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EASY COME, EASY GO: PART 2—GOME IN THE NEWS

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The November 3 *China Linked Blog* posting, "Easy Come, Easy Go?" presented four scenarios for competitive advancement that DO NOT underpin **long-term, sustainable** growth and profitability in China:

1. Finding temporary loopholes in regulations
2. Knowing people who control property development rights
3. Being related to people in power
4. IPOing in a rising market

Let's add to these a few more:

5. Receiving preferential government loans (especially if one cannot repay them)
6. Insider trading
7. Bribery of government officials for the right to IPO
8. Lack of clarity around alleged arrest of top company executive
9. Disappearance of top executive as trading of company shares is suspended

The second set of scenarios contains possible root causes of the fall of Huang Guang Yu and his company [Gome Electrical Appliance](#) (see *The Economist* article "[Going, Gome, Gone?](#)"), which in fact had share trading halted by the Hong Kong stock exchange on November 24.

Mr. Huang (or Mr. Wong, in Cantonese) was listed as China's second richest person by [Forbes in 2008](#), having risen from humble beginnings as a second son of a farmer in southern China. In a [2006 interview](#), Wong stated that different from some of his fellow billionaires, he was not under threat of being jailed or forced to flee based on any wrongdoing, saying "It is transparent where I made my money."

As the saying goes, things change very quickly in China. However, there must have been some "writing on the wall"—Huang was investigated in 2006 in relation to a large government loan and later exonerated.

For (especially non-local) businesses that relied on Gome—a retailing powerhouse and local success story—to distribute their products in China, this is a wake-up call and reminder—for not only good initial due diligence checks on local partners, but also for the need of regular and robust operational check-ups on distributors and local agents. It's not just about ensuring the supply chain any more.