Hong Kong Securities and Investment Institute
香港證券及投資學會

PAST QUESTIONS AND ANSWERS (December 2006)

PAPER 11

CORPORATE FINANCE

of

The Licensing Examination
for Securities and Futures Intermediaries

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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>.
Which of the following securities is **NOT** commonly seen in the Hong Kong share market?

A Red chip shares.
B Derivative warrants.
C H shares.
D Preference shares.

<2>.
Which of the following is **NOT** a valid reason for a securities market to maximise liquidity?

A Professionals will act as intermediaries on the market.
B Regulators will largely leave the market to govern itself.
C Companies will allow their securities to be traded on the market.
D Investors have confidence to invest in the market.

<3>.
Which of the following is **NOT** part of Professor Michael Porter's basic analysis model for understanding a business?

A Potential entrants.
B Buyers.
C Government.
D Competitors.

<4>.
What is the **MOST SERIOUS** risk that the bidder faces in the situation of a hostile takeover rather than a friendly takeover?

A The management and employees of the target may not be receptive to the bid.
B The goodwill on the transaction often forms a substantive part of the price and must be amortised in the future accounts.
C Vital assets might not remain intact, e.g. a key patent sold to another party prior to the conclusion of the takeover.
D Amortisation of goodwill is not tax deductible.

Information for Questions no. 5 to 7.

Action Group is considering a takeover bid for Catchme Group. The following summarises each group's situation.

Action Group **Assets**	*2000* *HKDm*	*2001* *HKDm*	*2002* *HKDm*
Cash	226	312	518
Receivables and inventories	894	915	967
Fixed assets	1,293	1,436	1,532
Intangibles	264	232	200
Other assets	321	365	381
Total assets	2,998	3,260	3,598
Liabilities			
Payables	487	536	546
Borrowings	715	687	625
Other liabilities	336	379	451
Total liabilities	1,538	1,602	1,622
Equity			
Ordinary shares	800	800	900
Reserves and retained profits	660	858	1,076
Total equity	1,460	1,658	1,976

Action Group is a Hong Kong listed group that manufactures in China and exports to North America, Europe, Japan and Australia. It has trading companies based in Los Angeles and London. It sells in Yen, Euros and US Dollars. As such, about half of its borrowings are in a mixture of Euros and US Dollars borrowings.

Catchme Group **Assets**	*2000* *CADm*	*2001* *CADm*	*2002* *CADm*
Cash	11	13	12
Receivables and inventories	92	96	105
Fixed assets	45	52	59
Other assets	16	14	16
Total assets	164	175	192
Liabilities			
Payables	52	57	61
Borrowings	40	43	49
Other liabilities	21	22	26
Total liabilities	113	122	136
Equity			
Ordinary shares	40	40	40
Reserves and retained profits	11	13	16
Total equity	51	53	56

Catchme Group Extracted from income statement	*2000 CADm*	*2001 CADm*	*2002 CADm*
Turnover	238	259	283
EBITDA	16	17	21
EBIT	12	13	16
Profit before tax	9	10	12
Profit after tax	6	7	8
Dividend	4	5	5
Retained profits	2	2	3
Share information			
No. of issued shares	10,000,000	10,000,000	10,000,000
Share price at balance date	CAD9.60	CAD11.20	CAD11.70
PER of comparable companies	18 times	17 times	17 times

Catchme Group is a Vancouver-based listed Canadian company. The largest shareholding is the Chong family of Vancouver who holds about 27%. The Chong family is supporting the takeover, indicating it will accept the cash offer. The remaining shares are held mainly by retail investors. Catchme Group manufactures a small range of products in Vancouver. It imports products which are complementary to Action's products. It sells throughout Canada and the USA. Its borrowings are in Canadian Dollars.

At the time of the takeover, Action has 850 million issued shares, trading at HKD5.80. The exchange rate is HKD1.00 = CAD0.15.

Action is offering two choices to its shareholders as follows:

- Cash offer is CAD13.00 per share (HKD86.67); or
- 10 Action shares for every 1 Catchme share plus CAD4.50 cash per share, making the combination offer worth about CAD13.20 based on current share prices and exchange rate.

