

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.

I acknowledge the rationale behind the proposed increase in the Profit Requirement. It helps reduce the happening of inflated valuation for the Main Board potential issuer(s). In particular, the significant drop in its/their market capitalisation subsequent to a very high P/E issuance would lead to the dissatisfaction of the investors and shareholders, draw concerns from the media and regulators as well as undermine the image and quality of our HK IPO market. Nevertheless, the proposed increase under either Option 1 or Option 2 is too high which may deter or perhaps suffocate the fund raising activities for those issuers with lesser level of profit. If the expected market capitalisation is kept at HK\$500 million, I would suggest the proposed increase to be 50% (rather than 150% under Option 1 or 200% under Option 2). In such case, the aggregate profit for the first two years is increased to HK\$45 million and the profit for the last year is increased to HK\$30 million where the implied historical P/E would come down from 25 times to 16.67 times.

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.

Besides the proposed increase in the Profit Requirement, I would recommend that the GEM issuers which have satisfied the profit requirement (being an objective measure on the size of their operation) to make a transfer to the Main Board are allowed to apply for a waiver from meeting the market capitalisation requirement of HK\$500 million. Unlike an unlisted IPO applicant (where the pricing is determined through the professional underwriters), the GEM issuer has its shares already traded on the Stock Exchange for some years. The strict compliance with the market capitalisation requirement (which makes reference with the traded share price for a certain period of time) might lead to high market expectation, unwelcome market speculation or even perceived market manipulation that would apparently come up with a false market and/or create an undue burden on the issuer, its shareholders, the investors, the professional parties as well as the regulators.

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.

Apart from the temporary relief, if the Profit Requirement is adopted (or revised upward as referred to Q1), I would request for a longer grace period (say, 5 financial years after the date of their GEM listing) where the already listed GEM issuers can apply for the Main Board under the original profit requirement.

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.

No opinion.