

Hong Kong Investment Funds Association

January 30, 2021

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

Dear Sir/madam,

Re: HKEX Consultation Paper on the Main Board Profit Requirement

On behalf of the Hong Kong Investment Funds Association (Appendix 1 – backgrounder of the Association), I wish to express our support to the proposal put forward in the captioned Consultation Paper (“CP”), i.e. to raise the Profit Requirement for applicant issuers.

Underpinning the proposal are two issues, which though related, should be addressed separately:

- One relates to market conduct and more generally the integrity of the Main Board;
- The other relates to the roles of the HKEX in providing a capital raising platform for companies, especially SMEs.

The proposal to raise the Profit Requirement aims to address the problems as expounded in Paragraphs 3-6 of the CP. We believe that this proposal is already belated as they should have been introduced during the last consultation in 2017. The quality and quantity of some of the listings since then is a clear vindication that the misalignment between the Market Capitalization and Profit Requirement has and can be susceptible to abuses, including amongst others, the establishment of shells. This has undermined the effectiveness of the initiatives that have been undertaken by the HKEx in the past few years to address the problem of shells. Furthermore, if one takes a review of some of the issuers (looking at amongst others, the business model, performance after IPO, liquidity, investor base and use of proceeds) which have leveraged on the Profit Requirement route, one would query what are the basis of these listings and the sustainability.

We are cognizant that with the proposed increase in the Profit Requirement, 130-150 SMEs per year (based on the past few years’ applications and depending on the final threshold set), which will otherwise be eligible, will not be able to avail of the HKEX listing platform. This is a legitimate issue that warrants thorough deliberations. Indeed,

as investors, fund managers are keen to leverage on the growth opportunities (e.g. there are funds that are dedicated to invest in small and mid-caps. More generally, fund managers are in constant search for emerging growth opportunities.) But this subject should be addressed separately.

The focus of the CP is to address a gap which may portend more systemic market conduct issues. It would be a remiss if the authorities do not nip it in the bud. Addressing this head-on should be the priority and should prevail over any other considerations as it has direct impact on investor interests and the overall market integrity.

On this basis, we believe that all new applications should observe the revised Requirement once it comes into effect. For applications that have been submitted before the effective date, the old Requirement will still apply. To be proportionate, we believe that the HKEX can exercise certain discretion in reviewing applications that come from industries that are most affected by Covid.

With respect to the more broader subject of the financing needs of SMEs, we believe that just asking the SMEs to seek listings on the GEM Board is not helpful; as the GEM Board is beset by a whole host of issues.

Instead of being bound by the current GEM institutional set-up, it is imperative that there should be a more basic holistic review as to what is the role of the HKEX in serving the financing needs of the SMEs. This would include inter alia, what is the positioning of the HKEX as a capital raising platform, what are the issuers the HKEX wishes to attract, the target investor base, opportunities and risks, and the respective roles of the SFC and HKEX. There is great urgency to conduct such a study and there should be a clear roadmap. This study is important not only to provide support to the real economy, but to maintain the competitiveness and vibrancy of HK as a premier capital raising platform.

But we wish to reiterate that this should be a separate exercise and should not bog down what the CP aims to address.

We welcome the opportunity to further discuss our thoughts and suggestions.

Yours sincerely

[Redacted signature]

[Redacted name]

[Redacted title]

P.S. Regarding how the HKEX analyses the comments submitted to the CP, we believe that to fairly reflect the market views, the HKEX should not only focus on the quantity of the responses, but the quality. Also, there should be sufficient weightings accorded to the relevant cohorts, including investors.