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Our Ref: [redacted]

27 January 2021

Corporate and Investor Communications Department
Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place Central
Hong Kong

Dear Sir

Profit Requirement CP

With reference to your Consultation Paper on The Main Board Profit Requirement issued in November 2020, please find enclosed our submission together with the attachment for your consideration.

Should you have any questions, please do not hesitate to contact me at [redacted] or [redacted]

Yours faithfully
For and on behalf of
[redacted]

[redacted]

[redacted]

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at:
https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/November-2020-MB-Profit-Requirement/Consultation-Paper/cp202011.pdf

Where there is insufficient space provided for your comments, please attach additional pages.

Capitalised terms have the same meaning as defined in the Consultation Paper unless otherwise stated.

1. Do you agree that the Profit Requirement should be increased by either Option 1 (150%) or Option 2 (200%)? Please give reasons for your views.

   ☐ Yes

   ☑ No

   You may provide reasons for your views.

See attachment 1.

2. Besides the proposed increase in the Profit Requirement, is there any other alternative requirement that should be considered? Please give reasons for your views.

   ☑ Yes

   ☐ No

   You may provide reasons for your views.

We think that HKEX should put on hold the current proposal for the increase in Profit Requirement and undertake a comprehensive study on the Hong Kong capital market structure. The Profit Requirement can only be revised when there is a "real" listing alternative available to small-cap companies unqualified for a Main-Board listing. HKEX may consider (i) introducing a new listing board/segment for the SMEs that can satisfy the current Profit Requirement or (ii) repositioning the current GEM.

3. Do you agree that the Exchange should consider granting temporary relief from the increased Profit Requirement due to the challenging economic environment? Please give reasons for your views.

☑ Yes

☐ No

You may provide reasons for your views.

If HKEX finally proceeds with the proposal, we agree that the Exchange should grant temporary relief. In granting the relief, the Exchange should also give consideration to the impacts of the social unrest in Hong Kong in 2019 and the pandemic situation in 2021 and beyond.

4. If your answer to Question 3 is yes, do you agree with the conditions to the temporary relief as set out in paragraph 55? Please give reasons for your views.

☑ Yes

☐ No

You may provide reasons for your views.

We suggest allowing a transitional period of two to three years as part of the temporary relief for companies preparing to list on the Main Board. This would provide relief for companies, which on the date of the Consultation Paper were making preparations for listing on the Main Board.

- End -

Attachment 1

Question 1

The followings are the reasons that we do not support increasing the Profit Requirement under Option 1 (150%) or Option 2 (200%):

1) Weakening the competitiveness, diversification and development of Hong Kong capital market

If the Profit Requirement is increased under either Option 1 (150%) or Option 2 (200%), coupled with the existing market capitalization requirement, the Main Board of the Hong Kong Stock Exchange (the "HKEX") will become one of the capital markets with the most stringent listing requirements in the world.

To put this into context, the profit requirement for listing on NASDAQ's Global Select Market is pre-tax earnings of US$ 11 million (approximately HK$85 million) in aggregate over prior three fiscal years without any additional requirement on market capitalization. In the case of the Main Market of London Stock Exchange ("LSE"), without having to meet any profit test, a company with 75% of its business supported by three years' historic revenue earnings and a minimum of GBP700,000 (HK$ 7.75 million) in expected market capitalisation would be eligible for listing on the Premium Segment of the LSE, subject to other conditions.

We are of the opinion that the proposed increase in the Profit Requirement will weaken the competitiveness, diversification and development of Hong Kong capital market. Under Option 1 and Option 2, 59% and 65% of the listing applications made under the proposed Profit Requirement between 2016 and 2019 would have been disqualified from listing, and this group of unqualified small-cap companies under the proposed Profit Requirement may opt to list in overseas markets instead in the future.

The Consultation Paper suggests that small-cap companies ineligible for a Main Board listing may turn to the GEM market. In reality, GEM fails to prove itself to be an attractive listing venue for small-cap companies. Indeed, considering the relatively small amount of fund that can be raised, the cost of listing on GEM is high, presenting a significant burden for the listing applicants.

On the other hand, statistics also show that the GEM market has low turnover, offers low investment return and is speculative in nature. These are the reasons why a lot of small-cap companies eligible for GEM listing chose to hold off listing until they fulfil the listing requirements for Main Board. As of December 2020, the number of listed companies on GEM is 368, a decrease of 21 companies from December 2018. Such decrease indicates a lack of appeal of GEM as a listing venue for small-cap companies.

2) Detrimental to the Hong Kong capital market

The HKEX, as the sole market operator in Hong Kong, has the obligations to strengthen the corporate governance of listed companies in Hong Kong and attract more potential enterprises in different segments to list in Hong Kong. Nowadays, Hong Kong capital market is facing various challenges, such as intense competition from other markets, the U.S. president's executive order banning US citizens from trading securities of PRC enterprises, and downturn of economy resulted from the Covid-19 pandemic. The HKEX should focus on the sustainable development of the Hong Kong capital market in this challenging environment as well as expanding the portfolio of listed entities. Raising the entry barrier to make Hong Kong the hardest place to list in the world will definitely discourage potential IPO candidates, which will in turn limit the choices for investors and hinder the development of Hong Kong capital market.

Question 1 (Continued)

3) Negative impacts on economy of Hong Kong

As mentioned in point (1) above, it is expected that a significant number of small-cap companies would be unqualified for a Main Board listing under the proposed Profit Requirement and it can be reasonably inferred that a large number of those unqualified are based in Hong Kong and/or have businesses in Hong Kong. It is no doubt that the listing of these small-cap companies would contribute to the Hong Kong economy as a whole. Setting a high Profit Requirement would deny the small-cap companies with growth potential (including SMEs in Hong Kong) the opportunity to raise fund in Hong Kong capital market for expansion, innovation and development, which will in turn dampen Hong Kong's economic prospect.

On the other hand, it is expected that the total number of new listing applications will decrease significantly as a result of the increase in Profit Requirement. The entire corporate finance sector of Hong Kong (including sponsors, financial advisors, lawyers, valuers, accountants, investors etc) will be affected significantly and many professional firms in the sector will be driven out of business.

4) Social responsibilities of HKEX

The HKEX, as a leading financial market operator in the world and the sole exchange controller in Hong Kong, has defined its objective in its website as "to promote and progress our financial markets and the communities they support for the prosperity of all". Also, "diversity" is one of the core values of the HKEX. The Stock Exchange has the social responsibilities to serve all kinds of companies including SMEs and companies in traditional industries, but not just large corporations or New Economy companies. The increase in Profit Requirement will definitely kill the SMEs' fund raising opportunity in Hong Kong capital market, which is at odds with the objective and core values of the HKEX.