

Fighting For Control Power Of GOME Inc.:

A Case Study

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ABSTRACT

At 2:30pm, September 28, 2010, a special shareholder meeting for GOME is called by the largest shareholder of GOME, Guangyu Huang, to be held on the first floor of Regal Hotels, 88 Yee Wo Street, Causeway Bay, Hong Kong. GOME Electrical Appliances is one of the largest electrical appliance retailers in Mainland China and Hong Kong. Huang Guangyu, the founder and largest shareholder of GOME, is currently in jail. The purpose of this meeting is to vote on the eight items on the agenda, including deposing the professional manager, Xiao Chen, from the CEO position of GOME. Should the investors support the largest shareholder or the professional manager? It may be the toughest problem GOME has faced in its history. It seems that no matter who wins, the result may not be good news to GOME and its investors. This case is about corporate governance and agency problems and is appropriate for undergraduate and graduate courses in Investment, Corporate Finance and Financial Markets.

Keywords: Shareholder; Professional Manager; Agency Problem

INTRODUCTION

The owner, professional manager, the largest shareholder and the CEO of GOME, are fighting for control power of GOME Inc. The largest shareholder, Huang Guangyu, called a special shareholders meeting, which is to be held at 2:30 pm, September 28, 2010 on the first floor of Regal Hotels, Hong Kong. The founder and the largest shareholder, Huang, who is in prison, proposed five items for the agenda which the the shareholders are to vote on at the meeting. One of the items is to remove the professional manager, Xiao Chen, from CEO position of GOME. Neither Huang nor Chen hold more than 50% of GOME equity shares and need support from their allies and investors to vote for them.

GOME Inc. Introduction

GOME Electrical Appliances is one of the largest electrical appliance retailers in Mainland China and Hong Kong. Its first specialty retail shop was open in Beijing on January 1, 1987. GOME used the brand name “GOME” in all of the retail outlets in Beijing. GOME continued to grow and listed its stock in the Hong Kong Stock Exchange in August 2004. Warburg Pincus, a leading private equity investor, joined GOME as its strategic investor in January 2006. GOME announced a 5.2 billion Hong Kong dollar merger with China Yongle in July 2006. Xiao Chen is the founder of China Yongle. The merger with China Yongle was successfully completed in November 2006 and the shares of China Yongle were removed from the Hong Kong Stock Exchange. At the same time, GOME completed the acquisition of the remaining 35% equity stake in GOME Appliance, which is the Company’s principal operating subsidiary in China. In December 2007, GOME Group acquired Shaanxi Cellstar Telecommunication Retail Chain Company Limited.¹

¹ Source: <http://www.GOME.com.hk/milestone.php>

GOME has 740 stores in 200 cities, including 79 flagship stores, 637 standard stores and 24 specialized stores as of June 30, 2010. GOME has about 2,740,000 square meters of total operating area with about 3,703 square meters per store. If including 370 outlets of the Non-listed GOME Group and 52 outlets under Dazhong Appliances, the total number of stores is 162 in 331 large- and medium-sized cities.²

Shanghai Yongle Electronics Introduction

Yongle Electrical Appliances was founded by Xiao Chen in 1996 in Shanghai. The revenue of Yongle was only 1 million RMB the first year. In 2002, sale volumes reached 16 billion RMB and Yongle became the third biggest appliance chain store in China. In March 2003, the registered capital of Yongle increased from 31.5 million RMB to 100 million RMB.³ At the same time, employee shareholders transferred their equity holdings to the management team. Chen's total equity percentage rose from 40.52% to 72.5%. This strengthened Chen's control power over Yongle. After they merged with Guangzhou East Ze Electrical Appliances in the year 2003, Yongle started to expand its business to the Pearl River Delta region.

Since 2004, Yongle was reorganized outside China for the red-chip market.⁴ In January 2005, Morgan Stanley purchased 27.36% of Yongle equity by 50 million dollars (410 million RMB) through its subsidiaries, MS Retail and CDH, and signed a Valuation Adjustment Mechanism with the management team of Yongle. The VAM is a one-way bet for Morgan Stanley, but it created a lot of pressure for Yongle. If Yongle loses, they will have to surrender 4.1% of the total equity to Morgan Stanley. Even maintaining a 40% growth rate, which is the annual growth rate of the year 2003 to 2005, Yongle still won't reach the net profit lower bound of the VAM. Finally, Yongle successfully listed in the Hong Kong Stock Exchange with the help of Morgan Stanley, which was the third biggest shareholder of Yongle in October 2005.

Yongle stock is highly appraised by the international investment institutions after being listed in the Hong Kong Stock Exchange. Yongle declared acquisition of Dazhong Electrical Appliances in an all-share transaction at April 21, 2006. On the same day, Yongle's stock price increased to 4.30 RMB, the highest price of the year. However, on April 24, Morgan Stanley released a public announcement that the estimated yield would decrease by 25 to 27 percent due to cost problems. Yongle's stock market value plummeted by 59% in three months. The result was an increase on the cost for Yongle to acquire Dazhong Electrical Appliances. The cost was so high that the acquisition process became impossible. Yongle's lackluster performance on earnings became a reason for Morgan Stanley to support GOME on acquiring Yongle. In the GOME's acquisition on Yongle, every Yongle's share was converted to 0.3247 GOME's share plus 0.17376 Hong Kong Dollars cash. Yongle was acquired by GOME with a total cost of 5.628 billion Hong Kong Dollars on November 1, 2006. Yongle became a wholly owned subsidiary of GOME and Xiao Chen was the new CEO of GOME.

