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Wall Street Breakfast

Earnings Quality Issues for NYSE China Listings

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A report by independent research firm RateFinancials says the ten-largest Chinese companies with American Depositary Shares listed on the New York Stock Exchange have poor earnings quality, although no accounting or listing rules are being broken. Problems vary by firm, but include such items as insufficient reserve provisions and negative working capital, in addition to signs of possible earnings management via “cookie jar” accounting, where companies report lower reserves in order to show higher revenues. The 10 top companies are: PetroChina, China Mobile, China Petroleum & Chemical, ChinaTelecom, China Life Insurance, China Unicom, Huaneng Power International, Yanzhou Coal Mining, Suntech Power Holdings and Sinopec Shanghai Petrochemical. “These companies are government-controlled enterprises masquerading as independent public companies, and it is virtually impossible to assess their financial condition given their poor level of disclosures,” the report said. RateFinancial was critical of the NYSE for allowing the listings. The NYSE declined to comment, but sources say the NYSE’s listing criteria are stricter than other’s, the Financial Times reports.