

Updating Your Study Manual

Instructions for Inserting Version 1.2, 2003

The followings serve as the instructions for updating **Topic 2: The Stock Exchange of Hong Kong: Primary and Secondary Markets** of **Study Manual 8** 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.

Instructions:

1. Download and print out the following pages.
 2. **Remove** pages 2-7 to 2-8 and **Insert** new pages 2-7 to 2-8.
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1.7.4 Introduction

An introduction is the listing of securities already on issue where no marketing arrangements are required as the securities for which listing is sought are already of such an amount and so widely held that their adequate marketability when listed can be assumed.

Introductions may be appropriate in the following circumstances:

- a) where the securities are already listed on another stock exchange
- b) where the securities of an issuer are distributed in specie by a listed issuer to the shareholders of that listed issuer or to the shareholders of another listed issuer
- c) where a holding company is formed and its securities are issued in exchange for those of one or more listed issuers.

An introduction will only be permitted in exceptional circumstances and a prospectus must support the issue.

1.7.5 Rights issue

A rights issue is the offer of a right to existing shareholders that enables them to subscribe for additional securities in proportion to their existing holdings, usually at a discount to the market price. Normally, all rights issues must be fully underwritten and a prospectus must support the issue.

1.7.6 Open offer

An open offer is an offer to existing securities holders to subscribe for additional securities whether or not in proportion to existing holdings. These issues are not renounceable and may be combined with a placement to become an open offer with a claw back mechanism. A prospectus must support an open offer. Where an open offer is not fully underwritten, it must be disclosed in the prospectus.

1.7.7 Capitalisation issue

A capitalisation issue is the issue of further securities to existing shareholders in proportion to their existing holdings. These securities are credited as fully paid up out of the issuers' reserves or profits and do not involve any monetary payment. [A capitalisation issue must support a listing document in the form of a circular to shareholders.](#)

1.7.8 Consideration issue

A consideration issue is an issue of securities as consideration in a transaction or in connection with a take-over or merger or the division of an issuer. A consideration issue must be announced by means of a press notice.

1.7.9 Exchange or substitution issue

An exchange or substitution issue is where securities may be listed by exchanging, substituting or converting existing listed securities into other classes of securities. An exchange or substitution of securities must be supported by a listing document in the form of a circular to shareholders.

1.7.10 Other methods

Other methods by which securities may be listed include:

- 1) the exercise of options or warrants
- 2) the issue of securities on the exercise of options granted to or for the benefit of executives and/or employees
- 3) other methods which the stock exchange may approve from time to time.

1.8 Role of advisors

1.8.1 Sponsor

The sponsor plays an important role in the listing of a company on the SEHK. The sponsor must be an Exchange Participant, issuing house, merchant bank or other similar persons acceptable to the SEHK.

The sponsor is responsible for preparing the new applicant for listing, lodging the formal application and preparing all supporting documentation to the stock exchange.

It is the responsibility of the sponsor to ensure that the issuer satisfies the listing requirements and that the directors of the company understand their responsibilities and honour their obligations under the listing rules.

Once a company is listed, the sponsor is no longer required but it is recommended that their services be retained by the issuer for at least one year following its listing.

1.8.2 Underwriter

An underwriter is an intermediary between an issuer of a security and the investing public. An underwriter is usually an investment bank or a brokerage