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 believe that the Exchange, being a monopoly, has a social and moral obligation to provide Hong Kong home-grown companies with a platform for fund-raising and listing.

The Exchange already has one of the strictest (if not the strictest) listing requirements of any international exchanges, including all of those referred to by the Exchange as "Selected Overseas Main Market". As the Exchange admitted in its consultation paper, if Profit Requirement of Option 1 or Option 2 were to be imposed earlier, only 35% - 41% Main Board issuers would fulfill the increased Profit Requirement over the 4 years period.

What does that mean? The Exchange has been largely unsuccessful in attracting big overseas companies to list on the Exchange. Hence, raising the profit requirement will only keep the Exchange's door open to mainly large Chinese corporations.

Is this good for the Hong Kong public? From a social and moral perspective, should a Hong Kong based exchange exclude the needs of its own people? Very importantly, should Hong Kong's own businesses be relegated to "second class" because all that they could qualify to do is to list on GEM? Bearing in mind that compliance with the GEM Listing Rules is just as onerous as compliance with the Main Board Listing Rules, and compliance costs of those companies listed on GEM is not lower than compliance costs of those listed of the Main Board, why should Hong Kong's own businesses be subject to materially similar compliance costs for a lesser product from the Exchange? The Exchange seems to suggest that raising profit requirement would somehow improve the "quality" of Main Board issuers. By what measure does this "quality" mean? If "quality" means larger trading liquidity and hence higher profit for the Exchange, then we agree. However, if "quality" means better corporate governance or better shareholders' returns, then we certainly disagree.

The Exchange has not objectively demonstrated that companies listed in Selected Overseas Main Market (which do not have such stringent profits requirements) have poorer corporate governance than companies listed on the Main Board of the Exchange, nor has the Exchange demonstrated that large-cap companies have any better corporate governance than small cap companies. Indeed, based on our reviews and experiences, some of the very large-cap Chinese (and possibly non-Chinese) companies listed on the Exchange have abysmal corporate governance. There also does not appear to be any correlation between large cap companies being able to generate better or more consistent returns to shareholders than small cap companies. All the Exchange needs to do is to look at the historical share prices of some large Main Board to see that larger companies do not mean ever growing share price or even consistency in paying dividend to shareholders. So, what is the Exchange really alluding to in its claim that sizeable companies are of better "quality"?

The Exchange will not doubt notice a recent phenomenon in NASDAQ/NYSE where a large number of SPACs (special purpose acquisition vehicles) have been created and companies back-door list on NASDAQ/NYSE by injection their businesses into these SPACs. Some of these businesses do so because they are unable to list on the Exchange and some do so because of the perceived quality of the US exchanges. So, if the US can list SPACs, tolerate back-door listings and yet remain as the premier listing jurisdiction of choice, why can't the Exchange? Quite apart from the fallacy that creating SPAC (equivalent to shell creation in Hong Kong) and backdoor listings somehow lowers the quality of an exchange, the Exchange (and the Hong Kong Government) needs to consider why local businesses should be driven out of their home exchange to seek overseas markets for their fund raisings.

Smaller mainland Chinese companies have a range of markets for raising funds locally including Chinext, STAR and OTCs. There is no equivalent for Hong Kong companies because of years of monopolistic protection afforded to the Exchange. In our view, if the Exchange wishes to restrict its Main Board to only large cap companies, it should give up its monopoly and let some other players develop an alternative market for small and medium cap companies. Until this is realised, the Exchange has a social and moral duty to serve all businesses (large, medium and small caps).

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 believe there should be a holistic reassessment of what the Hong Kong Exchange is created to achieve, and what is the greater purpose of the Exchange. Why should the Hong Kong public grant a monopoly to the Exchange, if it is not to serve the greater good of the Hong Kong public? Does increase in the profitability of the Exchange, regardless of its costs to the Hong Kong non-financial businesses, translate to greater prosperity for Hong Kong as a whole? Equally important, is the Hong Kong financial market decoupled with the Hong Kong real economy? As set out in our response to Question 1 above, we do not believe the Exchange has objectively demonstrated any correlation between the size of the IPO company and the quality of those companies, from a corporate governance perspective. It also has not objectively demostrated that what is good for the Exchange's bottom line is good for the Hong Kong economy as a whole. Until the Exchange demonstrates this, status quo should prevail - unless of course the intention is solely to drive out largely less profitable medium and small cap companies from the Exchange. We do not see the need for the rush to increase Profit Requirement in these difficult times.

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.

We believe the Exchange should grant temporary relief from the effect of COVID-19 and the unrest in Hong Kong in 2019. However, we do not agree that it should be conditional upon the increased Profit Requirement. These are two separate issues. If we recall correctly, the 2019 relief was not conditional upon our acceptance of any other requirements.

As set out earlier, we believe the argument to increase the Profit Requirement is flawed. It does not therefore follow that Hong Kong public should accept an increase in Profit Requirement, if only to secure a conditional temporary relief. Who are we trying to benefit anyway?

Lastly, we reiterate our earlier question. What is the primary purpose of the Hong Kong Exchange? It is merely a profit-making enterprise in its own right or does it have a greater social responsibility as Hong Kong's sole platform for fund raising for Hong Kong headquartered businesses?

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 accept Conditions 55(b), (c) and (e).

As far as Condition 55(d) is concerned, we believe it should also cover the 2019 Hong Kong unrest.

We do not accept Condition 55(a).

As set out above, we do not agree that the temporary relief should be linked to increased Profit Requirement.

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