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Beginner's Guide to the Capital Markets

资本市场新手指南

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CONTENTS 目录 OVERVIEW

PART I: Capital Market Concepts

A. What is a Capital Market?

A capital market, also known as the long-term funds market, is a crucial component of the financial market. It is a theoretical concept that contrasts with the money market and generally refers to markets where medium to long-term funds (or assets) with maturities of more than one year are borrowed and lent. Due to the long duration and high risk involved in long-term financial activities, as well as the relatively stable long-term income that resembles capital investment, it is called the capital market. The primary instruments traded in capital markets are stocks, bonds, and funds.

B. Participants in the Capital Market

i) **Suppliers:** The suppliers of funds in the capital market are various financial institutions such as commercial banks, savings banks, life insurance companies, investment companies, and trust companies.

ii) **Demanders:** The demanders of funds include international financial institutions, government agencies of various countries, industrial and commercial enterprises, real estate operators, and sales finance companies that purchase installment payment contracts from durable consumer goods retailers.

C. Main Classifications of the Capital Market

1. Stock Market

1.1 Definition

The stock market is a market specifically for the public trading of stocks, including the issuance and transfer of stocks. Stocks represent a portion of ownership in a corporation and are a type of equity security issued to raise capital without incurring debt. Owning stock entitles shareholders to dividends and a share of the company’s profits.

1.2 Trading Venues

1.2.1. Securities Exchange (Floor Trading Market)

A securities exchange is a fixed location for trading stocks, also known as the "floor trading market." It is a market where previously issued securities are bought and sold according to specific rules, at specific times and places.

i) Characteristics of trading on a securities exchange include:

a) The exchange provides a public trading venue but does not participate in the trades.

b) Not everyone can trade on the exchange; only those with membership can participate.

c) Only brokers and dealers who have obtained membership can enter and trade on the exchange.

ii) **Market Maker System**: Membership acquisition has strict requirements and often involves significant fees. Market makers differ from brokers in that market makers maintain market liquidity by frequently buying and selling to profit from price spreads, whereas brokers act as intermediaries executing trades on behalf of clients, earning commissions through providing investment advice and executing trades. Both roles are complementary in the financial market.

iii) **Auction Trading System (Order-Driven System)**: This system features an opening price determined by a call auction, followed by continuous matching of buy and sell orders based on price and time priority. The auction trading system is one of the two fundamental types of modern securities markets, the other being the quote-driven market maker system. Within the auction system, there are two main types: continuous auction trading and call auction trading.

1.2.2. OTC (Over-the-Counter) Market

The OTC market refers to a trading market outside of securities exchanges, without a fixed trading venue. It is also known as "over-the-counter" or "off-exchange" trading.

Characteristics of the OTC Market:

i) There is no centralized trading location; transactions are conducted over a network.

ii) The primary securities traded are those not listed on exchanges.

iii) Securities trading can be conducted through dealers or brokers, or directly by clients.

iv) Security prices are generally negotiated between parties, differing from the auction system used by exchanges.

2、Long-term Bond Market

2.1 Definition

The market where long-term bonds are traded is known as the long-term bond market, a crucial segment of the capital market encompassing both primary and secondary markets. Bond trading typically occurs in the OTC market, conducted via telephone, the internet, and other communication tools. Bond transactions are concentrated in the securities exchange market and the interbank market. The exchange market mainly issues and trades corporate bonds and some government bonds, while the interbank market primarily trades government bonds.

2.2 Long-term Bonds

Bonds are certificates of debt that include details such as the face value, term, issuer, interest rate, and interest payment method. Long-term bonds are those with maturities of more than one year, including corporate bonds and long-term government bonds.

2.2.1. Long-term Government Bonds

Long-term government bonds are issued by the government and generally have fixed or floating interest rates. They pay interest periodically and repay the principal at maturity, either in installments or in a lump sum. There are no strictly defined local government bonds, but there are bonds issued directly by the Ministry of Finance (government bonds) and policy financial bonds issued by policy financial institutions.

2.2.2. Corporate Bonds

Corporate bonds are issued by companies, including both financial and non-financial institutions, and serve as crucial tools for securing short-term and long-term funding. These bonds usually have terms exceeding ten years. Due to their higher risk compared to government bonds, corporate bonds typically require ratings from authoritative and neutral credit rating agencies. Major international credit rating agencies include Standard & Poor's (S&P), Moody's Investors Service, and Fitch Ratings.

Corporate bonds come in various types, including:

i) **Mortgage Bonds**: Bonds secured by physical assets. These bonds grant the holder a lien on the collateral, which can be sold if the issuer fails to meet repayment obligations.

ii) **Collateral Trust Bonds**: Bonds secured by financial securities. Both mortgage and collateral trust bonds provide bondholders with certain repayment assurances, reducing credit risk.

iii) **Trust Bonds**: Unsecured bonds that do not have specific assets as collateral. Holders of these bonds have claims on the issuer's unpledged assets and income, potentially covering more than the bond's face value.

iv) **Subordinated Debentures**: Bonds with claims on the issuer's assets and income ranked below those of other bonds, such as mortgage and collateral trust bonds.

v) **Guaranteed Bonds, Collateral Bonds**: Bonds with additional security or guarantees, enhancing repayment assurance.

The various types of corporate bonds affect the cost of debt for businesses. Generally, the safer and more secure the bonds for investors, the lower the debt cost. Conversely, riskier bonds like subordinated debentures carry higher debt costs, reflecting the principle of risk and return balance in financial markets.

D. Characteristics of the Capital Market

1. High Risk and Relatively High Returns

The capital market is known for its high-risk, high-return nature. The extended financing durations increase the probability of significant events and market volatility, requiring investors to manage substantial risks. Consequently, the potential returns are elevated to compensate for these risks.

2. Relatively Poor Liquidity

Capital raised in the capital market is generally allocated to medium- to long-term financing needs, leading to relative illiquidity. This means that investors may find it challenging to quickly liquidate stocks or bonds for cash. The illiquid nature of these investments necessitates thorough risk assessment. Moreover, the competitive dynamics among companies in the capital market demand that investors exercise greater diligence in selecting investment opportunities.

3. Extended Maturity Periods

Securities such as bonds, stocks, and funds in the capital market typically have maturity periods extending beyond one year, often spanning several decades or even indefinitely. This feature implies significant risk for investors, who must make careful financing decisions. The extended maturities underscore the market's uncertainty regarding future conditions, compelling investors to continuously monitor market developments and adjust their investment strategies accordingly.

4. Significant Price Volatility

Price volatility is a fundamental characteristic of the capital market, which deals in financial instruments. This volatility is crucial for accommodating the needs of market participants, thereby facilitating efficient resource allocation. In the stock market, companies experiencing significant price volatility often achieve higher profitability and market share. As such, investors must remain vigilant about price movements to make informed investment decisions.

5. Substantial Capital Flows

The capital market involves substantial capital flows to support large-scale, long-term projects. Compared to the money market, the capital market features securities with larger issuance volumes and higher transaction sizes, resulting in significant financial transactions. Investors require advanced information-gathering and analytical capabilities to navigate market trends and dynamics effectively. Additionally, capital market financing is primarily aimed at supporting corporate growth and operations, inherently requiring significant capital investment.

PART II: Securities Exchanges (Hong Kong, United States)

A. What is a Securities Exchange?

A securities exchange is a legal entity that provides venues and facilities for centralized securities trading, organizes and supervises securities transactions, and implements self-regulation. Globally, securities exchanges exist in both corporate profit-making entities and membership-based non-profit entities.

B. Primary Functions of Securities Exchanges

1. Providing Securities Trading Venue

Securities exchanges provide a centralized trading venue for buyers and sellers to transfer and liquidate securities holdings, ensuring the continuous circulation of securities.

2. Formation and Announcement of Prices

Securities transactions conducted within exchanges establish prices for various securities. As trading occurs in a centralized and transparent manner through bilateral competitive bidding, prices theoretically reflect fairness and reasonableness. These prices are promptly announced to the public and serve as important benchmarks for various economic activities.

3. Concentration of Various Social Funds for Investment

With the increasing number of listed stocks and trading volumes on exchanges, a wide range of funds can be attracted into stock investments, thereby providing the necessary capital for business development.

4. Guiding Rational Investment Flows

Exchanges facilitate the free flow of capital and guide it towards the most needed and advantageous directions by disclosing daily market conditions and information about listed companies, reflecting the profitability and development of issuing companies.

5. Establishment of Trading Rules

Fair trading rules are the foundation for achieving fair trading outcomes. These rules include listing and delisting rules, quotation and bidding rules, information disclosure rules, as well as settlement rules. The primary differences among exchanges lie in the variations of trading rules, and a single exchange may adopt multiple trading rules, thereby forming segmented markets, such as NASDAQ subdivided into Global Select Market, Global Market, and Capital Market based on different listing conditions.

6. Maintenance of Trading Order

A core function of exchanges is to regulate behaviors that violate fairness principles and trading rules, ensuring that trading occurs fairly and orderly.

7. Provision of Trading Information

Securities trading relies on information, including information about listed companies and securities trading. Exchanges have the responsibility to prompt and appropriately review the information provided by listed companies and to promptly publish trading market conditions.

8. Reducing Trading Costs and Promoting Stock Liquidity

Without formal economic organizations or organized securities trading markets, investors would need to directly interact to determine transaction prices and quantities. This form of trading would increase transaction costs and decrease transaction speed due to factors such as finding trading counterparts, information asymmetry, and transaction defaults. The existence of centralized trading markets can increase trading opportunities, improve transaction speed, reduce information asymmetry, enhance trading credibility, and effectively lower transaction costs.

C. Hong Kong Stock Exchange

The Hong Kong Stock Exchange, also known as "Hong Kong Exchanges and Clearing Limited", or simply "HKEX," serves as the venue for centralized securities trading and related settlement in Hong Kong. It is also one of the major exchange groups globally.

