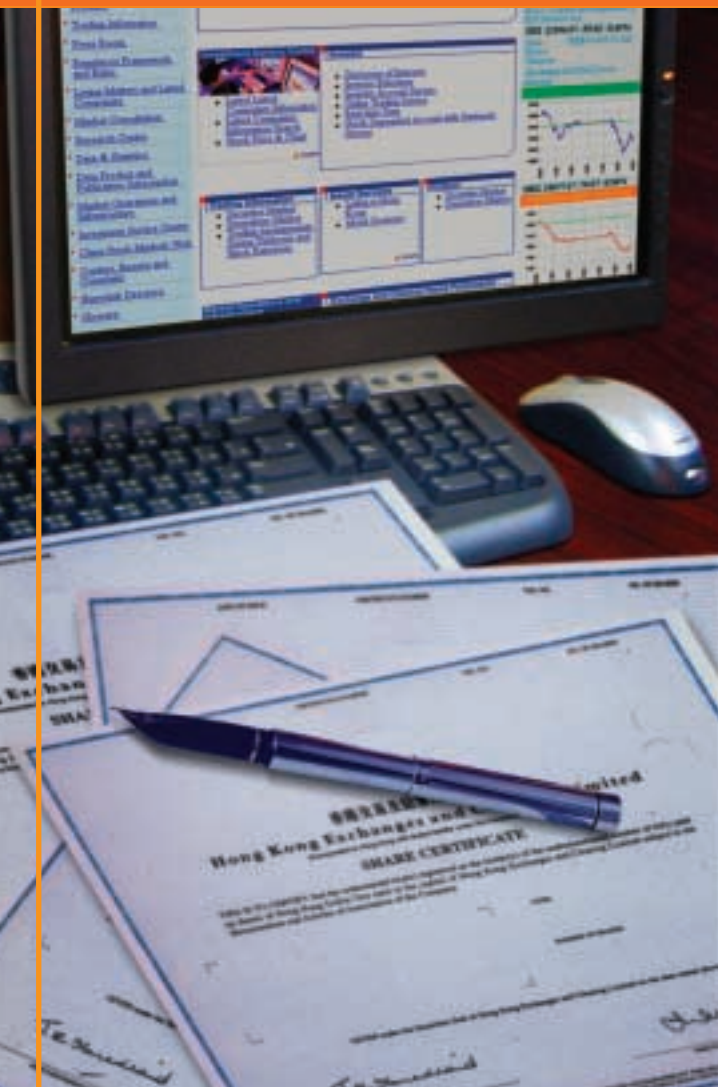




HKE<sub>x</sub>  
香港交易所

# EQUITIES



# Main Board GEM



## EQUITIES

Equity securities, generally referred to as shares or stocks, represent ownership units in the issuing company. In Hong Kong, shares are listed either on the **Main Board** or on the **Growth Enterprise Market (GEM)** of The Stock Exchange of Hong Kong Limited (Stock Exchange), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx). The Main Board is a market for capital formation by established companies with a track record of profits or companies meeting alternative financial requirements, and GEM is a market which provides capital formation opportunities for growth companies from all industries and of all sizes.

Shares listed on the Stock Exchange are quoted and traded on AMS/3, the Third Generation Automatic Order Matching and Execution System. The trading of listed shares on AMS/3 is through brokers and is regulated by the "Rules of the Exchange".

This leaflet mainly focuses on companies listed on the Stock Exchange for trading by the public.

## TYPES OF SHARES

Equity securities comprise ordinary shares and preferred shares issued by companies.

Owners of **ordinary shares** are ordinary shareholders. Being owners of the company, ordinary shareholders have voting rights and receive dividends declared by the board of directors of the company and, if applicable, approved at a general meeting of the company. However, payment of dividends is not mandatory even if a company records a profit. Most of the equity securities listed on the Stock Exchange are ordinary shares and account for most of the turnover of the Stock Exchange.

Owners of **preferred shares** are preferred shareholders who are entitled to preferential distribution of profits prior to any distribution to the ordinary shareholders. Preferred shareholders have no voting rights and receive fixed dividends which do not increase even if the company's profit increases. Preferred shareholders



Blue chips

Red chips  
H shares

also have a claim on corporate assets, which in the event of liquidation, ranks ahead of ordinary shareholders, but behind the company's creditors.

