



PAST QUESTIONS AND ANSWERS (December 2006)

PAPER 5

REGULATION OF CORPORATE FINANCE

of

The Licensing Examination
for Securities and Futures Intermediaries

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Methodology of Developing Questions

Our Institute is committed to providing questions of the highest quality.

Our current examination structure has been benchmarked against those in both developed and emerging markets such as UK, US, Australia, Singapore, Malaysia and China. The syllabuses, study materials, training guides and questions were designed by international consultants specializing in financial education.

The Licensing Examination has been approved by the Academic and Accreditation Advisory Committee of the Securities and Futures Commission (SFC) as recognized industry qualification and local regulatory framework paper for meeting the competence requirements of the SFC.

External consultants are appointed to develop new questions according to specified criteria approved by our Examinations Committee. The aim of these criteria is to ensure that the candidates have thorough understanding of the manuals by testing them at different cognitive levels such as recall, comprehension, application, analysis and evaluation on predetermined weightings of each topic. The new questions are reviewed by reviewers who are market practitioners, legal and compliance professionals, and academics to ensure that the knowledge tested is covered in the study manuals, and that the standard of the questions is appropriate and consistent throughout.

To maintain their quality, the questions undergo frequent reviews and revisions internally which take into account, among others, the average correctness of the questions (i.e., the percentage of candidates in the examination who correctly answer the questions) and candidates' comments, if any, following each examination. In addition to the quality assurance being imposed on the questions, external assessors who are market practitioners, legal and compliance professionals, and academics, are engaged to conduct regular reviews. There are also periodic comprehensive reviews by external consultants on the manuals and questions.

The study manuals and their subsequent updates are the only source of materials for the setting of the questions, so that candidates need to study only those manuals and updates to prepare for the examinations.

It is estimated that the study manuals will require 6 to 11 hours of study time per topic, depending on which paper it is. Candidates may need to spend more or less time, depending on their work experience and background. They are advised to use the Learning Outcomes for each topic as a key to the way they study the materials in each topic, and unless explicitly stated, they could be tested on any aspect of the syllabus.

**Please attempt ALL 40 questions in this question book.
All questions carry EQUAL MARKS.**

<1>.

The Registrar of Companies does **NOT** administer which **ONE** of the following ordinances?

- A Companies Ordinance.
- B Protection of Investors Ordinance.
- C Registered Trustees Incorporated Ordinance.
- D Money Lenders Ordinance.

<2>.

The definition in the Securities and Futures Ordinance (SFO) of “advising on corporate finance” does **NOT** include advice on which **ONE** of the following?

- A About compliance with or rules made under Section 23 of the SFO (Rules made by a recognised exchange company) governing the listing of securities.
- B About compliance with or rules made under Section 36 of the SFO (Rules made by the Securities and Futures Commission) governing the listing of securities.
- C About acceptance of an offer made to a specific customer.
- D About corporate restructuring made to a listed corporation in respect of securities.

<3>.

Which **ONE** of the following is **NOT** a primary purpose of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases?

- A To afford fair treatment for shareholders who are affected by takeovers, mergers and share repurchases.
- B To provide an orderly framework within which takeovers, mergers and share repurchases are to be conducted.
- C To mandate a timetable for the conduct of takeovers, mergers and share repurchases.
- D To require the disclosure of timely and adequate information to enable shareholders to make an informed decision on the merits of an offer.

<4>.

Prospectuses for offers of shares to the public in Hong Kong are registered under the:

- A Listing Rules.
- B Companies Ordinance.
- C Securities and Futures Ordinance (SFO).
- D Securities and Futures (Stock Market Listing) Rules.

<5>.

The Market Misconduct Tribunal in Hong Kong deals with which **ONE** of the following?

- A Alleged market misconduct, including insider dealing.
- B Breaches of the Corporate Finance Adviser Code of Conduct.
- C Applications for waivers from insider dealing rules.
- D Breaches of the Code on Takeovers and Mergers.

<6>.

The Registrar of Companies in Hong Kong is responsible for which of the following?

- I Making available for public inspection the financial and other returns made by companies.
 - II Following up on defaults by companies in making the prescribed returns.
 - III Administering certain aspects of the Limited Partnerships Ordinance.
 - IV Verifying the prospectuses under Section 38D of the Companies Ordinance.
- A I and III only
 - B II and IV only
 - C I, II and III only
 - D I, II, III and IV

<7>.

