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## **Jimmie Wong's \$50m Shelf Companies**

'How can we work together', our friendly Hong Kong lawyer asked us? 'You guys invest money, we need investors, so I'm sure there's something we can do together?' Fellow fund manager Michael Haddad and I looked at each other, slightly surprised, slightly stunned, and asked what, exactly, it is that Jimmie Wong does?

Our four prior meetings in Hong Kong followed a fairly set routine. Very polite. Nice cups of tea and a ceremonial exchange of business cards before we get down to business. Jimmie Wong was different. Obviously a man in a hurry, he threw his cards across the table at us and jumped straight into it.

'We buy and sell shelf companies', he told us. 'In Hong Kong, a listed shelf company can be worth US\$50m, and we own six of them'.

### **No ordinary shelf company**

A shelf company is a company that doesn't do or own anything. So it might seem surprising that one is worth US\$50m. But Jimmie's shelf companies are different. They are already listed on the Hong Kong Stock Exchange, and therein lies their value. There are thousands of mainland Chinese companies that would like to access the abundant capital of the Hong Kong Stock Exchange. But criteria to get a new company listed via an IPO are almost impossible for most Chinese companies to meet.

So they buy one of Jimmie's shelf companies and perform what's known as a 'back door listing', raising hundreds of millions of dollars from investors keen for exposure to the Chinese growth story.

'Of course, many of them are frauds', says Jimmie, but that, too, is good for business. Jimmie owns the largest bankruptcy practice in Hong Kong. You can see his ads on TV. And, best of all, when the old shelf company goes bust, it returns to the fold and the whole process starts over again.

Jimmie was looking for pre-IPO funding and obviously talking to the wrong two guys. But his business is an insight into the wider Chinese economy. The capitalist, profit-seeking instinct is thriving. If there's a buck to be found in even the tiniest nook or cranny, there is someone trying to extract it.

Unfortunately, much of that activity is misdirected.

### **Misdirected invisible hands**

Adam Smith's invisible hand works when firms innovate to become more profitable. Innovation leads to improved productivity and increased output for the whole economy.

In China, the easiest path to riches is still knowing (or being) the right government official,

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having access to artificially cheap funding costs or knowing which loopholes to exploit. The richest 70 delegates in China's National People's Congress have a combined net worth of US\$89.8bn, [according to Bloomberg](#), versus just US\$7.5bn 'for the 660 top officials in the three branches of the US Government'.

There is nothing cultural stopping China becoming the richest country in the world. The desire to progress is at least as prevalent as the US. But if that is what they want, the government needs to make sure those profit seeking instincts are focussed on activities that benefit the wider economy and the whole population, not just the well connected. And there are a lot of powerful vested interests hell bent on ensuring that doesn't happen.