

By email (response@hkex.com.hk)

31 January 2021

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

Dear Sirs,

Re: Consultation Paper on The Main Board Profit Requirement

Moore Advisory Services Limited (“Moore”, “We”) has reviewed the Consultation Paper on the Main Board Profit Requirement published by The Stock Exchange of Hong Kong Limited (the “Exchange”) on 27 November 2020 and we are providing our comments to the Consultation Paper as outlined below.

Moore shares the concerns raised by the Exchange in the Consultation Paper related to the increase of the market capitalisation requirement in 2018 without the corresponding increase in the profit requirement, in particular where some small-medium cap issuers were not genuinely listed with the intention to raise funds for the development of their underlying businesses as stated in their profit forecasts and the valuations were simply reverse engineered to meet the market capitalisation requirement. The incentive of such practices is to “manufacture” potential shell companies to be sold for backdoor listing. We agree that listing of an issuer with a valuation that is not supported by the market is not in the interest of the investing public, and will adversely affect the overall quality of the Main Board listings.

However, if the current proposals in the Consultation Paper are implemented it will spurn high quality small-and-medium-sized enterprises (“SMEs”) who are genuinely looking to raise capitals from the Exchange to develop their businesses. The Exchange has suggested that SMEs to continue to access the Growth Enterprise Market (“GEM”) as the capital-raising

platform, yet the GEM is really no longer a viable platform and we will further address this issue in the next section of this letter. In ensuring Hong Kong as an international financial centre, The Exchange has the obligation not to only serve large and profitable corporations but also needs to develop a spectrum of markets to support new economy companies and SMEs.

There is a general market perception that GEM companies are shells to be sold for backdoor listing and they have no growth potential and investment value. We welcome the Exchange's recent efforts in laying down criteria for suitability for listing to discourage the "manufacturing" of shell companies and the introduction of rules to restrict use of "reverse takeovers" and restructuring of companies with long-suspended shares. However, the reputation of the GEM has long been tarnished. In practice, the GEM has become an inert platform, with only fifteen initial public offerings (IPOs) in 2019 and declining to only eight IPOs in 2020. The GEM was established more than 20 years ago, and it is target for companies of "emerging nature". It is not catered for SMEs' to raise capital.

When considering the perspective of the issuers, whether they are large corporations, SMEs or new economy companies, they are looking for access to capital, clear initial and ongoing listing obligations, low listing costs, high valuations and aftermarket liquidity. From the perspective of investors, they are looking for access to growth sectors, diversity of exposure, transparent and fair disclosure, appropriate investor protection standards and liquidity. We acknowledge the Exchange's efforts in recent years in enhancing the effectiveness of the markets and performing rigorous gatekeeping and post-listing enforcement. Nevertheless, Hong Kong as an international financial centre, we believe that the present Hong Kong listing framework does not provide adequate diverse platforms to allow companies of different nature, size and background to raise capital in Hong Kong for supporting their business development. We agree that it is crucial in identifying quality listed issuers through rigorous listing process and ensuring the on-going quality through post-listing scrutinises, but not by excluding a segment of high-quality SMEs.

Recommendation

Moore shares the concerns raised by the Exchange in the Consultation Paper and support the Exchange's proposal in adjusting the Main Board Profit Requirement.

However, we recommend the Exchange to halt the implementation of the proposals in the Consultation Paper and to conduct a holistic review and revision of the Hong Kong listing



framework to provide platforms to allow high quality companies of different nature, size and background to raise capital in Hong Kong for supporting their business development. In particular, completely overhaul or replace the GEM to create a SME Board; and a platform for emerging economy companies along the line of biotech companies that were listed on the Main Board since the introduction of Chapter 18A of Listing Rule or possibility of a “New” Board.

We recommend the Exchange to only adjust the Main Board Profit Requirement upon the implementation of a new comprehensive listing framework that include a platform for high quality SMEs to raise their capital.

Yours sincerely,

For or on behalf of

Moore Advisory Services Limited

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