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Chinese Action Sends a Chill; Detention of CEO Causes Investors to Wonder, Worry

John Pomfret
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The detention of the chief executive of a Chinese company listed on Nasdaq Stock Market has triggered a slide in the firm's stock price and concern among U.S. investors about the perils of investing in China.

The CEO of Asia Electronic Holding Co., a maker of components for television picture tubes, has been detained without charges or legal representation for the past 22 days in a small city in central China.

According to witnesses, the imbroglio in the town of Xianyang has involved worker protests backing the purged executive, a large police presence at the company's factory and the wholesale firing of its senior management by the town's new mayor.

The CEO's experience has sparked investor anxiety that local Chinese politicians do not share or understand the stated commitment of China's leaders to tap the potential of U.S. stock exchanges. It is a blunt reminder that in China, even if a company's balance sheet looks grand and even after 20 years of economic reforms, the possibilities of a sudden political shift still can make doing business a risky endeavor.

Asia Electronic's share price has tumbled 32 percent, to about \$2.50, since July 15, the day before the firm announced that its CEO, Du Qingsong, had been taken into custody by the Communist Party's Discipline Inspection Work Committee in Xianyang in Shaanxi province. Xianyang, about 600 miles west of Beijing and just outside Shaanxi's provincial capital, Xi'an, is famed as the site of one of the largest caches of terra-cotta warriors from the tomb of Emperor Qinshi Huangdi.

The announcement has sparked a fall in at least one other of the approximately 30 Chinese firms listed in international stock exchanges, not including Hong Kong's. Over the past week, Deswell Industries, a plastics company also traded on the Nasdaq Stock Market, has fallen 20 percent, to about \$14 a share.

"We are seeing a spillover effect from the investor point of view," said Craig G. Kleidman, managing director of Barington Capital Group, a New York-based investment bank specializing in small capital stocks. It underwrote both Deswell's and Asia Electronic's public offerings. "This will have a chilling effect on the market for Chinese securities. We've already canceled meetings with Chinese companies and shelved some business plans."

Chinese officials in recent months have said that they hoped to tap international markets and stock exchanges for needed capital. Kleidman said that since his company helped underwrite the two Chinese firms, at least two Chinese business plans a week cross his desk.

Now, he said, he and others in the underwriting business will think twice about involving themselves in the China market.

"Irrespective of whether Mr. Du has committed any crime, when you have a CEO of a publicly traded company in the United States detained for several weeks without being allowed to have contact either with an attorney or his company or its board of directors, without any indication of the potential charges against him, you've got a problem," Kleidman said. "Investors react to a lack of information. Without information, their instinct is to sell."

The circumstances surrounding Du's detention are the subject of a heated dispute between the Xianyang Communist Party and executives of the Pianzhan Group, the Xianyang-based parent company of Asia

Electronic.

According to an official for the party's Propaganda Bureau in Xianyang, Du was detained July 2 because Asia Electronic's public offering on the Nasdaq Stock Market broke Chinese law. The official, reached by telephone from Beijing, said local investigators launched a probe following a request from China's Stock Exchange Executive Council, which oversees China's fledgling capital markets.

Officials at the Chinese firm, however, said the real reason concerned a political battle between Xianyang's current mayor, Gao Congde, and his predecessor, Li Jingjiang. The company officials claimed that party officials, hoping to find evidence of illegal deals between the Pianzhuan Group and former mayor Li, launched the investigation but have found nothing yet to warrant charges.

An official at the Beijing-based Stock Exchange Executive Council said it was unclear whether Pianzhuan and Asia Electronic followed Chinese law when its shares were listed on the Nasdaq Stock Market in September.

However, the official added, the council did not recommend "causing senior executives to disappear. . . . There are lots of other methods you can take, like increasing their taxes, denying them the special treatment that is reserved for such firms, or whatever," he said.

According to Chinese journalists sent to Xianyang to investigate the incident, Du's reputation at the firm is stellar. He became general manager in September 1991 and since then has turned around a firm with an \$8.6 million loss into a profit maker. The journalists, quoting workers at the plant, said that "red eye disease," a widespread Chinese term for jealousy, started the struggle at the firm and in the city.

Shortly after 5 p.m. on July 2, Du was called to a meeting by Xianyang's party chief, Tan Junqi. He went off alone in his car and has not been seen since. On July 6, Pianzhuan executives began calling Tan's office. Since then, they have not been told what has happened to their boss. On Thursday Tan declined to comment except to say that Du was in the custody of the city's party discipline committee.

Since Du disappeared, the city government has fired him from his job as general manager of the Pianzhuan Group and as the secretary of the firm's Communist Party committee. They also have booted out at least five other senior executives, company sources said. Chinese journalists said that Du and the No. 2 executive have been replaced by two men who had run two state-run companies into the ground.

The Chinese journalists were part of a team of 10 reporters dispatched to Xianyang by central authorities in Beijing. All of them have written or produced reports on the issue, none of which has been published or aired in China.

The journalists, who arrived at the factory on July 6, said that workers there had hung banners on its front gate saying: "Return General Manager Du."

Asia Electronic, based in the British Virgin Islands, raised \$42 million during its initial public offering at \$8 a share.

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