

DATE 29th January, 2021

Hong Kong Exchanges and Clearing Limited
8th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong

Attn : Corporate and Investor Communications Department

Dear Sirs / Madams,

Re : Profit Requirement Consultation Paper

We are pleased to respond to the above consultation – we object.

1. Cover one mistake by another bigger, more detrimental mistake

“If” the HK\$500 mln market cap were too high a valuation to be credibly achieved by IPO applicants with HK\$20 mln net profit, then Hong Kong Exchanges and Clearing Limited (the “Stock Exchange”) should apologize to the market for not thinking thoroughly before in its 2017/2018 market cap consultation, and should reinstate the minimum market cap to HK\$200 mln.

Instead, the Stock Exchange chooses to up the minimum IPO profit requirement (“Increased Profit”). It defies logic.

2. Do Everything for Everyone except the People of Hong Kong

The Increased Profit focuses on hurting local small to medium sized enterprises (“SMEs”), and directs all the resources of the Stock Exchange to take care of large corporations. The Stock Exchange was formed when Hong Kong stock market was almost exclusively serving Hong Kong based businesses.

Now the Stock Exchange has grown with the listing of large PRC issuers, it chooses to abandon local SMEs. The Stock Exchange proudly carries the “Caring

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Company” title, what kind of care and social responsibility the Stock Exchange is trying to demonstrate to Hong Kong people?

3. Exterminate Local Practitioners

The Increased Profit would eliminate 62% of SMEs new listing applications, which are exactly where local practitioners derive their business from. With such a devastating reduction of new business, local practitioners will have to layoff staffs, and some will have to close down. The Stock Exchange is doing this to repay our Hong Kong local talent pool who has been supporting our financial services in the past three decades since the inception of the Stock Exchange?

4. Consultation is Built Only on Suspicions

The most frequently used words in the consultation are:–

“concern (擔心), if (假如), whether (是否), may (也許), possible (可能)...”

Confusing conjectures and worries with clear and present dangers, using them to justify the cause of the Increased Profit, to inflict real and detrimental damages to SMEs and local market practitioners, is perverse.

5. Small Companies are Shells and/or Crooks?

This is truly the most blatant insult to SMEs. Our company was listed in 1990 and engaged in evaluation, analysis and investment in companies big and small. We find no correlation between frauds and size. Quality of companies is differentiated by their governance and ethics, not size.

One conclusion not mentioned in the consultation paper is that there have been many large scale market and corporate frauds in Hong Kong. And perhaps a more relevant observation is also not analysed in the consultation paper : fraudsters in large corporations involve larger scheme and amount, and small companies involve smaller amount.

The market is also “concerned” about the arrest of a senior management in the IPO vetting team in the Stock Exchange for allegedly having taken bribes from certain IPO applicants. Should the Stock Exchange dismantle the entire IPO vetting team just because of the arrest? No, the market remains patient and forgiving about such misconducts within the Stock Exchange. Frauds and misconducts, are not privileges of SMEs, but also exist in organizations that advocate and enforce governance.

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The consultation paper is biased against and mischaracterizes SMEs.

6. When You Have a Monopoly, Serve! Not Abuse!

When the four stock exchanges merged into one, Hong Kong eliminated competition and choices. Back in the 1980s, we expected to be well served by the monopolistic Stock Exchange.

The Stock Exchange is too minded now to serve the big corporations, which generate significant transaction levies and fees to the Stock Exchange while at the same time require low maintenance from the Listing Division. On the contrary, small issuers in turn use up much of the Listing Division's resources to monitor and regulate them as they are more likely to be caught in the notifiable transactions because of their small sizes. What is not disclosed in the consultation paper is : Does the Stock Exchange lose money taking on small cap issuers with low trading volume? Our estimate is that the Stock Exchange makes no profits off small issuers, or perhaps makes losses keep their listing on the Stock Exchange.

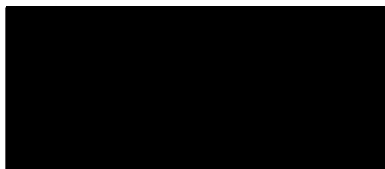
It presents dangerous and severe conflict of interests when the Stock Exchange pursues profits, that it chooses to eliminate the opportunity for SMEs to list.

Such a conflict of interests warrants revisiting the monopoly privilege of the Stock Exchange, which is of course not easy to take back. Perhaps, we should revisit whether the Securities and Futures Commission should take back the IPO vetting power back of the Stock Exchange, the sooner the better.

Therefore, we object to the Increased Profit.

For our specific response, please see the completed questionnaire submitted simultaneously with this letter.

Yours faithfully,
For and on behalf of
SHK HONG KONG INDUSTRIES LIMITED



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.

Please see my cover letter which sets out a more holistic view of your consultation.

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 see my cover letter which sets out a more holistic view of your consultation.

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, because we object to items 1 and 2.

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, because we object to items 1 and 2.

- End -