

## FORBES

### OutFront: Made (Poorly) in China

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By Neil Weinberg

Everyone knows Chinese products have quality problems, but you'd think its blue-chip stocks, bearing the New York Stock Exchange's seal of approval, would be safe.

Wrong. It turns out that the NYSE's usual corporate governance requirements don't apply to foreign firms or those with 50% or more control in the clutches of a single entity. That exemption applies to all ten Chinese firms with NYSE-listed American Depositary Receipts--all are ultimately controlled by the Communist government.

RateFinancials, a New York research outfit, dug into its financials in a report about to be released and found worrying signs, such as poor quality of earnings, lack of transparency and conflicts of interest. At least it didn't find any lead paint.

To be sure, this hasn't stopped its stocks from flying high in recent months. Says Victor Germack, RateFinancials' president: "Ultimately, investors are trusting the Chinese government to do what's best for them, even if it's not synonymous with its own interests." Good luck. Here are RateFinancials' findings.

#### CHINA PETROLEUM & CHEMICAL (SNP)

12-month return: 77%

Board packed with inside cronies; loads of deals done with related government entities.



#### PETROCHINA (PTR)

12-month return: 36%

Stretching payments to creditors; negative net working capital.

#### CHINA LIFE INSURANCE (LFC)

12-month return: 152%

Mortality projections wishful; accounts under Communist accounting standards appear to lack audit opinion.



#### YANZHOU COAL MINING (YZC)

12-month return: 143%

Lowballing of doubtful accounts may indicate earnings manipulation; environmental liabilities possible time bomb.

#### SINOPEC SHANGHAI PETROCHEMICAL (SHI)

12-month return: 45%

Free cash flow negative in 2006; new reserves for doubtful accounts declining.

