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HOW MUCH MONEY DID RAYMOND INDUSTRIAL LOSE
ON THE ABORTED CHEUNG FUNG FLOTATION ?

The withdrawal of the proposed listing of Cheung Fung Technology (Holdings) Ltd from The Stock Exchange of Hongkong Ltd highlights, to a great extent, a very fundamental problem.

Cheung Fung, which, in TARGET's opinion, is of not much cop, in any event, attempted to Place and Issue a total of 96 million shares at $HK1.08 per share, and, at the same time, give preferential treatment to existing shareholders of Raymond Industrial Ltd (Code: 229) by offering them a total of 24 million on the same terms.

At the end of the day, Cheung Fung was supposed to have collected about $HK115 million, net of all expenses.

That means that Cheung Fung had to pay out about $HK14.60 million for the privilege of being listed on the Main Board of The Stock Exchange of Hongkong Ltd, the principal stock market of The Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

The figure of $HK14.60 million represents about 11.27 percent of the entire amount of money that Raymond Industrial had hoped to receive.

(Raymond Industrial, by the way, is the Principal Shareholder of Cheung Fung, having absolute control of the company. For an analysis of Cheung Fung, please see last Wednesday's report, Volume II Number 202)

It is safe to assume that, even though the listing was aborted, Raymond Industrial/Cheung Fung paid out a large proportion of that $HK14.60 million to the professions who, eventually, decided that they did not want to take the chance of being stuck with Cheung Fung's scrip.

Clearly, by the wording of the October 24 announcement of Raymond Industrial/Cheung Fung, an insufficient number of prospective shareholders put their money on the table in an attempt to get some scrip of the cigarette paper company.

The announcement, in this regard, said:

> ***'REASONS FOR THE LAPSE OF THE SHARE OFFER***
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> *'On 16th October, 2000, the Underwriting Agreement was entered into for an underwriting relating to the Share Offer. Since the making of the Share Offer, due to a change in certain market conditions affecting the prospects of the Share Offer, Cheung Fung is unable to agree with the Underwriters as to how to proceed with the Share Offer. Cheung Fung has entered into a termination agreement dated 24th October, 2000 with, inter alia, the Sponsor, the Co-sponsor and the underwriters to terminate the Underwriting Agreement. Accordingly, the Share Offer will not proceed and will lapse.'*

To demonstrate the difficulty with regard to floating off this company, it is noted that there were, in total, 14 underwriters.

They were:

China Everbright Securities (Hongkong) Ltd
The Bank of East Asia Ltd
UOB Asia (Hongkong) Ltd
Polaris Securities (Hongkong) Ltd

Celestial Capital Ltd
Genesis Global Strategies Ltd
ICEA Capital Ltd
Kingsway SW Securities Ltd
Tai Fook Securities Company Ltd
First Shanghai Capital Ltd
Grand Securities Company Ltd
Kingston Securities Ltd
Shun Loong Securities Company Ltd
Tung Tai Securities Company Ltd

The Sponsor and Lead Manager was China Everbright Capital Ltd and the Co-Sponsor was UOB Asia (Hongkong) Ltd.

The above-named entities are, just about, all well-heeled and, yet, they did not want to take the chance of being lumbered with the scrip of Cheung Fung.

It is perfectly acceptable – and welcome, too -- to take an underwriting fee and a documentary fee for putting together a new flotation, but it appears that, under certain circumstances, such as being left, high and dry, with the scrip, the experts want to have a way out of the game.

This is unlike the Unites States of America where, if a territory wants to be part of the *'good ole US of A'*, subject to a certain provisions and subject to acceptance by the appropriate US Governmental Authorities, it may become another State of the Union.

But, once in the American *'club'*, so to speak, there is no way out of it, short of another civil war.

The Cheung Fung underwriters et al are only too aware that, more often than not, 5 counters account for something in the order of 70 percent of the total turnover of trading on The Growth Enterprise Market (The GEM) on any one day.

Similarly, on the Main Board, it is a fact that a handful of 10 counters (or fewer), account for 50 percent-plus of the entire volume of trading on any one day.

When Mr Li Ka Shing's tom.com Ltd (Code: 8001) went public on February 18, 2000, it was a freak situation in that prospective investors thought that Mr Li Ka Shing was some sort of Santa Claus with an Oriental face.

The underwriters and sponsors had no worries about being left, holding on to any tom.com scrip, because there was insufficient shares to go round.

In one day, Mr Li Ka Shing's wealth was increased by something in the order of $HK100 billion, if one uses the market capitalisation of tom.com Ltd as a gauge.

Of course, tom.com has fallen from grace, today, but that is immaterial because the speculative Li Ka Shing *'wild card'* got its money; Mr Li Ka Shing was smiling, all the way to his little bank.

But new listings of the ilk of tom.com Ltd are few and far between – and underwriters are only too aware of this reality.

Pacific Century CyberWorks Ltd (Code: 8 – the Main Board) was the other Li Ka Shing *'swinger'* of this year and, at one time, its market capitalisation was the highest on The Stock Exchange of Hongkong Ltd, rivaling that of HSBC Holdings plc (not in quality, of course).

It, too, like tom.com Ltd, has fallen from grace, of late, but those wholesale bankers and placing agents of the shares of Pacific Century CyberWorks got their whack; and they must be laughing at their good fortune.

About the only party that is more than a little unhappy with the cards, dealt by Pacific Century CyberWorks, is Cable and Wireless plc because that company sold its 54-percent-plus interest in Cable and Wireless HKT Ltd to the Li Ka Shing entity for cash and Pacific Century CyberWorks's shares.

After becoming a major shareholder of Pacific Century CyberWorks, hanging on to about 20-odd percent of the Issued and Fully Paid-Up Share Capital, Cable and Wireless watched something in the order of 80 percent, shaved off the value of the Li Ka Shing Internet-investment and telecommunications entity.

Not a very pleasant sight to the London-based company, no doubt.

What story will Cable and Wireless plc tell its shareholders of the very poor decision?

Getting back to the subject at hand, if the underwriters and sponsors of Cheung Fung had agreed with the Wong Family, the family that runs Raymond Industrial and Cheung Fung, to take a shot at not being stuck with Cheung Fung shares, it is only too painfully clear that, after the first day's trading in the scrip of Cheung Fung, the counter would have died a very rapid death.

Cheung Fung is about as unsexy as they come, as far as a new listing is concerned: How many people see a glowing (excuse the pun) future in the manufacture cigarette paper?

Medical science is trying to get people to stop smoking because the statistics are in: Smoking cigarettes will kill you.

Only the most ignorant of people, those in the outback of Australia, or the boon docks of the south of the US, or up in the hills of the People's Republic of China, are the facts not drummed in to the population in respect of the horrors of smoking tobacco.

Perhaps, and there is no way to confirm this, the flotation of Cheung Fung was aimed at the ignorant investor?

No doubt, the people, putting together the Prospectus of Cheung Fung, realising that they could be left, holding onto the scrip of this company, must have recalled the words of Thomas Gray (1716 –1771):

Yet ah! Why should they know their fate?
Since sorrow never comes too late,
And happiness too swiftly flies.
Thought would destroy their paradise.
No more; where ignorance is bliss,
'Tis folly to be wise.'

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