THE BUSINESS TIMES

Loss of market confidence here - just look at cases such as Sino Construction

The question is not why the company's share price recently collapsed - but why it has taken so long. Are there more such cases to come?

By **Mak Yuen Teen**

18 Mar 5:50 AM

ON March 2, Sino Construction's share price closed about 15 cents down from its previous trading day's closing price of 26.5 cents on Feb 27 - a fall of 55.8 per cent. The following day, its share price halved again to close at six cents. By March 9, its share price had fallen to 5.4 cents - a total fall of about 80 per cent over just six trading days.

I have been following developments at Sino Construction since Feb 5 when I was alerted to a clarification issued by the company. The clarification was in response to a query from the Singapore Exchange (SGX) that certain information about the company which appeared in a Business Times article the previous day ("Sino Construction unit in renewable energy venture", Feb 4) had not been previously announced or disclosed.

In its response, the company said: "The statement that 'To date, more than 150 sites have been identified as commercially viable for the project' in South Korea, was not made by the Company or persons authorised by the Company."

"The quote in the article stating that 'the company plans to work with the South Korean government on a long-term fixed price contract for power produced out of its biofuel power plant' was incorrectly attributed to the Company's non-executive chairman, Mr Andy Chee. Mr Chee did not make this statement."

My curiosity was piqued when I learnt that on Nov 19, 2014, the company had issued a rather similar clarification of another BT article ("Sino Construction turning itself into a global coal resource player", Nov 19), again in response to an SGX query that certain statements attributed to its non-executive chairman had not been previously announced or disclosed.

SIMILAR INCIDENTS

In this clarification, it referred to the statements that were correctly attributed to the chairman and added: "The rest of the comments in the Article, whether related to the Company or not, were not made by the Company or persons involved in the management of the Company."

It is, of course, possible for a news report to get the facts wrong or make an incorrect attribution, but I was surprised that two such similar incidents had occurred. I wondered about the source of the information that the company was now distancing itself from. If that information did not come from the company, its chairman or someone authorised by the company, where did the report obtain the information from?

As I looked at the company's announcements, I found that it had a remarkable number of queries from SGX - at least 16 queries from March 2014 till now - relating to unusual trading activity, media reports, disclosures and announcements.

Something appears to be amiss with the company.

Sino Construction also had a raft of senior management and board changes over a short period of time, and a board profile that, to me, was unusual given the company's business. Sino Construction's main business is building construction and civil engineering, conducted through key subsidiaries based in China.

On Feb 9, the company announced the appointment of a new executive director, the 40-year-old Drew Ethan Madacsi. The new executive director was a resident of South Africa, whose recent experience was in private consultancy involving "varying senior management functions over varied industries included retail, maritime, mining and strategic planning" and some specific experience in the coal industry. Mr Madacsi was considered by the board to be suitable because he has the requisite experience in the minerals and resources markets.

The announcement also stated that Mr Madacsi has no prior experience as a director of a listed company although the company reassured the market that it "will arrange for Mr Madacsi to attend seminars and courses conducted by the Singapore Institute of Directors on the roles and responsibilities of a director of a listed company".

Then on Feb 18, the company announced that its other executive director, Lim Tiong Hian (who was appointed only in June 2014) and its non-executive chairman Andy Chee (who was appointed as a director only in May 2014), had both resigned "due to other personal commitments".

SOLE EXEC DIRECTOR

Before Mr Madacsi had the chance to attend those seminars and courses, he suddenly found himself as the sole executive director. The rest of the board now consists of three independent directors, none of whom appear to have experience in the business. One is the chief financial officer of a Malaysian listed company whose main business is the provision of telecommunications network services. Another is the chief executive officer of a consulting firm specialising in training and coaching. The third is a principal consultant and managing partner of a boutique agency specialising in public relations and communications - somewhat ironic considering the issues that the company was having with its disclosures and media reports.

In November 2014, William Joseph Condon, a non-executive director, had resigned "due to other personal commitments". Mr Condon, who was an executive director until June 2014, had been appointed to the company only on Dec 16, 2013.

In March 2014, the executive director who preceded Mr Condon relinquished his role to oversee the group's operations in China. That same month, its 31-year old financial controller had resigned "to pursue other career opportunities". By now, one would think that investors would have rushed for the emergency exit. However, the market did not blink, as its share price remained unchanged at 28 cents with the latest departures of the executive director and non-executive chairman.

Then came more bad news. On Saturday, Feb 28, at 12.04 am, the company issued an announcement containing the double whammy of a "profit guidance" indicating an expected loss for FY2014 and an extension of time to release its unaudited results for FY2014. One of the reasons given for the extension of time was that the company's management team and executive directors who were responsible for FY2014 had left, and as Mr Madacsi was new, he needed to become acquainted with and to finalise the financial statements. There appears to be no proper handover and no proper systems in place. Well-governed companies do not scramble to get their financial statements in order when there is senior management turnover. This latest announcement triggered the collapse in the company's share price.

Sino Construction's troubles actually started much earlier. In February 2014, it had announced that it had recorded losses for three consecutive financial years. In December 2013, two of its independent directors had resigned. This followed the earlier resignation of another independent director in February 2013. This means that all the current independent directors are relatively new to the company. It also had disclaimers of opinion from its external auditors Ernst & Young for FY2012 and FY2013, a change of external auditors (to Moore Stephens), delays in holding of AGMs, discrepancies between audited and unaudited results, and repeated queries. The financial controller who resigned in March 2014 had actually already resigned in February 2013 according to its announcement (but the earlier resignation had obviously been withdrawn).

This was also not the first time that Sino Construction's share price had taken a big hit. A BT article on April 4, 2014, ("Sunshine beyond penny lane") reported that the company had been queried by SGX after its share price fell 39 per cent, apparently as part of a general tumble in penny stocks. This broad fall in penny stocks apparently followed the announcement earlier that week about an investigation by the Commercial Affairs Department (CAD) involving at least seven companies and 11 individuals on suspected trading irregularities in the shares of Asiasons Capital, Blumont Group and LionGold in October 2013. The plunge in share price occurred despite the report saying that "there was no apparent link between Sino Construction and the companies involved in the investigations". One trader was quoted as saying that "the sharp drop sparked unfounded speculation about possible ties to the investigation subjects".

The latest executive director, Mr Madacsi, has in the past weeks been trying his best to put on a brave front. He reportedly said that he was "unfazed by the fresh plunge in share prices", that it was "simply a knee-jerk reaction", that "structurally, nothing in the company has changed", and that "honestly, I can't be worried about what the stock is doing on a daily basis". ("Sino Construction dives after profit warning", BT, March 3). When the share price took a further hit, he told BT ("Sino Construction shares takes another hard knock", March 4) that he "continues to be unfazed by the plunge in the company's share price" and that "those simply not interested in the long-term growth of the company will take differing views". Given the litany of problems in the company, the reaction was far from "knee-jerk" - if anything, it was long overdue. The latest loss and the delay in reporting just confirmed to the market that the company is in a mess.

STRATEGIC ALIGNMENT

The company wasted little time in unveiling its "FY2015 growth strategy" on March 4, which involves a "strategic realignment for growth". This "strategic realignment" involves "returning to the company's core competency in construction while moving up the value chain to asset ownership and energy generation" and "repositioning the Company's interests in the commodities sector". The market was unconvinced, as the share price continued to fall.

The question in Sino Construction's case is not why the share price recently collapsed - but why it has taken so long. If stakeholders are wondering why there is a loss of market confidence here, they need to look no further than at cases such as Sino Construction. Investors must be concerned as to whether there are more such cases to come.

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