

22 January 2021

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

Dear Sirs

**Re: Profit Requirement CP**

We refer to the Consultation Paper on The Main Board Profit Requirement (“**Consultation Paper**”) published by HKEx in November 2020.

We have strong reservation on the proposed increase of profit requirement of the Main Board as outlined in the Consultation Paper and respectfully submit the following views on the proposal. Unless otherwise stated, capitalised terms used in this letter have the same meaning as defined in the Consultation Paper.

**Lack of Market Consensus**

The minimum profit requirement was reviewed by the Exchange in a market consultation as recently as 2017 (having also been reviewed in 2002, 2010 and 2016). In response to the 2017 Consultation, 87% of the respondents were in favour of/comfortable with the existing minimum profit requirement in 2017 and the Exchange endorsed that view. We see no change in that market consensus since 2017. The intervening political unrest and Covid pandemic in Hong Kong, resulting in a severe economic downturn, which have occurred in the meantime do not support the argument for overturning the 2017 position and now increasing the minimum profit requirement.

**Weakening Competitiveness of SEHK**

The proposed increased minimum profit requirement would be substantially higher than the requirements for the ASX, London (premium listed securities), NASDAQ Global Select, NYSE (domestic issuers) and Shanghai (Main Board). The only comparable exchange which would have a higher minimum profit requirement is Singapore, which does not have a minimum market capitalisation requirement and in any event is a smaller market with a substantially lower number of new listings.

Such high threshold will weaken the competitiveness of SEHK in attracting overseas companies to list or drive smaller local companies to other markets with lower profit

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requirement. This will result in the Hong Kong market overly-focused on large caps, mainland entities and New Economy companies. Such lack of diversification not only limits investors' choice but also excessively exposes the market to risks from particular sectors.

Note also that the current profit requirement for Main Board is already the second highest when compared to the Selected Overseas Main Markets but it cannot be said that other markets with lower profit requirement have lower quality listed companies, and *vice versa*.

#### **Denying Spin-off Opportunities of Existing Listed Companies**

The proposed higher profit requirement does not only affect IPO applicants but also existing listed companies. A holding company that contemplates a spin-off of a subsidiary business to unlock value would find it harder to do so, which would in turn not to be in the best interest of their shareholders.

#### **Not Appropriate Way to Address Market Misconduct Issues**

The misconduct issues identified by the Exchange in the Consultation Paper are fundamentally serious issues of fraud/misrepresentation and market misconduct. Small issuers should not be singled out. It is highly questionable whether increasing the minimum profit requirement is an appropriate or effective tool to address these issues. It would be more effective to address the issues by direct action, including investigation and enforcement, to detect and deter the misconduct.

#### **GEM Not Being a Viable Alternative to Main Board**

We do not see the Exchange's proposal on small companies unqualified for the Main Board under the new profit requirement seeking a listing on GEM as an alternative is a viable option. The image of GEM has been degraded in recent years and there are market perceptions that GEM companies are potential shells or with low investment value. Whilst GEM may be a market catered for emerging, pre-profit companies, it may not be considered as an attractive listing option for companies say with a three-year profit track record of HK\$50 million.

If you require any further information, please feel free to contact the undersigned on .

Yours faithfully

For and on behalf of  
**Melco International Development Limited**

  
  
Company Secretary and Group General Counsel