Retail Industry in China

The Chinese retail industry grew from 4.8 trillion RMB in 2002 to 12.5 trillion RMB in 2009. The Chinese retail industry has moved from a single neighborhood store model to a multi-business model. Total revenue of consumer goods rose in the first four months of 2010 with a growth rate of more than 18% per month. The general merchandise sector rebounded after the world economic crisis in the years 2007 and 2008. Sales from high-end products had the highest growth rate in the first tier cities. The revenue of regional general merchandise and consumption also enjoy high growth rate in the third tier cities.⁵

The retail industries' large players in China for the year 2010 are GOME Electrical Appliances Holding, China Resources Enterprise, Suning Appliance Chain Store (Group), Brilliance Group, Wal-Mart Stores, Auchan

² Source: <http://www.GOME.com.hk/businessoverview.php>

³ Registered capital refers to the total capital contribution of the shareholders that is registered with the relevant government agency. Total investment refers to the amount (including registered capital and funds borrowed by the company) that is required for the planned project as stipulated in the articles of association of the company.

⁴ Red chips are stocks of Chinese companies incorporated outside China and listed in Hong Kong. The business and control are inside China. Red represents the People Republic of China.

⁵ Source: 2010 China Retail Industry Report at http://www.researchandmarkets.com/research/02eaa5/china_retail_indus

China, Carrefour (China), Bright Food (Group), Dashang Group, and Belle International Holdings. With revenue of \$10,084 million, GOME Electrical Appliances Holdings is the leading player of the industry⁶.

Structure and Board of Directors of GOME

GOME corporate structure for the year 2010 is shown in Figure 1. Mr. Xiao Chen is the Chairman and Executive Director of the Group. He has been the President of the Group since November 30, 2006, and the executive Director since May 22, 2007. On November 27, 2008, the ex-chairman, Guanyu Huang, was imprisoned and Xiao Chen was appointed as the Acting Chairman of the Group. About two months later, on January 16, 2009, Chen was appointed to be the Chairman of the Group..

The board of directors of GOME consists of four executives, three non-executives and three independent non-executive directors. The Executive directors are Mr. Kin Wah Ng (since September 2000), Mr. Jun Zhou Wang (since November 2006), Ms. Wei Qiu Li (since November 2006), and Mr. Yi Ding Sun (since November 2006). Non-executive directors are Mr. Jia Zhu, Mr. Ian Andrew Reynolds and Ms. Li Hong Wang, who were all appointed as non-executive directors in August 2009. Independent non-executive directors are Mr. Tsai Ping Sze (since October 31, 2002), Mr. Yuk Sang Chan (since May 2004) and Mr. Thomas Joseph Manning (since May 22, 2007).

Chen's Actions on Removing Huang

In 2008, when Guanyu Huang was arrested, Xiao Chen became the president and deputy chairman of the board of directors. Chen became the president and the chairman of the board in 2009. When the information surrounding the arrest of Guanyu Huang was released, GOME's collaborated banks ordered all of the branch offices to conduct emergency credit checks on GOME and all of the companies that were related to Guanyu Huang. The amount of loans to GOME were reported to the bank headquarters for risk management. This situation created cash management difficulties for GOME. At one point in time, GOME experienced problems on current capital turnover. It was impossible for GOME to obtain any new loans. The board of directors suggested Huang's family raise the money from public channels.

In addition to Huangping Fund and KKR, Bain capital was the third candidate for GOME's financial needs. Different from the other two candidates, Bain's position on maintaining control status of Huang's family soon defeated its competitors and entered into substantive negotiation. Finally, Xiao Chen and Bain reached an agreement. On June 22, 2009, Bain purchased 1.59 billion RMB convertible bonds from GOME. The maturity date was in 2016. The convertible bond is an option embedded bond. After a pre-specified time before the maturity day, the bond holder may convert these bonds into the issuing company's common stocks at a pre-determined exchange ratio. The convertible bond issuing company can enjoy the benefits of fewer cash interest payment. However, the existing stockholder value will be diluted when the bonds are converted into new common stocks.

On July 7, 2009, Chen lunched an equity incentive program with 383 million shares, about 3% of common stock outstanding. The closing price was 1.9 Hong Kong dollars. The total market value of stocks was about 730 million Hong Kong dollars which was the historical high in Chinese appliance industries. The eleven top executives, including Chen, were granted 125.5 million shares. About 105 managerial staff received the rest of the shares. In the past, these colleagues of Guanyu Huang, whom he trusted, did not have any equity shares in GOME.

On May 11, 2010, the general meeting of GOME stockholders decided to issue 20% new equity shares for the investment plan. With these additional 20% new equity shares outstanding, Huang's share would be diluted from 42.47% to 27.06%, and the shares belong to Chen's allies would then increase to 33.75% if all of the shares were purchased by Chen's allies.

