

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.

Please refer to the Appendix.

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.

Please refer to the Appendix.

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.

Please refer to the Appendix.

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.

Please refer to the Appendix.

- End -

1. Reasons for our views on Q.1

We disagree with the proposed increase in the Profit Requirement by both Option 1 and Option 2 (the “Proposal”) due to the following reasons.

The Proposal will reduce the competitiveness of Hong Kong listing platform

Both Option 1 and Option 2 of the Profit Requirement, as mentioned in the consultation paper, will result in the Exchange having the highest profit requirement when compared with the profit requirements of the Selected Overseas Main Markets on an aggregated basis for the three years of a track record period.

Profitability is a good indicator of an applicant’s performance but it is not the only factor to assess the quality of an applicant and thus, setting a high threshold on profit requirement will discourage good quality small and mid-sized companies (especially the ones from Mainland China) from listing in Hong Kong which in turn, reduce the competitiveness of Hong Kong financial market and limit the investment opportunities for Hong Kong investors. Notwithstanding the Exchange believes GEM is another listing platform for applicants that cannot satisfy the profit requirement for Main Board, we consider the existing GEM listing platform is not a viable alternative for small and mid-sized companies with reasons as discussed in the paragraph headed “Ambiguous positioning for GEM” below.

Profit requirement is only one of the Main Board eligibility tests but it is commonly used and can be directly compared to other overseas markets. Potential applicants would easily opt out the Hong Kong listing platform but consider other overseas markets if they cannot satisfy the profit requirement of Main Board. As such, the increase in profit requirement will have a direct and material impact on the competitiveness of the Hong Kong IPO market. Such impact also illustrated in the Consultation Paper that Option 1 and Option 2 would have disqualified from listing 59% (437) and 65% (486), respectively, of companies applying for listing under the Profit Requirement between 2016 and 2019.

The Proposal is not an effective way to address the issue arising from the Market Capitalisation Requirement and the “shell companies” listings

We note that the Exchange considers the Proposal can address the issue (the “Issue”) of high historical P/E ratios and concern on inflated valuations of listing applicants that marginally met the Profit Requirement (which discussed in the paragraphs 4 to 6 of the Consultation Paper). However, the comparison with the Selected Overseas Main Markets as discussed above suggests that the existing Profit Requirement, which is not outranged other Selected Overseas Main Markets, is appropriate. We, therefore, are in doubt that it is an effective way to trade off all small and mid-sized applicants by assuming that the Issue can be settled by the increase in the Profit Requirement. Instead, we consider it is more direct to reduce the Market Capitalisation Requirement (given the Issue is arisen after the new Market Capitalisation Requirement) or propose other policies aiming at the companies with inflated valuations. After all, we are of the view that the Exchange should leave the valuation of a listing applicant to the general investing public as they are in a better position to justify the valuation given they cast their votes with their own wallets.

Ambiguous positioning for GEM

The Exchange considers the companies which is not qualified under the Proposal can still access the capital market by listing on GEM. However, we consider the positioning of GEM is ambiguous as it was not established for small and mid-sized companies (especially those traditional economy companies) at the outset. After the consultation conclusions on the review of the Growth Enterprise Market (GEM) and changes to the GEM and Main Board Listing Rules in 2017, GEM is changed to a “stand-alone” board which is generally for small and mid-sized companies with no material change in its listing requirements and continuing obligations after listing but only removal of the transfer mechanism to Main Board.

Also, GEM is over-regulated (and even more stringent than Main Board) which makes it not a viable alternative to small and mid-sized companies. For example, GEM applicants can only use cashflow eligible criteria with no other alternative tests as those given to Main Board applicants. Also, the GEM issuers are required to publish quarterly financial reports which are more stringent than the requirements for Main Board issuers. The declining number of GEM new listings may suggest the skepticism of market practitioners on the positioning and viability of GEM. Without an alternative listing platform tailored for the small and mid-sized companies, many good quality companies that cannot satisfy the requirements under the Proposal will seek to list at other overseas market which substantially harms the Hong Kong IPO market and the business of the market practitioners.

