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China Development Bank to buy US-listed Chinese Companies

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By Baron Lauder milk

China Development Bank, (CDB) the state-owned lender that supports state backed medium-to long-term development strategies and policies, is spending more than \$1 billion to aid small Chinese companies leave the US stock market and reenlist in the Chinese stock exchange.

Recently CDB offered funding so Fushi Copperweld, a Beijing-based wire maker listed on Nasdaq, so it can rebuy its shares from the public. On June 8 2012 China Transinfo Technology said June 8th would drop its US listing after it acquired CDB financing and reenlist in China.

While more than 60 Chinese companies have entered U.S. exchanges in the three years through 2011, only one listed this year after those with market capitalizations of less than \$500 million lost 53% of their market value. The downturn started in June 11 when Muddy Waters LLC, a short-selling firm, raised concerns about accounting standards at Chinese companies accusing Sin-Forest Corp, of exaggerating its assets.

U.S. listed Chinese companies avoiding U.S. auditing regulations

But the U.S. listed Chinese companies stock prices are drastically decreasing because of the auditing problems.

Usha Haley, a professor of international business at Massey University in New Zealand, and the author of "The Chinese Tao of Business," told Invest In that auditing frauds that are occurring with many U.S. listed Chinese companies are lowering their value and even causing the U.S. US Securities and Exchange Commission to take serious action.

"The stock prices of US-listed Chinese companies such as Longtop and Sino-Forest have plummeted because of accounting-fraud concerns. Unless these concerns are alleviated through Chinese governmental measures on transparency and verifiability of accounting statements, the decreased demand for Chinese listings will likely extend to 2013. Since March, the US Securities and Exchange Commission has delisted or suspended trading for more than 20 Chinese companies because of fraud," said Haley.

According to Capital Partners, an investment Banking firm that specializes in the small and micro cap markets said, "CDB has provided more funding than any other lender to help the nation's companies exit the world's biggest equity market.

Many in the industry believe that the efforts of CBD are to help improve the profitability of Chinese firms. However, some believe that CBD's funding of share but-stocks has more to do with political than profitability, as China has been in a dispute with the US over auditing standards.

Haley said that the CDB bringing back Chinese companies to enlist in China is a move to prevent them from avoiding a confrontation with the U.S. "The CBD's decision is a face-saving device to avoid a regulatory backlash in the USA. A couple of Chinese companies including Xunlei and Clouday have cited poor market outlook as reason for delaying their listings. These circumstances have been brought about by accounting scandals and



Photo by Hanneorla
China Development Bank Tower located
in Shanghai, China.



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concerns about the viability of Chinese concept or dot-com companies among US investors.”

Zhou Qinye of the Shanghai Stock Exchange voiced this sentiment last November when he suggested a solution to auditing problems between the U.S. and China is to have Chinese companies return home and list.

It appears that CBD is taking actions to bring the problem-burdened U.S. listed Chinese firms home, which is a signal that neither Washington nor Beijing will back out of their auditing dispute.

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CONTACT US

- Hong Kong Office Address
Suites 1102-1103, 11/F, Kowloon Building
555 Nathan Road, Kowloon
- info@investin.com.cn
 - Asia:852 3073 2008
 - Americas:1 212 201 1353