On August 5, 2010, GOME sued Guanyu Huang in Hong Kong for breach of trust and violation of fiduciary duty as a director of the Company relating to the repurchases of the Company's own shares during January

⁶Source: How to Profit From China's Growing Retail Industry, 2010, <http://seekingalpha.com/article/228761-how-to-profit-from-china-s-growing-retail-industry>

and February 2008. On August 6, 2010, Chen held an emergency video conference where middle level managers were requested to declare their attitude about the upcoming battle. On August 12, the five-person team, consisting of four vice presidents and the chief financial officer, collectively presented a media conference showing their support on the decisions of the board of directors and stated they would leave GOME if Chen failed the battle.

On September 16, 2010, Bain capital converted all the bonds into 16.31 million shares at the price of 1.10 RMB per share. Bain capital became the second largest shareholder of GOME with 9.8% of the total shares outstanding. And Bain stood on Chen's side. Combining 9.8% equity shares of Bain with 1.47% equity shares by Chen and 5% equity shares by Chen's management team, Chen controlled 16.27% of equity shares of GOME.

Financial performance information under Chen Xiao's leadership is shown in Figures 2 to 5 and Table 1. Revenue, net income, and earnings per share for the year 2010 are 24.837 billion RMB, 9.62 million RMB, and 0.064 RMB, respectively. The revenue growth rate was 21.55% and the net income growth rate was 65.9% for the year 2010.

Huang's Retaliation

GOME Electrical was founded by Huang Guangyu in 1987 and listed in the Hong Kong Stock Exchange in 2004. Huang was the richest person of China during the years 2004, 2005 and 2008. Huang was arrested in the year 2008 and released from the directorship position of GOME. Because of illegal operations, insider trading, and bribery, Huang was sentenced to 14 years in prison, 600 million RMBs fine, and 200 million RMB's property confiscation.⁷

After being arrested, Huang gradually lost his GOME power. When Chen issued 20% new equity shares and selected three Bain's investors to be non-executive directors, Huang realized that the battle for GOME's power had started. As the founder and the biggest shareholder of GOME, Huang still has strong influences on GOME. Huang had three important assets:

1. 327 non-listed stores

Three hundred twenty-seven non-listed stores are located in large cities, such as Beijing, Shanghai, Ningbo and Hangzhou. In the first half of 2010, the total revenue was 205 million RMBs. The representative for Huang indicated that these 327 non-listed stores will become part of GOME at the end of 2011 if Huang can obtain the majority support in the shareholders meeting. If Huang does not receive the majority support, this plan may be terminated. Huang also has the property right of a valuable asset the logo of GOME.

2. 34% of GOME shares

Mr. and Mrs. Huang own 33.98% of GOME equity shares. Huang is still the biggest GOME shareholder.

3. Public opinion and sympathy

Huang sent an open letter to all of the employees of GOME. This letter intended to gain understanding and support from the employees. Huang alleged that Chen attempted to overturn his power in GOME for personal interest and Chen's company operation strategies impaired GOME's long-term development. Huang accused Chen's collaboration with an American private equity firm a "conspiracy" and warned that Chen will transform GOME, one of most successful Chinese-owned brands, into a profit-making tool under foreign capital control.⁸ Some Chinese people also blamed Chen's behavior on a lack of basic business rules, common sense, and traditional views of China. In Chinese traditional society, when two good friends work together they should have "YiChi" to each other. "YiChi" means good friends are more important than blood brothers and good friends should be loyal to each other forever.

⁷ Source: <http://wiki.mbalib.com/wiki/%E9%BB%84%E5%85%89%E8%A3%95>

⁸ Source: GOME dispute: Huang Guangyu vs. Chen Xiao, 2010, at <http://www.peopleforum.cn/viewthread.php?tid=33190>.

Specifically, the first half of the year, Huang believed that GOME did not have a good performance under Chen's leadership. He said that compared to their competitors, GOME lost competitive advantages, not only in market share but also overall strategy; and the operational efficiency also decreased (Table 2).

Therefore, this special shareholder meeting is called by Huang. Following is the meeting agenda proposed by Huang which will be voted on September 28.

1. Revoke company's general mandate which was passed during this year's company annual meeting.
2. Remove Xiao Chen as executive director and chairman of the Board.
3. Remove Yi Ding Sun from his duties as executive director of the Company, while maintaining his operational role as a vice president of the Company.
4. Nominate Xiao Chun Zou as executive director of the Company.
5. Nominate Yan Hong Huang as executive director of the Company.⁹

Other Shareholders of GOME

Stockholders, managers and employees of GOME and suppliers, distributors and institutional investor are the stack holders of this event. One institutional investor said they were not interested in this meeting, but only the return of investment. One day before GOME sued Huang, GOME'S stock price decreased by 2.15%. GOME's stock trading was suspended on August 5. On August 6, GOME's opening stock price was lower than the previous trading day's price by 12.02%. The trading volume increased to 1,451,000,000 Hong Kong dollars, which is 10 times more than the August 4 trading volume. GOME's stock price continued to plummet and trading volume continued to increase. GOME stock prices on August 4 and 6 and from May to September are shown in Figures 6, 7, and 8 respectively.

