

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.

If the purpose of the increasing the profit requirement is to raise the standard of companies that should be listed on the Main Board of the Stock Exchange, then we agree that the profit requirement should be raised to either Option 1 or 2. However, if as stated in paragraph 5 of the executive summary, the regulatory concern is that companies are being reversed engineered to achieve a listing, the raising of the profit requirements simply will mean that shells may be created with companies that meet the higher profit requirements. It does not deter the manufacturing of shell companies given that the market capitalisation requirement is only required to be met at the time of listing and not a continuous requirement.

Even with the Stock Exchange implementing the new minimum HK\$500 million market capitalisation, it can be clearly seen that many companies that meet those requirements for the purposes of listing many drop below that HK\$500 million market capitalisation on the first day of listing thus questioning the effectiveness of the HK\$500 million market capitalisation requirement or the legitimacy of the HK\$500 million market capitalisation as also being engineered.

If considering the impact of the new profit requirement, had it been effective in 2020, it appears that approximately 30-40% of those companies that were listed would not have been able to meet the new proposed listing requirements. Shouldn't the listing approval be based on the quality of the company and its business instead of meeting profit requirements? Companies that in fact meet the current profit requirements may prove to have good growth potential as compared to a company that simply meets higher profit requirements.

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.

Whilst it is in agreement that the profit requirements should be increased as stated above, the potential effect this may have to the IPO market as a whole and potential effect this will have on market participants should also be considered as not all are accessible to deals that meet that higher requirement. In the past, many SME companies try to raise capital through a listing on the Main Board rather than GEM given the costs involved in a listing. If the profit requirement were substantially increased it would substantially affect not only SME companies ability to raise funding but also create smaller market participants to effectively operate in this market.

Further, access to the capital markets should not be highly restrictive to SME companies which are the main candidates that need expansion capital. If the purpose is to restrict and deter companies from manufacturing shells then additional penalties should be put on sponsors for sponsoring such companies and the professional parties involved. Companies that are being reversed engineered for the purposes of listing clearly have certain traits and not necessarily simply deduced from not being able to meet the profit requirements.

The main effect achieved from raising the profit requirements seems to only affect smaller market participants to the extent that they do not have access to larger IPOs.

If the main board profit requirements are increased, the Stock Exchange should provide higher accessibility for SME companies to the GEM as the stepping stone to raise capital and eventually be able to apply for a listing on the Main Board. The difficulty and time consuming process not only deters applicants to list on the GEM but make it costly and not feasible.

The current application process and vetting procedure is counter effective for companies in need for growth capital as it eventually costs more for listing fees than the amount actually being raised.

To deter manufacturing of shells, maybe the Stock Exchange should highlight companies that are unable to consistently meet profit requirements subsequent to listings and consider demoting them to GEM.

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 -