Which **ONE** of the following statements about the Securities and Futures Ordinance (SFO) is **INCORRECT**?

- A The SFO lays down the overall licensing parameters which govern Corporate Finance activity.
- B The SFO provides for insider dealing to be dealt with under both civil and criminal routes.
- C The SFO provides detailed requirements for the management of takeovers and mergers.
- D The SFO provides the basis for the recognition of Exchange Companies.

<8>.

Under the Listing Rules of the Stock Exchange of Hong Kong (SEHK), which body **MUST** approve payments to directors of Bermuda-incorporated companies for loss of office?

- A The general meeting of the company.
- B An extraordinary general meeting.
- C The board of the company.
- D SEHK.

<9>.

Which **ONE** of the following statements is **CORRECT** in relation to price limits for core stabilising actions taken under the Securities and Futures (Price Stabilising) Rules?

- A There are no price limits.
- B There are both upper and lower price limits.
- C There are upper price limits but no lower price limits.
- D There are lower price limits but no upper price limits.

<10>.

Which **ONE** of the following statement is **CORRECT** in relation to the quorum required for a meeting of the Listing Committee of the Stock Exchange of Hong Kong (SEHK)?

- A The quorum may never include the Chief Executive.
- B The quorum must always include the Chief Executive.
- C The quorum shall not include the Chief Executive if a decision of the Listing Division or the Listing Committee is under review in relation to the rejection of a listing.
- D The quorum shall not include the Chief Executive if a decision of the Listing Division or the Listing Committee is under review in relation to disciplinary proceedings.

<11>.

What is the minimum market capitalisation required at the time of listing on the Growth Enterprise Market (GEM) Board of the Stock Exchange of Hong Kong (SEHK)?

- A HKD46 million.
- B HKD48 million.
- C HKD50 million.
- D HKD60 million.

<12>.

The Listing Rules of the Stock Exchange of Hong Kong (SEHK) require that a rights issue that would increase the issued share capital of a company by more than a specified percentage **MUST** be made conditional on approval by shareholders in general meeting by a resolution. What is the specified percentage?

- A 20%.
- B 40%.
- C 50%.
- D 60%.

<13>.

If the Stock Exchange of Hong Kong (SEHK) considers that a Growth Enterprise Market (GEM) sponsor has breached or failed to discharge any of its responsibilities or obligations under the GEM Listing Rules, which of the following sanctions are available?

- I Removal from the list of sponsors.
 - II A public censure.
 - III A bar from appearing before the GEM Listing Committee.
 - IV A fine not exceeding HKD500,000.
-
- A I and III only
 - B I and IV only
 - C I, II and III only
 - D II, III and IV only

<14>.

The Listing Rules of the Stock Exchange of Hong Kong (SEHK) require an applicant for listing to lodge final proofs of the listing document with the SEHK 4 clear business days prior to the date for hearing the listing application. How many copies of the listing document must be lodged?

- A 3.
- B 5.
- C 6.
- D 10.

<15>.

Which **ONE** of the following sanctions **CANNOT** be imposed on a professional adviser by the Listing Committee of the Stock Exchange of Hong Kong (SEHK)?

- A A private reprimand.
- B A public reprimand.
- C A ban from representing a listed issuer.
- D A fine of HKD500,000.

<16>.

Which **ONE** of the following statements is **INCORRECT** in respect of warrants issued by listed companies in Hong Kong?

- A The issue or granting of all warrants must have the prior approval of the Stock Exchange of Hong Kong (SEHK).
- B The SEHK will not approve an issue, which exceeds 20% of the issued share capital of the issuer.
- C The expiry date on the warrants must not be less than six months from the date of issue.
- D The expiry date on the warrants must not be more than five years from the date of issue.

<17>.

Which **ONE** of the following is **NOT** a characteristic of a private company under the Companies Ordinance?

- A Restriction on the right to transfer its shares.
- B Limitation on the number of its members to 50.
- C Prohibition of any invitation to the public to subscribe for any shares.
- D Requirement to have an audit committee.

<18>.

The basis of the allotment in respect of an offer for subscription must be published in the newspapers **NOT** later than:

- A the morning the allotment letters are posted.
- B the morning of the business day next after the allotment letters are posted.
- C the morning of the business day before trading commences.
- D the morning of the business day on which trading commences.