1．HKEX Trading Rules

1.1 Trading Hours

The trading hours of the Hong Kong Stock Exchange consist of two sessions: the morning session and the afternoon session. Stock trading occurs from Monday to Friday, from 9:30 AM to 12:00 PM and from 1:00 PM to 4:00 PM, respectively. Specifically:

- 9:00 AM - 9:30 AM: Pre-opening session
- 9:30 AM: Opening session
- 12:00 PM - 1:00 PM: Lunch break
- 1:00 PM: Afternoon session begins
- 4:00 PM: Closing session

  During trading hours, investors can conduct stock trading through brokerage firms' trading platforms or by phone orders. It's important to note that stock trading hours may change due to holidays, special events, etc. Investors should pay attention to relevant announcements and notices.

1.2 Tick Size

Each security traded on the exchange is subject to a specified "tick size" (the minimum price movement unit) for trading. It represents the smallest increment by which prices can move and is related to the price range of the security. The exchange's tick size table specifies tick sizes ranging from 0.001 HKD for price ranges between 0.01 and 0.25 HKD to 2.50 HKD for price ranges between 1000 and 9995 HKD. When a stock's price moves into another price range, its tick size also changes accordingly.

1.3 Minimum Trading Unit (i.e. Round Lot)

In Hong Kong, the trading unit for each listed security is determined by the respective listed companies and issuers. Some stocks have a round lot of 500 shares, while others have a round lot of 2000 shares.

1.4 Opening Quotation

The "opening quotation" is regulated according to procedures outlined in the Exchange Rules to ensure continuity in prices between two consecutive trading days and to prevent significant market fluctuations at the opening. The first bid or ask entered into the trading system each trading day is subject to opening quotation rules. The price of the first bid/ask cannot exceed four price levels above or below the previous day's closing price.

1.5 Trading, Clearing, and Settlement

The stock trading on the Hong Kong Stock Exchange operates on a T+0 system, meaning stocks bought can be sold on the same day. The settlement and clearing of eligible securities traded on the Main Board and Growth Enterprise Market (GEM) of the Hong Kong Stock Exchange are managed by the Hong Kong Securities Clearing Company Limited. The Hong Kong market operates on a T+2 settlement system, meaning settlement occurs two trading days after the transaction day. Exchange participants (i.e., securities firms) must complete settlement with the Central Clearing and Settlement System by 3:45 PM on the second trading day (T+2) after each trading day (T).

Additionally, the Hong Kong Stock Exchange has some trading rules that differ from mainland exchanges. For instance, HKEX does not have price limit rules, unlike mainland markets; short selling is allowed in the Hong Kong market but prohibited in mainland markets.

D. US Securities Exchanges

The United States is home to several national securities exchanges, with the largest in terms of size and influence being the New York Stock Exchange (NYSE), Nasdaq, and the American Stock Exchange (AMEX).

1. Characteristics of US Securities Exchanges

1.1 New York Stock Exchange (NYSE)

The New York Stock Exchange is the largest stock exchange in the United States, with nearly 2,800 listed companies trading here, totaling approximately US$15 trillion in market capitalization.

1.1.1 Trading Methods

Investors can trade on the NYSE in two ways:

i) Placing orders through network-connected stock traders.

ii) Executing trades through their own brokers on the stock trading floor.

1.1.2 Trading Characteristics

- Small trades usually occur automatically over the network.
- Large trades may require communication and judgment and are executed by traders.

1.1.3 Listing Requirements and History

The NYSE has a long history, a mature market, and relatively strict listing requirements. Many companies still aspire to list here every year. Well-known enterprises such as Alibaba, Coca-Cola, and McDonald's are listed on the NYSE.

1.2 Nasdaq Stock Market (NASDAQ)

Nasdaq is an electronic securities trading institution in the United States owned and operated by Nasdaq Stock Market, Inc. (NASDAQ: NDAQ). Founded in 1971, despite being less than 50 years old, it has surpassed similar exchanges in scale.

Key Features:

- Trading Volume and Value: Nasdaq's trading volume and value exceed those of the NYSE. It is the most active market for U.S. IPOs and non-U.S. company listings.
- Electronic Trading: Nasdaq is the world's largest electronic trading market, allowing issuers to trade directly via phone or internet, without restrictions of a trading floor. Most trading involves new technologies, especially computer-related.
- Market Maker System: It operates on a market maker system, with each security listed on Nasdaq having at least two market makers. Generally, each security has an average of 10 market makers, with some actively traded stocks having 40 or more market makers.
- Nasdaq-listed companies are predominantly in the high-tech sector, including Microsoft, Intel, Cisco, etc.

1.3 American Stock Exchange (AMEX)

The American Stock Exchange (AMEX) is the third-largest securities trading market in the United States, located in New York. Its trading mechanism is similar to that of the NYSE, focusing mainly on mid-cap stocks. In recent years, it has made significant achievements in financial derivatives and ETF trading, becoming increasingly important. On October 1, 2008, AMEX was merged into the New York Stock Exchange.

2. US Securities Exchange Trading Rules

2.1 Laws and Regulations

The US stock market is regulated by the Securities and Exchange Commission (SEC), an independent agency established by the US federal government. The SEC's primary responsibilities are to protect investors and maintain fair and transparent markets. SEC regulations are crucial in US stock trading, especially regarding company disclosures and insider trading rules, which play a key role in protecting investor interests and ensuring market fairness.

2.2 Trading Hours

US stock trading hours are based on Eastern Time (ET) and typically run from 9:30 AM to 4:00 PM, Monday through Friday. The market is closed on national holidays such as Christmas and Thanksgiving.

The US stock market operates on a T+0 basis, meaning stocks bought can be sold on the same day. There are no restrictions on the number of trades an investor can make in a single trading day. The market allows for bidirectional trading (buying and selling) without price limits and without a minimum quantity requirement; even a single share can be traded. Settlement follows a T+3 principle, and short selling is permitted.

2.3 Trading Methods

There are two primary trading methods in the US stock market: on-exchange trading and over-the-counter (OTC) trading.

On-exchange Trading: This involves transactions conducted on formal securities exchanges such as the NYSE and Nasdaq. Investors can execute on-exchange trades through brokers or online trading platforms.
Over-the-counter (OTC) Trading: These transactions occur outside formal exchanges, typically via electronic trading networks. OTC trading is generally faster but incurs higher transaction fees.

2.4 Buying and Selling Methods

The US stock market offers two main methods for buying and selling stocks: cash trading and margin trading.

- **Cash Trading**: Investors use their own funds to conduct buy and sell operations. Funds must be deposited into the broker's account before trading.
- **Margin Trading**: Investors can trade larger amounts by paying a margin. Brokers provide leverage, allowing investors to trade larger amounts than their actual capital. However,

margin trading carries higher risk; if losses exceed the margin, additional funds are required to avoid a margin call.

2.5 Trading Fees

Trading fees in the US stock market are relatively low and include commissions and transaction taxes.

- **Commissions**: Fees paid to brokers for executing trades, typically a percentage of the transaction amount.
- **Transaction Taxes**: Taxes levied on stock transactions, usually a percentage of the transaction amount.

2.6 Trading Orders

The US stock market supports various types of trading orders, including limit orders, market orders, and stop orders.

- **Limit Order**: Investors set a specific price at which they wish to buy or sell a stock. The trade executes only if the stock reaches the preset price.
- **Market Order**: Investors buy or sell stocks at the current market price without setting a specific price.
- **Stop Order**: Investors set a stop price, and the order executes automatically when the stock reaches this price, either selling or buying the stock to limit losses or protect gains.

In summary, the US stock market is one of the most stringent and well-regulated in the world. Understanding its trading rules is crucial for anyone looking to invest in US stocks.

PART III: Regulatory Bodies in Capital Markets (Hong Kong, United States)

A. What is a Regulatory Body?

Securities regulatory bodies are national administrative agencies established by a state or government to oversee and regulate the securities market. Examples include the United States Securities and Exchange Commission (SEC) and the Securities and Futures Commission (SFC) in Hong Kong.

B. Significance of Regulatory Bodies

i) Strengthening securities market regulation is essential for protecting the legal rights and interests of investors.
ii) Effective regulation is necessary to maintain good market order.
iii) Strong regulation helps develop and perfect the securities market system.
iv) Regulatory bodies ensure the availability of accurate and comprehensive information, which is crucial for market participants to make informed issuance and trading decisions.

C. Responsibilities of Regulatory Bodies

1. Rule-Making Authority

Regulatory bodies have the authority to formulate and publish rules and regulations governing the securities market. These rules must be publicly accessible and legally enacted.

2. Establishment of Branches:

Regulatory bodies can establish branch offices to perform securities management duties within their jurisdiction. Recently, the Securities Regulatory Commission has transitioned from traditional branch establishment to setting up branches based on economic regions.

3. Approval and Authorization Authority:

In some countries, securities laws require regulatory approval for stock issuance and a permit system for bond issuance. Regulatory bodies have the power to approve or authorize these issuances.

4. Supervision of Securities Activities:

Regulatory bodies oversee the issuance, trading, registration, custody, and settlement of securities according to the law.

5. Supervision of Market Participants:

Regulatory bodies oversee the activities of securities issuers, listed companies, stock exchanges, securities firms, registration and settlement institutions, fund management companies, investment advisory firms, credit rating agencies, and legal, accounting, and asset appraisal firms engaged in securities business.

6. Supervision of Securities Practitioners:

Regulatory bodies establish qualification standards and conduct codes for securities practitioners and enforce these standards through supervision.

7. Information Disclosure Supervision:

Regulatory bodies monitor and inspect the disclosure of information related to securities issuance and trading.

8. Supervision of Self-Regulatory Organizations:

To ensure compliance with laws and regulations, regulatory bodies guide and supervise the activities of securities industry associations.

9. Investigation and Punishment of Violations:

Regulatory bodies investigate securities violations and have the authority to impose penalties, which must be publicly disclosed.

10. Other Legal and Administrative Powers:

Regulatory bodies possess additional powers as stipulated by laws and administrative regulations.

D. Securities and Futures Commission (SFC) of Hong Kong

The Securities and Futures Commission (SFC), established in 1989, is responsible for regulating Hong Kong's securities and futures markets to ensure fairness, efficiency, and transparency.