The impact of the Proposal on the Hong Kong financial market is underestimated

It is estimated in the Consultation Paper that the aggregate market capitalisation for the listed Ineligible Applicants only accounted for 3% of the aggregate market capitalisation of Main Board issuers newly listed between 2016 and 2019 at the time of their respective listings. However, we believe the Proposal not only impact the number of listing applicants and the economic benefits at the time of listing, but also the economic benefits for any subsequent corporate actions (e.g. mergers and acquisitions and secondary market fund raising), the business activities of the market practitioners, the investors’ appetite on Hong Kong securities market and the competitiveness of the Hong Kong financial market, and such impacts may be material and the Proposal is therefore not preferred.

The Proposal could severely hit the Hong Kong economy and raise the unemployment rate under the shadow of COVID-19 pandemic

A number of professionals including sponsors, lawyers, accountants, industry experts, valuers, financial printers etc. are normally involved in an IPO project. A substantial part of their income relies on IPO projects. As set out in the Consultation Paper, 59% (437) and 65% (486) of companies applying for listing under the Profit Requirement between 2016 and 2019 would have disqualified from listing for Option 1 and Option 2, respectively. The Proposal, once proceed, could mean that the income of the professionals could significantly reduce and it may result in an industry reform to eliminate a certain number of occupations in these industries, which will further drive up the already high unemployment rate. However, the above percentages only indicate the impact at “normal economic

conditions". As the financial performance of many businesses may hit hard during year 2020 or even 2021, the total number of eligible applicants may further decrease and the impact on the professional industry can be even worse.

A holistic and comprehensive review on the listing requirements is expected

As the proposed increase in the Profit Requirement under the Proposal is substantial which may have material impact on the Hong Kong IPO and financial market, a holistic and comprehensive review on the Hong Kong listing regime (such as other Main Board listing requirements, the positioning and listing structure of GEM and any plan to introduce new listing board) is expected as a whole instead of discussing the Profit Requirement only. We are welcome to discuss with any proposals to raise the current profit requirement while at the same time accommodate potential listing applicants with annual profits in the range of HK\$20 million to HK\$50 million to list on an investor-welcome exchange in Hong Kong.

2. Reasons for our views on Q.2

Given the material impact of the Proposal as discussed in Question 1 above, we prefer to retain the existing Profit Requirement but reduce the Market Capitalisation Requirement which is considered as the solution for the Issue. We also suggest the Exchange to review the GEM listing regime to make it tailored for small and mid-sized companies so to avoid the confusion in the market and make it viable and attractive listing platform for small and mid-sized companies. Besides, a stream-lined procedure should be re-established for qualified applicants to be transferred from the repositioned GEM to the Main Board.

3. Reasons for our views on Q.3

We oppose the Proposal and thus, the above question is not applicable. If, however, the Exchange ultimately proceeds with the Proposal, we would agree that the temporary relief should be considered. Given it is still unknown about how long the coronavirus pandemic will last and the financial impact of coronavirus pandemic, we expect the temporary relief period should not only focus on year 2020, but could be prolonged to subsequent periods such as 2021 or thereafter until the adverse effect of the pandemic on the Hong Kong economic conditions is generally alleviated.

Notwithstanding the above, we do propose that, even the Proposal would not proceed, the temporary relief should also apply to the current profit requirement in a principle generally in line with the Proposal (i.e. the aggregate profit during the track record period meets the Aggregate Profit Threshold of HK\$50 million while either the aggregate profit for the first two financial years or the last financial year falls short of HK\$30 million and HK\$20 million respectively) due to the fact that a lot of local businesses, in particular, retails, food & beverages and tourism related businesses have been suffering severely during the coronavirus pandemic.

4. Reasons for our views on Q.4

As discussed in Question 3 above, given it is still unforeseeable on the period and impact of the coronavirus pandemic, it is not practical to set out the conditions to the temporary relief at this moment and even, if the Exchange ultimately proceeds with the Proposal, the effective date of the Proposal.