In this period of conflict, many small investors reduced their shareholding of GOME. Different from the small investors, some of the institutional investors increased their share holdings several times. On August 3, Morgan Chase increased their shares by 9.01% at the price of 2.78 HK dollars. On August 6, Fidelity Fund cashed out 434,000,000 HK dollars with 179,200,000 share sales. This reduced the Fidelity Fund shareholding ratio of GOME from 5.57% to 4.37%. Morgan Stanley, however, bought 81,000 shares and its shareholding ratio increased from 6.54% to 6.6%¹⁰.

About 180 institutional investors possess 44.84% of GOME's total shares and the largest 50 institutional shareholders own more than 41% of the shares. Figure 9 shows the main shareholders of GOME. The main institutional investors, J.P. Morgan Chase & Co., Morgan Stanley and Fidelity Fund hold 5.49%, 4.95%, and 4.37% of the shares, respectively.¹¹

Based on the information of GOME and Bain capital, the largest 20 institutional investors are not satisfied with Huang's behavior and prefer the current GOME management team; but from the information of Huang, not all the institutional shareholders support Chen.

Until September 22, 2010, several shareholders declared their attitudes. Huang's friends, Jianming Zheng and Xuecun Ouyang, who have 2% and 0.6% shares, respectively, said they will support Huang. On the other hand, Bain capital, Yongle, F&C, with 9.98%, 5%, and 0.05% share holdings, respectively, declared their support for Chen.¹² Table 3 shows the attitudes of all the shareholders of GOME.

According to Hong Kong regulation, one single or several shareholders with shares of over 10% can call the meeting of shareholders. Huang owns 33.98% of shares and is eligible to call the shareholder meeting.

⁹ Source: http://finance.sina.com.cn/focus/GOME_huang2010/

¹⁰ Source: http://www.360doc.com/content/10/0827/00/59741_49067025.shtml

¹¹ on 31, August, 2010. Source : <http://topic.eastmoney.com/huangguangyu/>

¹² Source: Distribution of 2 Stock Camps of GOME at <http://hkstock.cnfol.com/100924/132.1357.8488726.00.shtml>

CONCLUSION

Now the special shareholder meeting is scheduled. The shareholders must vote on these proposals. The goal of the shareholders is to obtain maximal return on their stock investment. However, it seems no matter whom the shareholders support in the special meeting they will only bring harm to the stock return. What should they do?

