

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.

We respectfully submit that we disagree with the proposed increase of profit requirement for the reasons stated below:

1. The increase of the profit requirements to deny small or mid-sized companies in traditional industries stepping into the Hong Kong capital market seems rather unreasonable. We see no evidence indicating the companies in traditional industries has no genuine fund-raising needs. The allegation of "manufacturing potential shell companies" as quoted in this consultation paper is a misjudgement and an unfair opinion towards the small to mid-sized companies.

2. Before the Exchange published the 2017 Consultation Conclusions, the Exchange has already adopted a heightened vetting approach and questioned tremendously on the commercial rationale for the proposed listing, reasonableness of the P/E and also the placing procedures of these small to mid-sized companies, without mentioning the series publication of guidance letters and/or listing decision illustrated the reasons of listing applications being rejected in past few years arguing the failure of justification in use of IPO proceeds, high P/E valuation against the market peers and the basis of comparable companies being chosen.

3. The accusation of less profitable applicants has a higher chance fail to meet their profit forecasts which then likely will create losses to investors and hurt investors' confidence in the relevant shares is unfair. The future development and potential growth of the listing applicants can be affected by many various macro-economic and company-specific factors, most of these factors are unforeseeable. We trusted the board of directors, the relevant sponsors and other professional parties nowadays in preparing the profit forecasts of the listing applicants with perform their best with great delicacy as we already realise the Exchange would question about the reason for the shortfall in actual financial performance against the original profit forecast being submitted to the Exchange for IPO vetting. The regulators are welcome to take post listing disciplinary action against the relevant companies and/or the sponsors if they fail to justify the deviations from actual financial performance and profit forecasts.

4. The consultation paper lack of explanation to the market in relation to the unfairness treatment against the small to mid-cap listing applicants. We noted the IPO vetting proceeds for large market cap listing applicants generally take a much shorter vetting period from the date of submission to the date of commence dealing while the entire proceed for small to mid-cap applicants could take years with few more rounds of re-submission. Not to mention the unequal disclosure requirements for large cap applicants and small to mid-cap applicants, the Exchange seems did not question, on the other hand, about the unreasonably high valuation of the large cap applicants, as far as we aware most of the biotech companies listed under chapter 18A are pre-revenue and loss making, having the historical and forward P/E ratio calculated as "N/A",

5. The Exchange has labelled small to mid-cap listing applicants as de facto shell companies. To combat the problem of shell companies, there are already mechanisms in place for stopping them from coming to the market. In its Guidance Letter 68-13A issued in April 2018. The Stock Exchange laid down seven criteria for suitability of listing. The Securities Futures Commission has also invoked power under the SFO to object listing applications under the front-load regulatory approach. In addition, the Exchange implements stringent rules of discouraging back-door listing via shell companies. The shell market has almost, if not all, died down as of today. There is no need to raise the profit requirement to keep the Exchange further out of reach for genuine and healthy small to mid-sized companies.

6. The Exchange pointed out that the proposed IPO profit requirement would have driven out 62% IPO applications between 2016 and 2019, and a similar impact is precasted for future applications. After the proposed upward revision, the new Main Board's profit requirements on an aggregated basis for the three years track record would become the highest among the Overseas markets (under the same categories). This will weaken the competitiveness of Hong Kong at a time when the Exchange and market participants are vying for companies from overseas markets to list in Hong Kong. Some quality small to mid-sized companies maybe prevented from pursuing a listing in Hong Kong Main Board due the fail in meeting the new profit requirement, while also not considering the GEM which has being labelled as speculative, susceptible, high risk, high volatility and less liquidity.

For the reasons stated above, we are of the view that it is not necessary and not desirable to change the profit requirement as proposed. ⁸

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.

As noted in the response to Question 1 above, we disagree with the Exchange's proposed increase in the Main Board profit requirement. We are of the view that the existing minimum capitalisation requirement is the cause of issue of high historical P/E ratio and is rather unfavourable to many potential traditional listing applicants based in Hong Kong and mainland China. Our preference is to retain the existing profit requirement. If there is to be an increase in the profit requirement, we suggest the final year's requirement should be no more than HK\$40 million and the aggregate requirement for years 1 and 2 to between HK\$40 to HK\$50 million. We believe the increase in the most recent year of the track record period SHOULD NOT automatically trigger the same percentage increase for the sum of years 1 and 2. The profit requirement for the two preceding financial years should have no change as the final pricing of the shares at the end has nothing to do with the historical performance of the listing applicants, especially to some fast growing companies. We propose that the aggregate for years 1 and 2 should remain unchanged or, if increased, only modestly.

In addition, we suggest the Exchange should allow a 3 years transition period for any change of the profit requirements with reference to "Consultation Conclusions on The Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules" published on 15 December 2017.

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.

Referring the Question 1 and 2, we disagree the proposed increase in the Profit Requirement. As regards the proposed temporary relief arrangements as a result of the COVID 19, the fact that relief arrangements itself indicates strongly that now is not the right time to increase the financial requirements for listing, given that the global economy is still going downturn with no clear visibility of rebound.

If there is a must of increase in listing requirements, it should be withhold (or at least with a transition period of 3 years) until there is reasonable certainly that the most affected sectors of the economy are well into a recovery to levels seen before the pandemic. If, however, the Exchange ultimately proceeds with its proposals, we, without any other option, would support granting temporary relief.

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 would like to emphasis the change of profit requirements is not necessary, especially when the global economy is in such a difficult situation. We are of the view that the pandemic's impact is likely to extending into 2021 or 2022, paragraph (d) should be revised to refer to six months of the track record period falling within 2021 rather than just 2020. We also do not support the idea of disclosing the profit forecast in the listing document (paragraph 55(e)(ii)) which will need to be endorsed by the reporting accountant and the sponsor as required by the Listing Rules. As already mentioned in Question 1, the profit forecast can be affected by many unforeseeable future factors, so it's rather unfair for only the listing applicants to disclose their profit forecasts to the public while other listed company has no such obligations. The Exchange can always take post listing disciplinary action against the relevant companies and/or the sponsors if they fail to justify the deviations. We can only accept disclosing the qualitative analysis in relation to the profit forecast, in view of the current COVID pandemic. We also doubt the willingness of issuance of confirmation from the reporting accountants and the sponsors as the accuracy of the profit forecasts is questionable in the current economic situation.

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