Action anticipates about 70% of shareholders will accept the cash bid. A facility of CAD130 million has to be arranged to allow for 100% acceptance in cash. The expected situation will require about CAD100 million to CAD110 million cash (about HKD670 million to HKD730 million) and the issue of about 30 million Action shares, a small addition to the existing 850 million issued shares.

<5>.
Which of the following scenarios would be **LEAST LIKELY** used by Action Group in raising financing the acquisition?

A The payment for Catchme is of a size that Action Group should raise share capital rather than using 100% borrowings to fund the takeover.
B Remains suitable to use other currencies for borrowings as a natural hedge.
C Action Group is of a size that all its financing requirements can be met by the Hong Kong market.
D Action Group is of a size to be able to seek multilateral facilities to reduce their dependence upon one lender.

<6>.
Considering the size of the takeover, the strength of Action's balance sheet and the make-up of likely payment to Catchme shareholders, which of the following means of financing would be **MOST PRUDENTIAL** for the cash offer of the takeover?

A Paying 100% from cash on hand.
B Raising 100% from issuing of new equity.
C Paying 100% from medium-term to long-term borrowings.
D Raising 100% from overdraft facility and Commercial Paper.

<7>.
At a CAD13.00 cash offer price, and assuming the dividend is maintained at the 2002 level, what is the dividend yield for Action on Catchme's investment?

A 2.31%.
B 3.80%.
C 6.15%.
D 9.23%.

<8>.
You work for a Hong Kong bank and are responsible for the annual review of company PDQ. This customer has an overdraft facility of HKD5 million that is nearly fully utilised, and a HKD40 million 10-year loan secured against a leasehold Hong Kong property that has one and a half years to run. Your analysis of the financial statements over the last three years shows:

	2000	*2001*	*2002*
Current ratio	1.2	1.2	1.4
Quick assets ratio	0.5	0.5	0.7
Payables turnover	48 days	47 days	49 days
Gearing ratio	1.3	1.4	1.1
Interest cover	2.7	2.8	3.3

Based on this information, what action do you recommend should be taken?

A Instigate legal action to appoint a receiver to the company.
B Seek immediate discussions with the customer to establish actions, including early repayment of the loan.
C Consider extending financing, including increasing the HK Dollar facility to the company, per the company's request.
D Downgrading the creditability standing of the company.

<9>.
Which of the following statements is **INCORRECT**?

A Lenders are entitled to a return as defined in the loan documentation.
B Preference shareholders are entitled to vote on key issues.
C Lenders rank ahead of shareholders in the event of liquidation of a company.
D Preference shareholders rank ahead of ordinary shareholders in the event of liquidation of a company.

<10>.
Which of the following statements about convertible notes is **INCORRECT**?

A Noteholders are likely to convert convertible notes to shares when the market price of the shares is higher than the conversion price of the convertible note.
B Noteholders can be secured or unsecured and rank as creditors in the event of liquidation of the company.
C Noteholders receive dividends on their notes during the period prior to the date at which they can convert the notes into shares.
D The convertible notes include information on how the company determines payments to noteholders.

<11>.
Rustic is a Hong Kong public company that owns a subsidiary, Rural, operating in Australia. Rustic has decided that Rural is not a core activity and wants to dispose of it. Rural has been operating at a loss for the last three years, with indications that this year will also be a loss, due to the continuing drought. Rural's management are interested in owning the company, but can only manage to raise about a quarter of the sale price that Rustic wants.

You have been asked to advise on what needs to be considered in a sale of 100% of Rural's shares, considering difficulties in attracting buyers in the current market.

Which of the following would be **MOST INAPPROPRIATE** for Rustic to agree to in the described situation?

A Agree to Rural's management participating in a buyout.
B Obtain a long-term debt financing secured against the assets of Rural.
C Provide a loan for the gap between the secured borrowing and Rural's management funds, secured by a second mortgage with no principal payments for the 3-year term of the loan.
D Retain a 20% to 30% ownership interest in Rural over the next three years and equity account it in Rustic's group accounts. After three years, sell the ownership to Rural's management.

<12>.
Which of the following is an example of an accrual?

A Guarantee of third-party loan.
B Invoice received from a supplier for goods delivered on the balance sheet date.
C Estimate of telephone usage between last billing date and the balance sheet date.
D Estimate of closure costs on a business that the board has agreed to terminate.

Information for Questions no. 13 to 15.

The following information was extracted from WhiteGoods' profit and loss statement over the last three years:

	2000 HKDm	*2001 HKDm*	*2002 HKDm*
Sales	759	825	808
Profit before extraordinary items	58	71	82
Extraordinary items	--	(105)	--
Profit before tax	58	(34)	82
Profit tax	(8)	(3)	(11)
Profit after tax	50	(37)	71
Interest expenses	26	29	27
Depreciation and amortisation	42	45	51

<13>.
Which of the following describes the trend in the operating margin from 2000 to 2002?

A The operating margin is consistent and constant over the three years.
B Excluding extraordinary items, the operating margin is improving, especially in 2001 with both 2001 and 2002 being strong.
C Excluding extraordinary items, the operating margin is declining, especially in 2002 with all years being low.
D The operating margin declined in 2001 due to the adverse effect of extraordinary items, and improved in 2002, with 2002 being stronger than 2001.

<14>.
Based on an analysis of the interest cover ratio and assume all other things being equal, which of the following statements **BEST** describes the change in lending risk?

A The interest cover ratio remains unchanged, so there is no change in the level of risk.
B The interest expenses level has remained fairly constant, so there is no change in the level of risk.
C The interest cover ratio has decreased, indicating an increase in the interest burden, hence the risk is increasing.
D The interest cover ratio has increased, indicating a decrease in the interest burden, hence the risk is decreasing.

<15>.
What is WhiteGoods' debt servicing capacity, i.e. its EBITDA, in 2001?

A HKD37,000,000
B HKD40,000,000
C HKD145,000,000
D HKD160,000,000

<16>.
Following is an extract from the financial statements of Uptoo Limited for the current financial year:

	HKD
Total assets	2,943,000
Equity	1,574,000
Sales	2,804,000
Interest expense	72,000
Tax	19,000
Net profit after tax	105,000

What are the return on assets and operating margin of Uptoo Limited?

A 3.6% and 3.7%.
B 3.6% and 7.0%.
C 6.7% and 7.0%.
D 6.7% and 12.4%.

<17>.
Which of the following statements about securitisation is **INCORRECT**?

A Securitisation is designed to remove a group of assets from the balance sheet.
B Securitisation is the process of selling assets to a separate legal structure, which issues securities to third parties.
C The special purpose vehicle (SPV) holding the securitised assets is financially viable when the returns on the securitised assets exceed the interest due to the individual SPV security holders.
D The effectiveness of securitisation in financial terms is not affected if there is a right of recourse.

<18>.
Which of the following **BEST** describes net present value?

A The time required for the net cash inflows to equal the initial outlay.
B The average annual rate of return.
C The sum of the present values of discounted future cash flows, less the initial outlay.
D The value at which the sum of discounted future cash flows equals the initial outlay.

<19>.
You have been asked to assess and advise on the appropriate corporate financing structure for Company Pondo, which has the following characteristics:

Pondo is a large private company that has operated for more than fifty years in Hong Kong. The company doubled its production facilities five years ago. In the last six months, sales have increased by 15% and Pondo is seeking HKD200 million to expand its production capacity by 20% to meet the increased market demand. Operating cash flows are low, due to expanding working capital.

Pondo **Liabilities**	*2000* *HKDm*	*2001* *HKDm*	*2002* *HKDm*
Overdraft	25	41	62
Bills facility	50	70	120
Fixed interest loan	620	600	580
Other liabilities	365	390	423
Total liabilities	1,060	1,101	1,185
Equity			
Ordinary shares	350	350	350
Reserves and retained profits	112	126	104
Total equity	462	476	454

Which of the following approaches would meet the needs of Company Pondo?

A Increase usage of bank overdraft and bills facility.
B New leasing facility for the HKD200 million.
C Use fixed interest borrowings.
D Recommend a detailed review of the financial situation before entering into any new commitments.

<20>.
Which of the following is **NOT** a method for calculating the cost of capital?

A Capital Asset Pricing Model (CAPM).
B Discounted value of future maintainable earnings.
C Dividend valuation method.
D Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

<21>.
Your client, Retailo Company, is a rapidly expanding retailer. Retailo opened three years ago with one shop in Hong Kong. Retailo now has five shops in Hong Kong and five in China. Retailo's corporate plan includes the opening of five more shops in the next year and a doubling of sales. The gearing ratio is currently 3:1 and the average operational profitability ratio is 5.5%, with established shops achieving 6.5% and new shops achieving 3.0%.

In addition to an increase in working capital overdraft facility, which of the following financing will provide stability and help to finance the expansion?

A Use a medium-term facility for shop fitouts.
B Use a secured medium-term facility for shop fitouts, on condition that the owners provide increased equity.
C Use a leasing facility for shop fitouts with security over the owners' assets.
D Use a leasing facility for shop fitouts.

<22>.
Below are the profitability ratios for Posh-Posh:

	2000	*2001*	*2002*
Gross margin	35.3%	36.8%	35.9%
Operating margin	7.1%	6.8%	6.2%
Return on equity	12.6%	13.2%	14.1%
Return on assets	8.5%	8.9%	8.6%

Which of the following is the **BEST** explanation of the trends from these ratios?

A Operating margin and return on assets are fairly steady, but return on equity is decreasing, indicating a declining profitability on the reduced sales.
B Operating margin and return on assets are fairly steady, but return on equity is increasing, indicating higher gearing is contributing to profit performance.
C Operating margin is increasing, but returns on equity and assets are relatively steady, indicating less profit on increasing sales, but adding to overall profit performance.
D Operating margin is declining due to higher operating expenses, but profit from funds invested is increasing while profit from assets is steady, probably indicating growing sales.

Information for Questions no. 23 to 25.

Attacc Group is considering a takeover bid for Takame Group. The following summarises each group's situation:

Attacc Group	*2000*	*2001*	*2002*
Assets	*HKDm*	*HKDm*	*HKDm*
Cash	186	15	76
Receivables and inventories	415	636	605
Fixed assets	482	815	837
Intangibles		68	65
Other assets	84	123	164
Total assets	1,167	1,657	1,747
Liabilities			
Payables	278	402	397
Borrowings	160	470	490
Other liabilities	55	164	185
Total liabilities	493	1,036	1,072
Equity			
Ordinary shares	500	500	500
Reserves and retained profits	174	121	175
Total equity	674	621	675

Attacc Group is a Hong Kong listed company which manufactures in Hong Kong and Taiwan, and exports to South-East Asia, South Korea and Japan. It sells in the local currencies of its markets or in Hong Kong or Singapore Dollars. Its borrowings are in Hong Kong and Taiwanese Dollars.

Takame Group	*2000*	*2001*	*2002*
Assets	*Won billion*	*Won billion*	*Won billion*
Cash	0.8	1.3	0.9
Receivables and inventories	67.3	72.2	81.4
Fixed assets	54.3	56.8	63.2
Investments	20.4	18.4	24.7
Other assets	10.3	13.8	14.5
Total assets	153.1	162.5	184.7
Liabilities			
Payables	41.3	45.2	50.6
Borrowings	60.0	55.0	58.0
Other liabilities	18.4	20.8	21.3
Total liabilities	119.7	121.0	129.9
Equity			
Ordinary shares	20.0	20.0	20.0
Reserves and retained profits	13.4	21.5	34.8
Total equity	33.4	41.5	54.8

Takame Group **Extracted from profit and loss**	*2000* *Won billion*	*2001* *Won billion*	*2002* *Won billion*
Turnover	341.6	463.5	573.8
EBITDA	33.5	40.7	48.3
EBIT	27.2	34.5	41.1
Profit before tax	22.3	29.7	36.4
Profit after tax	17.1	23.1	28.3
Dividend	15.0	15.0	15.0
Retained profits	2.1	8.1	13.3
Share information			
No. of issued shares	5 billion	5 billion	5 billion

Takame Group is a South Korean private company owned by the Park family. It manufactures a range of products in South Korea and sells to Japan and North America. Its borrowings are in Korean Won. Its products are complementary to Attacc's range. Takame has successfully penetrated the North American market.

Assume the exchange rate is HKD1.00 = 150.00 Won.

Assume that Attacc offers 20 Won per share, which is accepted.

At the time of the takeover, Attacc has 500 million shares on issue, trading at HKD2.85 per share. Attacc's profit after tax in 2002 was HKD104 million and its dividend was HKD50 million.

<23>.
Using the information provided, what is the price earnings ratio for Attacc Group in 2002?

A 8.4 times.
B 13.7 times.
C 19.5 times.
D 26.7 times.

<24>.
What is the goodwill of the acquisition, calculated in Won, at a payment of 20 Won per share?

A Nil, as there is no goodwill.
B Won 45.2 billion.
C Won 54.8 billion.
D Won 80.0 billion.

<25>.
Assuming that Attacc Group's financial advisors list the following possible reasons for considering US Dollar financing in the transaction. Which of these reasons would be **INCORRECT**?

A The Attacc Group trades within South-East Asia, South Korea and Japan and has spread its currency risk through selling in local currencies.
B The Takame Group sells its product in Yen and US Dollars.
C The Takame Group has used Won borrowings, meaning that additional borrowings in US Dollars are likely to match against its US Dollar sales.
D The Attacc Group would be exposed to more currency risk if it financed the transaction in currencies that are not central to the expanded group.

<26>.
You are a **COMPLIANCE ADVISOR** to CDE Group. You note that CDE Group is planning to buy HIJ Company, a listed company in Hong Kong, from UVW Company. UVW, as the only single major shareholder, owns 45% of CDE. UVW is owned by the Wing Family.

Which of the following do you concern **MOST**?

A The financial positions of CDE and HIJ, and the appropriate financing structure.
B Corporate governance issues arising from the proposed sale between associated companies.
C Whether the Wing family would maintain its controlling interest in UVW after the acquisition.
D UVW is conducting a radical restructuring which may result in substantial redundancy payouts and other associated costs.

<27>.
Your client, LMN Group, is listed, with a single family owning 45% of the voting share capital. HKD500m of convertible notes will be able to be converted into ordinary voting shares in six months. The current share price is HKD5.50. Each convertible note with a face value of HKD100 can be converted into 20 shares.

You understand that such family as controlling LMN Group wishes to maintain 45% ownership. It is holding 30% of the convertible notes. The Group has HKD230m cash available and the right to redeem the convertible notes at any time in full or on a pro rata basis.

Which of the following recommendations would **NOT** be likely to meet the Group's and its shareholders' requirements?

A Offer a placement of 50m ordinary shares at HKD5 to the family.
B Redeem HKD200m of convertible notes immediately.
C Arrange for a HKD300m preference share issue and use the proceeds to redeem part of the convertible notes.
D Arrange for sale and leaseback of HKD300m of fixed assets and use the proceeds to redeem part of the convertible notes.

<28>.
Which of the following statements about venture capital is **INCORRECT**?

A Venture capitalists are only concerned with investing in high-technology start-up companies.
B Venture capitalists generally expect large return from capital gains on successful investments.
C Venture capital can be invested in management buy-outs.
D Venture capitalists expect a high probability of failure on investments.

<29>.
You have been asked to investigate the legal status of OPM Coal Mining, which has the following characteristics:

- The agreement among the corporate shareholders gives each of the three corporate members the right of first refusal if one of the members wants to sell its stake.
- Corporate member O is appointed as the manager.
- Each corporate member receives output from the project in proportion to his ownership.

Which type of legal entity is OPM Coal Mining?

A Private company.
B Unincorporated joint venture.
C Sole proprietor.
D Public listed company.

<30>.
Which of the following types of financing should be priced by reference to London Interbank Offered Rate (LIBOR)?

A Euronote.
B Redeemable preference shares.
C Equity-linked instrument traded on the Stock Exchange of Hong Kong (SEHK).
D Ordinary shares.

<31>.
You are an advisor and have been asked to assess and advise on the appropriate corporate financing structure for Company XYZ, which has the following characteristics:

XYZ is a long-established, mature, heavy engineering company. The business is generating substantial net operating cash flow, which is likely to decline gradually. Recently, XYZ has entered into a new contract which will require substantial investment urgently in work in progress for some years before billing clients.

