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MONEY

A year on, pain still felt in many quarters; Questions also remain as to how $8b was wiped out in such a short time

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A year has passed since the infamous penny stock crash in October last year that wiped out billions of dollars in market value on the local bourse.

But the pain is still being felt in many quarters, from burnt investors to the bourse's painfully thin liquidity.

And there are still no answers half a year after the launch in April this year of a wide-scale probe into possible violations of the Securities and Futures Act, stemming from alleged trading irregularities in the shares of Blumont Group, Asiasons Capital and LionGold Corp.

Shares of the three penny stocks skyrocketed between 40 per cent and 160 per cent last August and September, before plunging dramatically over a few days in October, erasing more than $8 billion in market value.

Trading volumes are sharply lower, partly because of uncertainty over the outcome of the investigations, some analysts said.

The Singapore Exchange's latest monthly data shows that the daily average value traded last month was $957 million, down from $1.441 billion a year ago.

Company departures

Since the Commercial Affairs Department (CAD) probe began into eight mainboard-listed firms - excluding Asiasons - and their subsidiaries, as well as several key executives, a number have suffered hefty financial losses and issued profit warnings.

And all, to varying degrees, have undergone management and board changes. At least six executives who resigned in recent months are also among those asked by the CAD to assist in investigations into suspected false trading and market rigging.

They include former Blumont executive chairman Neo Kim Hock; former Blumont executive director James Hong; former Magnus Energy executive director Koh Teng Kiat; and former ITE Electric directors - executive director Ho Cheng Leong, chief operating officer Ang Cheng Gian and Mr Goh Hin Calm, an independent and non-executive director.

LionGold said in May that the probe has affected a private placement and issuance of convertible bonds exercise, which will affect its cash resources for funding mining operations.

It added that the private placement was terminated as two of the proposed placees did not want to proceed because of the probe.

The meltdown is partly behind the regulators' move to propose tighter trading rules and add circuit breakers, among other things, to protect investors from excessive price swings and speculation.

Burnt investors

But many investors still look back in shock as they ponder how $8 billion could be wiped out just like that in a small stock market like Singapore's, and in such a short span of time.

Other questions include: How effective and timely were the queries by the Singapore Exchange (SGX), given that the three issuers had been experiencing price rises that could not be justified by their fundamentals'

On Oct 1 last year, the SGX asked Blumont, in an unusually detailed query, to explain how its market value could have jumped from $508 million to $6.3 billion in nine months. The SGX had said it felt that this could not be sufficiently explained by the company's spate of acquisitions, the largest of which was $48 million.

On Oct 3 last year, Ms Quah Su-Ling, chief executive of Ipco International, and Mr Hong were among those asked by Goldman Sachs to repay loans, with just 90 minutes' notice given. Forced selling of their shares started soon after, with the three counters suffering a spectacular crash that forced the SGX to suspend trading of their shares, and impose a ban on short-selling and contra trading when trading resumed.

Ms Quah, who later sued Goldman, said that the bank had not informed her previously of any shortfall in her margin loan nor given her reasonable time to make payment. She also alleged that despite her proposal to try to settle the loans, Goldman kept selling the shares that had been pledged with it.

The authorities, understandably, have been tight-lipped, citing ongoing police investigations.

Said Lawyer Robson Lee: "The Monetary Authority of Singapore and SGX have to calibrate the measures to ensure there is little room for manipulators to create a false market, and make insider trading painful, while ensuring the market is dynamic and not stifled by more and more rules.

"We also need more investor education so people are trading in an informed and prudent way, and not buying on hope, holding in greed and selling in fear."

Mr Lee also asked: "Have the authorities made any headway in the investigation? And, if so, should there not be a timely update of the market so that investors are making more informed decisions when they trade on the shares of these companies'"

A slew of lawsuits

A slew of lawsuits by banks and brokerages - including Phillip Securities, AmFraser Securities, Coutts & Co, Interactive Brokers, Julius Baer Group, Bank of East Asia, Malayan Banking and Royal Bank of Canada - have also rattled investors. Many of those cases are still ongoing, with varying degrees of success.

In addition to difficulties tracking down some of the defendants, and serving court papers on them, those who have brought cases against Mr Neo; LionGold director of business and corporate development Peter Chen Hing Woon; Ms Quah; JK Yaming International Holdings director Tan Boon Kiat; and two other people - Mr Lee Chai Huat and Mr Kuan Ah Ming - will have to wait in line until an arbitration case brought by United States-based Interactive Brokers to recover $79 million in trading losses is concluded.

This is because Interactive has succeeded in freezing the assets of these six individuals and two others to keep them from being dissipated until arbitration proceedings are over.

Although several parties have tried to lift or vary the freezing order, The Straits Times understands that none has succeeded. AmFraser, which sued Mr Neo, Ms Quah, Mr Tan, Mr Lee and Mr Kuan over $4 million in debt, tried to vary the freezing order against them, but withdrew the action after Interactive's case went into arbitration.

Bank of East Asia won summary judgment against Ms Quah over a $1.83 million debt, but attempts to collect are stymied by the order.

Ultimately, until the authorities conclude their investigation, or at least give an update of where things are, this will remain the elephant in the trading room.

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