1. Fundamental Functions of the SFC:

1.1. Establish a cohesive regulatory framework for securities and futures, ensuring vertical integration and management of regulatory bodies.

1.2. Strengthen oversight of securities and futures operations, including exchanges, listed companies, securities and futures firms, investment fund management companies, investment advisory firms, and other intermediaries, to improve the quality of information disclosure.

1.3. Enhance the prevention and mitigation of financial risks in the securities and futures markets.

1.4. Organize the drafting of laws and regulations related to the securities market, develop policies, rules, and guidelines, and create development plans and annual agendas. Guide, coordinate, supervise, and inspect securities market-related activities across various regions and departments.

1.5. Ensure a consistent regulatory approach across the securities industry.

2. Responsibilities of the SFC:

2.1. Research and draft policies and development plans for the securities and futures markets. Draft relevant laws, regulations, and rules.

2.2. Exercise vertical leadership over national securities regulatory bodies, ensuring centralized and unified supervision of the securities and futures markets. Manage leadership and supervision of securities companies.

2.3. Supervise the issuance, listing, trading, custody, and settlement of stocks, convertible securities, company securities, and other designated securities. Oversee securities investment fund activities, approve enterprise bond listings, and regulate trading of listed government and corporate securities.

2.4. Supervise the listing, trading, and clearing of domestic futures contracts. Oversee domestic institutions engaging in overseas futures business as per regulations.

2.5. Regulate the market activities of listed companies and their shareholders who are legally required to fulfill certain obligations.

2.6. Manage securities and futures exchanges and their senior management. Oversee the Securities Association and Futures Association.

2.7. Regulate securities and futures firms, investment fund management companies, securities registration companies, clearing institutions, investment advisory firms, and credit rating agencies.

2.8. Supervise domestic enterprises issuing stocks or listing abroad, oversee domestic institutions establishing securities businesses overseas, and regulate foreign institutions setting up securities businesses in Hong Kong.

2.9. Regulate the dissemination of securities and futures information and manage market statistics and information resources.

2.10. Collaborate with relevant departments to approve and regulate the qualifications and business activities of accounting firms, asset appraisal institutions, and their members engaged in securities and futures business. Oversee the securities and futures-related activities of law firms and lawyers.

2.11. Investigate and penalize violations of securities and futures laws and regulations.

2.12. Manage foreign exchanges and international cooperation related to the securities and futures industry.

E. U.S. Securities and Exchange Commission (SEC)

The U.S. Securities and Exchange Commission (SEC) was established in 1934 under the Securities Exchange Act. As an independent agency of the U.S. federal government, headquartered in Washington, D.C., the SEC possesses quasi-legislative, quasi-judicial, and independent enforcement powers. It is the highest regulatory authority in the U.S. securities market, with a mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

1. Functions of the SEC

The primary responsibilities of the SEC include supervising and enforcing a range of regulations designed to protect the rights of securities issuers, investors, and traders. The SEC aims to prevent excessive risk-taking, speculation, and fraudulent activities within the securities market. Additionally, the SEC works to maintain stable prices and collaborates with other financial regulatory agencies to create a clear, flexible, and effective financial system.

2. Regulatory Approach of the SEC

The SEC employs various regulatory approaches to fulfill its responsibilities. During normal operations, the SEC does not frequently investigate companies. However, when issues arise, such as suspected fraud, the SEC will conduct investigations to protect investor interests. Additionally, the SEC reviews companies' financial statements and other significant documents to ensure their truthfulness, accuracy, and compliance with relevant regulations.

For multinational companies, the SEC requires them to provide necessary financial information for regulatory review. While some countries' laws may restrict the provision of information, the SEC collaborates with international regulatory bodies to obtain the required data, ensuring effective oversight of global financial markets.

PART IV: Stock Trading

A. What is the Stock Market?

The stock market is a venue for the issuance and trading of stocks, essentially where previously issued stocks are bought and sold. It is divided into primary and secondary markets. The primary market, also known as the stock issuance market, is where new stocks are sold to investors, while the secondary market, or stock trading market, is where these stocks are traded among investors.

The stock market is a crucial avenue for listed companies to raise funds. As the market economy progresses, companies grow in scale and require substantial long-term capital. Relying solely on internal capital accumulation often falls short of these demands, necessitating external funding. Companies generally have three methods for raising long-term capital: borrowing from banks, issuing corporate bonds, and issuing stocks. The first two methods involve higher interest rates and time constraints, which increase operating costs and destabilize capital. Conversely, issuing stocks allows companies to raise funds without repaying principal and interest, only needing to allocate a portion of profits to dividends. Compared to the other methods, issuing stocks is more aligned with economic principles and benefits the company the most. Consequently, issuing stocks to raise capital has become a vital form for the growth of large enterprises, making stock trading significantly important in the securities market.

The stock market's fluctuations are closely linked to the overall market economy, consistently acting as an economic barometer.

B. Stock Trading

i) Stock Code

Each stock has a unique stock code to identify it on the exchange. This code consists of a combination of letters and numbers, such as AAPL for Apple Inc. on NASDAQ.

ii) Buying and Selling Stocks

Stock transactions can be executed through a brokerage. Investors need to open a brokerage account and deposit funds into it. They can then place buy or sell orders via the trading platform or by calling the broker.

iii) Market Orders and Limit Orders

- Market Order: When an investor places a market order, the stock is bought or sold immediately at the current market price, which may be slightly higher or lower than the expected price.
- Limit Order: Investors can set a maximum purchase price or a minimum sale price with a limit

order. The transaction will only occur if the market reaches the specified price or better.

iv) Buying and Selling

- Buying (Long Position): Investors purchase stocks, becoming shareholders of the company.
- Selling (Short Position): Investors sell their owned stocks. Short selling involves selling stocks not currently owned, with the expectation of buying them back at a lower price in the future to earn a profit.

v) Trading Fees

Each stock transaction incurs trading fees, including brokerage commissions and potentially other charges. These fees vary by broker and trade size.

vi) Trading Hours

Stock trading typically occurs during specific hours on business days, known as trading days. Trading hours differ by exchange but usually occur in the morning and afternoon.

- **Hong Kong**: The Hong Kong Stock Exchange has two trading sessions: morning (9:30 AM to 12:00 PM) and afternoon (1:00 PM to 4:00 PM) from Monday to Friday. The morning session includes a pre-opening auction from 9:00 AM to 9:30 AM.
- **United States**: U.S. stock market hours are based on Eastern Time, running from 9:30 AM to 4:00 PM, Monday through Friday. The market is closed on U.S. national holidays, Christmas, Thanksgiving, and other special days.

vii) Opening a Brokerage Account

To participate in stock trading (including ETFs, financial investments in securities systems, funds, IPOs, treasury repos, and convertible bonds), investors need a brokerage account. Opening an account is convenient and can be done online with a major, reputable broker. It's essential to ensure comprehensive services, a wide range of financial products, fund security, easy-to-use software, and a user-friendly interface.

viii) Trading Rules

The trading rules prioritize price and time:

- Price Priority: Higher-priced buy orders and lower-priced sell orders are executed first.
- Time Priority: For orders at the same price, the earliest order is executed first.

ix) Risks

Stock investment carries risks, including price volatility and potential losses. It is crucial for investors to understand these risks and adopt appropriate risk management strategies.

PART V: Risk Management and Investment Strategies

A. Investment Portfolio Concept

1. Diversification

Diversification encourages investors to spread their investments across various asset classes, industries, regions, and time periods to reduce overall risk. By diversifying, the impact of fluctuations in a single asset or industry on the portfolio is minimized.

2. Asset Allocation

Asset allocation involves distributing the funds in a portfolio among different types of assets such as stocks, bonds, and cash according to a certain ratio. Proper asset allocation helps investors balance risk and return, allowing them to choose the most suitable allocation based on their goals and risk tolerance.

3. Risk and Return Trade-off

The investment portfolio concept acknowledges the positive correlation between risk and return. Typically, higher returns come with higher risks. Investors need to weigh risk and return to find the investment strategy that best suits them.

4. Long-term Investment

The portfolio concept encourages long-term investment, avoiding frequent trading and the influence of short-term market fluctuations on investment decisions. Long-term investment helps capitalize on the market's long-term growth trends and reduces transaction costs and tax burdens.

5. Periodic Rebalancing

The portfolio concept emphasizes periodically rebalancing the investment portfolio to maintain the initial asset allocation ratio, thereby preserving the target risk level and return expectations.

6. Personalized Investment

Each investor has different risk tolerance, investment goals, and time horizons. The portfolio concept encourages designing personalized investment portfolios tailored to individual circumstances.

7. Monitoring and Evaluation

The portfolio concept stresses the importance of monitoring and evaluating the investment portfolio. Investors should regularly check the portfolio's performance to ensure it meets their goals and determine if adjustments are needed.

B. Risk Management

1. Risk Identification and Assessment

The first step in risk management is identifying and assessing potential risks. This involves determining the types of risks, their impact, and their likelihood. Common risks include market risk, credit risk, operational risk, legal risk, and strategic risk.

2. Risk Control and Mitigation

Once risks are identified and assessed, the next step is to develop control measures to reduce their occurrence and impact. This may include risk avoidance, risk transfer, and risk reduction strategies.

3. Risk Transfer

Risk transfer involves shifting some or all of the risk responsibility to a third party, such as by purchasing insurance or entering into contracts. This reduces the risk borne by the original party.

4. Contingency Planning

Risk management also includes creating contingency plans to handle unexpected events or risks. These plans help take swift action to minimize losses when risks materialize.

5. Monitoring and Evaluation

Risk management is an ongoing process that requires continuous monitoring and evaluation of the implemented measures. As market conditions and environments change, the risk landscape also evolves, necessitating timely adjustments and improvements to risk management strategies.

6. Diversification

In both investment and operations, diversification is an effective strategy to reduce risk. By spreading investments or operational risks across various entities, the impact of specific risks on the overall portfolio or business is minimized.

7. Transparency and Accountability in Decision-making

Effective risk management requires ensuring transparency and accountability in decision-making. Decision-makers need to be accountable for their choices and risk management actions, maintaining appropriate documentation and reporting throughout the decision-making process.

