

## Gome may swap shares for capital

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Troubled Gome Electrical Appliances, the largest consumer electrical goods retailer on the Chinese mainland by sales, is putting its own house together in preparation for a proposal to raise capital in Hong Kong in a private placement of new shares to institutional investors.

Several potential investors, including some of the top foreign fund managers, have indicated their interest in buying significant chunks of the company's shares, a spokeswoman for the company said. But she said the company has only begun preliminary talks with the potential investors.

Gome, one of the most widely followed H shares on the Hong Kong bourse, is seen to have been thrown into disarray by the nagging controversy surrounding alleged irregular share trading by its founder and former chairman Huang Guangyu. Huang, who owns a 34 percent stake in the company, and his wife, Du Juan, who was a board director, earlier resigned from the company.

Since then, the markets in Hong Kong and on the mainland have been rife with rumors that Gome was facing a credit squeeze by its bankers and suppliers. The company, under new Chairman Chen Xiao, said it would shift its focus to improving profitability from expanding market share.

The Hong Kong bourse was buzzing with talks that the company was seeking to raise capital. Gome has been playing its cards close to the vest.

"We are now busy improving the company internal control system and preparing its audit review with the hope to build up investors' confidence, and to clarify the relationship between Huang and the company," Gome's spokeswoman said.

Hong Kong and mainland media have been reporting that Gome was having talks with several potential foreign investors, including Morgan Stanley, Warburg Pincus LLC, Hopu Investment Management and Bain Capital. Warburg Pincus and Morgan Stanley already own stakes in Gome.

Analysts said Gome would need to convert its HK\$4.6 billion convertible bonds into shares to increase its capital. These bonds were sold to 15 foreign investors in May 2007.

Sun Hung Kai Financial strategist Castor Pang said such a move would help to "polish" the company's balance sheet, making it easier to raise additional funds in the stock market.

"Gome's short-term funding needs can be satisfied if foreign investors are getting into the company," Pang said. (China Daily)

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