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.

   Our company believe the proposed increases in the profit requirement will reduce the competitiveness of the Exchange as it would make listing in Hong Kong one of the most difficult place among the major international exchanges other than for the largest listing applicants in China. As an asset manager that invest in initial public offerings (IPOs), the latest profit requirement proposal will discourage listing in Hong Kong and promote listing in other oversea exchanges. This would create long term negative impact to the positioning of the Exchange and reduce the number of job opportunities available in Hong Kong across asset managers and other financial services professionals. Internationally, New Yok and London exchanges are actively encouraging companies to list on their exchanges from different countries and having lower entry requirements to promote listing from smaller companies that are in their early growth cycle. In addition, Singapore's stock exchange is accelerating its plans to become the first Asia exchange to introduce special purpose acquisition company (SPAC), a company with no commercial operations that is formed to raise capital through an IPO for the purpose of acquiring an existing company that had attracted world renowned underwriters and investors to participate in these offerings. In China, ChiNext board are also making their platforms more accessible for innovative start-ups. It is to note that some of the most promising and profitable companies currently listed on the Exchange were once small or loss-making companies. Although we understand the tightening of the profit requirement is with the intention to protect the investor community, as long as information were made transparent to the investors, they should ultimately take full responsibility for their investment decisions. Micro, small and medium cap investment strategies often outperformed large cap investment strategies and certainly add diversification benefits to investors' portfolios.

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.

Our company would suggest reducing the minimum capitalization requirement to HK$300m as c.36% of all current Main Board listings are below the market caps of HK$500m at the end of 2020 and the current minimum market cap requirement had negatively impacted many potential issuers globally that are looking to list in Hong Kong. From our experience, market capitalization is subject to market conditions and investment sentiment during different phase of the market cycle. This is especially crucial in the current environment where many potential issuers require additional funding to transform their business models to cope with the new business environment post COVID-19. From an investor's perspective, issuances in tough business environment are often great investment opportunities. In addition, we also believe the Exchange should not take an active stance to address the historical P/E level for the new listing as (1) it is the free-market that should decide the valuation of the listed companies, (2) P/E is not a reliable nor important valuation matrix for many businesses and (3) the Exchange should not discriminate most industries while allowing loss-making biotech and mineral exploration companies to list.

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.

Our company believe the Exchange should provide temporary relief arrangements for investors, issuers and potential issuers as a result of the COVID-19 pandemic. All regulatory tightening proposals that would result in higher cost of compliance should be delayed until our economy are showing promising signs of recovery.

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.

The proposed temporary relief measure requires the potential issuers to demonstrate a positive cashflow during 2020 (paragraph 55(b)) and such requirement would exclude potential issuers from the most negatively impacted industries (F&B, retail, entertainment, etc.). These potential issuers in dire need for additional capital can present themselves to be promising investment opportunities for investors. In addition, asking potential issuers to include a profit forecast (paragraph 55(e)(iii)) during this uncertain period is both unnecessary and would discourage sponsors from undertaking these projects due to the additional risk.

- End -