## COMMON CLASSIFICATIONS OF SHARES

Shares may be classified into industry sectors according to the nature of the company's business, such as finance, utilities, properties, consolidated enterprises, industrials and hotels. Shares may also be classified according to other features. Some familiar terms include:

**Blue chips** – normally companies with the highest status and quality for investment. In Hong Kong, the constituents of the Hang Seng Index are generally recognised as blue chips.

**Red chips** – companies listed on the Stock Exchange and controlled by Mainland entities, by way of direct or indirect shareholding and/or representation on the board of directors. Red-chip companies are incorporated outside Mainland China.

**H shares** – issued by companies incorporated in Mainland China and listed on the Stock Exchange.

**A shares** – issued by companies incorporated in Mainland China. They are listed and traded on the Mainland A-share markets (Shanghai and Shenzhen) and quoted in renminbi. They are not listed on the Stock Exchange.

**B shares** – issued by companies incorporated in Mainland China. They are listed and traded on the Mainland B-share markets (Shanghai and Shenzhen) and quoted in foreign currencies. They are not listed on the Stock Exchange. In the past, only foreigners or foreign institutions were allowed to trade B shares. Since February 2001, Mainlanders have also been permitted to trade B shares, but they must trade through legal foreign currency accounts.



## INITIAL PUBLIC OFFERINGS

According to the Listing Rules, equity securities may list by a number of methods, including public subscription, offer for sale, placing and introduction. An initial public offering (IPO) is the first-time sale of equity shares of a company through public subscription. An IPO must be accompanied by a prospectus which provides detailed corporate, financial and other relevant information on the company approved for listing and the timetable for the IPO. Investors can obtain prospectuses and application forms from broker firms or designated banks as set out in the section of a prospectus usually headed *How to Apply for the Public Offer Shares*.

To apply for IPO shares, an investor should prepare a cheque or obtain a cashier's order from a bank for an amount which includes the total purchase price of the shares subscribed for and the subscription fees or transaction costs (including brokerage, trading fee, transaction levy and investor compensation levy) and complete a share application form. There are basically two types of share application forms:

- **White application forms** - physical share certificates will be registered in the name of the subscriber and posted to the subscriber. However, the investor may not be able to sell the allotted shares on the first day of dealing if there is a delay in postal delivery of share certificates from the share registrar; or
- **Yellow application forms** - shares will be credited to the investor's Investor Participant account (Investor Account) in the Central Clearing and Settlement System (CCASS) or to a CCASS Participant account designated by the investor. Normally, the investor will be able to sell the shares on the first dealing day.

The application form with payment attached should be deposited in the special collection boxes provided at the head office and designated branches of the receiving banks as set out in the prospectus.

For some issues, investors may be able to subscribe for IPO shares electronically by way of eIPO through Hong Kong Securities Clearing Company Limited (HKSCC), a wholly-owned subsidiary



# Indices

of HKEx, if the issuer chooses to give investors the option of using eIPO. Investors may take advantage of the eIPO service provided by HKSCC through their Investor Accounts or brokers.

Before submitting a white IPO application form, investors should find out the date on which refund cheques or monies and share certificates will be dispatched to applicants. If the refund cheque and/or share certificates are not received within three working days after the date on which they are dispatched to applicants, investors should notify the share registrar immediately.

Investors are not permitted to make multiple applications for IPO shares. Once the shares have been allocated, the share registrar will distribute the share certificates to successful applicants and make refunds to wholly or partially unsuccessful applicants. Investors can opt for personal collection; in that case, investors must collect the refund cheque and/or share certificates personally within the time period specified for collection. Investors should be aware of the mailing risks if an application method that involves mailing of refund cheques and share certificates is chosen.

## STOCK MARKET INDICES

A stock index measures or tracks the price movements of a particular group of stocks, expressed in relation to the base value of the index.

The **Hang Seng Index (HSI)** comprises 33 of the stocks listed on the Stock Exchange. The aggregate market capitalisation of these stocks accounts for about 70 per cent of the total market capitalisation of the Hong Kong stock market.

There are also indices which gauge sector performance. For example, the **Hang Seng China Enterprises Index (HSCEI)** measures the performance of H shares and the **MSCI China Index** tracks the performance of a basket of China-related stocks including red chips and H shares.

In addition to measuring stock market or sector performance, indices may, among other things, serve as performance benchmarks for active fund managers, assist in asset allocation and provide a basis for various investment vehicles including Exchange Traded Funds.



