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Private and confidential

Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square,
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Dear Sirs,

Response to the HKEX Consultation on Main Board Profit Requirement

We wish to respond to the Consultation Paper on the Main Board Profit Requirement issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in November 2020 (the "**Consultation Paper**"). The Consultation Paper seeks to invite market feedback on the Stock Exchange's proposals to (a) increase the Profit Requirement; and (b) introduce temporary conditional relief from the Profit Requirement if the proposal to increase the Profit Requirement is adopted (collectively, the "**Proposals**"). Unless otherwise defined herein, capitalised terms used in this letter shall have the same meanings as those defined in the Consultation Paper.

1. Our general views on the Proposals

We generally agree with the Stock Exchange's proposal to increase the Profit Requirement as an attempt to align with the Market Capitalisation Requirement which became effective in February 2018. Subject to the matters below, we are generally supportive of the Proposals.

2. Magnitude of increase of the Profit Requirement

We note that the proposed increase in the Profit Requirement aims to address the regulatory concerns of (i) whether the valuations of Small Cap Issuers were simply reverse engineered to meet the Market Capitalisation Requirement in order to manufacture potential shell companies for sale after listing given the perceived premium attached to the listing status; and (ii) whether the IPO offer prices genuinely reflect the

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expected market clearing prices. We generally agree with the Stock Exchange's attempt to address the above concerns and to lower the P/E ratios of potential applicants by increasing the Profit Requirement. Nonetheless, we are of the view that such increase under both options may be too robust and should be adjusted downwards accordingly. We have taken into account several factors in forming our view. First, from our past experiences, we understand that many potential applicants do have a genuine intention to raise funds for the development of their underlying businesses as stated in the profit forecasts. Under the increased Profit Requirement, many potential applicants who have met the current Profit Requirement would have no choice but to list on GEM. As a result, these potential applicants may inevitably suffer from (i) a potential undervaluation of the company; and (ii) a more difficult fundraising environment on GEM than on Main Board due to low trading volume on GEM, with only a daily average of 13,549 deals recorded in November 2020 compared to that of 2,218,211 deals on Main Board during the same period.

Second, Main Board has always been a more popular platform for listing and trading because the performances of the issuers are usually more promising. In 2020, there were a total of 154 new listings in Hong Kong of which only eight were GEM listings. The robust increase in Profit Requirement may discourage potential applicants who are eager to list their business only on the Main Board because of the positive perceived image associated with it. With the new bar setting so high, we would anticipate a drastic decrease in potential applicants on both Main Board and GEM as those who cannot meet the increased Profit Requirement may not necessarily be interested in listing on GEM as an alternative option.

Third, the proposed increased Profit Requirement is disproportionately prejudicial against Hong Kong's traditional industries. We are of the view that the proposed requirements exceed the need to address the issues of shell creation and for the genuine purpose of lowering the P/E ratios. As noted in the Consultation Paper, the Profit Requirement Applications were mainly made by applicants who are principally engaged in traditional industries including property and construction, consumer goods and industrials. We are deeply disappointed to see that such amendments have an effect of favoring new economy companies which suffers little impact under the proposals, while the traditional industries will face huge challenges outside the scope of the proposal rationale. When the Profit Requirement was first introduced in 1994, no one had foreseen the coming of the new economy companies and Main Board was not initially designed for them. According to Paragraph 48 of the Consultation Paper, *"the increase in the Profit Requirement will further distinguish between issuers listed on GEM and the Main Board and is in line with our objective of positioning the Main Board as the main market to attract sizeable companies that can meet high market standards."* While we agree with the Stock Exchange's attempt to improve the overall quality of Main Board issuers, we are concerned that potential applicants who have met the current Profit Requirement would be deprived of the benefits they may otherwise enjoy. In light of this, we are of the view that the Stock Exchange should reconsider the thresholds of the increased Profit Requirement as many mega-sized new economy companies are already governed under Chapter 8A (Weighted Voting Rights); Chapter 18A (Biotech Companies); and Chapter 19C (Secondary Listings).

3. Timing of implementation

We are of the view that, unless the thresholds under Option 1 and Option 2 can be adjusted to a lower level, the Rule Amendment Effective Date should be postponed to a later date in absence of any imminent need for this major revision. As preparation of listing could easily take a year or more, the proposed Profit Requirement increase would be too vigorous and potential applicants that are preparing or planning to apply for listing on the Main Board after the Rule Amendment Effective Date may not be prepared to change their plan to list on GEM. Many companies' businesses are already suffering from the impact of the adversity brought on by the COVID-19 pandemic and other economic and political uncertainties, especially those arising out of the Sino-US tensions. Such impacts are long lasting and these companies may require more time to recover and pick up their businesses.

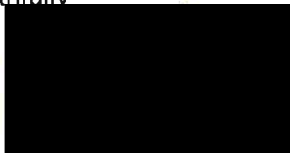
4. Temporary conditional relief

We are generally supportive of the temporary conditional relief from the Profit Requirement save that (i) the thresholds under Option 1 and Option 2 should be lowered for the reasons set out in paragraph 2 above; and (ii) the Rule Amendment Effective Date should be postponed and the temporary conditional relief period be extended for the reasons set out in paragraph 3 above. Without adjusting the thresholds of the increased Profit Requirement, it would be a great deterrence to many potential applicants.

5. Conclusion

To conclude, we are generally supportive of the Stock Exchange's Proposals, but are of the view for the Stock Exchange to consider listing applications with high P/E ratios on a case-by-case basis. Meanwhile, we would be grateful if the Stock Exchange would re-consider (i) adjusting downwards the proposed increase under both Option 1 and Option 2; and (ii) postponing the Rule Amendment Effective Date and extending temporary conditional relief period.

Yours faithfully

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Withers