



**CONSULTATION PAPER
ON
THE MAIN BOARD PROFIT REQUIREMENT**

The Law Society's Submissions

The Stock Exchange of Hong Kong Limited (“Exchange”) issued a consultation paper on 27 November 2020 in relation to “The Main Board Profit Requirement” (“Consultation Paper”). In response thereto, the Law Society provides the following submissions on the questions posed.

The same abbreviations and definitions appearing in the Consultation Paper are used in the submission below.

Question 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.

Law Society's response:

The Law Society has very serious concerns that the extent of increase as put forward in the Consultation Paper would be too drastic and we object to both Option 1 and Option 2. We believe the Exchange should maintain the status quo on the Profit Requirement. Please refer to our response to Question 2 in this regard.

The current requirement seems generally on par with other major markets. The proposed changes will result in the Exchange imposing basically the most stringent entry requirements in terms of profit track record. We are concerned that the proposed changes to the Profit Requirement will turn away companies that deserve a listing here. The Main Board listings may be dominated by large “new economy” companies mainly from the Mainland with less diversity as a result of the proposal. We are also concerned that the alternative of listing on GEM will not be attractive to, or with its relatively thin trading and liquidity level, will not be able to meet the needs of companies which are unable to meet the increased requirement of the Main Board but are otherwise perfectly healthy for listing. The proposal will seriously affect Hong Kong-based issuers (particularly those in the traditional industries) with no viable access to other markets and will effectively close the Main Board market to

Hong Kong and Chinese SMEs which may well be capable of significant growth. The premise that increasing the Profit Requirement will attract sizeable companies to list on the Main Board, which will then improve the quality of the Main Board issuers, would also seem questionable (and which assertion may imply companies seeking to list on GEM are of an inferior quality, making GEM a less attractive market and listing venue in itself).

While we understand the various issues raised about artificial profit or other disingenuous measures including “shell” listings, these issues could not be adequately or appropriately addressed by changing the Profit Requirement. To address these concerns, the Exchange and the SFC should continue with their gate-keeping functions, and we would also urge the Exchange and the SFC to consider re-examining whether class actions and other investor protections available to investors in overseas market should be introduced to Hong Kong.

Question 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.

Law Society’s response:

An alternative to increasing the Profit Requirement would be to reduce the minimum market capitalisation requirement as we do not believe there is a direct correlation between minimum market capitalisation and corporate government/quality of the listing applicants. Please also refer to our response to Question 1 on this.

In case the Exchange finally decides that the Profit Requirement should be increased, the increase should not be of the magnitude currently proposed which we consider to be too drastic and the market should be consulted again on any proposed threshold(s), backed by an assessment of the impact and the appropriate timing of such implementation. The Exchange should also consider taking a lighter touch approach in exercising its discretion to reject listing applications on qualitative / subjective grounds in view of the higher requirements.

Question 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.

Law Society’s response:

Please refer to our response to Question 1 and Question 2.

Question 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.

Law Society's response:

No comment.

**The Law Society of Hong Kong
19 January 2021**