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APPENDIX

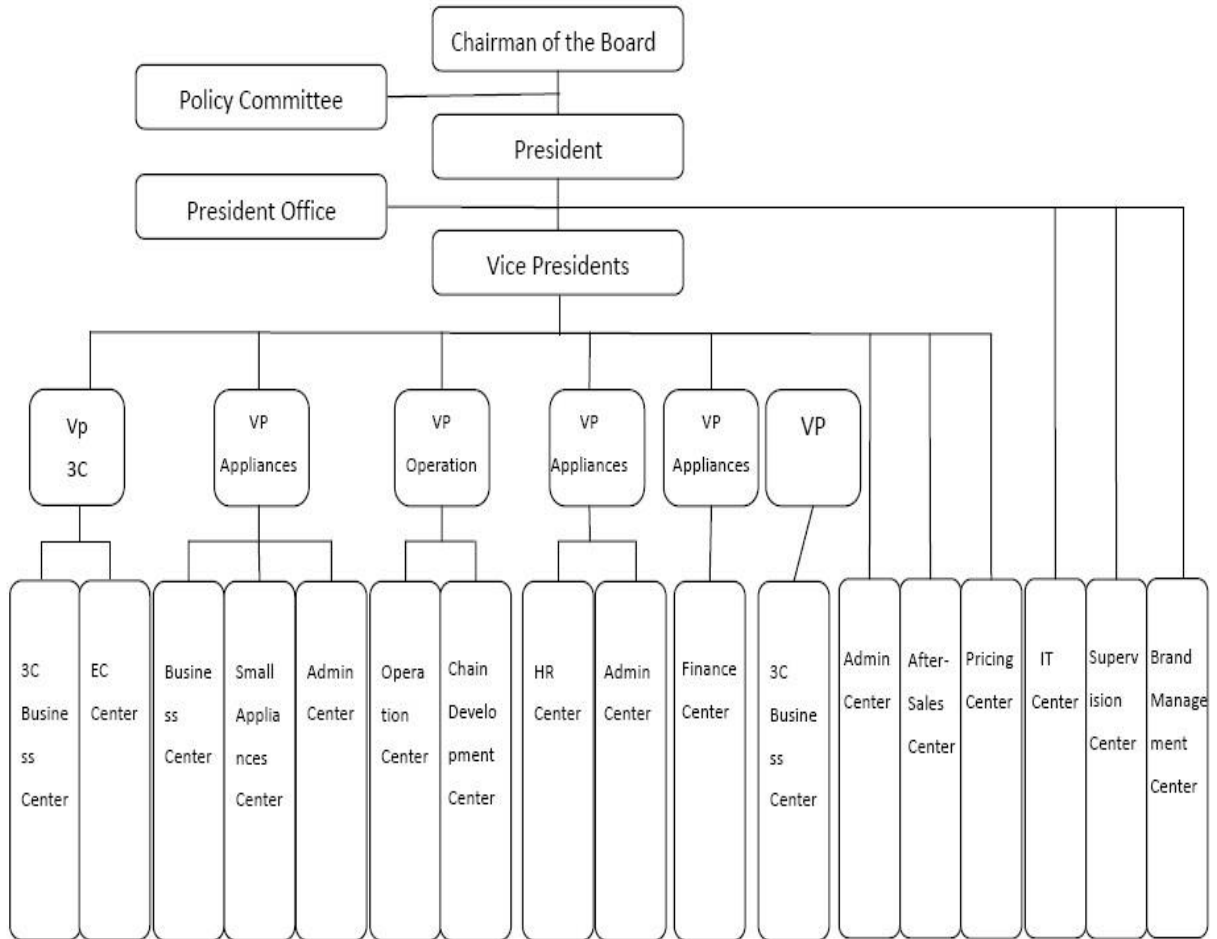


Figure 1: GOME’s Organizational Structure
Source: <http://www.GOME.com.hk/structure.php>

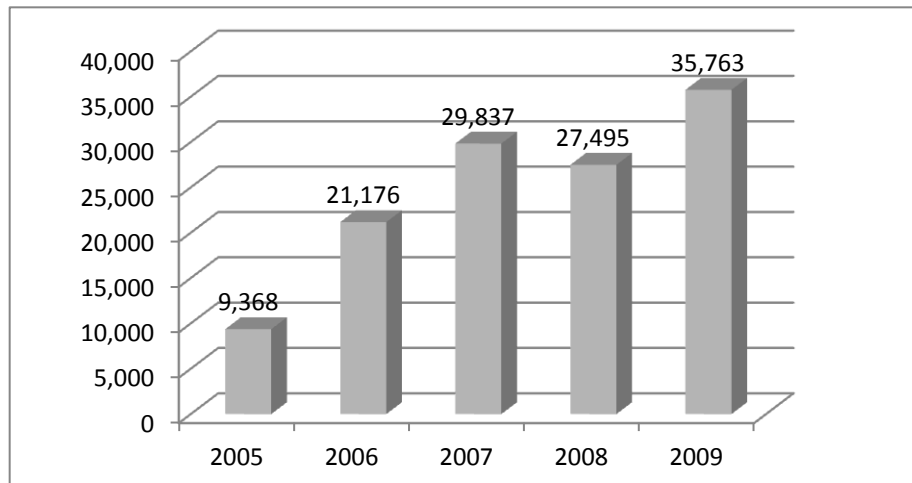


Figure 2: GOME's Total Assets, 2005-2009 (RMB million)
Source: GOME 2009 Annual Report

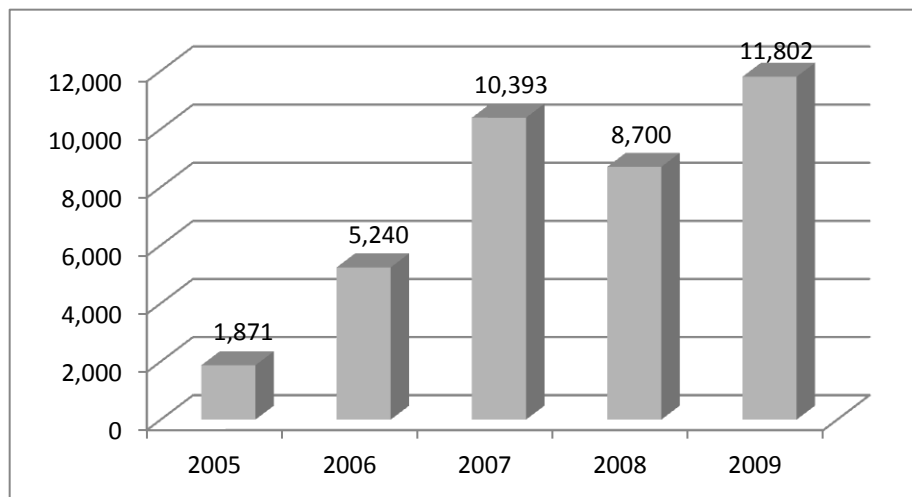


Figure 3: Net Assets of GOME, 2005-2009 (RMB million)

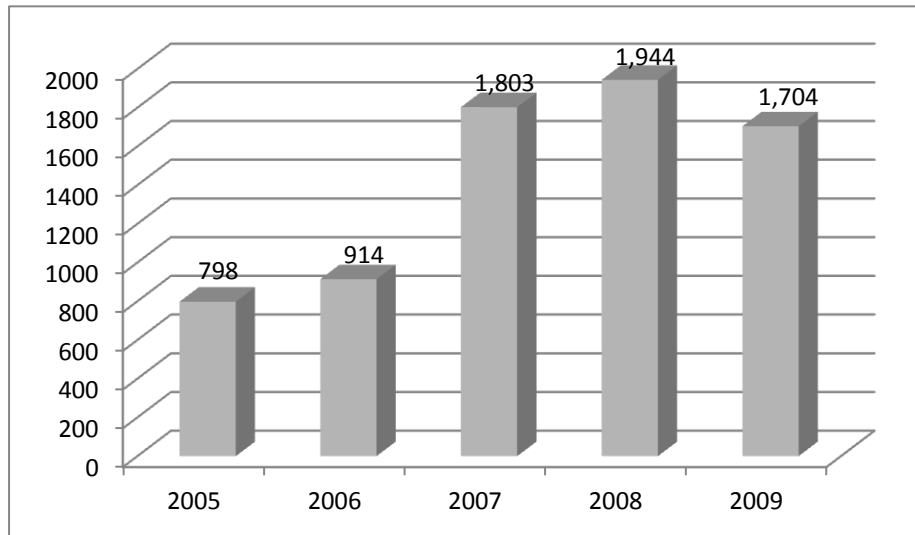


Figure 4: GOME's Profits from Operating Activities, 2005-2009 (RMB million)

