

**THE DAY OF RECKONING
COULD BE AT HAND FOR BIG BROKERS**

This is bound to come as a welcome relief to most investors, the world over: The US Government's Justice Department is to investigate US securities companies in order to determine whether or not a conspiracy exists, either overtly or covertly, to fix underwriting fees for Initial Public Offerings (IPOs).

Goldman, Sachs and Company was the first 'big boy' to be subpoenaed by this US department of Government in its investigation to ascertain the veracity of certain statements, with regard to many US brokerage houses.

This US Government investigation is quite likely to have wide-ranging implications for the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) since the cost of going public on The Stock Exchange of Hongkong Ltd is about as high a cost as anywhere in the world – if not higher than most other places in the world.

If the US Government's Justice Department can substantiate certain allegations, flying round certain boardrooms, and if the Justice Department takes definitive action, which is aimed at putting an end to the alleged, price-fixing cartel of certain (if not all) brokerage houses/companies and wholesale bankers, etc, the HKSAR will, more than likely, adopt some, if not all, of the US Government's recommendations.

Definitely, going public in the HKSAR can be more expensive than going public in the US, even going public on The New York Stock Exchange, one of the most prestigious stock exchanges in the world.

A very pointed example of the high cost of going public on The Stock Exchange of Hongkong Ltd may be seen by perusing the Prospectus of one of the latest IPOs, that of [Qualipak International Holdings Ltd](#), a company which published its Prospectus on April 15, 1999.

On Page 80 of the Prospectus, it is stated, under the sub-heading, 'Commission', in the 'Underwriting' section of this Prospectus:

'The Underwriters (Tai Fook Securities Company Ltd, DBS Asia Capital Ltd, Sun Hung Kai International Ltd and Emperor Securities Ltd) will receive a commission of 2.5 per cent. of the price of all the Offer Shares (out of which they will pay any sub-underwriting commissions), and DBS Asia will receive a documentation fee. Such commission and fee, together with the Stock Exchange listed fees, the Stock Exchange transaction levy payable by the Company, legal and other professional fees, and printing and other expenses relating to the Share Offer, which are estimated to amount in aggregate to approximately \$10 million ...'.

Qualipak was offering a total of 43.20 million shares at \$HK1.08 per share.

The Total Gross Proceeds, raised, therefore, was \$HK46,656,000.

However, on Page 76 of the Prospectus, it is stated:

'The net proceeds of the New Issue, after deducting related expenses, are estimated to amount to approximately \$34.9 million ...'.

One does not have to be a mathematical genius to realise that, of the total amount of money, which was received in subscriptions for shares in this IPO, about \$HK11,750,000 went to expenses.

This represents about 25.18 percent of the Total Gross Proceeds, raised from this IPO.

Getting back to the US Justice Department's investigation with regard to the alleged fixing of fees by certain US-based, securities companies, it is interesting to note that this investigation was touched off by the filing of a Writ by a Mr Harold Gillet in New York. This took place last November.

In April 1998, Mr Gillet alleged that he purchased 500 shares in a New York IPO: Horizon Offshore Incorporated.

He has named about 2 dozen securities firms/companies in his Writ, including Merrill Lynch Corporation, Salomon Smith Barney (owned by Citigroup Incorporated), Morgan Stanley Dean Witter and Company, Lehman Brothers Holdings Incorporated and Donald Lufkin and Jenrette Incorporated as being among the many perpetrators of the alleged price-fixing conspiracy.

Mr Gillet is alleging that the 24 securities firms 'artificially inflated' the costs for IPOs; and, there exists a conspiracy between the securities firms/companies.

In respect of Mr Gillet's allegation, he refers to 7 percent of the Total Gross Proceeds of an IPO as being the fixed amount, presently being gouged out of luckless companies which 'go public'.

This is a far cry from the 25.18 percent that is going to those people/firms/companies which have their hands in the proverbial pocket of publicly listed [Qualipak International Holdings Ltd.](#)

Even worse, perhaps, was the fact that a Hongkong IPO, back in 1994, paid out about 30 percent of its Total Gross Proceeds in order to hit the boards of The Stock Exchange of Hongkong Ltd.

If any company, or individual, should be taken to task over matters, relating to the high cost of going public in the HKSAR, relative to the amount of money raised, then Mr Saw Lip Boon, known informally as 'L.B. Saw', former Advisor to [Rich City Packaging Holdings Ltd.](#), back on April 15, 1994, when it was an IPO (interesting, that the months and the days of the listings of Rich City and Qualipak should be, exactly, the same: April 15 – history repeating itself?) has to take the cake.

Because Mr [L.B.Saw](#) obtained \$HK3 million, about 8.57 percent of the Gross Total Proceeds from this flotation.

He, also, received a monthly salary, via his wholly owned service company, [L.B. Resources Ltd](#), equal to \$HK2 million a year for a contracted period of 3 years.

This has to be one of the top fees, paid to any 'advisor', especially one who has yet to obtain a sheepskin from any university.

This matter of the 8.57 percent of the Total Gross Proceeds of this IPO, this percentage being Mr Saw's company's fee, L.B. Saw and Associates Ltd, for assisting in the listing of Rich City, is stated, clearly, in the Prospectus of Rich City ... [CLICK TO ORDER FULL ARTICLE](#)