

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.

We do not agree that the Profit Requirement should be increased by either Option 1 (150%) or Option 2 (200%). Please refer to our response letter.

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.

Please refer to our response letter.

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.

Please refer to our response letter.

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.

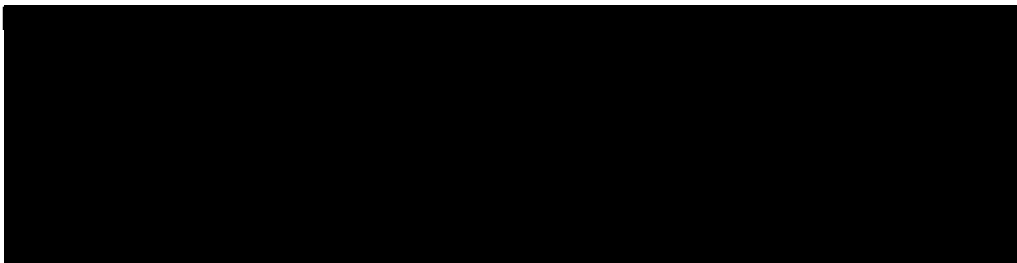
Yes

No

You may provide reasons for your views.

Please refer to our response letter.

- End -




29 January 2021

Corporate and Investor Communications Department
Hong Kong Exchange and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Hong Kong

Dear Sirs,

Re: Profit Requirement CP

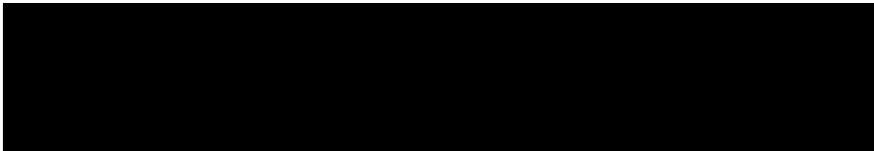
We,  refer to the Consultation Paper on Main Board Profit Requirement (the “**Profit Requirement**”) published by Hong Kong Exchange and Clearing Limited (the “**Exchange**”) in November 2020 (the “**Consultation Paper**”) and would like to submit our response.

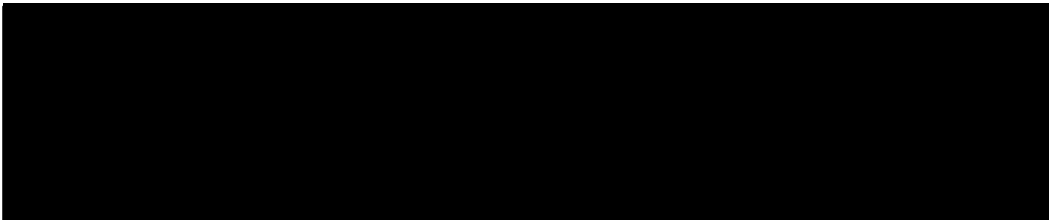
As an active sponsor firm in Hong Kong, we support market reforms and rules amendments that promote the continuous development of the capital market and attract more perspective listing applicants to go public in Hong Kong. However, we suspect that the proposed changes in the Consultation Paper would not achieve these objectives, particularly given the current economic challenges posed by COVID-19.

Our Views

We do not agree that the Profit Requirement should be increased by either Option 1 (150%) or Option 2 (200%). We consider that the proposed increases by either Option 1 or Option 2 are too aggressive and would exclude a large number of prospective listing applicants. However, we are open in principle to a much more moderate increase of the Profit Requirement when the current economic challenges have eased. The following set out the reasons of our views.

Although mega sized listings contribute to the status of the Exchange on global arena, as the only authorized financial market operator in Hong Kong, the Exchange has a duty to provide a fund-raising platform for enterprises of a diverse size. This is important not only for small-to-medium enterprises which pursue capital, but also for market participants such as investors, investment banks, legal and accounting firms, etc. We considered that a healthy financial market should embrace diversified participants and in turn form a large cluster and ecosystem for its further development. It would be a mistake for the Exchange to restrict its focus on a niche market comprising only companies with large market capitalization and profit.



