



by
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The high risks of China-based listed companies

It is heartening to know that Bursa Malaysia has been successful in not only attracting local companies to be listed, but foreign companies as well. Moreover, some Malaysian companies, such as YTL Corp Bhd and JHH Healthcare Bhd, have also pursued successful dual listing in foreign exchanges. These are hallmarks of an attractive domestic stock exchange.

However, while we welcome foreign companies to be listed on the local exchange, some are inherently fraught with risks, especially the China-based companies.

The current scenario

There are 13 China-based companies listed on Bursa. A closer look at the performance of these companies is indeed troubling. Four of the 13 have been classified as PN17 companies – an indication of a distressed company.

Another four companies have been suspended by the regulators, two of which are also PN17 companies.

The last done share prices of these companies, as of April 2, range from one sen to 29 sen – with most being below 10 sen. All things being equal, their last done prices are an indication of the sorry state of affairs in these companies.

See table for a snapshot of the 13 China-based companies along with their last done prices, as of April 8.

Some reasons for the sorry state of affairs

At the time of the companies' listing, the regulators had the noble intention of adding breadth to Bursa. Hence, they allowed China-based companies to raise capital through the domestic exchange.

Alas, their high expectations of these companies went south soon after the listing. Since then, with the benefit of hindsight, regulators have become particularly vigilant. Market observers are quick to note that there have been no further listings of China-based companies in the last few years. Now, what really went wrong here?

Some of the reasons for the string of problems that followed these China-based counters are:

- Many of these companies are incorporated outside Malaysia (eight of the 13). As a result, different laws apply for these companies;
- Many of their directors are foreign nationals. Locating them and holding them accountable is proving to be a major challenge for the regulators; and
- Much of their business is based and located outside Malaysia. As such the existence, scale and veracity of their operations may be questionable.

The above issues have given rise to conflicts of laws, business

practices and jurisdictional issues.

SC takes action

Despite the challenges, the capital market regulator Securities Commission (SC) has taken action. On March 29, the SC reprimanded three China-based companies and stated that the retention of four of their directors was prejudicial to public interest.

The three companies are China Stationery Ltd, Xingquan International Sport Holdings Ltd and Maxwell International Holdings Bhd. The three stocks have since been suspended. Studying the reasons for the actions by the SC on these companies raises several troubling issues. Here are some of the issues detected by the regulators.

1 China Stationery Ltd (CSL)

CSL and some of its directors were reprimanded for furnishing false or misleading financial statements to Bursa. This is a serious offence as the financial statements lacked integrity. Minority shareholders would have relied on these false or misleading financial statements to their detriment.

Furthermore, one of its directors of two of CSL's wholly-owned subsidiaries to be guarantors for his personal loans, with the intention of causing wrongful loss to the said subsidiaries. The word "intention" connotes some element of premeditation and wilfulness to cause harm. These is indeed shocking and is a serious offence.

2 Xingquan International Sport Holdings Ltd

The SC reprimanded Xingquan

Status of the 13 China-based companies listed on Bursa

| NO | NAME | SHARE PRICE (AS AT APRIL 8) | STATUS |
|----|--|-----------------------------|----------------|
| 1 | China Automobile Parts Holdings Ltd | - | Suspended/PN17 |
| 2 | China Ouhua Winery Holdings Ltd | 4.5 sen | |
| 3 | China Stationery Ltd | - | Suspended |
| 4 | Kenger International Bhd | 4 sen | |
| 5 | K-Star Sports Ltd | 8 sen | |
| 6 | HB Global Ltd | 11 sen | PN17 |
| 7 | Maxwell International Holdings Bhd | - | Suspended/PN17 |
| 8 | Multi Sports Holdings Ltd | 1 sen | PN17 |
| 9 | Sinotop Holdings Bhd | 30 sen | |
| 10 | Sino Hua-An International Bhd | 25.5 sen | |
| 11 | XiDeLang Holdings Ltd | 9.5 sen | |
| 12 | Xingquan International Sports Holdings Ltd | - | Suspended |
| 13 | XingHe Holdings Bhd | 3 sen | |

Source: M5WG

and some of its directors and two former directors for:

- Falsely recording a loss of RMB415.7 mil from the sale of inventory by Xingquan's wholly-owned subsidiary;
- Furnishing to Bursa a false agreement between the said subsidiary and a third party;
- Furnishing false or misleading financial statements to Bursa; and
- Recording cash and bank balances in eight bank accounts collectively belonging to Xingquan that were false or misleading.

As in the case of CSL, minority shareholders of Xingquan would have relied on the disclosed information in making their investment decisions, much to their detriment.

The fourth offence is particularly deeply troubling. The company had the audacity to record cash and bank balances that were

false or misleading.

On top of it, the company and its four directors were reprimanded by Bursa and fined a total of RM3.02 mil, for committing breaches of the Main Market Listing Requirements on matters related to financial reporting, corporate governance, foreign listing requirement and disclosure. The company was also not in compliance with the bourse's instruction or directive. These are serious offences indeed.

3 Maxwell International Holdings Bhd

The SC also reprimanded Maxwell and its directors and CFO for:

- Recording in Maxwell's financial statements a payment of RMB45.60 mil by its wholly-owned subsidiary, which information was false or misleading; and
- Furnishing false or misleading financial statements to Bursa.

Again, these are serious offences.

Non-cooperation is no small matter

Some of the directors of these three companies were reprimanded for their failure to provide a response to the SC when served with written notices requesting for information and for failing to appear before the SC's investigating officer. These companies did not bother to respond to the market regulator.

The audacity of these companies in not complying with the SC's request is shocking. The offences mentioned above and the non-cooperative stance of some of the directors are indeed serious. Their nonchalant attitude is worthy of drawing even more severe sanctions.

SC's reprimands act as a warning that action will be taken on capital market offences. The sanctions imposed are a timely

reminder that the integrity of the capital market, the disclosure of timely reliable information and investor protection are paramount.

In the SC's Annual Report 2018, Part 2 – Shaping Market Conduct in respect of its enforcement highlights, the commission highlighted a gist of administrative action, civil enforcement and criminal prosecution efforts taken to achieve credible deterrence and instil a culture of good governance.

We hope that the regulators will consider more severe sanctions in future, to drive home a clear message that the Malaysian capital market will not tolerate blatant disregard of its laws and rules.

While Bursa is having a big headache in dealing with these foreign companies, China-based companies in Singapore are also causing its regulators a similar string of problems. These issues include financial distress, accounting fraud and others just like in Malaysia.

Shareholders must be extremely prudent and diligent when investing in China-based companies given their propensity to "get into trouble". Shareholders should err on the side of caution – after all, there are more than 900 companies listed on Bursa to choose from.

Finally, weighing the gravity of the situation, the Minority Shareholders Watch Group has included the China-based companies under the list of companies to monitor. We feel that shareholders in these companies are at a great risk.

We hope that our monitoring may add a certain level of vigilance and accountability on the part of these companies' board of directors. FocusM

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There have been no further listings of China-based companies on Bursa in the last few years