

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.

No. ISD strongly opposes to the proposed increase in the Profit Requirement, either under Option 1 (150%) or under Option 2 (200%) ("Main Board's Profit Requirement"). In our view, the proposal would (1) harm the growth to small and medium-sized enterprises ("SMEs"); and (2) reduce the competitiveness for most of the companies In Hong Kong.

(1) Harmful to SMEs

The proposed increase of the Main Board's Profit Requirement would seriously harm the growth of SMEs in Hong Kong as it basically denies them the access to a major source of funding. Some may suggest that the GEM market can be an alternative listing venue for SMEs where GEM may act as a "stepping stone" to a main board listing. However, this is no longer the case since the GEM streamlined process for transfer to the Main Board has been removed in 2018.

Therefore, if such proposal would really be put in place, not only does it harm the existing SMEs which intend to apply for main board listing, but it would also deter the formation of promising new businesses especially when most, if not all, entrepreneurs investing in business with an ultimate goal in realising their investment by the main board listing. With lesser IPOs, the SME corporate finance advisers as well as SME Exchange firms will inevitably be affected.

(2) Reduction of competitiveness as an international financial centre

When compared to other major markets, the proposed increase in the Profit Requirement will make Hong Kong the most difficult place to list as it has the highest profit requirement for listing. Take NASDAQ as an example. It is possible to list on its top tier Global Select Market with pre-tax earnings of US\$11 million (HK\$85.25 million) over three years where that is much lower than the proposed increase in the Profit Requirement. Further, there is no market capitalisation test to be fulfilled.

All in all, ISD opposes to the proposal and would urge HKEx to suspend the Proposal for the benefit of Hong Kong economy as a whole especially when it is still experiencing a difficult time amid the pandemic and the extremely gloomy economic outlook ahead.

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.

ISD views that no other alternative requirements is necessary to be introduced at the moment considering the current economy and current rules in place.

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.

Not applicable as ISD opposes the proposed increase in the Profit Requirement.

But if the Exchange would proceed with the said proposal during this difficult time faced by businesses, the granting of temporary relief should be considered.

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 as ISD opposes the proposed increase in the Profit Requirement.