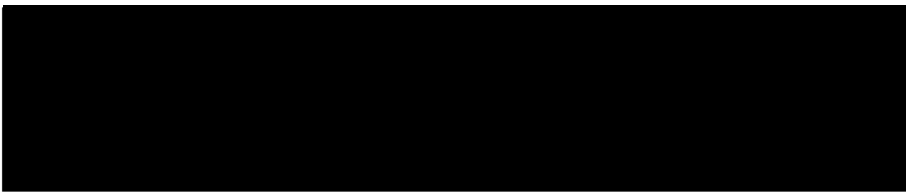


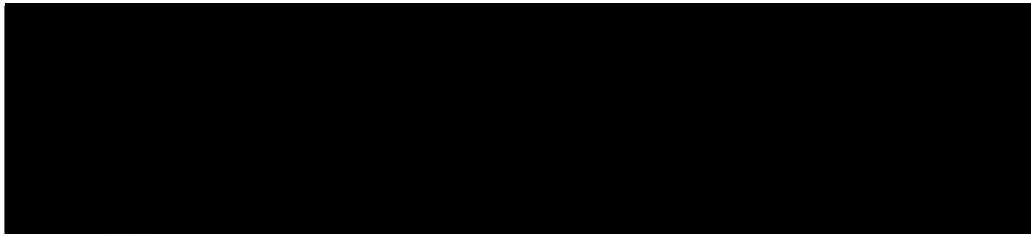
There have been no substantive developments that calls for the proposed changes in the Consultation Paper since the prior consultation in 2017. Although the Profit Requirement has not been adjusted for 26 years, the Exchange did explore the case for raising the Profit Requirement in 2002 and 2017 respectively. It was concluded in both consultations that no changes were necessary. Since the prior 2017 consultation, the Exchange has enforced a minimum market capitalization requirement of HK\$500 million and subsequently there have been no changes in market situation which warrants overriding the former conclusions. It is a surprise to the market that the Exchange proposes such a huge increase of Profit Requirement under this background.

Regulatory concerns are not sufficient reasons for banning the smaller companies to raise capital in the Hong Kong stock market. Over the past few years, the Exchange has implemented a series of measures to strike shell companies and backdoor listing. By rejecting companies without genuine funding needs from listing, tightening the reverse takeovers rules, restricting companies to issue securities in a large scale, and regulating cash companies, the market for listed shell companies has become inactive. In view of this, we would argue that raising the Profit Requirement as an additional measure is redundant, conversely, it will strangle the fund raising opportunities for the quality small-and medium size enterprises. Literally, we cannot see any pressing need of increasing the Profit Requirement as the Exchange has already got the discretion to screen and reject those listing applicants which can barely meet the Profit Requirement and the minimum market capitalisation requirement by applying an unreasonably high P/E ratio.

The Consultation Paper suggested that the adoption of new Profit Requirement could serve the purpose of distinguishing main board and GEM, which actually sounds ironic. We considered that the current positioning of each of main board and GEM is already clear, and if the new Profit Requirement of the main board is implemented, it may be extremely difficult for GEM listed companies to transfer to the main board. As a result, companies will have hesitation in applying for GEM listing, rendering GEM's function of steppingstone to main board listing obsolete. Moreover, GEM listing will undoubtedly become unattractive to prospective listing applicants, which may seek listing opportunities in other capital markets in China and Singapore, whose listing requirement have been becoming increasingly lenient towards small-cap enterprises, instead of heading to GEM. Merely raising the Profit Requirement without reviving the transitional mechanism nor providing a meaningful alternative would only fence off those less profitable enterprises from listing in Hong Kong.

Due to the adverse impact of COVID-19 and the slowdown of global economy, many firms which primarily engage in listing businesses have been facing difficulties. A significant increase of the Profit Requirement, as proposed in the Consultation Paper, will definitely hit these firms and would further increase their already high burden. Hong Kong economy has been facing difficulties since 2019 and the situation continues to be challenging in 2021, particularly the job market. Hong Kong's latest announced unemployment rate has hit 6.6% which is a record high in the past 15 years. The Government of HKSAR and many employers in Hong Kong have been





putting efforts to fight against unemployment. With these proposals, however, the Exchange risks undermining these efforts, dealing a blow to the vulnerable job market in financial industries.

Conclusion and Our Opinion

To conclude, we do not agree that the Profit Requirement should be increased under the current circumstances, particularly the economy is generally weak and Hong Kong's unemployment rate has hit its record high in the past 15 years. **Granting temporary relief from the proposed increase of Profit Requirement does not help and any changes should be proposed after the current challenging situations have passed.** In fact, there is no pressing needs for the Exchange to push forward the proposal. We can accept, however, a much more moderate increase of the Profit Requirement when the economy bottoms out amid COVID-19 pandemic has been under control. After all, the amount of proposed increase by Option 1 and Option 2 are too high and lacking ground.

Based on the current requirement of market capitalization of HK\$500 million at the time of listing and assuming 25% of the total number of shares are issued at the time of listing, Option 1 (i.e. last year net profit of HK\$50 million) would represent a post money and pre money implied P/E ratio of 10.0 times and 7.5 times respectively while Option 2 (i.e. last year net profit of HK\$60 million) would represent a post money and pre money implied P/E ratio of approximately 8.3 times and 6.3 times respectively. These implied P/E ratios are extraordinarily low as compared to the recent P/E of Hang Seng Index of approximately 16.7 times as at 22 January 2021, not to mention the P/E ratio offered by the market to profitable listed companies with growth potential. We consider that the Profit Requirement should not be more than HK\$60 million for three financial years in aggregate and HK\$30 million for the last financial year.

Yours faithfully,