PART VI: Listing Processes (IPO, SPAC)

A. Common Listing Methods

1. Initial Public Offering (IPO)

An IPO is one of the most common methods for a company to go public. In an IPO, a private company offers its shares to the public for the first time, allowing its stock to be traded on a stock exchange. This process typically involves preparing a prospectus, undergoing scrutiny and approval, issuing shares, and commencing trading.

2. Direct Listing

In a direct listing, a company bypasses the traditional IPO process and directly lists its shares on a stock exchange without raising new capital or issuing new shares. Existing shareholders can sell their shares directly to investors. This method is generally suited for companies with significant market recognition and liquidity.

3. Reverse Merger or Reverse Takeover

A reverse merger is a non-traditional listing method where a private company merges with a publicly traded shell company, thereby achieving public listing status. The shell company typically has the requisite listing qualifications, allowing the private company to quickly attain a public market presence.

4. Special Purpose Acquisition Company (SPAC)

A SPAC is a shell company created specifically to raise capital through an IPO for the purpose of acquiring a private company. After raising funds, the SPAC searches for a suitable target company, merges with it, and takes it public. This method has gained popularity as a quicker and potentially less complex alternative to a traditional IPO.

5. Secondary Listing

Some companies already listed in their home market seek to list on additional stock exchanges in other countries, known as secondary listings. For instance, a company listed on the Hong Kong Stock Exchange might also seek a listing on the New York Stock Exchange to broaden its investor base and increase liquidity.

6. Spin-off IPO

In a spin-off IPO, a company creates a new independent company by separating a portion of its existing business and listing it on a stock exchange. This allows the parent company to focus on its core operations while the new entity can pursue its strategic objectives.

Each listing method offers unique opportunities and challenges, requiring companies to carefully consider their specific circumstances, strategic goals, and market conditions. Choosing the appropriate listing strategy is crucial for maximizing the benefits of becoming a publicly traded company while managing associated risks.

B. IPO Listing Process

1. Preparation Phase

1.1. **Assessment:** The company should first assess whether it meets the conditions and necessity for going public. This includes evaluating the company's size, business performance, financial status, management team, and market prospects.

1.2. **Selecting Advisors:** The company needs to select an appropriate advisory team, including lawyers, accountants, investment banks, and financial advisors, to assist with the IPO preparation and necessary audit work.

2. Due Diligence and Review

2.1. **Financial Audit**: The company must undergo a financial audit to ensure the accuracy and compliance of its financial statements.

2.2. **Legal Due Diligence**: The legal team will conduct due diligence on the company's legal documents and compliance to ensure lawful operations and adherence to regulations.

2.3. **Information Disclosure**: The company needs to provide detailed information and materials for review and approval by the stock exchange and regulatory authorities.

3. Application to Foreign Securities and Exchange Commissions or Stock Exchanges

When a company aims to list abroad, whether in the U.S. or Hong Kong, it first needs approval from domestic regulatory bodies. Taking the U.S. as an example, after obtaining the necessary permits and legal opinions from lawyers, the company can submit the listing application materials to the U.S. stock exchange and register with the U.S. Securities and Exchange Commission (SEC). The U.S. stock exchange conducts the listing review, which requires effective registration.

In practice, issuers often submit applications to the SEC and the stock exchange simultaneously. During the review process, the SEC and the exchange operate independently without exchanging opinions or coordinating on review issues. A security meeting the listing requirements by the exchange is not necessarily approved for registration by the SEC; similarly, the exchange can veto a security approved by the SEC for listing. To minimize the impact of listing uncertainties and keep competitors and media from learning about the company's details, companies often choose to submit applications confidentially. Once the certainty increases, they opt for a public submission, typically completing the listing within about two months after public submission.

4. Roadshow and Pricing

The roadshow is a critical promotional tool where the company or its sponsor engages with investors to facilitate the successful issuance of stocks. During the roadshow, the company's growth prospects are presented to investors, deepening their understanding of the prospective listing. It helps gauge investor interest, identify demand, and establish value positioning, ensuring successful security issuance. In the U.S., the IPO pricing mechanism is highly market-driven, determined by market supply and demand without regulatory restrictions on the offering price. The pricing process mainly includes three stages: fundamental analysis, market survey, and roadshow pricing.

5. Securities Underwriting

Securities issuance requires underwriters to sell the company's stocks. There are mainly two underwriting methods: firm commitment and best efforts.

- **Firm Commitment:**

In a firm commitment underwriting, the underwriter agrees to buy a specified number of securities and then sell them to the public. If the securities are not fully sold, the underwriter holds the remaining shares. This method means that once the company hands over the shares to the underwriter, the issuance is considered successful, with the remaining risk transferred to the underwriter. This method is commonly used in recent U.S. IPO projects.

- **Best Efforts:**

In a best efforts underwriting, the underwriter acts as an agent, attempting to sell the securities but does not guarantee the sale of the entire issue. If the securities are not fully sold by the end of the offering period, the unsold portion is returned to the issuer. If investor subscriptions within the price range are insufficient, the IPO fails. This method has been less common for Chinese companies' IPOs in recent years.

6. IPO Listing

Once the issuer receives approval from the SEC and the stock exchange, it can proceed with the listing. Most issuers choose to list on the next trading day after the registration statement becomes effective. After listing, the issuer must submit the final prospectus, including the final offering price, to the SEC.

7. Public Communication and Continuous Disclosure

7.1 Public Communication: After listing, the company needs to actively communicate with investors, media, and the public. This involves explaining the company's business operations and future development plans to investors.

7.2 Continuous Disclosure: Listed companies must comply with the disclosure requirements of the stock exchange and regulatory authorities. This includes timely disclosure of financial conditions, significant events, and risks.

C. SPAC Listing Process

The process of listing through a SPAC (Special Purpose Acquisition Company) can be divided into four stages:

1. SPAC Formation

A SPAC is formed by sponsors and a management team composed of experienced professionals in investment, banking, or industry leaders. Once the SPAC is established, sponsors can inject a small amount of capital to obtain "founder shares" and "founder warrants."

2. SPAC IPO

After its formation, the SPAC can submit a listing application to the relevant regulatory authorities and stock exchange. Upon approval, the SPAC raises funds by issuing investment units (each investment unit typically includes one common share and a fraction of a warrant). The raised funds are placed in a third-party escrow account until the acquisition is completed.

3. Searching for a Merger Target

Post-listing, the SPAC sponsors begin searching for a suitable target company for the merger. Once an agreement is reached with the target company's management regarding the merger terms, the SPAC must issue a shareholder voting proxy statement and wait for approval at the SPAC shareholders' meeting. Typically, SPAC sponsors have two years to find a merger target; otherwise, the SPAC will be liquidated.

4. Merger/Liquidation

If the shareholders' meeting approves the merger, the SPAC merges with the target company, forming a new entity that replaces the SPAC's listing status. If the merger is rejected, the SPAC sponsors must either find another target or face liquidation, returning the funds in the escrow account to investors.

D. Differences Between SPAC and IPO

The essential feature of a SPAC listing is that it involves having a publicly listed company first, followed by acquiring a business later. The ultimate goal of a SPAC is to merge with a business within a specific period (typically two years) after the IPO, a process known as De-SPACing. Therefore, after the IPO and before acquiring a business, a SPAC is essentially a company without operations, holding cash as its only asset. From the perspective of the acquired business, De-SPACing achieves the goal of going public. In essence, a De-SPAC transaction is a public company merging with a private entity. In the U.S., while the transaction still requires SEC and stock exchange approval, it does not undergo as rigorous scrutiny as a traditional IPO. The primary considerations for the acquisition target are market value and financial statements.

According to U.S. securities regulations, at the time of signing the initial business combination agreement, the aggregate fair market value of the target company(ies) must be at least 80% of the assets held in the trust account (excluding any deferred underwriter discounts and commissions and taxes payable based on the income from the trust account). To reasonably control the dilution of the sponsors' equity and make the De-SPAC transaction more attractive to the target, SPACs typically choose to merge with companies valued at 4-8 times the size of the SPAC's assets.

Regarding financial statements, the SEC's proxy rules require that the proxy statement include two to three years of financial statements for the target company, along with interim financial statements.

1. Comparison of SPAC and IPO Listing Processes

Traditional IPO Listing: Companies must complete several steps, including selecting intermediaries, submitting materials to the SEC and stock exchanges, conducting roadshows, and setting the pricing.

SPAC Listing: The target company only needs to merge with an already publicly listed entity to complete the listing.

The diagram below provides a brief comparison of the IPO and SPAC listing processes:

2. Comparison of Advantages and Disadvantages of SPAC and IPO

Compared to traditional IPOs, the SPAC listing model offers features such as speed, lower costs, simplicity, and guaranteed financing. The primary participants in the SPAC game include three parties: SPAC sponsors, SPAC investors, and the target company along with its shareholders. The advantages and disadvantages of SPAC versus traditional IPOs vary depending on the perspective of each participant.

2.1 Perspective of the Acquired Company

(1) Higher Certainty

- **Listing Process**: Since SPACs are already publicly traded companies, the acquired company can integrate with the public capital markets as long as it reaches a merger agreement with the

SPAC's management team. From a regulatory standpoint, although detailed information disclosure is required for the acquisition, the SEC and stock exchanges generally do not conduct a substantive review of the disclosure documents.

- **Valuation**: The valuation in the transaction is determined through negotiations between the SPAC's management and the acquired company, unaffected by short-term market fluctuations. This makes the certainty of achieving a listing through a SPAC merger higher compared to a traditional IPO.

However, finding a suitable SPAC can be challenging for companies intending to go public via this route. As mentioned earlier, the success of a SPAC heavily relies on its sponsors. On one hand, capable sponsors can raise funds more effectively and have lower redemption rates. On the other hand, these sponsors play a crucial role in the valuation negotiations during the De-SPAC phase. For the acquired company to maximize its value in the merger, the SPAC sponsor must thoroughly understand and trust the company's business and management team.

Conversely, if an acquired company encounters an unsuitable SPAC, it might spend months in negotiations and incur significant transaction costs, only to face a failed De-SPAC outcome due to high investor redemption rates or failure to secure sufficient new funds, or because the transaction did not receive shareholder approval.

(2) Shorter Timeframe

If properly arranged, the SPAC and De-SPAC transactions can be completed within six months. This presents an advantage over traditional IPOs, which involve more complex documentation processes, and reverse mergers, which require extensive negotiations and due diligence with the shell company owner.

The complete traditional IPO process includes:

- Hiring underwriters, accountants, lawyers, and other listing intermediaries.
- Conducting due diligence by the intermediaries, corporate restructuring, and preparation of IPO registration documents.
- Responding to inquiries from the stock exchange and the SEC regarding the IPO filings.
- Conducting investor roadshows.
- Listing on the stock exchange.

Typically, completing all these steps takes about 6 to 12 months, or even longer.

Listing through a SPAC is essentially a merger transaction. Compared to traditional IPOs, merging with a SPAC (a form of reverse merger) eliminates the need for hiring underwriters, responding to the stock exchange and SEC reviews and inquiries, and conducting investor roadshows. In practice, for companies planning to list through a SPAC, once the target SPAC is identified, the De-SPAC process can generally be completed within 3 to 6 months, thus achieving a quicker "reverse merger" under this innovative method.

(3) Lower Costs

In traditional IPOs, listed companies need to bear a certain proportion of the total funds raised in underwriting fees. In the SPAC model, the company is already listed and has raised funds, so it does not need to pay underwriting fees to the broker, only audit fees, lawyer fees, and accounting fees. Therefore, for the acquired company, the intermediary fees for listing through SPAC are lower compared to traditional IPOs.

(4) Diversified Financing Methods

SPAC can raise funds from the public and institutional investors when listing, and also through private equity investments (PIPE) from mature hedge funds. Since the De-SPAC pricing and private equity investments (PIPE) are determined through private negotiations and mergers, the valuation has stronger certainty.

(5) SPACs Enable Listing for Companies That Cannot Go Public Traditionally

Certain companies, such as those that are not yet profitable or have complex operational histories, might struggle to meet the stringent requirements of a traditional IPO. Under U.S. securities laws, traditional IPOs can only disclose past financial statements. However, a SPAC can market the business it aims to merge with using forward-looking projections. This allows fast-growing but unprofitable companies to appeal to public and institutional investors.

2.2 SPAC Initiator's Perspective

(1) Low Cost, High Returns

In the IPO of a SPAC, the initiators acquire SPAC shares equivalent to 25% of the total SPAC shares issued to investors at the time of the SPAC IPO, typically for a nominal price (often US$25,000). This portion of initiator shares, obtained at a low cost, serves as an incentive for the initiators, representing 20% of all SPAC shares issued after the SPAC IPO is completed. Consequently, if the SPAC is successful, the initiators stand to gain significant returns. Moreover, under similar conditions, the larger the fundraising scale of the SPAC, the higher the returns for the SPAC initiators.

(2) Unavoidable Sunk Costs

The gains obtained by SPAC initiators come with associated costs. On one hand, initiators must contribute their services to the SPAC, and their resources, judgment, and execution are crucial throughout the fundraising, target acquisition, and merger processes. On the other hand, initiators bear operational expenses of the SPAC until the De-SPAC is completed. If the SPAC fails to complete the De-SPAC, all prior operational costs incurred by the SPAC become sunk costs for the initiators.

2.3 Investor's Perspective

(1) Primary Market Investors: A Principal-Protected Investment

Investing in a SPAC IPO has often been likened to a "blind box" game, as investors commit their funds without knowing the exact acquisition target the SPAC will pursue. The true nature of the investment only becomes clear once the target company is identified and the merger details are disclosed. This analogy might suggest a speculative nature, but the reality is more nuanced.

SPAC IPO investors receive units comprising both shares and warrants, and these units come with a redemption option. After the acquisition target is announced, if investors are dissatisfied with the proposed merger, they can exercise their redemption rights. This allows them to redeem their shares at their initial investment cost plus accrued interest, effectively withdrawing from the investment risk-free. Additionally, investors who redeem their shares can retain the warrants, potentially benefiting from any post-merger stock price appreciation.

Thus, SPAC IPO investments provide a structural advantage for early investors, offering a near-guaranteed return on investment. For these primary market investors, participating in a SPAC IPO is almost a risk-free proposition.

(2) Secondary Market Investors: A Riskier Proposition

While participating in a SPAC IPO is often profitable or at least principal-protected, buying SPAC shares on the secondary market (whether before or after the De-SPAC) requires caution.

If the SPAC fails to complete the De-SPAC within the specified time frame, the sponsors must liquidate the SPAC and return the IPO proceeds to investors. In such cases, the sponsors not only lose out but also forfeit the funds they invested in the SPAC (primarily operational expenses and IPO underwriting fees), which become sunk costs. Therefore, as the deadline approaches, sponsors may rush to complete the De-SPAC, potentially compromising their selection of high-quality acquisition targets.

Going public is the starting point, not the end. After the SPAC merger and listing, the two parties have a close shareholder relationship. The SPAC sponsor team has extensive experience in corporate acquisitions, ongoing financing, and resource integration. The common goal is to promote the company's development and secure long-term benefits.

PART VII: Listing Requirements (U.S. & Hong Kong)

A. U.S. Listing Models and Requirements

1. Listing Models

(1) Initial Public Offering (IPO)

Typically, the shares of a company going public are sold through brokers or market makers based on terms outlined in the prospectus or registration statement issued by the relevant securities commission. Once the initial public offering meets the requirements, the company can apply for listing on a stock exchange or quotation system.

(2) American Depositary Receipt (ADR)

American Depositary Receipts are transferable certificates issued by U.S. commercial banks to facilitate the trading of foreign securities in the U.S. market. According to U.S. securities laws, companies listed in the U.S. must be registered in the U.S. Chinese companies often list in the U.S. through ADS (American Depositary Shares) or ADR forms. One unit of ADS typically represents multiple units of ordinary shares. Examples include China Mobile, Sinopec, New Oriental, Alibaba, Baidu, and Ctrip, which have entered the U.S. capital market via ADRs.

(3) Private Placement Under Rule 144A (QIB Listing)

U.S. securities law imposes stringent registration and disclosure requirements for securities offerings, deterring many foreign companies. To attract foreign companies to issue securities in the U.S. capital market, the SEC enacted Rule 144A in 1990, which exempts certain practices from registration requirements, thereby enhancing the liquidity and efficiency of the U.S. private securities market. Foreign companies can use these exemptions to issue stock without undergoing the rigorous public listing process.

(4) Reverse Merger (Backdoor Listing)

Reverse mergers, commonly known as backdoor listings, offer a simplified and expedited path to going public. This involves a private company acquiring a publicly traded U.S. company through restructuring, merger, or share exchange, allowing the acquiring company to gain public company status and inject its assets into the public entity.

(5) Direct Listing

Direct listing involves listing existing shares on the capital market without issuing new shares or raising funds, and without needing an underwriter. Companies simply register their existing shares for free trading on the market.

(6) Special Purpose Acquisition Company (SPAC)

SPAC listings originated in Canada and Australia’ s mining industries but found significant success in the U.S. and the U.K., where innovation is more encouraged. SPAC is a financial tool designed to facilitate company listings. SPACs provide an already established platform for listing, reducing concerns about listing success. Upon completing the placement, trading can commence immediately, saving about a year compared to a direct IPO. This method is particularly meaningful for small to mid-sized enterprises aiming to list in the U.S.

2、 Listing Requirements

2.1. New York Stock Exchange (NYSE) Listing Requirements

As a global securities exchange, the NYSE accepts listings from foreign companies under stricter conditions than for domestic companies. The primary requirements include:

(1) **Public Share Ownership**

- At least 2.5 million publicly held shares.

(2) **Shareholder Count**

- At least 5,000 shareholders owning 100 shares or more.

(3) **Financial Standards (Must meet one of the three):**

- **Earnings Standard**: Pre-tax profit of at least US$100 million over the last three years, with at least US$25 million in each of the two most recent years.
- **Liquidity Standard**: Global assets of at least US$500 million, with revenues of at least US$100 million in the past 12 months and liquidity of at least US$100 million over the last 3 years.
- **Net Assets Standard**: Global net assets of at least US$750 million, with revenue of at least US$750 million in the most recent fiscal year.

(4) **Management and Operational Requirements**

- Various requirements regarding the management and operations of the company.

(5) **Other Factors**

- Factors such as the company's industry stability, the company's position within that industry, market conditions for the company's products, the company's outlook, and public interest in the company's shares.

2.1.1. Subsidiary Listing Standards:

① **Global Assets:** At least US$500 million in global assets and a minimum of 12 months of operational history. The parent company must be a well-performing listed company with controlling interest in the subsidiary.

② **Stock Issuance:** Shareholder equity must not be less than US$4 million, the stock price must be at least US$3 per share, a minimum of 1 million common shares must be issued, and the market value must not be less than US$3 million.

③ **Financial Standards (Must meet one of the two)**

- **Earnings Standard**: Pre-tax income of at least US$750,000 in the most recent year.
- **Total Assets Standard**: Net assets of at least US$75 million, with total revenue of at least US$75 million in the most recent year.

2.2 Over-the-Counter Bulletin Board (OTCBB) Buy Shell Listing Requirements

The OTCBB, managed by NASDAQ, is a stock trading system designed for small and startup companies. Many companies initially list on the OTCBB to secure initial development funds, and after accumulating and expanding, they may upgrade to meet the listing requirements of NASDAQ or the NYSE.

Compared to NASDAQ, the OTCBB has lower entry barriers with virtually no scale or profitability requirements. If at least three market makers are willing to quote a company's securities, its stock can be traded on the OTCBB.

Upgrading from OTCBB to NASDAQ:

- **Small-Cap Market**: Companies can move directly to the NASDAQ Small-Cap Market if they meet the following conditions: net assets of $4 million, annual post-tax profit exceeding $750,000, or a market value of $50 million, with at least 300 shareholders and a stock price of $4 per share.
- **Main Board Market**: Companies can upgrade to the NASDAQ Main Board Market if they have net assets exceeding $6 million and gross profit exceeding $1 million.

Thus, the OTCBB is often referred to as NASDAQ’ s preparatory market, or "NASDAQ BABY".

B. Listing Models and Requirements in Hong Kong

1. Listing Models

i) Red-Chip Stocks

Red-chip stocks are shares of companies incorporated outside of China and listed in Hong Kong, or typically in places like the Cayman Islands, Bermuda, or the British Virgin Islands, which adhere to local laws and accounting standards but have major assets and business operations in mainland China. There are two main models for red-chip stocks:

- **Equity Model**: The traditional method of holding equity.
- **VIE (Variable Interest Entity) Model**: A structure allowing control over a company without direct ownership, commonly used for companies operating in sectors restricted to foreign investment in China.

ii) SPAC (Special Purpose Acquisition Company)

A SPAC is a company created to raise capital through an IPO to acquire a privately operating company. The funds raised are placed in a trust account while the SPAC management team seeks to complete an acquisition within a specified period. In Hong Kong, the timeframe for completing a SPAC acquisition is 36 months. If the acquisition is successful, the target company inherits the SPAC's listed status and becomes a publicly listed company. If the SPAC fails to complete an acquisition within the specified period, unless it extends the acquisition period through a proxy process, the funds in the trust account must be returned to investors.

iii) Backdoor Listing

Backdoor listing, also known as reverse takeover, involves a private company acquiring a controlling stake in a publicly listed company, then injecting its assets to achieve a "reverse acquisition" or "shell listing." The HKEX and the Securities and Futures Commission (SFC) impose several restrictions on backdoor listings:

- **Mandatory General Offer**: If an acquirer buys more than 30% of a listed company, they must make a general offer to the remaining shareholders.
- **Re-Listing Application**: The asset acquisition post-buyout may be considered a new listing application by the HKEX.
- **Public Float Requirements**: The listed company must maintain a sufficient public float, or it may face suspension of trading.

2. Listing Requirements

2.1. Main Board Listing Requirements in Hong Kong

2.1.1. Financial Requirements

A company must have at least three financial years of operating history and meet one of the following criteria:

(1) Profit Test

- The company must have at least three years of operating records, with the latest year's profit attributable to shareholders not less than HK$35 million, and the cumulative profit for the preceding two years not less than HK$45 million, excluding non-operational income or losses.
- The management structure must remain unchanged for at least the past three years.
- The audited ownership and control must remain unchanged for the most recent accounting year.

(2) Market Cap/Earnings/Cash Flow Test

i) The company must have at least three years of operating records.

ii) The management structure must remain unchanged for at least the past three years.

iii) The audited ownership and control must remain unchanged for the most recent accounting year.
iv) The market value at the time of listing must be at least HK$2 billion.
v) The earnings for the most recent audited accounting year must be at least HK$500 million.
vi) The cumulative cash inflow from the company's proposed business for the past three accounting years must be at least HK$100 million.

(3) Market Cap/Earnings Test

i) The company must have at least three years of operating records.
ii) The management structure must remain unchanged for at least the past three years.
iii) The audited ownership and control must remain unchanged for the most recent accounting year.
iv) The market value at the time of listing must be at least HK$4 billion.
v) The earnings for the most recent audited accounting year must be at least HK$500 million.

2.2 GEM Listing Requirements

The Growth Enterprise Market (GEM) is a market segment of the Hong Kong Stock Exchange (HKEX) designed for small and medium-sized enterprises (SMEs) and high-growth companies. Compared to the Main Board, GEM listing requirements are relatively more lenient, making it a suitable platform for companies that are still developing or have not yet met the higher thresholds of profitability or revenue.

Financial Requirements:

1. **Operating Cash Flow**
   The company must have a positive 2-year aggregate operating cash flow (OCF) of at least HK$30 million.
2. **Market Capitalization**
   The market capitalization at the time of listing must be at least HK$1.5 billion.
3. **Public Float**
   The minimum public float is generally 25%, but can be reduced to 15% if the market capitalization at the time of listing exceeds HK$10 billion.
4. **Shareholders**
   The company must have at least 100 shareholders.
5. **Management Stability**
   The management team must have remained unchanged for the past two years.
6. **Ownership and Control**
   The ownership and control must have remained unchanged for the most recent year.

PART VIII: Information Disclosure Requirements

A. Disclosure Requirements for Listed Companies

Listed companies must adhere to the following principles when disclosing information: truthfulness, accuracy, completeness, timeliness, and fairness. The disclosed information includes public offering prospectuses, listing announcements, periodic reports, interim reports, etc.

1. Principles of Information Disclosure

1.1 Truthfulness

Information disclosure must be based on objective facts or judgments and opinions with factual basis, reflecting the objective situation truthfully, without false records or untrue statements.

1.2 Accuracy

Clear, concise, and easy-to-understand language must be used, without misleading statements.

1.3 Completeness

Information disclosure must be complete in content, with all required documents, and in the prescribed format, without material omissions.

1.4 Timeliness

All material information must be disclosed within the specified time limits.

1.5 Fairness

Material information must be disclosed to all investors simultaneously.

2. Content of Listed Company Information Disclosure

2.1. Prospectuses for public offerings, namely prospectuses.
2.2. Listing announcements.
2.3. Periodic reports, including annual reports and interim reports.
2.4. Interim reports, mainly announcements of significant events, and announcements of mergers or acquisitions of listed companies.
2.5. Shareholding of directors, supervisors, and senior management personnel of the company.
2.6. Information required to be disclosed by the stock exchange.
2.7. Other information.

3. Three Major Harms of Violating the Disclosure Requirements of Listed Companies

3.1 Damage to the credibility of the listed company

Integrity is the soul of the market economy and the foundation for its normal operation. For listed companies, information disclosure is not only an obligation but also a direct reflection of their honesty and credibility. Doing a good job in information disclosure and establishing a good reputation for integrity can bring listed companies an invaluable intangible asset.

3.2 Harm to the interests of investors

To ensure the healthy development of the securities market, the legitimate interests of investors must be protected. If investors' legitimate interests are not effectively protected, their confidence will be shaken, and the inevitable result will be that investors choose to stay away from the market.

3.3 Creating a Breeding Ground for Insider Trading

Insider trading often accompanies stock price manipulation; from performance changes to artificially creating topics, they all become a breeding ground for insider traders.

B. Information Disclosure Requirements During the Listing Process

During the listing process, information disclosure is a crucial aspect. It refers to the act of companies providing relevant information about their financial status, operational situation, risk factors, etc., to investors and the public. Under the comprehensive registration system, securities regulatory authorities are responsible for examining the completeness, accuracy, truthfulness, and timeliness of the documents submitted by companies seeking listing, without conducting substantive audits or value judgments on the qualifications of enterprises, leaving the decision to list to the market.

1. Principles of Information Disclosure

In general, the principles of information disclosure include truthfulness, accuracy, completeness, fairness, impartiality, equality, importance, timeliness, compliance, transparency, and continuity. These principles aim to protect the interests of investors and promote the open, fair, and effective operation of the market. Specifically:

1.1 Truthfulness, Accuracy, and Completeness

Information disclosure should be truthful, accurate, and complete, without false or misleading statements or omissions of material information, to ensure that investors can make informed investment decisions. Each statement, opinion, and conclusion in the disclosure must be well-founded, and the discloser is responsible for its content.

1.2 Fairness, Impartiality, and Equality

Information disclosure should treat all investors fairly, impartially, and equally, without providing special treatment or preferential access to information to specific investors or stakeholders.

1.3 Principle of Importance

Adhering to a problem-oriented approach, emphasize the importance, streamline content, avoid standardization or templating. Emphasize the disclosure of industry policies and regulations, subsidiaries, related-party transactions, financial accounting information, etc., based on the principle of importance. Disclosure content should be relevant, providing specific and accurate analysis descriptions around the issuer's situation, avoiding simple repetition of legal regulations, company articles, and accounting standards.

1.4 Timeliness

Information disclosure should be provided promptly so that investors can timely understand the company's latest developments and significant changes and make corresponding investment decisions.

1.5 Compliance

Information disclosure must comply with relevant laws, regulations, and requirements of the stock exchange and regulatory agencies, ensuring that companies follow the rules during the disclosure process.

1.6 Transparency

Information disclosure must be transparent, including financial reports, business plans, risk factors, and related transactions, to increase investors' understanding and trust in the company.

1.7 Continuity

Information disclosure is not a one-time event during the IPO process but rather a continuous process after listing, with periodic disclosure of financial and operational information to maintain investor confidence and market stability

In addition to following the principles mentioned above, information disclosure should include the following:

1. **Risk Disclosure**
   Companies should disclose risk factors related to their business, including market competition, changes in laws and regulations, technological advancements, and other risks that could significantly impact the company's operations and prospects.
2. **Financial Information Disclosure**
   Companies should disclose accurate financial information, including financial statements, financial indicators, financial forecasts, etc., to enable investors to assess the company's financial position and operational capabilities.
3. **Management Disclosure**
   Companies should disclose the background, experience, and qualifications of the management team to allow investors to evaluate the management's abilities and decision-making skills.
4. **Related Party Transaction Disclosure**
   Companies should disclose transactions with related parties, including the nature, amount, and terms of related party transactions, to prevent conflicts of interest and protect investor interests.
5. **Professional Opinions Disclosure**
   Companies should disclose evaluations and opinions from independent institutions or professionals regarding the company's financial status and business prospects, providing

investors with more comprehensive and objective information.

6. **Confidentiality Period**

   Companies may need to maintain confidentiality for certain information during the listing process. However, once the confidentiality period expires, companies should promptly disclose relevant information to ensure investors' right to information.

Moreover, if information disclosure involves state secrets or commercial secrets, companies can apply for information disclosure exemptions. Information disclosure exemptions refer to situations where the information intended for disclosure in the issuer's listing application documents and responses to inquiries from the exchange's listing review body falls under state secrets or commercial secrets. Disclosure of such information may violate relevant laws and regulations on confidentiality or seriously harm the company's interests, allowing for exemption from disclosure. The issuer must provide reasons for the exemption, and if the exchange deems the reasons invalid, the issuer must disclose the information as required.

