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.

We do not agree that the Profit Requirement should be increased by neither Option 1 (150%) nor Option 2 (200%). Referring to the Consultation Paper, one of the reasons given by HKEx for the Proposed Increase is the misalignment of the HKEx Profit Requirement and the Market Capitalisation Requirement, which as per HKEx's report, resulted in the increase in the number of listing applications from companies that marginally met the Profit Requirement but with high PE ratios. If HKEx considers the increase in Market Capitalisation Requirement without a corresponding increase in Profit Requirement has created an imbalanced market, the solution is to fall back into the previous Market Cap Requirement instead of increasing the Profit Requirement, especially during this period of global economic recession. PE is a market driven index, and it should not be tampered by regulations. We understand that the Proposed Increase is to prevent the "birth" of these shell companies. However, this is at the expense of those healthy companies which are marginally qualified with the profit requirements but with underwriters willing to set a high PE for their shares. In other words, the proposal will affect a lot of local financial advisory and securities firms as business opportunities are gradually shifted to those China backed firms. Therefore, we do not agree that the Profit Requirement should be increased by neither Option 1 nor 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.

To safeguard the reputation of the HK stock exchange, we are of the view that the regulations shall remain unchanged to ensure a high standard of economic freedom. If one of the reasons for the Proposed Increase is to eliminate shell companies, then keeping GEM as an alternative will provide alternative to the shell companies. So, the focus should not be on increasing the profit requirement and then setting up an alternative, but we should be focusing on how to help a good quality company get listed. From our experience in the past years, we can see that the current Listing Rules and Takeovers Code are quite effective in eliminating unhealthy shell companies and preventing the making of new ones. High set up costs with high risks of getting new investors have forestalled the setting up of new shell companies. We should let the market regulates itself instead of overwhelming with market with rules and regulations. This will only harm the reputation of the HK stock exchange which now enjoys a high standard of economic freedom.

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.

As stated in question 1, we do not agree that the Profit Requirement should be increased by neither Option1 nor Option 2 at the first place. Therefore, we do not agree that the Exchange should consider granting temporary relif from the increased Profit Requirement. Given the current challenging econimic development, the Proposed Increase will only reduce the atractiveness of HKEx as a listing venue.

According to recent reports, China is the only country that experienced GDP growth amid the COVID 19 pandemic. That implies, in the next few years, other than companies from China, chances of any HK local or overseas companies seeking listing in HK will be slim. If that is the case, we cannot see any diversity in our exchange though we claim that HK is an international economic hub.

In addition, with our experience as a sponsor, we know some small cap companies are genuinely seeking listing in HK. And because of the pandemic, their original plan of using TRP 2018, 2019 and 2020 has to be postponed for a year or two. These companies have good internal control, experienced management and good brand reputation in HK. If the Proposed Increase is to become effective this year, even with the proposed transitional arrangements, these companies will have difficulties to get listed in near future.

To sum up, we are of the view that the regulations shall remain unchanged.

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.

Not applicable.

- End -