

## Updating Your Study Manual

### Instructions for Inserting Version 1.1, 2003

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The followings serve as the instructions for updating **Topic 4: Dealing in Securities Traded on the Stock Exchange of Hong Kong** of Study Manual 2 for the Licensing Examination for Securities and Futures Intermediaries. Please be reminded that only the updated sections are provided for downloading. You may replace the relevant sections with this updated version for the study manual you possess.

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#### **Instructions:**

1. Download and print out the following pages.
  2. **Remove** the original front page and **Insert** the updated front page
  3. **Remove** pages 4-11 to 4-14 and **Insert** new pages 4-11 to 4-14.
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STUDY MANUAL FOR

**PAPER 2**

**REGULATION OF SECURITIES**

of

The Licensing Examination  
for Securities and Futures Intermediaries

Version 1.1, 2003

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## **Disclaimer**

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The Listing Rules may be changed or added to, and specific listings may be made subject to such conditions as the SEHK considers appropriate.

### ***Main Board listing criteria***

3.29 The basic requirements for listing on the Main Board (SEHK Listing Rules 8.10 to 8.21) include:

- The issuer must be incorporated.
- The issuer must not be a private company within the meaning of section 29 of the Companies Ordinance (‘CO’).
- Both the issuer and its business must, in the opinion of the SEHK, be suitable for listing — for example, in Hong Kong some companies might not be suitable for listing on public interest grounds.
- A new applicant must have an adequate trading record of not less than three years under substantially the same management, and the most recent year’s profit must be no less than HK\$20 million. In respect of the two preceding years, it must be in aggregate not less than HK\$30 million.
- The SEHK may accept shorter trading periods in special circumstances, but this is unlikely.
- In the case of a new applicant, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of the listing document.
- There must be an adequate market in the securities — that is, sufficient public interest in the business of the issuer.
- At least 25% of the shares of the issuer must be held by the general public for companies whose market value does not exceed HK\$4 billion and normally 10% for those companies in excess.
- The prescribed minimum percentage of any class of shares to be held by the public has been amended for PRC issuers (Rule 19A.14(2)), in that the SEHK will take into account both ‘H’ and non-‘H’ shares held by the public to calculate the minimum of 25% to be held by the public. If there are no other shares held by the public, other than the ‘H’ shares, then all of the ‘H’ shares must be held by the public. In addition, the minimum market value of the securities to be listed is set out in Rule 19A.15 (minimum of HK\$50 million).
- There must be a sufficient spread of shareholders in each class of securities to be listed (normally 100 holders).

- There must be a market capitalization of at least HK\$100 million at the time of listing of which HK\$50 million must be in the hands of the public.
- Where a new applicant has a controlling shareholder with an interest in a business apart from the applicant's business which competes, or is likely to compete, with that business, then this must be disclosed (Rule 8.10(1) and (2)).
- A new applicant applying for a primary listing on the exchange must have a sufficient management presence in Hong Kong — that is, two of its executive directors are residents in Hong Kong.
- The securities for which listing is sought must be freely transferable. Partly paid shares are not normally considered freely transferable.
- The persons proposed to be directors must meet the stipulated requirements.
- The issuer must appoint an approved share registrar to maintain in Hong Kong its register of members.
- The secretary of the issuer (except a PRC issuer) must be ordinarily resident in Hong Kong and be a member of the Hong Kong Institute of Secretaries, or be a solicitor or barrister or have some other qualification acceptable to the exchange.

### ***GEM listing criteria***

3.30 The GEM Listing Rules are similar to the Main Board Listing Rules, except for the following:

- A new applicant will not be rendered unsuitable for listing on the grounds that any director or shareholder has an interest in a business which competes or may compete with the applicant's business (GEM Rule 11.03).
- The track record must cover only two years (GEM Rule 11.10).
- The applicant must demonstrate that it has focused on one line of business under substantially the same management (GEM Rule 11.12(1)).
- A property company must have, in respect of a substantially major portion of its PRC properties, long-term title certificates (GEM Rule 11.16) — that is, documents which state that the owner (company) is entitled to hold the property for a specified period, such as 50 years.

- The market capitalization in the hands of the public must be at least HK\$30 million (GEM Rule 11.23(2)).
- Derivative warrants of the type referred to on the Main Board will not be admitted to the GEM.

## 4 Trading mechanism and rules

### Automatic Order Matching and Execution System

- 4.1 The third generation of the Automatic Order Matching and Execution System (‘AMS/3’) is a trading system currently used by the SEHK. The AMS/3 system architecture allows for a direct interface between the intermediary’s own systems and AMS/3. It can support trading for over 20 hours a day, as well as trading in multiple markets. Investors are able to place orders through the Internet, cellular phone and other proprietary technology.

### Trading methods

- 4.2 The trading rules discussed in this part of the Study Manual apply to on-exchange transactions but not to off-exchange transactions.
- 4.3 Trading of securities on the SEHK is practically all conducted through the AMS/3 system, although on rare occasions the open-outcry system may be used. An open-outcry market is a market where trading takes place face-to-face on the trading floor of the exchange.
- 4.4 Auto matching is the core trading method in AMS/3, which is an order-driven system. In an order-driven market, a buyer and a seller of shares each has an intermediary acting on their behalf. The role of the participant acting for the buyer is to find a matching counterparty — that is, to find a matching seller. All transactions are concluded by automatic order matching, except the following:
- transactions concluded by using the operation specified for odd-lot transactions (‘non-automated trades’);
  - direct business transactions (‘cross trades’);
  - isolated trades entered into for the purposes of effecting a buy-in;
  - orders exceeding the maximum order size limit; and
  - transactions intentionally concluded outside AMS/3.
- 4.5 The system consists of four key hardware and system components:

- Trading terminal:

The AMS/3 trading terminals are stand-alone terminals in the SEHK trading hall.

- Multi-workstation system:

The multi-workstation system has been developed by the SEHK to support multiple users and remote access to the trading system. It has the capability for multi-window concurrent execution of various trading functions (e.g. enquiries as to stock prices and approval of investors' trading requests), and to capture electronic trading requests from investors and automatically generate notification of trading results to investors.

- Broker-supplied systems ('BSSs'):

Broker-supplied systems are the systems that have been developed by individual participants which allow for the development of trading applications that are tailored to their needs. These systems must follow the specific Open Gateway specification design for BSSs set out by the SEHK.

- Order routing systems:

As an alternative, investors may electronically access the trading system via the Internet by way of the order routing system, which routes trading requests to participants (through either the BSS or the multi-workstation system). Participants who wish to offer their clients on-line trading access may use the SEHK AMS/3 Access Channel PNS or develop their own proprietary access channels.

#### 4.6 Participants can choose their approach to trading:

- With trading terminals, participants use the traditional data entry and screen-based enquiry to get access to the market.
- Participants may opt for the open gateway approach, which is a network communications device installed at the participant's office to provide an electronic linkage between the trading system and the intermediary's trading system.
- Within the open gateway, participants may select from two separate systems that will act as its intermediary trading system: the multi-workstations system or the BSS.

### **Trading parameters**

#### 4.7 The trading parameters for AMS/3 are: