Distinguish between primary and secondary markets; listed exchanges and over-the-counter market

Just read, no need to memorize:

1. Primary market is where the financial products such as ordinary shares of the listed companies are first issued.
2. When capital raisers obtain money for their businesses in the primary market. It is called IPO (initial public offering).

1. Secondary market is where the financial products such as ordinary shares of the listed companies which have already been issued and re-traded.
2. Investors can buy and sell the financial products in the secondary market in order to earn money.

● students should know that capital raiser and investors are the participants in the financial markets.
MC- questions:

Q2. Which of the following statements is false in relation to secondary market?
   a. They are where new issues of securities are sold.
   b. They provide liquidity to issued securities.
   c. They provide owners of securities with the chance to liquidate their investments.
   d. They allow individuals to re-arrange their portfolios of assets.

Q3. Secondary trade usually begins on an unorganized market where buyers and sellers seek each other through different ways.
   < a > Is Hong Kong Exchanges and Clearing Limited an unorganized market? Explain briefly.
   <
   b > Can you trade the securities in an unorganized market? How do you call the unorganized market?

Q4. Distinguish between the listed exchanges and over-the-counter market.

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<th>Listed exchanges</th>
<th>Over-the-counter market</th>
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<tbody>
<tr>
<td>1. It is organized. (centralized)</td>
<td>1. It is not organized. (not centralized)</td>
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<td>2. Brokers will represent their clients to bid or ask for the price of the securities in the organized market</td>
<td>2. Brokers will represent their client to find suitable buyer or seller of the securities. The deal is only made between two parties over the counter.</td>
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<td>3. Only the members can trade in the market on behalf of the sellers and buyers.</td>
<td>3. No need for membership. Broker is only the middleman between the seller and buyer. Seller and buyer can negotiate with each other.</td>
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Q5. Which of the following are functions of a stock exchange? (2009 Commerce)

(1) It allows the listed companies to raise capital by issuing shares.
(2) It promotes visible trade.
(3) It improves cooperation and coordination within a listed company.
(4) It provides a platform for the general public to invest in different businesses.

A. (1), (2)  B. (1), (3)  C. (1), (4)  D. All of the above

Q6. (2004 Commerce)

A listed company was selected as a Hang Seng Index constituent last year. Recently, it issued new shares and invited subscription from the public, compiling a prospectus as required.

(a) Describe two reasons why the listed company was selected as a Hang Seng Index constituent. (4 marks)

(b) Explain two functions of the Hang Seng Index. (4 marks)

(c) List three major items to be included in a prospectus. (3 marks)

(d) Besides inviting subscription from the public, in what other ways can the company issue new shares? Briefly describe three of them. (6 marks)

(a) 原因:
- 市值高
- 成交量大
- 上市時間長

(b) 功能:
- 反映股票價格的整體走勢
- 反映個別股票類別(金融、公共事業、地產、工商)的價格走勢
- 反映本地經濟狀況

(c) 主要內容:
- 公司的背景資料，現有業務及未來發展方向
- 集資用途
- 配股方法
- 董事局成員背景及高級管理人員的個人資料
- 過去三年的財務報表
- 核數師報告

(d) 其他發行新股方式:
- 供股
  - 現有股東按持股比例認購新股，行使價
  - 股較現時市價為低
- 紅利
  - 以現金派發，按持股比例分派及現有股東
- 認購權
  - 發行予現有股東的證書，持有人有權在指定日期
  - 以指定價格換購指定數量的股票

END OF REVISION 11 (A)