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China seeks to contain Aviation Oil scandal
By FT staff and John Burton in Singapore
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China's main supplier of airline fuel was on Thursday trying to secure oil supplies to keep the country's airlines flying after its main Singapore-listed trading subsidiary collapsed after running up losses trading oil on derivatives.

The company has appointed Deloitte Touche as financial advisers to help it negotiate a rescue deal with creditors and shareholders that would allow it to continue purchasing fuel despite running up losses that amount to more than its market value.

China Aviation Oil, one of Singapore's top China-related listings, sought court protection earlier this week after revealing $550m (€413m) in derivatives losses.

One possible source of financial support is Temasek Holdings, the Singapore state investment agency, which already has a small stake in CAO.

Any bailout led by the state agency might help Singapore limit damage from the biggest scandal to hit the island state since rogue British trader Nick Leeson felled Barings bank.

The affair, which also appears to involve controversial share dealings, is the Singapore's biggest financial scandal since 1995 when Mr Leeson, the Singapore-based Barings trader, lost $1.2bn in speculative currency trading that caused the collapse of the British bank.

The SGX immediately ordered an inquiry by PwC, the professional services firm, after Chen Jiulin, CAO's chief executive, was suspended from his post as head of the jet-fuel supplier, which is owned by Beijing-based China Aviation Oil Holding.

One question is whether the Chinese parent knew of the losses when it sold a 15 per cent stake in CAO to institutional investors in late October, although the SGX said the PwC probe would focus on derivatives trading and CAO's internal controls. The placement was arranged by Deutsche Bank, which yesterday said it would co-operate with regulators.

"For shareholders, this is a corporate earthquake registering, say, 9.5 on the Richter scale. This is another Barings," said David Gerald of the Securities Investors Association of Singapore.

CAO admitted it had delayed disclosing the losses incurred in October after it bet against rising oil prices, because it thought shareholders would benefit if it could form a rescue plan first. The scandal could dent Singapore's reputation as a well-regulated financial centre, raising questions about the SGX's wooing of small and medium-sized mainland Chinese companies to list in the city-state as regulators

adopt a new system that puts the onus of corporate disclosure on listed companies.

The SGX has looked to Chinese listings as a way to generate higher trading volumes. The 68 Chinese companies listed in Singapore account for about 10 per cent of total listings. Hugh Young, managing director of Aberdeen Asset Management in Singapore, said: “This scandal could happen anywhere, but it does shows the risks that can occur once you go outside the home country to gain listings. It will inject a degree of scepticism among local investors when it comes to Chinese stocks.”

Worried the CAO debacle might cause investors to shun China-related stocks, the SGX said “the market should consider each company, be it local or foreign, on its merits”.

But this plea appeared to have little effect. Although the Straits Times Index on Wednesday closed up 0.55 per cent at 2,038.84, shares in SGX-listed Chinese stocks, such as Cosco, fell. CAO was one of the first Chinese stocks to list in Singapore, in 2001, and had been a favourite among investors. But in mid-November it reported a third-quarter loss on unspecified trading losses and last week shelved a bid for a stake in Singapore Petroleum. The share price fell 23 per cent before trading was suspended on Monday. CAO said $100m lent by its parent had been used to meet margin calls on futures contracts and it is seeking a capital injection.

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