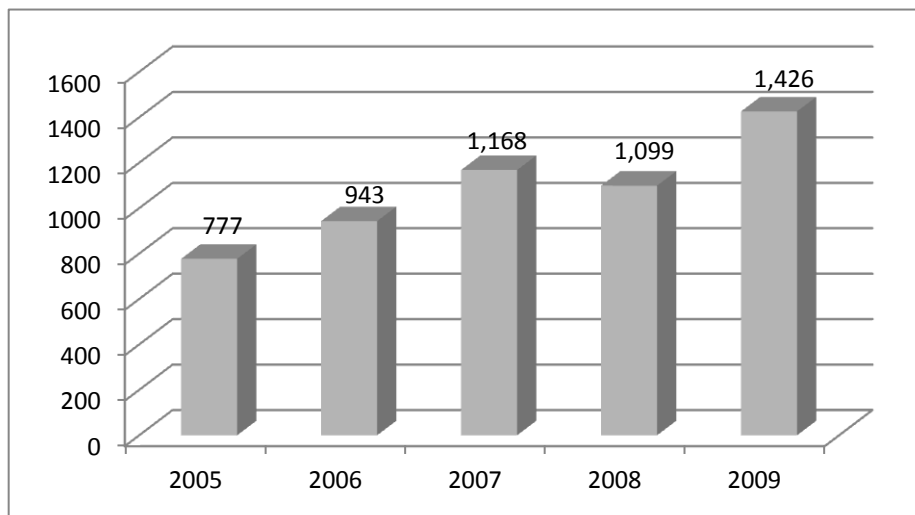


Figure 5: Profit for the Years 2005-2009 (RMB million)

Source: www.sina.com

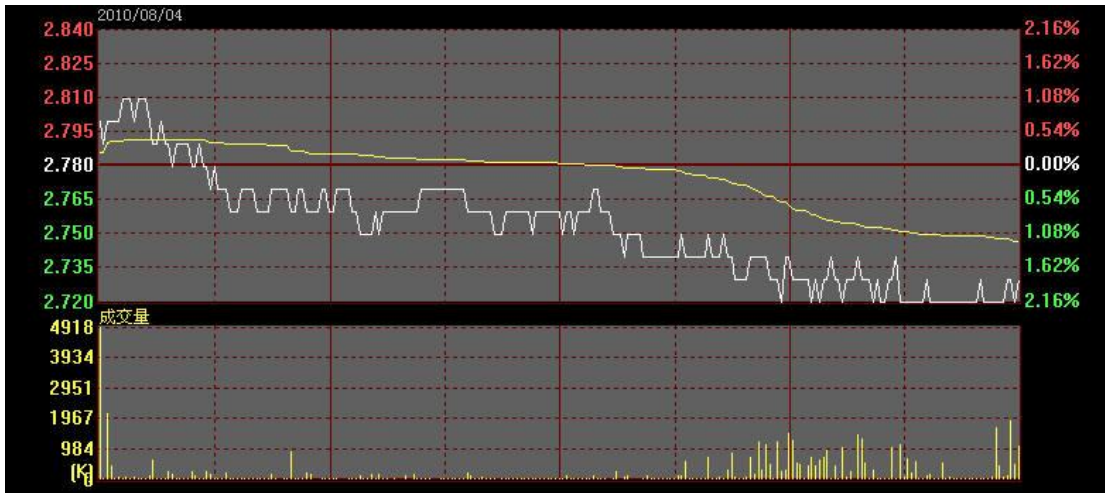


Figure 6: Stock Price of GOME on August 4, 2010 (Price: HK\$, Trading Volume: 0.1 million shares)
Source: Hong Kong Stock Exchange