It is essential to note that the principles of information disclosure vary based on the laws, regulations, stock exchange requirements, and regulatory demands of different countries and regions. Companies going public should comply with relevant laws and regulations, collaborate with professional advisors, ensure that information disclosure meets requirements, and meets investors' information needs to enhance the success rate of listing and market response.

4. Unspoken Rules of Information Disclosure

2.1 Avoiding Overstatement

In the listing process, there is an important unspoken rule: "avoid overstatement." This means that in information disclosure, it is essential to avoid excessive language and descriptions that may give rise to unnecessary doubts and misunderstandings. Additionally, it is crucial to avoid errors or inaccuracies in information disclosure, as this can negatively impact the company's image and investor trust. This implies that one should strike a balance in information disclosure, avoiding excessive statements and interpretations, especially for issues that are already well-known. Overinterpretation may lead to unnecessary controversy and misunderstandings. Therefore, it is essential to express information in a concise and clear manner, avoiding unnecessary comments or embellishments.

2.2 Avoiding Disclosure of Personal Information

In information disclosure, it is essential to respect each individual's privacy and avoid revealing personal information that may infringe upon their privacy rights and lead to unnecessary disputes. Especially when describing information related to natural persons, it is crucial to handle this information with care, avoiding excessive disclosure of personal details or sensitive information. If it is necessary to use information related to others, it is essential to obtain their consent and ensure the security of the information. It is possible to describe the situation in a more abstract and general manner, rather than specifically involving a person's privacy. This not only avoids infringing upon privacy rights but also maintains the company's image and social trust.

2.3 Avoiding Qualitative Conclusions

In information disclosure, focus on objective descriptions of facts rather than giving subjective qualitative judgments. This approach avoids disputes and misunderstandings, maintaining the accuracy and credibility of the information. Qualitative conclusions can lead to partial and incomplete information. When describing historical or objective issues, provide a factual narrative with sufficient information for readers to make their own judgments. Presenting multiple viewpoints on complex issues can foster diverse thinking and understanding. Hence, avoid overinterpreting and evaluating in disclosures to prevent unnecessary doubts or misleading information.

2.4 Avoiding Criticism of Others

In information disclosure, companies typically focus on showcasing their business models, profitability, and market prospects to attract investors' attention. This is a common marketing strategy that helps improve the company's competitiveness. However, it is not advisable to criticize others, especially competitors. Avoiding criticism can avoid controversy and negative emotions, maintaining a positive and optimistic image in information disclosure. However, this does not mean that companies can hide or distort important information related to their business competition. In information disclosure, companies must comply with relevant laws and regulations and provide true, accurate, and comprehensive information. If there are significant issues or risks related to business competition, companies should fully disclose this information and provide corresponding risk warnings and explanations.

2.5 Avoiding Definitive Statements

Companies should avoid using overly absolute or definitive language in disclosures, preferring relative and cautious wording. Listing is a complex process involving various legal, financial, and business factors. Disclosures should be true, accurate, and comprehensive, but also avoid overly absolute or optimistic statements to prevent unrealistic or exaggerated impressions. Disclosures should leave room for future changes and uncertainties, aligning with investors' reasonable expectations that all investments carry risks and uncertainties. Providing sufficient information for rational decision-making while leaving room in disclosures also helps maintain good relations with regulatory bodies, providing flexibility if needed.

2.6 Avoiding Direct and Blunt Statements

There are often well-known but sensitive issues during disclosures that should not be bluntly stated. For instance, if a company changes intermediaries like brokers, lawyers, or accountants during the listing application, regardless of any disputes, the reason given should be amicable, such as the intermediary's workload, insufficient staff, scheduling conflicts, or strategic needs. Similarly, reasons for withdrawal or rejection of a listing application should not bluntly attribute to performance fraud or major violations. Instead, use more palatable reasons like financial data not fairly reflecting operations or significant internal control flaws, preserving dignity and respect for all parties involved.

PART IX: Investor Relations

A. What is Investor Relations?

Investor relations management (IRM) refers to the management of the relationship between listed companies (including companies seeking to go public) and their shareholders, creditors, and potential investors. It also includes the management of the relationship between listed companies and various intermediaries in the capital market during the communication process with investors.

Investor Relations Management (IRM) refers to the management of relationships between a listed company (or a company planning to go public) and its shareholders, creditors, and potential investors. It also includes managing relationships between the company and various intermediary institutions in the capital market during communication with investors. Investor relations serve as a two-way communication bridge between the company and the financial market, allowing the investment community to make informed judgments about the fair value of the company's stocks and securities.

The primary objective of investor relations is to provide information to potential and current investors so they can have a fair understanding of the company's strategy and business. In addition to providing company information outwardly, investor relations also involve feeding back market and investor insights to the company's top management. This feedback helps in performance setting, strategic planning, quality governance, and internal management.

B. The Value of Investor Relations Management

Effective information disclosure and communication can enhance investor recognition of the company, fostering a relationship of mutual trust. This helps in building a positive image in the capital market, increasing investor confidence, forming a loyal investor base, and attracting potential investors. Consequently, it enhances the company's financing capabilities and scale in the securities market.

By communicating with investors and describing the company’ s real-time operations, including business performance, financial status, investor evaluations, and industry trends, companies can lower capital operation costs and ease previously tense investor relations. Proper investor management and market value management provide the decision-making layer with effective guidance, helping the company grow steadily and attract more investors. It also improves corporate governance and optimizes various management aspects, creating greater value for shareholders.

C. How to Manage Investor Relations Effectively?

1. Comprehensive Management of Investor Relations

Comprehensive management means addressing both the scope of targets and the means of communication.

- **Target Audience**: Investor relations management involves managing relationships not only with shareholders but also with potential investors who may buy the company's stock. This group is equally important as current shareholders because stock price fluctuations depend on the balance of buying and selling forces. Therefore, everyone, including the general public, could potentially become an investor in the company. While focusing on current shareholders and likely investors, it is also crucial to view the general public as potential investors, aiming to establish a positive company image and convey the company's investment value widely.

- **Communication Channels**: Utilize all possible channels and forms of communication to engage with investors, making the most of every opportunity. Communication methods include performance briefings, special briefings, roadshows (both offline and online, trading and non-trading), reverse roadshows, investor visits, participation in investor group reception days, attending annual meetings, strategy meetings, forums organized by securities companies and media, investor relations hotlines, emails, online platforms like Shanghai Stock Exchange e-interaction and Shenzhen Stock Exchange interaction platforms, company websites, WeChat official accounts, and media interviews. Companies should make full use of these channels and forms to effectively communicate with investors, treating every communication opportunity with care.

By adhering to these strategies, companies can enhance their investor relations management, fostering a supportive and informed investor base, and ultimately contributing to the company's long-term success and stability in the capital market.

2. Conducting Effective Information Disclosure from an Investor's Perspective

Effective information disclosure is the foundation of good investor relations management. This is important because:

i) **Foundation for Investor Understanding**: Investor relations fundamentally involve ensuring that investors have a comprehensive and accurate understanding of the company. This understanding is primarily based on the information disclosed by the company. Proper disclosure is essential for investors to fully and correctly understand the company's situation.

ii) **Compliance in Communication**: Regulations require that companies cannot release or leak undisclosed material information in any form during investor relations activities. Therefore, the content discussed with investors typically involves explaining and interpreting already disclosed information. If the initial disclosures are inadequate, subsequent explanations and interpretations become challenging.

iii) **Avoiding Issues**: Many issues in investor relations arise from information disclosure problems, such as disclosed information raising investor doubts or suspicions of undisclosed material information. Proper disclosure helps prevent investor skepticism, complaints, and litigation.

iv) **Addressing Investor Concerns**: Many investor concerns need to be addressed through information disclosure, such as responding to and clarifying investor doubts, timely disclosing previously undisclosed information, and disclosing how investor concerns are being handled.

Effective information disclosure should be approached from the investor's perspective. This means considering what investors want to know and ensuring that disclosures provide that information, leaving no room for doubt. This approach benefits investors by giving them a comprehensive and accurate understanding of the company through disclosed documents, reducing the need for further inquiries, investigations, and analysis. It also benefits the company by reducing the need for unnecessary responses and explanations and avoiding the need for supplementary or corrected disclosures.

In regular reports, companies should focus on disclosing their strategies and business segments, providing complete and understandable industry information, and ensuring personalized disclosures that highlight the company's uniqueness. Any unusual situations in business, finance, or other areas should be clearly, accurately, and completely explained to ensure full reader understanding.

In temporary announcements, accuracy and completeness are crucial, and clarity is essential. For significant matters, it is vital that investors understand why the company is taking certain actions and how these actions benefit the company.

3. Principles and Considerations for Communicating with Investors

i) Positive Attitude:

- Respond promptly to investor communication requests, aiming to meet their needs whenever possible.
- Besides responding to investor requests, companies should proactively communicate with analysts, key investors, and the media.
- Maintain a friendly and respectful attitude towards all investors, whether institutional or

individual, regardless of whether they hold company stock.

ii) Familiarity with Disclosure Documents:

- Be thoroughly familiar with all disclosed information and able to answer potential investor questions.

iii) Answering Questions:

- Do not disclose material information that has not been previously disclosed.
- Ensure consistency with already disclosed information.
- Avoid exaggerated statements or making additional commitments.

PART X: Corporate Financing Strategy

A. Financing Methods

1. Internal Financing

Internal financing refers to a company using its internally accumulated funds to meet its funding needs, such as utilizing retained earnings or increasing capital through share issuance. It is a relatively stable financing method that does not increase the company's debt burden but may affect shareholder equity.

2. External Financing

External financing involves raising funds from external capital markets or financial institutions. This can include both debt financing and equity financing.

3. Debt Financing

Debt financing refers to a company raising funds by issuing bonds or obtaining loans. Debt financing typically comes with debt repayment and interest payment obligations, but it has a smaller impact on the company's control rights compared to equity financing.

4. Equity Financing

Equity financing refers to a company issuing new shares or selling existing shares to raise funds. Equity financing will increase the shareholding of new shareholders or existing shareholders, which may impact the company's control rights.

