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Gottschalks' new partner a mystery

Everbright's \$30 million investment gives it control of Fresno-based firm.

By TIM SHEEHAN
The Fresno Bee

The future of Gottschalks began in 2005, as executives with the Fresno-based department store chain sought a trade pipeline to Asia.

That pipeline -- and much more -- would be part of a \$30 million deal that Gottschalks said on Friday it had signed with Chinese investment firm Everbright Development Overseas Ltd.

Expected to close in January, the deal would put the company under the control of owners about whom very little is known in the United States.

"It's certainly a different arrangement than what we are used to" in terms of how much information Everbright is willing to disclose about itself, Gottschalks Chief Executive Jim Famalette said Friday.

"Being a private company in China -- it's a much different situation." In addition to gaining new access to goods made in China, Gottschalks would get a \$30 million cash injection to help it weather an increasingly dire retail environment.

The cost: giving up a majority stake in the company. If the deal is approved by shareholders, regulators and lenders, Everbright will own about 75 percent of Gottschalks.

Gregory Ambro, Gottschalks' chief operating officer, said the two companies got together about three years ago.

"We started talking about more direct trade," Ambro said. "Since then, they've gotten to know us better and we've gotten to know them." Everbright is a family company that, like many in a nation that is gradually becoming capitalist, is linked to the Communist government, one expert said.

Everbright's 89-year-old founder, Wang Guangying, and his family "have extremely close ties to the Chinese government," said Usha C.V. Haley, a professor of international business at the University of New Haven in Connecticut, author and research associate with the Economic Policy Institute in Washington, D.C. "I would say this company is an extension of the government." According to information provided by Gottschalks, Wang served in the early 1970s as a member of the Chinese government's Economic Growth Council to boost international commerce and, between 1991 and 2003, was vice chairman of the National People's Congress.

But Wang's ties to the Communist regime go back decades.

His late brother-in-law was former Chinese President Liu Shaoqi, and Wang -- a scientist and industrialist -- was a member of the All-China Federation of Industry and Commerce before Liu was deposed in Mao Zedong's "Cultural Revolution" of the 1960s. Published reports indicate Wang himself spent eight years in prison.

In 1980, Wang was appointed vice mayor of Tianjin. In 1983, Chinese Prime Minister Zhao Ziyang authorized Wang to form Everbright Industrial Co. in Hong Kong.

According to author Henry Yuhuai He's 2001 "Dictionary of the Political Thought of the People's Republic of China," Wang became one of the most famous of several hongse zibenjia ("red capitalists" who owned private companies before the Communists seized power) to wield tremendous deal-making power in China and Hong Kong.

Years after yielding day-to-day control of Everbright, Wang remains influential as honorary chairman of the All-China Federation of Industry and Commerce -- a post he has held since 1993, according to a July 2008 report by the German Institute of Global and Area Studies.

Everbright Development Overseas is now in the hands of Wang's daughter, Mai Wang, and observers say her connections to the government are unclear. According to filings with the U.S. Securities and Exchange Commission from 2004, Mai Wang was also the chairman of GSL Holdings, of which Everbright is the controlling stockholder.

In 2007, the Securities and Exchange Commission suspended GSL's registration to trade securities on the U.S. markets for failing to file required annual financial statements. The lack of documentation further muddled the company's ownership connections.

"Chinese conglomerates are structured in that fashion," University of New Haven professor Haley said. "Untangling who owns what and where the buck stops becomes extremely difficult. It's like unraveling a bowl of spaghetti." Haley, who co-wrote "The Chinese Tao of Business," said obtaining a stake in a retailer like Gottschalks "is not a bad investment" for a Chinese company because profit margins are much thinner in China.

The deal "looks like a good fit for both companies." Jeff Laytin, a specialist in international trade and a partner in

the New York law firm Sullivan & Worcester, agreed. "This type of deal is very intelligent for the Chinese to be making," he said.

"The key to the whole deal is distribution. Everbright owns and represents a lot of complementary businesses, and they're setting up distribution in the U.S. for a lot of manufacturing partners."