

Sanlian sues Gome for 50m yuan

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Troubled electrical appliance retailer Gome suffered another blow yesterday after Shandong retailer Sanlian Group challenged its 10.7 percent stake buy in Sanlian Commerce in a Shandong court.

Sanlian is seeking 50 million yuan compensation from Gome. The case is scheduled to come up for hearing on Feb 18, Sanlian said in a statement to the Shanghai Stock Exchange.

This lawsuit is the latest blow to the mainland's largest electrical appliance retailer whose founder and former chairman Huang Guangyu and his wife Du Juan were questioned by Beijing police for alleged wrongful share dealing.

Trading in the H-shares of Gome on the Hong Kong stock exchange has been suspended from Nov 24, after the Huang incident.

Since then the company has been troubled by unconfirmed reports that it was losing the confidence of its bankers and suppliers. The company has said that its business is unrelated to the police investigation of the affairs of its former chairman.

But the litigation with Sanlian could pose an added strain on the company in its efforts to calm the nerves of creditors and suppliers.

Matthew Kwok, head of research at Tanrich Financial, said the incident is related to the company and it is different from the earlier cases in which only the company chairman and his wife were involved.

"Credibility is very important for retail business. The uncertainties surrounding Gome may force the banks and suppliers to tighten credit lines," he said.

Security houses such as Credit Suisse and Nomura also issued research notes in November indicating their concerns on the financial situation at Gome.

Banks are now more cautious in lending due to the credit crisis. They are particularly sensitive to negative news and would often call in their loans in such cases to safeguard themselves, he said.

Huang's wife Du Juan, the former executive director, resigned from the board on Dec 23 because of her association with her husband, according to Gome's statement to the Hong Kong stock exchange.

The company has named Chen Xiao its acting chairman. Chen told reporters last month that the company had no plans to sell shares and stressed that company operations are running normally.

However, Kwok noted that it is difficult for the company to raise funds through a bond issue or share sale. "It may not be easy for companies to finance as the credit condition remains tight, not only at Gome but also at other firms," he said.

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Dickie Wong, director of research at Hong Kong's Kingston Securities, said the suspension period of Gome may be extended due to the lingering uncertainties.

"According to previous cases, I am afraid Gome's trading may be halted for half a year or more than a year," he said.

Gome's shareholders need to wait until the uncertainties about the company are cleared, and Wong said it's hard to predict the share performance after trading resumes.

Both Wong and Kwok believe that the uncertainties would not affect the daily retail business operations in Hong Kong for now.(China Daily)

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