Top 5 Supplier's for 2010





Thank you