

## 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.

Please refer to the separate attachment.

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.

Please refer to the separate attachment.

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.

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.

- End -

### **Hong Kong should aim for a diversified market with different types of issuers**

Increasing Profit Requirement will surely reduce the number of listing issuers in coming years compared with the numbers in recent years which was indicated in the Consultation Paper. With the Consultation Paper published in December 2020, considering the proposed changes in mind by potential issuers, we receive feedbacks from companies with smaller profits already have indicated preference to aim for listing venues elsewhere such as exchanges in the PRC, New York and London exchange, where offer access to the capital markets of a similar level of reputation but with lower costs and requirements.

On the other hand, after the implementation of the proposed Profit Requirement, with the existing economy conditions, it will limit the development of Hong Kong capital market and the Stock Exchange appears to be only welcoming large cap companies. After the influx of new economies companies in several years, the market is likely to experience the lack of diversity and struggle for further growth and development.

In my own opinion, the Exchange's objective needs to enhance the market's diversity and competitiveness by increasing its coverage, bringing benefits to the economy as a whole.

### **No direct correlation between companies of lower profit level and failure to meet the profit forecasts in the year after listing**

The Consultation Paper included paragraphs which appears to express concerns on smaller companies who are typically more frequent to fail in meeting profit forecast in the financial year after listing. It is not necessarily always the case and some large companies do also issue profit warning shortly after listing and some do not meet the expectation by the market which are also reflected in the dropping share price.

Moreover, it is noted that pre-revenue, cashflow-negative, loss-making biotech companies are also welcome to be listed on the Main Board. Again, there is always uncertainty for these risky companies to meet their profit forecasts.

Consequently, a more stringent approach may be adopted on the basis and assumption on the forecast and more liability can be imposed on failure of meeting the profit forecasts and we can consider.

### **Over-emphasis on 'shell company' listings**

Simply, there have been too much discussion on potential shell manufacture in the Consultation Paper. Shell companies cannot be clearly defined and there are stringent rules and regulations to prevent shell company operations. The proposal would not effectively tackle the listed company quality issues by simply increasing Profit Requirement.

### **GEM board does not provide an efficient fund-raising platform**

The Consultation Paper suggested that those companies cannot meet the proposed changed Profit Requirement can go for GEM application. From the trading volume statistics in GEM, cost of listing and the vetting approach by the Exchange, it is widely considered by the potential issuers and market that GEM board does not provide a cost-efficient fund-raising platform.

We should consider to go back to the streamline approach (Sponsor to conduct due diligence of last year of the track record plus publish of a detailed announcement) for upgrading the GEM companies to the Main Board. Recent listed GEM companies which are able to meet the Main Board's financial tests should not need to issue a further prospectus which is costly and considered undue burdensome.

### **The timing between the consultation paper and actual proposed implementation date is very short and not fair to potential issuers**

Given the adverse economy caused by the COVID 19, it is not an appropriate timing to increase the Profit Requirement at the moment and more cautious approach should be considered by the Exchange after the impact of COVID becomes more stable.

Moreover, even there were rumours in the market in 2020 that the Exchange intends to increase the Profit Requirement but nothing concrete has come to the attention in the market until the issuance of the Consultation Paper. Nowadays, companies with good planning and corporate governance may plan their listing project well ahead, such as 1 to 2 years ahead, the suggested timeframe of the proposed changes appears to be very short (only about 6 months time), such changes should be well communicated to the market in advance and the first set of track record period for revised Profit Requirement should be Dec 2020, 2021 and 2022.