<19>.

Who bears the primary responsibility for the contents of a prospectus, which is issued in Hong Kong?

- A The Securities and Futures Commission (SFC).
- B The sponsors.
- C The directors.
- D The reporting accountants.

<20>.

Members of the Listing Committee of the Stock Exchange of Hong Kong (SEHK) are appointed for which period of time?

- A 1 year.
- B 2 years.
- C 3 years.
- D 5 years.

<21>.

The Stock Exchange of Hong Kong (SEHK) requires an issuer who wishes to list on the exchange to submit an advance booking form, **NOT** less than a specified number of days prior to the date on which it is expected the Listing Committee will meet to consider the application. What number of clear business days are specified?

- A 10 clear business days.
- B 20 clear business days.
- C 25 clear business days.
- D 30 clear business days.

<22>.

The Companies Ordinance specifies that no allotment of shares may be made more than a specified period after the issue of the prospectus. What is the specified period?

- A 20 days.
- B 30 days.
- C 1 month.
- D 2 months.

<23>.

The Stock Exchange of Hong Kong (SEHK) has arranged for all of its powers and functions in respect of listing matters to be discharged by which **ONE** of the following bodies?

- A The Listing Committee or the GEM Listing Committee and/or their delegates.
- B The Listing Committee who then delegates relevant matters to the GEM Listing Committee.
- C The Head of Listing.
- D The Chief Executive of SEHK.

<24>.

Core stabilising actions under the Securities and Futures (Price Stabilising) Rules may only take place during the stabilising period which commences from the date the prospectus is issued. What is the time limit for the stabilising period?

- A 15 days.
- B 20 days.
- C 30 days.
- D 1 month.

<25>.

Which **ONE** of the following statements is the **BEST** description of an “offer for sale” under the Listing Rules?

- A An offer to the public by or on behalf of an issuer of new securities.
- B An offer to the public by or on behalf of the holders or allottees of securities already in issue or agreed to be subscribed.
- C The sale of securities by an issuer or intermediary from or to persons selected or approved by the issuer or intermediary.
- D An application for listing of securities already in issue where no marketing arrangements are required because their adequate marketability can be assumed.

<26>.

The Executive responsible for the day-to-day administration of the Code on Takeovers and Mergers in Hong Kong is:

- A the Chief Executive of the Securities and Futures Commission (SFC).
- B the Executive Director of the Corporate Finance Division of the SFC.
- C the Executive Director of the Enforcement Division of the SFC.
- D the Chief Executive of the Panel on Takeovers and Mergers.

<27>.

Under the Hong Kong Code on Takeovers and Mergers, an offer document, in the case of a cash offer, should normally be posted within a specified number of days from the announcement of the terms of the offer. What is this period?

- A 10 days.
- B 21 days.
- C 35 days.
- D 50 days

<28>.

Under the Hong Kong Share Repurchase Code, in which of the following ways may a company carry out a share repurchase?

- I An on-market share repurchase.
- II An off-market share repurchase.
- III An exempt share repurchase.
- IV A share repurchase by general offer.

- A I and III only
- B I, II and IV only
- C II, III and IV only
- D I, II, III and IV

<29>.

In relation to the Hong Kong Code on Takeovers and Mergers (the Code), the Executive (as defined under the Code) regards financial advisers as being responsible for guiding their clients with regard to information released in relation to an offer, particularly when the clients give interviews to the media. The Executive will regard control of any possible abuses in an interview lies largely with which **ONE** of the following?

- A The financial adviser.
- B The person being interviewed.
- C The public relations firm advising the person being interviewed.
- D The board of directors, which has collective responsibility.

<30>.

Under the Hong Kong Code on Takeovers and Mergers, the 'trigger' imposes an obligation on persons who increase their holdings to 30% or more of the voting rights of a company to make an offer. This level was established in 2001 and transitional arrangements were introduced. When do the transitional arrangements relating to the trigger expire?

- A 2005.
- B 2006.
- C 2010.
- D 2011.

<31>.

Under the Hong Kong Code on Takeovers and Mergers, the Executive will normally give consent for a partial offer where:

- I the offeror will end up with less than 30% of the voting rights.
 - II the offeror will end up with less than 50% of the voting rights.
 - III the offeror holds more than 50% of the voting rights and the offer will take them to no more than 75%.
 - IV the offeror holds 50% of the voting rights and the offer will take them to no more than 80%.
- A I and III only
 - B I and IV only
 - C II and III only
 - D II and IV only

<32>.

