

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.

The Profit Requirement should not be increased. Although the new Profit Requirement (Option 1 or 2) may help to improve market quality, it will be too harsh for mid-sized local companies in Hong Kong to raise public funds for their future development. It will also make the public feel like HKEX is only interested in attracting listings by mainland China's new economy giants and is neglecting the fundraising needs of local companies. Neglecting the fundraising needs of local companies would in turn affect the Hong Kong economy as a whole. Moreover, the increase of the profit requirement will foster monopoly and display a sense of injustice to the public as they are depriving the equal right of local companies to raise funds.

Though they have the option of listing on GEM, the reality is that the market liquidity and volume of trading are much less on GEM than on Main Board. On the other hand, the increase of the Profit Requirement to get listed will hinder the motivation and progression of local small business to prosper along with the Hong Kong local economy. As a result, the focus of the Hong Kong financial industry would rely solely on the IPO of foreign companies and the capital of the public would flow to mainland China, rather than investing and contributing to the local economic transformation of the city. Hong Kong would easily be replaced by tier 1 or tier 2 cities in mainland China including Shenzhen or Shanghai soon if our government decides not to invest in ourselves to maintain the unique status the city.

To protect the capital invested by the public, the HKEX has an undeniable responsibility to maintain the diversification of the market to lower the risk and adverse effects of the market crashing. As the number of companies getting listed decreases, the variety and the number of possible choices of IPO for the Hong Kong public to invest in diminishes. If the stock of any one of the few new-economy giants plunged, a chain effect would be triggered as most of the resources allocated by the public are focused on the few giants. As a result, the adverse impact to the economy caused would be unprecedented and unimaginable.

Furthermore, the New Profit Requirement (Option 1 or 2) will result in the Exchange having the highest profit requirement on an aggregated basis for the three years of a track record period in the Selected Overseas Main Markets. When you take into account that the Selected Overseas Main Markets, except for the SSE, set the profit requirements based on a new applicant's pre-tax profit whereas the new Profit Requirement is set based on profit attributable to shareholders (i.e. post-tax), the divergence between HKEX and other Selected Overseas Main Markets are even greater. This will harm Hong Kong's position as an international financial centre as the potential candidates (including local candidates) would have the option to consider listing in other markets in view of the harsh Profit Requirement under HKEX.

With the implementation of the new Profit Requirement, the surrounding industries of the IPO market including law firms and securities firm will suffer from the shrinkage of the market, thus a considerable portion of the sector will wither, and many will suffer from employment. Together with the destructive effects on the economy caused by covid-19 and the social movement, Hong Kong, at the present, cannot afford to lose one of its major industries. While it is commendable that HKEX has developed from a local exchange to an international one, however, as the only listed share exchange in Hong Kong, HKEX has an obligation to look out for the interest of local businesses and local workforce. According to the reasons above, we truly believe the profit requirement should not be increased whatsoever.

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.

We are of the view that the current financial requirement for main board is a good indicator of an applicant's performance (both past and future) and no change is considered necessary.

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.

While we do not agree with the new Profit Requirement, for the sake of discussion, if the new Profit Requirement were implemented, in view of the current political climate and the COVID-19 pandemic, we are of the view that a temporary relief would be a good facilitation for companies that were affected to have access to public fundraising.

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.

While we do not agree with the new Profit Requirement, for the sake of discussion, if the new Profit Requirement were implemented, we agree with the conditions to the temporary relief.

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