## FINANCIAL BENEFITS OF HOLDING STOCKS

### Capital Gains

Investors make a profit when they sell the shares for a price higher than they originally paid.

### Dividends

Shareholders may be entitled to a portion of the company's profits in the form of dividends declared by its board of directors. The dividends distributed usually depend on the company's earnings and some earnings may be retained for re-investment. Dividends are sometimes paid in the form of an issue of securities instead of cash.

## BENEFITS OF TRADING STOCKS ON THE STOCK EXCHANGE

### Transparency

Real-time bid and ask prices of individual stocks are available on the Stock Exchange's stock pages along with the corresponding aggregate quantity of outstanding buy/sell shares and broker numbers, and turnover value. The information, which helps to gauge the market depth during trading hours, is also carried by most information vendors on their terminals/websites.

### Convenience

Investors can buy and sell stocks on the Stock Exchange through their brokers at anytime during trading hours.

### Regulation

Companies listed on the Main Board or GEM must satisfy the listing requirements of the Stock Exchange as defined in its Listing Rules. Trading and settlement of stocks are conducted on established systems operated by HKEx according to the respective rules.



## Points to note

### POINTS TO NOTE

#### **Volatility**

Individual stock prices may rise or fall. It is important for investors to monitor the overall market sentiment and condition, and to understand and keep track of the performance of individual stocks. It is also essential for investors to evaluate continuously whether certain stocks are worthwhile investments.

#### **Understanding Risks and Returns**

Before investing, investors must weigh the risk of potentially losing a portion or all of their investment against the opportunity of earning a potential return if the stock increases in value.

It is important that investors understand the risk profile of their investments. For example, shares in some listed companies may have a comparatively small market capitalisation and low turnover and yet their prices may fluctuate sharply. It should be borne in mind that no assurance is given that there will be a liquid market in listed shares. Investors must be careful in selecting shares that reflect their investment goals and risk-taking profile.

### FREQUENTLY ASKED QUESTIONS

#### **1. How can I buy and sell shares?**

You can buy shares through IPO, but in the more popular IPO where there is great demand from investors, you may be allocated no shares or fewer shares than you subscribed for. You can also buy or sell shares through Stock Exchange Participants (EPs) in the secondary market after the shares are listed.

When you buy or sell shares on the Stock Exchange, the trades are executed on, or reported to, AMS/3 and settled on the second trading day following the transaction between buying and selling EPs, known as T+2 settlement (where T is the transaction day). For settlement between EPs and investors, payment and settlement terms are subject to the client-EP arrangements but are normally completed on T+2.

#### **2. Aside from the amount of the investment, what other charges are involved when dealing in stocks?**

When an investor trades shares through an EP, he is liable to pay brokerage commission, transaction levy, investor compensation levy, trading fee and, if applicable, stamp duty. Investors should check with their brokers the current rate of



these charges and whether other fees and charges, including custodian fees and charges for dividend collection, are payable.

### **3. Are investors required to wait until after T+2 before selling the stocks that have been acquired?**

Legally, the investors may sell shares at any time after their purchase. It is usually possible for brokers to sell shares bought for their clients on the same day. However, some brokers may want to have the shareholding level of clients updated or confirmed before agreeing to dispose of the shares. Prior to taking any action, investors should first enquire about their brokers' procedures.

### **4. What factors affect share price movements?**

Like the prices of all commodities, the value of shares is subject to supply and demand. There are numerous factors which may affect supply and demand, leading to share price movements. On a macro level, share values are affected by the economic and political climate. In good times, listed company profits increase and the market outlook for equity investment becomes positive, causing the market to rise. During periods of uncertainty, listed company earnings decrease, investment desire turns cool and the market falls.

Bank interest rates also influence market performance. This is most evident when returns from bank deposits exceed those from equity investment. In that environment, investors would rather deposit money in a bank than invest in the stock market.

The share values of individual listed companies often relate to their financial results and corporate performance.

### **5. How can I obtain share prices and information about listed companies?**

You can obtain real-time share prices on the terminals/websites of most information vendors or you may ask your broker. For historical share prices, you can visit the HKEx website ([www.hkex.com.hk](http://www.hkex.com.hk)). Some information vendors may also carry historical share prices on their terminals/websites.

In addition, you can obtain information on listed companies, including their listing documents and prospectuses, and listed companies' announcements on the HKEx website, financial websites, listed companies' websites (if available) and from newspapers.





