

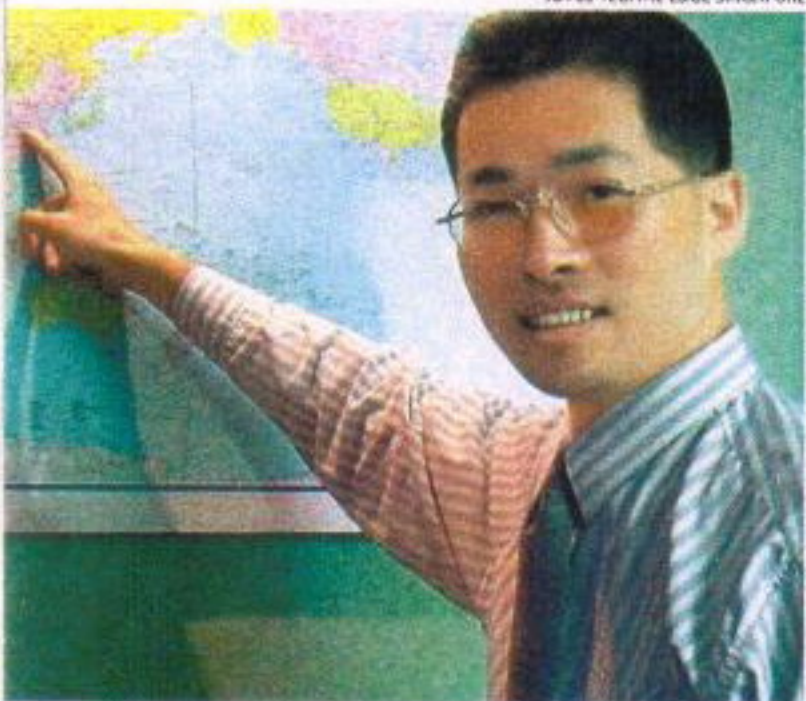
Raining 'Red Chips'

BY JOYCE TEO

There is no place like China. Or so every businessman seems to say. But what do Chinese companies do when the queue at home becomes so long that they just don't have any more room to breathe or grow? Well, there's always Singapore.

Every bourse has its own "Red Chips" — China-owned or China-centric companies that promise the sky and more. From New York to Sydney to London, there's no shortage of Sino-listings. But China companies are starting to see Singapore as an attractive place to list. That has fuelled a booming new business for facilitators who help bring such companies to Singapore and take them to listings and beyond.

JOYCE TEO/THE EDGE SINGAPORE



Wang says it's not easy for banks in Singapore to check if the China company seeking listing is suitable

Though China companies can raise big bucks back home, the wait can sometimes take several years even for profitable companies. An extra year to listing can turn a seemingly decent business model into dust. Companies list because they are starved for new capital or have bankers who need to be paid or shareholders who want to see an exit strategy. After Shanghai and Shenzhen, the next stop for mainland companies is Hong Kong. But even there, smaller Chinese companies can waste months, if not years, waiting for a listing. No surprise then that private outfits have sprung up in Singapore eager to tap the local market for Chinese listings.

Getting into the act

Vincent Toe, 34, is managing director of ICH Capital. His small business consultancy — formed in October last year and previously

called Sino Strategic Consulting — aims to help Chinese companies invest in Singapore as well as help local companies list in China. ICH Capital's role is one of corporate financial adviser, albeit a very personal one.

Toh, a Singaporean, now spends more than half his time in China scouting for and servicing clients. Apart from giving restructuring advice, ICH Capital acts as the coordinator in bringing in the lead manager and underwriter as it cannot as yet lead manage or underwrite an initial public offering (IPO) since it doesn't have an investment adviser's licence.

Singapore-based Sun & Sun group competes directly with ICH Capital as they both focus on helping China companies through the initial stages of doing an IPO in Singapore. Like ICH Capital, Sun & Sun doesn't have an investment licence to lead manage or underwrite an IPO. What it does is scout for and advise mostly China companies keen to list in Singapore. It's backed by its 15 member companies in several countries, including a network in China and a strong understanding of the Singapore and China markets.

Not mutually exclusive

SBI E2-Capital, another Singapore-based private firm, works like any investment bank. Set up in June 2000, E2-Capital has an investment licence. It can do what ICH Capital and the Sun & Sun group do, and more. It is currently focusing on the later stages of doing an IPO for foreign companies: it actually lead manages the IPO. This is why ICH Capital considers E2-Capital a potential partner, rather than a competitor.

"The industry is not mutually exclusive," says Toe, a former investment banker with UBS Warburg.

Besides, "China is so big. It is not easy for the banks here to check if the [China] company is suitable. Some are serious. Some may not be," says Sun's president David Wang, adding that his company has the network in China to scout for suitable companies.

E2-Capital competes head on with the local banking giants — DBS, UOB and OCBC — but E2-Capital CEO Choo Chee Kong says its advantage is that it can provide a more personal service.

Of the 10 IPOs launched in the first quarter of this year, E2-Capital handled four. The local banks and E2-Capital pretty much handle the bulk of IPO placements in Singapore, as the foreign banks prefer companies that have a market capitalisation of more than \$100 million. But most of the China IPOs in Singapore have been handled by DBS and UOB.

