

# TRUTH & LIES IN SHARE OFFERS

- **Who can name the famous person in this picture .....**
- **Clue - the man with the Iphone**



# NOW?

- **He's 28 yrs old**
- **In 2012, he was the youngest person on Forbes' list of the world's most powerful people and no. 35 on its list of the world's richest billionaires**
- **There's a film about him? What was it called? Who's seen it?**



# MARK ZUCKERBERG!

**In May 2012, he was worth about US \$17.5 billion making him:**

- **the world's 29<sup>th</sup> richest person**
- **America's 16<sup>th</sup> richest person**

**(according to the Bloomberg Billionaire's Index which gives daily updates to the world's richest people)**



# **MARK ZUCKERBERG**

- **Made US\$19 billion in one day when he offered shares in his company for sale to the public in May 2012**
- **What was the name of his company?**

# FACEBOOK

- **Mark Zuckerberg started Facebook when he was 19 and a student at Harvard, originally just for his fellow Harvard students**
- **Today, it has over 1 billion users**
- **Who here uses Facebook?**

# WHO OWNS FACEBOOK

- **Originally, just Mark Zuckerberg and some of his college friends**
- **Gradually other people & companies invested – i.e. they gave the company money in return for a share of ownership of Facebook**
- **In May 2012, Facebook offered 421 million shares for sale to the public**
- **The price for each share was US\$38**
- **Facebook now has thousands of shareholders (or owners) but Mark Zuckerberg still has control through ownership of about 28% of the company**

# IPOS

- **The offering of a company's shares for sale to the public is called an **Initial Public Offering** or **IPO****
- **The shares are listed on a **Stock Exchange****
- **Facebook's shares are listed on a stock exchange in New York – **NASDAQ****
- **Other famous stock exchanges are in:**
  - ❖ **London**                      **Toronto**                      **Paris**
  - ❖ **Hong Kong**                      **Shanghai**                      **Shenzhen**
  - ❖ **Tokyo**                              **Sydney**                      **Singapore**



# HONG KONG IPOs

- **Many companies offer their shares for sale in Hong Kong (the shares are listed on the HK Stock Exchange)**
- **Most of these companies are Mainland Chinese companies**
- **Companies you may know who've done IPOs in Hong Kong are:**

❖ **Prada**

❖ **Samsonite**



❖

# WHAT IS A PROSPECTUS?

- **A document describing a company for people interested in buying its shares**
- **Includes a description of:**
  - ❖ **the company's business**
  - ❖ **the people who run it (directors)**
  - ❖ **who owns it (shareholders)**
  - ❖ **how much money it has/makes**
  - ❖ **risks facing its business (e.g. a company makes mobile phones a risk is competitors produce the same thing better or cheaper)**

**WHAT'S THE MOST  
IMPORTANT THING  
ABOUT THE  
INFORMATION  
IN A  
PROSPECTUS?**

**THAT IT'S**

**TRUE**

# LIES IN A PROSPECTUS

- **Sino Forest Corporation is a Chinese company which sold its shares to the public**
- **Its listing was in Toronto**
- **In its selling document (prospectus), the company claimed to be one of China's largest forest owners with 757,000 hectares of trees and plans to buy another 700,00 hectares**
- **In 2011, a company called Muddy Waters claimed that Sino Forest didn't have the forests it claimed it had – it had lied (this is called fraud)**

# WHAT HAPPENED?

- **The value of the shares dropped by 82% – if there were no forests, the shares were worth nothing**
- **The Toronto stock exchange forced the company to take the shares off the exchange**
- **Buyers of the company's shares lost their money**

# WHO'S FAULT IS IT?

- **The people who run the company – the directors – who know it best**
- **They make a statement which is set out in the prospectus that the information in it is true and complete**
- **If they deliberately include false information they can be sent to prison or made to pay a fine**

# WHO'S FAULT IS IT?

- **The people who sell the shares for the company and get paid to do so – the bankers**
- **They are professionals whose job it is to try and make sure the selling document is true**
- **Should these people also go to prison if the company has lied? Or only if they knew the company lied?**



# WHO'S FAULT IS IT?

- **The professionals that the bankers hired to help them check the information**
- **If the company lied about how much money it had, should you blame the accountants who checked the company's financial information?**
- **Or should they be punished only if they deliberately helped to cover up the lies?**
- **Is it fair to send someone to prison if they just made a mistake?**

# **MAKING SURE THE INFORMATION IS TRUE**

- **How do you check what a company says is true?**
- **For example**
- **Carry out internet searches for information**
- **Do site visits – check there's a factory or shops where the company says there are**
- **Interview relevant people – people working for the company, the company's customers, its suppliers, other companies in the same business**
- **This is called “due diligence” – its an investigation of the company so that accurate information and any risks facing the company can be properly described so people know what they are buying**

# WHAT DO LAWYERS DO?

- **Verification – they check that every statement in a prospectus is true**
- **Is there a piece of paper or some way of confirming that each statement is correct?**
- **How long does this take?**
- **In Hong Kong, prospectuses are very long – the longest one in 2012 was 1,566 pages of small type**