

## 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 proposed percentage increase in the Profit Requirement is excessive.

At the time of the increase in Market Capitalisation Requirement in February 2018, the Hang Seng Index was around 30,500, and the then HSI historical P/E ratio was around 15.37 times (based on the published "month-end weighted average P/E ratio" as prepared by Hang Seng Indexes Company Limited). In other words, an average IPO applicant in February 2018 with a profit attributable to shareholders, in the most recent year, of not less than HK\$32.6 million, should be able to meet the Market Capitalisation Requirement of Rule 8.09(2).

As of December 2020, the HSI historical P/E ratio (based on the published "month-end weighted average P/E ratio" as prepared by Hang Seng Indexes Company Limited) was 13.96. If we maintain the minimum Market Capitalisation Requirement of HK\$500 million, then a more reasonable minimum Profit Requirement for the most recent year should be around HK\$35 million, which is already equivalent to 75% increase over the existing requirement.

To conclude, I do not agree that the Profit Requirement should be increased to the extent proposed under Option 1 or Option 2.

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.

Following the rationale of my comments on Question 1, if a more reasonable minimum Profit Requirement is considered to be HK\$35 million, then the proposed year 1 and 2 aggregates of HK\$75-90 million is also excessive.

Based on the formula as proposed under Options 1 and 2, the year 1 and 2 aggregates equal to 1.5 times the amount of the minimum profit for the most recent year (i.e. HK\$75 million equals 1.5 times HK\$50 million under Option 1, HK\$90 million equals 1.5 times HK\$60 million under Option 2).

If we consider HK\$35 million to be a more reasonable minimum profit requirement for the most recent year, then the aggregate minimum profit for the two preceding financial years should be HK\$52.5 million.

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.

In view of the social unrest in Hong Kong during 2019 and the global COVID-19 pandemic since 2020, many potential listing applicants and, in particular, companies that rely on the prosperity of the Hong Kong local economy, were severely affected. It is expected that the financial performance of many potential applicants for the year ended December 2020 will fall short of the proposed Option 1 or 2 requirements.

The outlook for 2021 remains uncertain with travel restrictions and quarantine requirements adversely affecting economic activities to a great extent. It is reasonable to grant relief from the increased Profit Requirement.

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.

Given the uncertainty associated with the COVID-19 pandemic, the proposed changes in the Profit Requirement should be postponed until the full recovery of the global economy, or at least until the World Health Organisation has announced that there is no further case of COVID-19.

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