

By Bill Savadove (AFP)

SHANGHAI, 31 August — Sino-Forest Corp., the latest foreign-listed Chinese company that is accused of dodgy accounting, has hurt the reputation of the country's firms and made it harder for them to list overseas, analysts say.

The Toronto-listed company, which operates forest plantations in China, is under investigation by Canadian regulators over allegations it misstated its revenue and exaggerated its timber holdings.

Its founder has resigned and its shares, which have plunged about 60 percent since the scandal broke in early June, have been suspended from trading.

The problems at Sino-Forest are the latest in a series of accounting scandals involving Chinese firms listed in the United States and elsewhere, which have sparked falling stock prices, trading halts and investigations.

"The Sino-Forest scandal and a whole series of other scandals before it has created an atmosphere in which many investors are far more cautious," said Peter Humphrey, Beijing-based head of forensic accounting firm ChinaWhys.

"These frauds over the last year have definitely made it harder for companies from China to raise money overseas," he said.

On Monday, two major ratings agencies -- Standard & Poor's and Moody's -- downgraded Sino-Forest following the resignation of company chairman and founder Allen Chan at the weekend. S&P then withdrew its rating entirely.

"We lowered the rating on Sino-Forest partly because we believe recent developments point towards a higher likelihood that allegations of fraud at the company will be substantiated," said S&P credit analyst Frank Lu.

Issues with Sino-Forest came to light after Muddy Waters Research, a Hong Kong-based firm which has targeted a string of Chinese firms over alleged fraud, said the company had cooked its books.

Sino-Forest, which was founded in 1994 and has posted 41 percent average annual growth in its turnover from 2005 to 2010, has previously called the allegations "inaccurate, spurious and defamatory".

But analysts say investors have become increasingly wary of Chinese companies, especially those listed in the United States through "reverse mergers", a controversial technique in which a private firm seeking to go public acquires a publicly traded shell company.

Financial reporting requirements are not as stringent for reverse mergers as they are for traditional initial public offerings.

The US Securities and Exchange Commission (SEC) has halted trading of several Chinese firms this year, accusing them of violations like keeping two sets of books or failing to disclose that their auditors had quit.

In June, the SEC said it was probing two firms -- China Intelligent Lighting and Electronics, and China Century Dragon Media -- for submitting "materially misleading and deficient offering documents".

Ken Chan, a Hong Kong-based senior analyst for Moody's, said Chinese privately owned firms would suffer most in the eyes of investors following these scandals because they lacked the implicit backing of the government.

Private companies are also more likely to raise capital overseas, since they are deprived of the funding channels provided by China's state-owned banks.

"The market is going to be more prudent and careful when it comes to private Chinese companies," Chan said.

Chinese companies themselves may now be less willing to submit themselves to the stricter accounting practices required for firms listed on overseas exchanges, analysts said.

Humphrey of ChinaWhys demanded more due diligence from underwriters.

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