

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.



1. The proposal to increase the profit requirement will result in Hong Kong having the highest profit requirement for listing among major markets. This will reduce the variety of companies listing on the Main Board and affect the city's status as a leading financial centre and hence the local financial services, legal practices, accounting firms and other supporting businesses.

2. The consultation paper mentioned that the proposal to increase the profit requirement is based on the view that certain issuers overstated their valuation and the observation that the P/E ratio of certain issuers are higher than peers and that certain issuers failed to meet the profit forecast made before listing.

Our view: It is expected the valuation of an issuer is determined by the issuer and professional advisers after careful consideration. The fact that financial institutions and investors approved the valuation by participating in the IPO shows demand for shares of such high growth issuers. Conversely, if the shares of such issuers are not welcomed by investors, there is no need for the proposal.

3. The consultation paper further mentioned that certain issuers may offer rebate to investors and use abusive behaviours to achieve high IPO valuation.

Our view: Issuers that use improper means to overstate their valuation and bypass the listing requirements would continue to do so regardless of changes to the listing regime. Further, such issuers would overstate their profits to meet the increased profit requirement if the proposal is adopted. Therefore, the proposal to increase the profit requirement would not help to eliminate such abusive behaviour but it would only deter SMEs with genuine needs of listing on the Main Board.

4. The consultation paper further implied that certain issuers overstated their valuation in order to list on the Main Board due to the perceived premium of the Main Board status.

Our view: This shows that the core issue is the perceived difference of the Main Board listing status and the GEM Board listing status. The popularity of high-tech and growth markets in other places of the world shows that the GEM Board is not necessarily inferior, provided that appropriate measures are taken to make the GEM Board more attractive for potential issuers and investors.

5. Further or alternatively, in order to protect investors and reputation of the Exchange, more extensive disclosure obligation shall be imposed on issuers and potential issuers for scrutiny by the Exchange, regulatory authorities and investors, and effective measures shall be taken to ensure compliance by them.

6. Last but not least, in order to offer more choices to potential issuers that desire to list in Hong Kong, the Exchange is encouraged to consider creating additional layer(s)/board(s) to the current listing platform structure. This would improve the diversity and variety of listed companies in Hong Kong while maintaining a well-organized listing structure.

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.



The Exchange may require disclosure of information about the governance and ESG of potential issuers and use them as considerations of listing applications.

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.

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.

