

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.

As the sole provider of stock exchange platform in Hong Kong, the Stock Exchange of Hong Kong Limited should consider the underlying implications to the market, stakeholders, the investing public and other participants as a whole, balancing the interests of all. The main reasons for our disagreement are:

1. The increased Profit Requirements under either option would undermine the competitiveness of the Hong Kong market against main international markets and China market, particularly in its ability to attract high growth companies for listing in Hong Kong, and as such, reduce the diversity and breadth of the Hong Kong initial public offer and stock markets. This may expose the Hong Kong market to a big risk of unbalanced growth in the medium term;
2. The increased Profit Requirements will deprive a great number of smaller companies in Hong Kong and the region of a significant fund raising alternative, and results in unfair competition, especially to home-grown companies;
3. The unfavourable valuation or other considerations as pointed in the consultation can be effectively solved by other measures including the stringent requirements in justifying valuation for newly listed companies and the checks on subscriptions by connected parties;
4. With the negative impact of Covid 19, it is not a time appropriate to institute the increased Profit Requirements in consideration of the exceptional impact the virus has resulted to the operations of many corporations; and
5. Market regulation, instead of the increased Profit Requirements, is the appropriate tool and means to achieve the balanced growth of the Hong Kong market, under the prevailing context of major international stock exchanges and China stock exchanges attempting to raise their attractiveness, and in the case of the China stock exchanges simplifying the application process by virtue of a registration system and not an approval process.

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.

As stated above, enhanced market regulation to be implemented by both the Hong Kong Stock Exchange and the Securities and Futures Commission is the preferred alternative in solving the issues raised in the consultation, rather than the proposed increase in the Profit Requirements. Over the recent years, much has been achieved in market regulation and this has set an effective trend and has proved itself to be a viable solution. For balancing the interests of all stakeholders for the stock exchange platform, clearly enhanced market regulation and execution is the preferred solution, rather than increasing the Profit Requirements. Any increase of the Profit Requirements should only be implemented when the GEM market is re-vitalized such that there is a truly viable choice for smaller companies needing of financing.

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 explained above, the increased Profit Requirement is not appropriate at this time of market development and considering the impact of Covid 19. As such, granting temporary relief for at least 24 months or longer is appropriate, if the proposal must be implemented. Also, the conditions for the temporary relief should be much more relaxed in order that the relief can really provide the necessary functions.

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.

We disagree to the conditions set out in (a), (d) and (e) (iii) under Paragraph 55. These conditions have compromised the functioning of the temporary relief to an unacceptably big extent and are not appropriate. Condition (a) is unnecessary and is too stringent. Condition (d) can be set for three months instead of six months. We do not think that the stringent requirement of a profit forecast under condition (e) (iii) is appropriate. The market mechanism can function well and the non-inclusion of a profit forecast in the prospectus is in line with the arrangement of nearly all other listing prospectuses.

End -