



羅兵咸永道

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

28th January 2021

Dear Sirs,

Re: Consultation Paper on The Main Board Profit Requirement

PricewaterhouseCoopers welcomes the opportunity to respond to this consultation. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the consultation paper.

Given the current Profit Requirement was introduced a long time ago in 1994 and has remained unchanged since then, we consider that there is a case to review the Profit Requirement and, where necessary, to increase the threshold. This is further supported by the recent increase in the Market Capitalisation Requirement in 2018. We also welcome the proposal of temporary relief from the increased Profit Requirement given the adverse impact of the COVID-19 pandemic and the current economic downturn.

However, regarding the extent of increase and the effective date of the increased Profit Requirement, we suggest due consideration should be given to (i) the magnitude of the proposed increase in the profit requirement, and (ii) whether the current positioning of GEM market is an attractive alternative listing venue for those quality companies that have high growth potentials but have initial profit less than the proposed revised threshold.

By increasing the Profit Requirement to the extent as proposed, Hong Kong will have the highest profit requirement, on an aggregate basis for the track record period, among the Selected Overseas Main Markets which include NYSE, NASDAQ Global Select Market, SSE (Main Board), ASX, FCA (premium listed securities), and SGX (Main Board). This, without corresponding actions to enhance the attractiveness of the GEM market, will diminish the competitiveness and growth potential of the Hong Kong stock market.

Moreover, based on the statistics set out in the paper, more than half of the ineligible applicants under the proposed options (68% under option 1 and 71% under option 2) have a market capitalisation of more than HK\$500 million. If the Main Board Profit Requirement is increased without ascertaining whether these companies which became ineligible to list on the Main Board would be willing to take the alternative of listing on the GEM market, Hong Kong will lose these potential companies to the other listing venues and this may adversely affect the number of Hong Kong IPOs and the development of the Hong Kong stock market in the long run.

In view of the above, we believe that the Exchange should ascertain whether the GEM market is attractive to capture quality companies with track record profits below the increased threshold but with good growth potential before increasing the Profit Requirement.



羅兵咸永道

In addition, as the preparation for an initial listing is a long-term process which takes around one to two years, if the proposal to increase the Profit Requirement is to be implemented, it should ideally not be earlier than two years from the finalisation of the proposal so as to provide sufficient time for the market to prepare for the new requirement.

We hope the above are helpful. If you would like to discuss any matters further, please do not hesitate to contact [REDACTED].

Yours faithfully,

[REDACTED]