

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 the attached.

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 attached. The GEM board should be reformed.

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.

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.

- End -

Attachment

1. No price control and unnecessary intervention

No price control should be imposed in HK which prospered mainly because of its minimal governmental intervention and its upholding of rule of law. Requiring an offer price representing a minimum market capitalisation of HK\$500 million and/ or disallowing / requiring an offer price representing 25 times of P/E Ratio or more is effectively a price control. Price control inevitably leads to "black market" which could not be effectively resolved through additional regulations. Price control appears in a planned economy and should not happen in a free market, like HK.

To enhance the competitiveness of the HK or SEHK, to reduce the "shell" value of a listed company and to avoid pricing mismatch, all unnecessary listing requirements should be lifted with a view to reducing the cost and time of a listing application. Unnecessary requirements include minimum market capitalisation (which implies price control) and other subjective criteria (such as rationale for listing and other "suitability" tests. For details, please see point 2 below). So long as the listing applicants satisfy the profit requirements and other objective listing qualifications, the listing approval should not be withheld.

2. Investment decision rests with investors and not with the SEHK

HK is proud of its free economy without unnecessary governmental or regulatory intervention. Investors should be given the chance to decide whether the offer price is reasonable and which company to invest. The SEHK should not make investment decision for the investors by rejecting listing application of companies with the pricing representing a high P/E ratio. If the SEHK keeps asking the listing applicant/ sponsor to justify the pricing as a pre-requisite to a listing approval, this will only give the impression to the public that the pricing of a successful listing applicant has been "approved" by the SEHK (as opposed to the disclosure based approach adopted by most developed markets, like London and New York).

The SEHK's duty is to ensure full and frank disclosure of all material information and risk factors (including rationale for listing and comparison of P/E ratios with other comparable companies) in the prospectus of a listing applicant so that the investors can make an informed investment decision.

Even if the SEHK is not satisfied with the listing rationale or high P/E ratios, this could be dealt with by way of disclosure and should not justify the rejection of the relevant listing application.

In case of any suspected illegal activities, such as price manipulation, the SEHK should refer to the appropriate authority for investigation.

3. Broaden the markets by reforming the GEM board

It is sad to note that the GEM board has transpired to be an "inferior" board in the eyes of public and that the GEM board has failed to attract entrepreneurs which may not be able to satisfy the profit requirements of the main board listing rules but yet with good growth potentials in new economy sectors.

As many practitioners have observed, a vast majority (if not all) of potential listing applicants would not choose GEM board and would just give up their plan to list in HK if they are not able to fulfil the Profit Requirement for the main board.

Regardless of the consultation conclusion on the Profit Requirements, it is necessary to reform the GEM board as soon as practicable. May we suggest that:

- (i) all companies failing to satisfy the current profit requirements should apply for listing on the GEM board instead and the alternative tests under Main Board listing rule 8.05(2) and 8.05(3) and Chapter 18A should be abolished. Accordingly, many of large TMT and biotech companies with growth potential are only available for trading on the GEM board and hopefully this can change the public perception that only "inferior" companies will apply for listing on GEM board.
- (ii) the ongoing compliance obligations, such as quarterly reporting and lock up period, should not be more onerous than those of the main board. It is advisable to amend either the main board or the GEM listing rules to bring them in line.