

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 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.

Please refer to Attachment 1.

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.

As we do not agree with the proposed increase in the Profit Requirement, the granting of temporary relief is not applicable.

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.

- End -

Replies to Part B (1)

We do not agree to increase the Profit Requirement and the reasons are as follows:

1. the assumption of the implied historical P/E ratios of applicants under the new Profit Requirement of 8 to 10 times may not reflect the reality as different industries have different ranges of P/E ratios and the adoption of new Profit Requirement will jeopardise certain applicants in the industries with higher P/E ratio and which are able to meet the Market Capitalization Requirement though they cannot fulfill the increased Profit Requirement;
2. HKEX already has the power to reject the listing application of an applicant especially when the applicant only marginally meets the minimum thresholds under the Profit Requirement and the HKEX has great concerns on the valuation of the applicant that it can meet the Market Capitalisation Requirement;
3. facing the increasing competition for Chinese listings from the mainland stock exchanges, the adoption of a higher profit requirement for the Main Board would thus risk losing the IPOs of Chinese SMEs to the A-share markets;
4. the Consultation Paper appears to suggest that the GEM market offers an alternative for smaller companies, but it is not so in practice as the cost of listing is high and provides a large burden for GEM listing applicants. The GEM does not provide a viable alternative market is apparent in the declining numbers of companies listing on GEM each year; and
5. the losing of interest of listing applicants in Hong Kong stock market as a result of the increase in Profit Requirement will materially affect the room to sustain in business for small to medium industry players.

Replies to Part B (2)

We do not agree to increase the Profit Requirement and we consider that instead of increasing the Profit Requirement, the HKEX can exert tighten measures on the applicants in case they fail to meet the profit forecasts filed by them with the HKEX after their listing without any valid reasons. Moreover, the HKEx should focus on the corporate governance but not to increase in the Profit Requirement to combat “shell company” listings.