5. Private Placement

Private placement refers to a company issuing stocks or bonds to specific investors or institutions, typically not to the public. Private placement is more flexible than public market financing but may be less liquid.

6. Public Market Financing

Public market financing refers to a company issuing stocks or bonds to the public, such as through an initial public offering (IPO) for listing on an exchange. This is a common financing method that can raise a relatively large amount of funds, but it requires meeting the listing requirements of the exchange.

7. Hybrid Financing

Hybrid financing refers to a company using a combination of multiple financing methods, flexibly adjusting its financing strategy based on different funding needs and market conditions.

B. How to Develop an Appropriate Financing Plan

Tailoring a financing plan to the company's specific needs is crucial for success. Developing an effective financing strategy involves considering various factors to create a plan that best fits the company's requirements.

1. Consider the Impact of the Economic Environment

The macroeconomic environment affects a company's financial activities. During periods of rapid economic growth, companies may need to raise funds to expand assets, inventory, and workforce. Conversely, during economic slowdowns, companies should reduce debt financing and rely more on internal financing.

2. Consider the Financing Cost

Financing cost refers to the cost incurred by the company to raise and use funds. The lower the financing cost, the better the financing returns. Since different financing methods have different financing costs, to obtain the required funds at a lower financing cost, the company should naturally analyze and compare the financing costs of various financing methods. Financing is for the development of projects and obtaining profits. Only when the financing income exceeds the total cost can it be said that the financing plan is successful.

3. Consider the Risks of Financing Methods

Different financing methods carry different risks. Debt financing involves periodic repayments, posing a higher risk of default. Equity financing carries lower financial risk as it does not involve repayment obligations. Companies must assess the risk levels of different financing options based on their specific circumstances.

4. Consider the Company's Profitability and Growth Prospects

The market's historical performance, current status, and future prospects are crucial considerations. Financing should focus on enhancing product quality, market share, and overall profitability. Companies with strong profitability and growth prospects can better handle financial risks. If the return on investment exceeds the cost of debt, increasing debt can be beneficial. However, during declining profitability, companies should minimize debt financing to avoid financial risks.

5. Consider Industry Competition

In highly competitive industries with easy entry and declining profitability, equity financing is preferable. In less competitive industries with difficult entry and expected sales growth, increasing debt proportion can be advantageous for financial leverage benefits.

6. Consider the Company's Control Rights

Financing can impact company control, especially for small and medium enterprises. Issuing common stock may dilute control, potentially leading to loss of control. Debt financing typically has less impact on control. Companies must balance maintaining control with achieving financing objectives.

By weighing these factors, companies can develop a scientific and suitable financing plan. Decisions on financing methods, scale, timing, conditions, costs, and risks require thorough analysis and research to ensure optimal financing strategies.

C. Refinancing

Refinancing, as a significant means for listed companies to raise funds after IPO, provides the best channel for the survival and further development of listed companies. In recent years, it has gradually become the primary method of equity financing for listed companies.

1. Refinancing in the Hong Kong Stock Market

1.1 Placing

Placing, similar to "directed share issuance" in the A-share market, is a common method used by listed companies in the secondary market to raise funds. "Placing" methods include "issuing new shares," "placing existing shares," or a combination of both. Issuing new shares refers to a listed company issuing new shares to independent individuals; placing existing shares refers to major shareholders offering their own shares to independent individuals; and a combination of both involves major shareholders first placing their own shares to independent third-party investors and then the company subscribing to newly issued shares. Currently, listed companies commonly use the methods of issuing new shares and a combination of both. Generally, listed companies are not allowed to place new shares by more than 20% annually. In other words, with authorization, as long as the proportion of new shares placed does not exceed 20% of the share capital, approval can be obtained from the board of directors.

Placing in Hong Kong does not require regulatory approval, making the process simple and fast. To expedite the process, Hong Kong can also adopt the "placing existing shares before issuing new shares" method. In this scenario, major shareholders transfer their existing shares to participating placement parties, and the placement funds are injected into the listed company. At this point, the number of shares remains unchanged, but the listed company receives funds, effectively borrowing from major shareholders; then, the process of issuing additional shares is initiated, with new shares issued to major shareholders, restoring their share count. This operation is conducted to obtain funds in the shortest possible time.

For listed companies, placing in Hong Kong is very swift. As long as there are funds willing to subscribe, placement can be conducted at any time.

1.2 Rights Issue

Rights issue, similar to "rights offering" in the A-share market, involves listed companies raising funds by issuing new shares to existing shareholders. Listed companies allow qualified shareholders to subscribe to new shares in proportion to their current shareholding, usually at a price lower than the market price, to attract shareholders to subscribe. Unlike A-shares, if shareholders decide not to exercise their rights to subscribe, these rights can be traded on the Hong Kong Stock Exchange for a period of 1-2 weeks.

1.3 Open Offer

Open offer is similar to rights issue, but it involves issuing new shares to existing shareholders at a lower price than the market price. The open offer can be traded on the HKEX for a period of 1-2 weeks.

1.4 Consideration Issue

Consideration issue, similar to issuing shares to purchase assets in the A-share market, involves listed companies using securities to partially or fully pay for a transaction. Consideration issues are typically used in acquisitions, mergers, or spin-off activities.

1.5 Share Option Scheme

A share option scheme involves listed companies issuing options to shareholders, employees, or executives, allowing them to purchase new shares of the company at a predetermined price (commonly referred to as the exercise price) within a certain period. The validity period of the options under the scheme typically cannot exceed 10 years and cannot be transferred. If the holder of the options chooses not to exercise them within the specified period, the options will automatically expire.

2. Refinancing in the U.S. Stock Market

Financing in the U.S. market generally involves equity financing and debt financing.

2.1 Private Placement

Private placement is exempt from approval by the Securities and Exchange Commission (SEC). Private placement investors include institutional investors, wealthy individual investors, and overseas investors outside the United States. There are no restrictions on the amount of private placements, but the SEC specifies three levels of private placements: below US$1 million, below US$5 million, and unlimited private placements.

For unlimited private placements, capital raisers are required to provide and display relevant audit documents and other detailed financial reports to investors. Private placement investors cannot sell their equity on the market within one year but can conduct private transactions, which are exempt from SEC approval. If an investor wishes to sell their equity on the market, they must hold their equity in full for more than one year.

Private placement through securities firms or registered brokers incurs commission fees, typically averaging around 10%. Other private placement expenses include document processing fees charged by state governments, ranging from US$50 to US$250 depending on the state; some private placement companies may also charge document preparation fees and other miscellaneous fees, but the total costs generally do not exceed 3%. These costs are deducted after capital raising and do not incur upfront costs. In recent years, private investment in public equity (PIPE) by listed companies has become one of the primary means of capital raising.

2.2 Rights Offering

Technically, a rights offering, like an IPO, requires approval from the SEC. However, since the listed company already has existing stock value reflected in the market, the process of rights offering can easily obtain support from underwriters and sell in the market. At this time, the contract with the underwriters is generally a standby rights offering agreement.

2.3 Secondary Offering

A secondary offering refers to the primary individuals or institutional shareholders of a company selling their restricted stocks to the public. The process of a secondary offering is identical to an IPO and requires declaration and approval from the SEC. In a secondary offering, underwriters can facilitate sales through firm commitment or best efforts. To enhance the attractiveness of secondary offerings, companies can combine them with warrants. This combination allows investors to purchase company stocks at a predetermined price in the future while increasing the attractiveness of the sale.

2.4 Warrants

Warrants are commonly used as a promotional tool during new stock offerings. Warrants guarantee that the holder can purchase company stocks at a specified price. During issuance, this price is typically higher than the market price of the company's stocks.

2.5 Other SEC-Exempt Capital Raising Methods

These include intrastate offerings and small capital offerings, all exempt from SEC approval. However, due to the relatively lenient regulations for private placements by the SEC in recent years, other SEC-exempt fundraising methods are rarely used.

2.6 Private Equity and Venture Capital Funds

Private equity and venture capital funds are attractive to listed companies due to their clear exit mechanisms. These funds provide capital support while also helping companies manage and operate more effectively, enhancing their competitive edge.

PART XI: A Professional Team is Key to Success

1. About Yellow Duck Capital

Yellow Duck Capital is a professional corporate consulting firm with a strong foothold in Asia and a global reach. We are a branch of Broad Investment Securities LLC in Kuala Lumpur, specializing in IPO listing guidance. Our key partners are holders of the comprehensive investment advisory licenses (RIA) issued by the United States, which underscores our proficiency in asset allocation, portfolio management, wealth planning, and corporate consulting services.

Our partner network spans the globe, encompassing high-net-worth individuals, cornerstone investors, venture capitalists, private equity, family offices, and international brokers. We have established close ties with global professional consultants, securities traders, audit teams, legal experts, internal control consultants, and underwriters, all committed to propelling our clients towards success.

2. Our Services

Our services are extensive, including overseas IPOs in US and Hong Kong, corporate coaching, intelligent investment advisory, mergers and acquisitions, market value management, Hong Kong and U.S. stock pledges, SPAC consulting, and independent analyst reports.

3. Our Advantages

① Tailor-Made Exclusive GLFV Strategy

Yellow Duck Capital specializes in providing bespoke GLFV strategies designed to maximize corporate value. The GLFV strategy is the result of extensive validation and practice, uniquely designed by Broad Investment Securities, and protected by copyright.

② Experienced FA+SEC Licensed Institution

As the Malaysian branch of Broad Investment Securities, Yellow Duck Capital leverages years of resources and experience, with in-depth knowledge of Wall Street operations. Broad Securities is an SEC-licensed brokerage, providing compliant capital services to clients.

③ Scale, Global Reach

We boast an extensive business network across Asia and globally, offering robust support for cross-border listings.

④ One-Stop Service

We offer comprehensive services across 4 sectors, 5 life cycles, 8 components, and 10 steps. This includes complete support from corporate management to listing and post-listing management, ensuring full lifecycle, full-module, and full-regional and temporal service support.

For more information, please visit our website at www.yellowduck-capital.com or email us at support@yellowduck-capital.com.