

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 believe the proposed significant increase in the Profit Requirement for the HKEX Main Board listing will place overt emphasis on measuring a listing candidate's suitability by its profitability during the track record period and also discourage entrepreneurial activity from SMEs in Hong Kong, in particular, discourage venture capitalists from selecting Hong Kong as a venue to pursue their capital markets exit.

Over the recent 5 years in particular, we have witnessed a rapid transition in the sector make up of the traditional capital markets, including on HKEX, away from industrials and carbon energy, to technology, e-commerce and to some extent healthcare (more in Europe and US for the latter). As a result, the increasingly dominant sectors that generate growth and innovation including investor appetite are generally not ones that adhere to traditional profitability benchmarks. The focus is on their corporate governance, relevance to the market participants, substance of their business and ultimately, whether investors wish to gain access to invest into them. Increasingly, companies have choice to pursue alternative venues for capital markets access for listing their shares. It is important for policy makers to understand the long term significance of policies or rules for listing on HKEX will not only affect the desire for potential candidates to list in HK, but also affect the sustainability of the valuable infrastructure and ecosystem of bankers, lawyers, accountants, tax experts, company secretarial and flow on impact to the wealth management and asset management industry. Perhaps the consideration on improving the quality of listing candidates should involve adjustments to other aspects of consideration that is more in-line with the evolution of the market, rather than an arbitrary increase in the profitability threshold.

There are certainly continued concerns around the manufacturing of shell companies for speculative gains, which are valid and these may potentially damage investor confidence. Therefore the considerations should involve aspects such as the nature of the sponsors, the history of the core business and the stakeholders that are bringing the company to listing. If the core stakeholders are the original founders, management or professional PE/VC investors, that should already eliminate most of the situations where people try to "technically" satisfy the listing requirement. The HKEX listing committee already has a rigorous approach to determining the suitability for listing. It obviously will have a preference for an objective criteria for determination of suitability, rather than enforcing any subjective judgment or policy decision. Therefore, by adding the requirements of substance and background of stakeholders, it would provide clear criteria to eliminate those that are simply speculating on a potential shell.

There is also a potential risk that the increase in Profit Requirement may inadvertently increase the value of existing shell companies and encourage even more innovative approaches to meet the new requirement in order to create new ones. It is also generally the case that the investors actively trading (as measured by volume and value) in the shell companies tend to be misled retail investors, instead of large and well established institutional investors. Protection and promotion of investor confidence should be supplemented by proactive investor education and a more stringent IPO vetting process focusing on the intention of listing as alluded to above, rather than a technical form of exclusion by an arbitrary increase in Profit Requirement, which may preclude legitimate companies that are at a stage of development that need to tap the public equity markets for permanent capital, lift their visibility and improve their capital markets capability, which fail to meet the increased Profit Requirement.

While the companies, which fail to meet the increased Profit Requirement, may choose to list on GEM, it is readily apparent that the investor base and capital activity on GEM are very different to the Main Board. There is a lack of high quality equity research coverage, lower trading volumes and less institutional investor participation when compared to the Main Board listed companies.

We believe the proposed increase of Profit Requirement is not the most practical way to approach the issues identified by the HKEX to address the issues and concerns raised, and may in fact create more issues and exacerbate some of the existing problems.

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.

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.

In a scenario that the proposed increase of Profit Requirement is to be implemented, HKEX should consider granting temporary relief to facilitate a smooth transition period during the implementation.

Similarly, we recognise potential financial impact on a listing candidate due to the deterioration of the economic environment as a result of COVID-19, as well as given the magnitude of the proposed increase of Profit Requirement, potential listing candidate may need additional time / track record period in order to adjust their operational and financial performance to meet the increased 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.

In a scenario that the proposed increase of Profit Requirement is to be implemented, we are generally agreeable to the proposed conditions to the temporary relief as set out in paragraph 55 of the Consultation Paper.

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