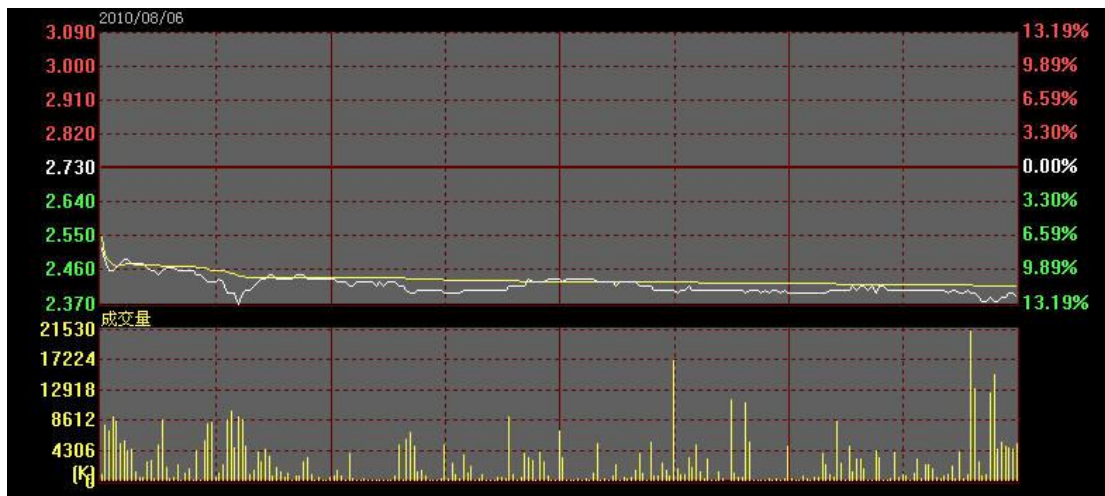


Figure 7: Stock Price of GOME on August 6, 2010 (Price: HK\$, Trading Volume: 0.1 million shares)
Source: Hong Kong Stock Exchange



Figure 8: Stock Price of GOME from May to September, 2010 (Price: HK\$, Trading Volume: 0.1 million shares)
 Source: Hong Kong Stock Exchange

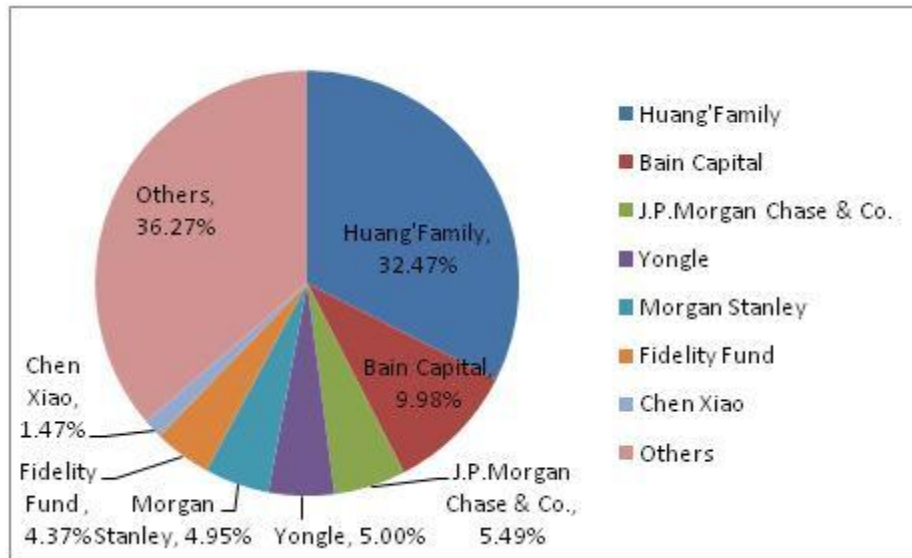


Figure 9: Main Shareholders of GOME
 Source: <http://topic.eastmoney.com/huangguangyu/>

Table 1: GOME's financial statement For the six-month period ended 30 June

	Notes	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
REVENUE		24,873,283	20,463,322
Cost of sales	4	(22,199,502)	(18,455,552)
Gross profit		2,673,781	2,007,770
Other income and gain		1,564,031	1,364,053
Selling and distribution costs	4	(2,350,793)	(2,164,203)
Administrative expenses		(457,068)	(355,292)
Other expenses		(180,558)	(181,047)
Profit from operating activities		1,249,393	671,281
Finance costs	6	(271,707)	(108,350)
Finance income	6	167,871	164,068
(loss)/gain on the derivative component of convertible bonds			
	19(i)	(92,351)	23,210
Gain on redemption of convertible bonds		202,578	-
PROFIT BEFORE TAX	5	1,255,784	750,209
Income tax expense	7	(293,458)	(165,273)
PROFIT FOR THE PERIOD		962,326	584,936
Attributable to:			
Owners of the parent		962,326	580,380
Non-controlling interest		-	4,628
		962,326	584,936
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
-Basic		RMB 6.4 fen	RMB 4.5 fen
-Diluted		RMB 5.8 fen	RMB 4.5fen

Table 2: Sales Revenues of GOME and Competitor

Sales Revenue	First Half Year of 2008	First Half Year of 2010
GOME	36,978,650,000	34,411,190,000
Competitor	25,919,300,000	36,054,690,000
Competitor/GOME	70.09%	96.37%

Table 3: Shareholders' Attitudes

Huang	Chen
Huang's Family 32.47%	Chen Xiao 1.47%
Zheng Jianming 2%	Bain Capital 9.98%
Ouyang Xuechu 0.6%	Yongle 5%
	F&C 0.05%
Sum 35.7%	Sum 16.5%
Shareholders do not have clear attitude	
J.P. Morgan Chase & Co.	5.49%
Morgan Stanley	4.95%
Fidelity Fund	4.37%
Other institutional investors:	About 20%
Other retail investors	About 13%

Source: <http://hkstock.cnfol.com/100924/132,1357,8488726,00.shtml>

TEACHING NOTES

FIGHTING FOR CONTROL POWER OF GOME INC.