The Hong Kong Code on Takeovers and Mergers contains transitional arrangements in relation to the “creeper”, which affects persons who held between 30% and 34.9% of the voting rights of a company, immediately prior to 19th October 2001. A list of these persons may be obtained:

- A from the issuer on payment of a fee.
- B from the website of Hong Kong Exchanges and Clearing Corporation Limited (HKEx).
- C from the Securities and Futures Commission (SFC) on payment of a fee.
- D from the website of the SFC.

<33>.

The Hong Kong Code on Takeovers and Mergers requires that a resolution to approve the delisting of an offeree company must have the approval of a specified percentage of the votes attaching to disinterested shares. What is the specified percentage?

- A 30%.
- B 50%.
- C 70%.
- D 75%.

<34>.

Once a bona fide offer has been communicated to the board of an offeree company, shareholders’ approval is **NOT** normally required for which of the following actions?

- A The issue of convertible shares.
- B The disposal of material assets.
- C The amendment of a director’s service contract.
- D The granting of options under an established share options scheme.

<35>.

Which of the following statements are **CORRECT** when a rights issue is proposed in a period of 12 months from the date on which dealings in the securities of a new listed issuer commence on the Stock Exchange of Hong Kong (SEHK)?

- I It must be made conditional on the approval of shareholders in a general meeting.
 - II It must be approved by the Listing Committee.
 - III It must exclude any controlling shareholder from voting in the general meeting.
 - IV It must be approved by the Securities and Futures Commission (SFC).
-
- A I and IV only
 - B II and III only
 - C I, II and III only
 - D II, III and IV only

<36>.

A company that is listed on the Stock Exchange of Hong Kong (SEHK) must include in its annual report a summary of each share option scheme approved by its shareholders. Which **ONE** item below is **NOT** required to be included?

- A The basis of determining the exercise price.
- B The total number of securities available for issue under the scheme.
- C The participants of the scheme.
- D That the Securities and Futures Commission (SFC) has approved the scheme.

<37>.

Under the Listing Rules of the Stock Exchange of Hong Kong (SEHK), a grant of options may **NOT** be made within a specified period prior to the date of the board meeting for the approval of the issuer's interim or annual results. What is this period?

- A 2 weeks.
- B 30 days.
- C 1 month.
- D 35 days.

<38>.

Convertible bonds may be listed on the Growth Enterprise Market (GEM) of the Stock Exchange of Hong Kong (SEHK) provided the equity securities are convertible into which of the following?

- I Securities listed on the Main Board of SEHK.
 - II Securities listed on another regulated, regularly operating stock exchange.
 - III Securities traded on a recognised electronic communications network (ECN).
 - IV Securities listed on the GEM Board of SEHK.
-
- A I only
 - B IV only
 - C I, II and IV only
 - D I, II, III and IV

<39>.

Which **ONE** of the following **BEST** describes the disclosure requirements required in the annual and interim reports for each share option scheme of a listed issuer under the Listing Rules of the Stock Exchange of Hong Kong (SEHK)?

- A The aggregate number of options granted to each class of person eligible under the scheme only.
- B Details of the options granted to each individual under the scheme.
- C Details of options granted to directors and the aggregate number granted to all other classes of person.
- D Details of options granted to directors, the Chief Executive and substantial shareholders and the aggregate number granted to other classes of person.

<40>.

The Listing Rules of the Stock Exchange of Hong Kong (SEHK) require that offers by way of rights must be open for acceptance for at least 14 days. However, the SEHK **MUST** be consulted if the issuer proposes an offer period over:

- A 18 days.
- B 21 days.
- C 25 days.
- D 30 days.

~End of the Examination Paper~

Answers

Question No.	Answer	Question No.	Answer
1	B	21	C
2	C	22	B
3	C	23	A
4	B	24	C
5	A	25	B
6	C	26	B
7	C	27	B
8	A	28	D
9	C	29	B
10	D	30	D
11	A	31	A
12	C	32	D
13	C	33	D
14	C	34	D
15	D	35	C
16	C	36	D
17	D	37	C
18	B	38	B
19	C	39	D
20	A	40	B