Which of the following financing facilities would be **LEAST LIKELY** to meet the needs of Company XYZ?

A A permanent revolving working capital facility.
B A medium-term debt facility to fund the replacement capital expenditure.
C Injection of new equity into XYZ.
D A Short-term standby credit facilities, to meet the anticipated long-term growth of capital requirement.

<32>.
Which of the following would be the **MOST USEFUL** form of financing for a Hong Kong public listed company with a debt to equity ratio of 1.9:1 and a current ratio of 1:2, and where the dominant shareholder insisted to retain its existing percentage of shareholding and yet minimise the increase of liquidity risk?

A Issue bills payable.
B Issue convertible notes.
C Issue ordinary shares.
D Obtain financing through mortgage loan on its investment properties at a reasonable interest rate.

Information for Questions no. 33 to 35.

The following information was extracted from Acid Limited's financial statements over the last three years. Certain ratios are also provided. An unsecured bank overdraft and current portion of secured long-term debt are included within current liabilities.

	2000 *HKDm*	*2001* *HKDm*	*2002* *HKDm*
Sales	3,678	3,736	3,848
Cost of good sold	1,839	1,868	1,924
Current assets	952	883	865
Current liabilities	595	631	721
Net current assets	357	252	144
Current ratio (times)	1.6	1.4	1.2
Receivables turnover (days debtors)	74	63	49
Inventory turnover (days inventory)	95	88	79
Payables turnover (days creditors)	58	57	59

<33>.
Which of the following is the **BEST** description of the short-term borrowing situation?

A Short-term borrowings have increased moderately.
B Short-term borrowings have fallen moderately.
C Short-term borrowings have remained constant.
D There are no short-term borrowings.

<34>.
Which of the following financing solutions would you recommend to Acid Limited?

A Maintain the existing loan structure.
B Expand the bank overdraft.
C Convert some of the short-term debt to long-term debt.
D Increase the short-term debt facility.

<35>.
Which of the following **BEST** describes the financial situation of Acid Limited?

A Constant sales with declining working capital and current ratio indicates potential liquidity difficulties.
B Declining working capital and declining cash conversion ratio are due to limited increase in sales and reduced receivables and inventory turnover.
C Constant sales, rising current liabilities and decreasing current assets shows a declining ability for current assets to be sufficient for current liabilities.
D Strengthening sales with rapidly improving receivables turnover and inventory turnover shows improved working capital management.

<36>.
The share market and corporate profit performance are weak. Shareholders are concerned about lack of opportunities for growth in share prices, but wish to receive some immediate return from their investments.

Which valuation technique is **MOST LIKELY** to be relevant to shareholders in these circumstances?

A Dividend-based.
B Earnings-based.
C Net asset backing per share.
D Discounted cash flow of anticipated future earnings.

<37>.
Which of the following assumptions on liquidation valuation is **INCORRECT**?

A Time is allowed to market the assets for sale.
B A “fire sale” value is used.
C The valuation is net of selling costs.
D The price is estimated on the basis of a willing but not eager buyer and seller.

<38>.
You have been retained as the advisor to a bidder in a takeover. Your client has listed four potential tasks for you. Which is **INAPPROPRIATE** to your role?

A Advising on the most appropriate sale and purchase structure.
B Developing and managing the due diligence process for friendly acquisitions.
C Coordinating and liaising with the legal, accounting and other professional advisors of the transaction.
D Evaluating offers that have been submitted.

<39>.
Which of the following statements about the usual takeover situation in Hong Kong is **INCORRECT**?

A Most takeovers are friendly.
B Ownership and control are usually in the hands of dominant families.
C Backdoor listing may be considered as unacceptable.
D Major objective for takeovers is to eliminate competition.

<40>.
Which of the following scenarios would **NOT** be regarded as a merger and acquisition?

A Purchase of patents and associated manufacturing interests from owners and venture capital investors.
B Registration of patents and start-up of a new business to exploit those patents.
C On-market takeover of substantial majority stake in listed company.
D Negotiated conditional share swap, resulting in a combination of two or more businesses, each exploiting patents registered by the other business.

~End of the Examination Paper~

Answers

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