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 refer to the attachment for details.

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 the attachment for details.

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.

N/A

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.

N/A

- End -

ATTACHMENT

I noticed that quite a number of stakeholders have already submitted their respective elaborated and insightful response to HKEx objecting the implementation of the new profit requirements (the "**New Profit Requirement**") proposed in HKEx's consultation paper published on 27 November 2020. I tend not to repeat the reasonings of those stakeholders in my submission. My response to this consultation is by no means to be exhaustive but would instead, focus on the long-term adverse impacts of the New Profit Requirement on the competitiveness of HKEx as a world-renowned stock exchange and the investment environment of Hong Kong.

(1) Impairment of competitiveness of HKEx as an international stock exchange

Stakeholders pride HKEx as one of the leading stock exchanges in the world, both in terms of the amount of fund raised yearly and HKEx's intuitive and stable listing framework, facilitating the listing of enterprises from different nations, in different industries and of different sizes, and thereby providing different investment opportunities to individual and institutional investors worldwide.

Global participants in the financial market applaud HKEx's persistent efforts in optimising the Listing Rules and listing conditions to enhance the competitiveness of Hong Kong as the leading financial hub for enterprises and capital on a global basis. While attempting to compare in details the listing requirements of different stock exchanges may be of some value, it is a never-ending process and may not always result in practical and obvious conclusions. We trust it should not be contentious that leading stock exchanges in the world are keen to attract global investors and funding, regardless of their investment preferences and risk appetites, and have been trying to be more flexible to accommodate the listing of more companies of different scales. Notable examples would be the NYSE American, Australian Securities Exchange, Nasdaq Capital Market and SME Board of Shenzhen Stock Exchange, all designed to accommodate companies with relatively lower profit (or even those operating at a loss) or market capitalisation requirements (if any). The SME Board of the Shenzhen Stock Exchange offers high P/E ratios for small-to-medium enterprises while the other three said exchanges in English speaking countries are known for their relatively speedy listing process and less rigid listing requirements. While we understand that HKEx introduces the New Profit Requirement as part of its relentless efforts to protect individual investors and maintain market order, the New Profit Requirement goes against the global trend of attracting different types of investors and funding. I urge that the risk of HKEx being marginalised over the long term because of the creation of an “unbridgeable gap” (as elaborated below) following the implementation of the New Profit Requirement should not be overlooked.

Maintaining the ability to meet the diversifying risk appetites of investors is crucial for the sustainable development and attractiveness of Hong Kong market. It is suggested that HKEx should leave it to the investors to decide whether certain types of issuers are worthy for their own investments. I would like to raise my personal concerns over the effectiveness of the “protections” offered to the investment community through the introduction of the New Profit Requirement while having considered the possibility of, to the extreme, “eliminating” the participation of certain group of investors in the Hong Kong financial market.

(2) Polarisation of existing boards of HKEx and creation of an “unbridgeable gap” for potential fundraisings

It is observed that the GEM board has not been well recognised and received by the investment community and potential issuers over the past years. In particular, this situation has been deteriorating after the tightening of the “board switching” mechanisms. It is respectfully submitted that without a simultaneous in-depth review and/or reform of the GEM board (or through the formation of a new board of HKEx), the New Profit Requirement is very likely to create an unbridgeable gap for certain scale of potential fundraisings through initial public offering.

As far as I could recall, the GEM board was established to provide a platform for enterprises which are in their early development stage to gain access for external funding from sophisticated investors. The listing requirements of the GEM board are relatively low in the sense that even “small” or “relatively new” enterprises could be afforded the possibility of having their respective shares listed and accordingly, participate in the “international” financial market for the necessary funding from investors on a global basis to cater for their own growth strategies and plans. However, As many institutional investors and financial institutions are subject to internal policies which restrict them from investing in enterprises listed on the GEM board, the liquidity of such exchange has been very low over the past decade. This essentially affects to a great extent the willingness of potential issuers to have their shares listed on the GEM board and together with the stringent measures in relation to the transfer from the GEM board to the Main Board as introduced a few years ago, personally, I would regard the GEM board as an “unattractive” if not “abandoned” platform for fundraising by relatively smaller enterprises. For established enterprises with profits track records, the Main Board has been the obvious choice for such potential issuers. Nevertheless, with the implementation of the New Profit Requirement (if any), an “unbridgeable gap” between (i) those potential issuers which are relatively smaller in scale and lack of profitability and (ii) those enterprises which are able to continuously achieve an onerous profits expectation under the New Profit Requirement, will inevitably emerge and be unintentionally created. Potential issuers with the ability to make profits which fall short (just) of the threshold under the New Profit Requirement will accordingly, be given no alternative but to either go for the GEM board "path" or abandon their plans to have their respective shares listed on the Hong Kong markets in its entirety. In between the two ends of the landscape, there are bound to be a large number of small to mid-sized local and mainland China companies engaging in different industries with genuine growth potential in the event that appropriate funding could be raised on the financial market.

Accordingly, I submit that, with due respect, the New Profit Requirement should not be implemented for the reasons stated above (among the reservations which the other fellow stakeholders might have on this topic). Having said that, I urge that a series of "supplemental" measures incidental to the proposed implementation of the New Profit Requirement should be made available for consideration on a "as a whole" basis instead.