This case is appropriate for the undergraduate and graduate courses in Investment, Corporate Finance or Financial Markets and Institutions. This case can be used in the chapters that address business ethics, corporate governance, corporate ownership, board of directors, merger and acquisition, and stock markets.

Discussion questions

1. *What are the competitive advantages and disadvantages for Huang and Chen in this battle?*
2. *What is the role of professional manager? What are their main tasks of professional managers in China?*
3. *How do you evaluate Chen's management performance and the fight for control?*
4. *Should one person hold both positions of chief executive officer and chairman of board of GOME?*
5. *How many shares do Huang and Chen own respectively? How many more shares do Huang and Chen need to win the corporate control?*
6. *If you were a shareholder of GOME, who would you support?*

Questions and Answers

1. **What are the competitive advantages and disadvantages for Huang and Chen in this battle?**

To answer this question we should know that the competitive advantages of Huang are also the competitive disadvantages of Chen. These are reciprocal.

The competitive advantages of Chen are that he is a professional manager; he owns the support of Bain Capital which is the second biggest shareholder of GOME, and high executives stand on his side. Also GOME has good performance under his leadership.

Huang's competitive advantages are that he has 327 unlisted stores in the key market which can be used to increase GOME market share and to preserve the leading position of GOME. He owns the logo of GOME which is an important intangible asset of a company. The unique culture and market environment of China provide Huang with excellent opportunities to gain understanding and sympathy from the public. It is a kind of psychological warfare.

2. **What is the role of professional manager? What are the main tasks of professional managers in China?**

A professional manager is an expert, well trained and experienced enough to adequately manage many types of organizations. The main task of professional manager is to maximize shareholders profit, manage the survival and growth of the company, innovation, and meet the competitive challenges, etc. This is human capital rather than money-capital.

Most of the companies in China are family owned business or state owned business. A lot of the time the founders maintain their entrepreneurial management style and do not allow professional managers to manage the companies. Professional managers, in most cases, do not have room to manage the state owned companies either. Some professional managers turn themselves into owners of companies. Agency problems arise when professional managers also become the owners of the companies.

3. **How do you evaluate Chen's management performance and fighting for control behavior?**

Some students may argue that Chen is considering all aspects of GOME and trying to improve GOME. Indeed, the profits of GOME increased. Some other students may argue that Huang is the biggest shareholder of GOME. Being a professional manager, Chen's main goal is to maximize the shareholders'

benefit. Did Chen maximize the benefit of the biggest shareholder of GOME? During this battle for control, the instability of GOME has caused the stock price to decrease, which reduced the market value of GOME. What Chen did may not be considered normal behavior for a professional manager.

4. Should one person hold both positions of chief executive officer and chairman of board of director of GOME?

Instructors may take this as a chance to review agency problems. Creditors, shareholders and management may have conflict of interests between each other because of differing goals. The chairman, Chen, and the largest shareholder Huang of GOME have conflicting ideas on how the company should be run. This is a good example of agency problems. If the same person has both positions of CEO and chairman of board of directors then there is potential for conflict of interests in these two positions. Both Chen and Huang are fighting for control. The winner of this battle will have both the CEO and chairman of board of directors. A conflict of interest may exist and this is an agency problem.

However, some students may argue that Chinese culture is different from western culture. If both CEO and the chairman of board of directors are the same person this may bring more benefit than harm. Being the chairman of board of directors, the CEO only needs to focus on company long term performance and does not need to worry about short term finance performance pressure from shareholders. The Company can have a better long term competitive strategies. The Company will become more efficient in decision making and can take fast action when internal or external environments change.

5. How many shares do Huang and Chen own respectively? How many more shares do Huang and Chen need to win corporate control?

Huang and Huang allies:	Chen and Chen allies:
Huang: 32.47%	Chen: 1.47%
Zheng Jianming: 2%	Bain Capital: 9.98%
Quyong Xuecun: 0.6%	Yongle: 5%
Total: 35.7%	F&C: 0.05%
	Total: 16.5%

In order to win, Huang needs more than 14.3% shareholders’ support and Chen needs more than 33.5% shareholders’ support.

6. If you were a shareholder of GOME, what will you do? Who will you support?

Instructors can use this chance for students to vote. Some may support Huang and some may support Chen. As a shareholder, we care more about maximizing the return of investment. In this case, it seems that no matter who wins this battle, the result will harm our profit. More experienced students may not want to support any side and only support part of the proposals which may deliver more benefits. If the first agenda is approved in the meeting, Huang will remain the largest shareholder of GOME. If the second agenda is approved, Chen’s management team may leave GOME. If the second agenda is not approved then Chen’s management team will remain in their position.

On one hand, we want Huang to continue to be the biggest shareholder, so he will not break with GOME and the more than 300 unlisted stores may be put into GOME. This will be good news to GOME. Moreover, GOME will still have the trade mark property right from Huang.

Lastly, if Chen is a successful professional manager and he chooses to leaves, the whole management team of GOME will leave. Where will we find such a good management team in a short time? If they really leave, who can manage GOME well? Of course, Huang has recommended some candidates to be the executive directors. Whether they are professional managers is another issue for class discussion.

NOTES