# Dividends

## 6. How can I obtain information on share dividends or other corporate actions?

Under the Investment Service Centre on the HKEx website, the following information about listed companies is available:

- (1) Information on dividend payments can be found in the results announcements of listed companies.
- (2) The dividend payout history of listed companies is available under the Company/Securities Profile section.
- (3) Announcements on other corporate actions can be found under the Listed Companies Information Search section.

Most newspapers or financial websites also carry this information.

## 7. What is ex-dividend? How does it affect the share price?

Ex-dividend means without dividend entitlement. Dividends are paid on a set date to shareholders recorded in the books of the company on a specified date, known as the record date. Because of the T+2 settlement, two days before the commencement day of the book-close date(s), shares go ex-dividend, which means that investors who buy on or after the day, known as the ex-dividend date, are not entitled to the dividend declared before the ex-dividend date. The share price will normally drop on the ex-dividend date by an amount equivalent to the amount of the dividend.

## 8. What are P/E and dividend yield?

Price Earning Ratio (P/E Ratio) shows the multiple of earnings at which a share sells. It is determined basically by dividing the current share price by the earnings per share. P/E Ratio is usually computed with the company's earnings from the last 12 months, but can also be computed with the estimated earnings for the coming year. A higher multiple, or P/E Ratio, means investors have greater expectations for future growth, and are willing to pay a higher share price. It can be useful to compare the P/E Ratio of a company to another in the same industry, or to the market in general, or to the company's own historical P/E Ratios.

Dividend yield is the annual dividends per share as a percentage of the current share price. This provides a tool to compare the relative attractiveness of various dividend-paying stocks or other investments such as bonds or bank deposits.



## 9. How does the public know if a company is listed?

A list of the companies listed on either the Main Board or GEM is available on the HKEx website. Normally, information vendors and the financial pages of Hong Kong newspapers also carry the information. If the name of a company whose shares have been held by an investor for years is missing from the list, he should check with his broker or the Companies Registry to see if the company has changed its name or ceased operating. The HKEx Fact Book, published yearly on the HKEx website, includes name change of listed companies during the year.

## 10. What are the differences between the par value, book value and market price of a share?

Par value is the face value of a share shown on the face of the share certificate. Par value of a share usually has little relationship to its current market price.

Book value is the amount of net assets belonging to the shareholders of a company based on its balance sheet value. A company's book value might be higher or lower than the market price which is determined, among other things, by the supply of and demand for the shares.

## GLOSSARY OF TERMS

### **Book-close Date(s)**

The date (or period) when the share registrar temporarily suspends transfer and registration of shares in order to identify the list of shareholders, who are registered and entitled to all benefits and rights.

### **Direct Business**

A transaction where the same broker firm acts for both the buyer and the seller, whether as principal or agent. Also known as cross trade.

### **Placing**

An allotment of shares that is made to a selected group of investors, usually institutional investors, to raise capital. In a top-up placing, the major shareholders place their existing shares with independent persons and then subscribe for additional new shares.

**Rights Issue**

Rights are issued to shareholders that allow them to purchase additional/new shares, usually at a discount to market price, in proportion to their existing shareholdings.

## OTHER INVESTMENT PRODUCTS TRADED ON HKEx

**Listed Equity Linked Instruments (ELI)**

In general, the performance of an ELI with standard features is linked to the market performance of the underlying security. For standard Bull ELI, the most popular kind of ELI, when the closing price of the underlying security is *at* or *above* the strike price on the expiry day, investors will receive a cash payment at the total par value (in general, equivalent to the strike price) of the ELI (total investment plus yield), otherwise investors will receive a predetermined quantity of the underlying security (in general, one share for one unit of ELI) except for cash settled ELI. Standard ELI listed on the Stock Exchange have stock codes between 1800 and 1899. ELI with exotic features or ELI related to underlying assets other than a single stock may also be available on the Stock Exchange. For the latest information on ELI, please visit the HKEx website.

**Exchange Traded Funds (ETF)**

An ETF represents a portfolio of securities designed to track the performance of an index, offering investors an innovative way to get cost-effective exposure to a specific market or sector. The ETF traded on the Stock Exchange (stock codes are set out in brackets) include Tracker Fund (2800), China Tracker (2801) and Hang Seng H-Share ETF (2828). For the latest information on ETF, please visit the HKEx website.

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