From: [redacted]
To: response@hkex.com.hk,
Subject: Re: Profit requirement CP
Date: Tue, Feb 23, 2021 2:48 pm

I am resending my response just in case my response dated 26 jan 2021 has not been sent across properly - because I haven't received any acknowledgement of my email.

Please confirm receipt.

Sent from the all new Aol app for iOS

On Tuesday, January 26, 2021, 00:30 [redacted] wrote:

I support the Exchange's proposal to increase the profit requirement.

My responses to all the 4 consultation questions in the feedback form are yes. Regarding question 2, possible alternative requirements may be to also impose some sort of operating cash flow requirements on Main Board's applicants relying on the profit test.

Reasons:

(1) As investors in Hong Kong are free to invest, listing on the Main Board should never be a universal right for any company that can meet basic disclosure requirements and have put in place appropriate corporate governance structures. What Hong Kong needs is a first-class stock market for investors, who, similar to shoppers, would expect the market to do some sort of screening and categorisation before putting goods on the shelves in the different sections of the platform.
As delisting is damaging to shareholders and ex-post enforcement can hardly undo harm already done to aggrieved investors, gatekeeping based on some sort of criteria is of paramount importance in the Exchange's efforts in upholding the overall market quality of its two boards by ensuring that companies entering the market can meet a certain standard pre- or at listing. As the current quantitative thresholds for the Main Board are too low, we often have no choice but rely on the subjective suitability requirement as the gatekeeping tool. However, the scandal involving the bribery of a senior officer of the Exchange is a testament that the suitability requirement may be prone to manipulation and is hardly a cost-effective filter. A claim that a robust delisting and post-event enforcement regime can effectively help promote market quality in the absence of stringent entry requirements is like a porous cup that cannot hold water.

(2) The profit requirement has failed to keep abreast with changes in the market so far. In 1994, a business with an aggregate net profit of HK$50 million was already amongst the best and most well-run market players in Hong Kong and mainland China that investors genuinely wanted to see listed on the Main Board at that time, taking into account the then economy and corporate demographics. However, the world has evolved so much over the years that the HK$50 million mark is not hard to achieve and can no longer signify the highest quality based on the current standards. The increased profit thresholds for the Main Board, together with other entry

requirements, will be on par with the combination of requirements (e.g. market capitalisation and public float) for companies relying on the profit test in the US.

(3) The reputation of the Main Board is at risk because it is now flooded with too many relatively small or unattractive companies that recorded little trading turnover because of natural selection. I trust that the Exchange is more than capable of digging up statistics showing the poor trading turnover of many Main Board companies. Historically, in the past few years, it appeared that the Exchange had focused too much on the number of new listings, perhaps with a view to gaining more listing application fees. It is now imperative that the quantitative thresholds be set at a sufficiently high level so that any new Main Board company should at least match investor expectation of what the Main Board label should entail in terms of historical profitability and market capitalisation.

(4) `The proposed new thresholds correspond to the natural dividing line between bigger IPOs and smaller IPOs in the market as shown in the relevant statistics. I trust that the Exchange is more than capable of digging up the relevant statistics. As a well-known commentator has publicly said recently, the Main Board and GEM are currently not much different other than the entry requirements. From the perspective of investors, including the many retail investors active in the IPO market, with the current very low entry requirements, the smaller Main Board IPO companies were just almost indistinguishable from those GEM IPO companies. While a majority of the other Main Board IPO companies were actually at the high end of the market capitalisation / profit spectrum, an unwary IPO investor may have the misconception that all Main Board IPO companies belong to this league. The proposed increase in the profit requirement would help address the risk of misconception by ensuring that Main Board is really reserved for IPOs of only the truly big companies.

(5) The saying that SMEs will not be able to raise funds and those professionals specialising in serving SMEs will have no business after the implementation of the proposed new thresholds for the Main Board is completely misguided by a lack of understanding of market dynamics. The relatively small number of GEM IPOs after last GEM review was due to the fact that it is just too easy for bigger SMEs to seek a listing on the Main Board under the current Listing Rules and Main Board is effectively a competitor vis-a-vis GEM for better IPO candidates. Following the implementation of the increased profit thresholds, companies that have become unable to meet the Main Board eligibility tests will naturally go to GEM because any company genuinely in search of a fund-raising platform rather than a shell manufacturing site has no reason to discriminate GEM. I trust that the Exchange is more than capable of digging up the relevant statistics showing the historical fund-raising track record of GEM IPOs (relative to their operational scale). I believe that GEM can continue to serve that function even after the adoption of the increased profit requirements for the Main Board. Increased deal flow to GEM will enhance the image of the board, benefiting not only SMEs wishing to raise funds on the Exchange and companies already listed on the GEM, but also professionals specialising in serving such companies.

(6) In any event, I don't think that the Exchange has a social responsibility towards SMEs or professionals specialising in serving SMEs specifically. As a public body, the Exchange has both a mandate for investor protection and market development, but it is not responsible for social welfare

or development of SMEs in Hong Kong. The Exchange should not just favour some companies that simply prefer to list on the Main Board because of an unjustified bias against GEM. The Exchange should not blindly follow the views of SMEs or professionals specialising in serving SMEs, who have obvious conflicts of interest, while turning a blind eye to investors, who deserve most attention from the Exchange as a statutory securities regulator, but are not sufficiently represented by interest groups. The Exchange should not give in to pressure from the media, industry groups or political figures who are hardly representative of investors - because to do otherwise would deal a big blow to the public confidence in the integrity of the regulatory system in Hong Kong.

That said, I do not object to a longer transitional period than proposed by the Exchange or more flexibility in dealing with companies that were temporarily affected by COVID-19 if there is such demand from market participants.

I agree to be bound by the terms relating to collection of personal information stated in the feedback form.

But I do not agree to have my name disclosed publicly.

[redacted]
An accountant with particular interest in corporate finance matters who is also an experienced retail investor in Hong Kong

[redacted]