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Handini revises IPO to \$10m

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THE average 'entry fee' for the 17 upcoming public floats on the Australian Securities Exchange is an extraordinary 15 per cent. This figure assumes the minimum investment is obtained, although most of these companies will struggle to reach that point.

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By: Stuart Wilson

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Costly company listings call for a fees-explain

THE average “entry fee” for the 17 upcoming public floats on the Australian Securities Exchange is an extraordinary 15 per cent.

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Having recently seen the share prices of Brisconnection Trust and Ivanhoe Australia nosedive on the first day of trade, questions have been asked as to the quality of some initial public offerings.

In the world of managed funds, retail investors despise entry fees. A typical retail managed fund’s entry fee may come to 4 per cent of the investment, but canny investors are often able to negotiate that fee away altogether.

With IPOs, where a company aims to list on the ASX, there is no description of entry fees in the prospectus. But it is a mistake to assume that all of one’s invest-

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ment is applied to generating returns. There are costs associated with listing on the exchange.

The main costs relate to producing the prospectus, paying professional fees for lawyers, investigating accountants and others such as independent geologists, and providing incentives to stock brokers to recommend the floats to their clients.

These costs can be described as entry fees. They are the amount deducted from the investment before the balance is put to use.

A high entry fee does not necessarily equate to a poor investment, but puts the company at an automatic disadvantage and is an indicator of how poorly man-

agement contains costs. Take, for example, Handini Resources. This IPO seeks to raise a minimum of \$1 million. Half the funds raised, \$500,000, will be spent getting the company to market, and the other half will be spent on corporate costs, leaving no working capital whatsoever.

How it can claim to use the proceeds of the float to upgrade infrastructure is a mystery.

A similar mystery is how the Australian Gemstone House prospectus actually made it through the Australian Securities and Investments Commissions lodgement process. The investment is being promoted by Pnina Feldman, founder of ill-fated Diamond Rose, and chair of Australian Gold Investments, whose share price has halved since listing in January.

The total costs of the offer exclude tax and placement fees, leaving investors in the dark on

how much is actually being spent.

There are 17 upcoming floats listed on the ASX website. All companies will pay listing fees on an ongoing basis to the ASX, but what is the benefit to investors?

This is a conflict that the ASX has struggled to deal with, forcing Treasury to consider its options.

In Britain, the London Stock Exchange does not determine a company’s eligibility for listing.

Companies must first apply for admission to the official list which is determined by the UK Listing Authority, which is part of the Financial Services Authority (Britain’s equivalent to the ASIC).

A similar separation of the ASX from the listing process may limit the number of sub-standard investments polluting the exchange.

Stuart Wilson is the chief executive of the Australian Shareholders’ Association