S-chips under the spotlight

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THE reputation of China listings in Singapore has undoubtedly taken a hit. No thanks to a recent spate of high-profile accounting scandals, some investors and analysts have decided to shun the class of stocks. But do a few bad apples mean the entire barrel is rotten?

According to TODAY's research on 133 Singapore-listed Chinese companies (S-chips), 27 per cent — or one in four — have recently been under an uncomfortable spotlight, whether it was the bourse operator publicly grilling the company on its accounts, the auditor raising red flags or, worst of all, suspicions of fraud.

The findings were based on Singapore Exchange announcements posted by S-chips, defined as Singapore-listed companies either domiciled in or based in China.

Out of the 36 listings found to have issues, nine are currently suspended. They include Oriental Century, whose former chief confessed to cooking the books; China Sun Bio-Chem Technology Group, which suspended its executive chairman after failing to account for corn transactions worth 592 million yuan ($127.5 million); China Enersave, which plans to go under judicial management; and Memory Devices, whose creditors want to wind up the firm, an S-chip under Bloomberg's list.

Another 34 S-chips out of the 133 surveyed have yet to report full-year results.

The findings are "a cause for concern," said Singapore Management University's Associate Professor of Finance Jeremy Coh. While he said different accounting standards in China could partly explain the problems, the Singapore authorities should work with the Chinese authorities to encourage better practices by Chinese companies listed here, without tightening the rules to the extent of driving China listings away.

Associate Professor Mak Yuen Teen, co-director of the National University of Singapore's Corporate Governance and Financial Reporting Centre, pointed to the loss in investor confidence in S-chips and said different market stakeholders including the regulator should "put their heads together and think of how to resolve this". He added: "There are enough companies within the S-chip segment that have issues."

On the other hand, Deloitte and Touche Singapore partner Ernest Kan felt the need to distinguish between firms in distress due to the recession and those suspected of fraud.

"Many local companies are also under financial stress," said Dr Kan, who is also vice-president of the Institute of Certified Public Accountants of Singapore.

Agreeing, PrimePartners Corporate Finance's head of corporate finance Mark Liew said he was not surprised to see auditors raising more emphasis of matters.

"It's a reflection of the current environment, where everyone is paying much more attention to the financial statements."