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.

> I agree that the Profit Requirement should be increased. Option 2 is preferred. For the following reasons:
>
> 1. Raising profit requirements does not preclude early-stage companies from tapping the Hong Kong equity capital markets
>
> Profit test is not the only test to qualify for an SEHK listing. An early/pre-profit stage company can be listed on the SEHK via market capitalisation / revenue / cash flow tests, as long as it is able to convincingly demonstrate growth potential to investors. Many pre-profit (or even pre-revenue companies in certain sectors) have been listed on the SEHK with high valuation. Raising the profit requirement only preludes those small companies with limited growth potentials.
>
> 2. Raising the bar of shell-making boosts market confidence
>
> In recent years, there is a large number of negative media/social media articles about SEHK being a shell-making market. From my expereince talking to investors and potential issuers, such articles severely damage their confidence in Hong Kong markets.
>
> Shell-making is disproportionally more prevalent in listing applications where applicants barely meet the existing profit requirement. These listings make little economic sense and create no real value to Hong Kong's capital markets. Reducing such activities, on the other hand, will boost investors and issuers confidence in Hong Kong capital markets
>
> 3. The proposed change is consistent with HKEx's responsibility to promote Hong Kong as a leading international financial centre
>
> Listing on the mainboard of SEHK should be considered a privilege. Though HKEx has to treat every listing application fairly during the vetting process, it does not mean HKEx should endeavor to provide a funding channel for every company.
>
> Small companies have alternative funding channels such as Angel/VC/PE investment. Recent experience in introducing Chapter 18A Biotech Companies demonstrated that when HKEx takes care of funding for the premium segment of the biotech sector, it leads to much more active early-stage Angel/VC/PE funding for the entire sector.
>
> Therefore, I believe that HKEx can and should tweak its requirements (especially for the mainboard) to target the premium segment of potential issuers that is consistent with Hong Kong's position as a leading international financial centre.

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.

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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.

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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.

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│ While I generally agree with the temporary relief,  I would like to see more guidance on how │
│ the SEHK would apply the relief measure and whether a pre-A1 enquiry is encouraged so that   │
│ the issuer and intermediaries have a reasonable level of certainty of the issuer's eligibility at the │
│ beginning of the listing preparation process,                                                │
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