

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.

The Stock Exchange quoted three major reasons for proposing to increase the Main Board Profit Requirement :

- 1) To discourage manufacturing potential shell companies for sale after listing (para. 22);
- 2) To discourage possible offering of rebates to investors to entice them to take up shares, and suspected abusive behaviors such as manufacturing an artificial shareholder base (para 23 (a)); and
- 3) To eliminate smaller market capitalization companies whose profit forecasts had higher historical statistics failing to meet profit forecast. (para 34 and para 39).

We draw the Stock Exchange's attention to the fact that the establishment of the Hong Kong Stock Exchange had the primary purpose of assisting local companies in raising funds to finance growth. The sudden surge in profit requirement will discourage local SMEs from listing on the Main Board. Regarding the other two regulatory concerns referred to above, we doubt why the regulators (e.g. the SFC or ICAC), did not take proactive measures to discourage the aforementioned activities, instead, the Stock Exchange has proposed to raise the profit threshold for entering into the stock markets. We have rarely heard of rebates to investors being discovered and prosecuted in the past. Moreover, reporting accountants, sponsors and executive directors were rarely held responsible for failing to meet profit forecasts

Moreover, the Consultation Paper did not make it clear why the proposed new profit requirement is even higher than that of the US, UK and PRC stock exchanges.

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 mentioned above, the magnitude of increasing the profit requirement is too great. A more reasonable revised level should be the first two years aggregate of HK\$40m with a third year to be HK\$40m. The overall profit requirement for the three-year track record period will be HK\$80, comparable to listing requirements in other international financial stock markets.

Role of the HKEx and the SFC

The primary corporate objective of the HKEx, being a monopoly, is profit maximization, while the role of the regulator in the financial market should be left to the SFC. It is the right time to study the regulatory infrastructure in the US, UK and PRC financial market and explore if there any lessons for Hong Kong to learn. The fact that the HKEx assumes partial regulatory functions in the IPO market is due to historical reasons dating back to the four stock exchanges era.

The GEM market

Upon the upgrading of a minimum market capitalization of the Main Board to HK\$500 million, the GEM market should be restructured into a more flexible stock market, copying the models of NASDAQ in the US and AIM in the UK. The GEM market should move to a more disclosure-based market but regulators (e.g. the SFC and ICAC) should tighten and speed up its regulatory actions. The GEM market is a failure. It should be fully restructured to keep in line with the new economy development.

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.

If the Stock Exchange determines to proceed with the proposal, a temporary relief of 2 years should be allowed, as many IPO candidates take years to prepare for a listing.

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.

Subject to having a temporary relief period of two years, the conditions referred to in para 55 are acceptable.

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