ICH Capital is currently helping a China-

based food packaging company and a wholesaler-cum-retailer of high-technology electronics goods to list here. Toe says until ICH Capital came along, Chinese companies keen to list overseas were mostly served by Hong Kong-based consultants. ICH Capital has offices in Shanghai, Beijing and Shenzhen. Still, the China market is huge and to succeed, ICH Capital leverages on the strength of its strategic shareholder, Intelligent Corp Holdings (ICH), a Singapore company that specialises in franchising and service management, distribution and consulting for Chinese companies. ICH will identify suitable candidates for ICH Capital and "basically open doors for us at the top level", says Toe.

ICH Capital's competitor the Sun & Sun group starts by identifying suitable candidates in China. Sun's president Wang says after providing them with the relevant information, Sun will plan the client company's visit to Singapore, lead the restructuring process, appoint IPO professionals, coordinate the IPO process, arrange for the necessary funding, provide management services and corporate governance, and get investor relations going for the company.

"In terms of [doing an] IPO in Singapore, we have to provide training and education to potential PRC [the People's Republic of China] companies. Normally, they are good in their operations but they don't have the knowledge and understanding of the stock market in Singapore," says Wang.

Sun & Sun is currently working to get three China companies — a water treatment company and two manufacturing companies — and



Toe is offering to hold the hand of China companies keen to list in Singapore

a Hong Kong systems integrator to list in Singapore by year-end. Sun's business model involves a combination of fees and a stake in the company. This risk-sharing mode of payment, says Wang, is very attractive to China companies.

ICH Capital, on the other hand, operates like E2 Capital — it charges a fee on a success basis. As the new kid on the block, it's fortunate to be among the first cohort of 10 companies selected by Singapore's Economic Development Board for its Startup Enterprise Development Scheme (SEEDS). An equity financing scheme for start-ups in the seed stage of enterprise formation, SEEDS lets private-sector investors assess the promise of start-up companies at the earliest stage of funding. EDB matches every dollar invested by third-party investors up to S\$300,000 per start-up.

With sufficient funding, ICH may just make its mark soon. If more China companies continue to view Singapore favourably as a listing ground, the services of ICH Capital, Sun & Sun and E2-Capital can only benefit them. And this just means Singapore's profit-hungry investors will have more China-concept companies to play with.

China preference

The SGX has several advantages over China's stock market, but the truth is that many China companies, particularly the state-owned and larger ones, would rather list in China, say consultants. That is, if they can get the approvals from the relevant authorities.

The reason for their preference? They can raise more funds there, say consultants.

However, there are some companies, particularly the small and medium-sized ones that place more emphasis on getting an international image, that seek a listing overseas. And Singapore is well-placed to cater to such companies. To raise awareness among these companies, the SGX goes on road shows in China with investment banks and consultants to promote Singapore as a listing ground. — By Joyce Teo

Advantages

- An international image
- Lower IPO cost
- No need to queue for years as in China
- Subsequent fund-raising is easier
- Good liquidity. Can sell founder's shares in six to 12 months after listing, as opposed to three years in China.
- Favourable PE compared with the alternative HK market

Disadvantages

- Lower PE compared with China market
- Cultural conflict
- Stricter IPO requirements
- Not easy to understand the Singapore market

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COMPANY NAME	LISTING DATE	BUSINESS	NOTES	IPO SHARE PRICE	PRICE AT APRIL 2, 2002	% CHANGE IN THE LAST SIX MONTHS
15 People's Food Holdings Ltd	March 14, 2001	It produces meat products such as ham and sausages, primarily for consumption in China under its "Jinluo" brand. The brand was amongst the top 10 brands in China for meat products. It has 300 retail shops in China. Its products comprise processed meat products, frozen pork, fresh pork, pig by-products and frozen chicken meat.	The company was incorporated in Bermuda on Aug 31, 2000 and is the holding company of Loampit, Linyi Xincheng and Champ Base. The group's operations are primarily in China and it started operations in 1994 in Linyi in Shandong province.	\$50.45	\$50.945	16
16 United Food Holdings Ltd	March 26, 2001	It is an investment holding company and the principal business of its subsidiaries are the production and sale of processed meat products under its "Jiangquan" brand; production and sale of fresh, chilled and frozen pork products; animal feed production; and pig rearing.	The company was incorporated in Bermuda on Aug 14, 2000.	\$50.31	\$50.640	25
17 JK Yaming International Holdings Ltd	Aug 8, 2001	An investment holding company, its subsidiaries specialise in the manufacture and sale of electrical lighting products, wire harnesses for motorcars and motorcycles, and low-voltage electrical accessories and devices.	All of its production facilities are located in China, namely Nanping, Fuzhou and Anhui. The distribution network consisting of 26 agents spans across major cities in China.	\$50.25	\$50.435	129
18 China Aviation Oil (Singapore) Corporation Ltd	Dec 6, 2001	The company's core business is in the procurement of jet fuel from overseas markets for distribution to the PRC civil aviation industry through its Parent Company, China Aviation Oil Supply Corporation (CAOSC), its subsidiaries and associated companies. CAOSC is a large state-owned enterprise in the PRC. CAOSC is the sole entity authorised by the PRC government to allocate the import quota for the import of jet fuel into the PRC.	The company was incorporated in Singapore under the Companies Act as a private company limited by shares on May 26, 1993. It became a public company on Nov 6, 2001 and changed its name from China Aviation Oil (Singapore) Pte Ltd to China Aviation Oil (Singapore) Corporation Ltd. The company's operations are based primarily in Singapore.	\$50.56	\$50.660	27