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HKEx Seeks Views on Proposal to Increase the Main Board Profit Requirement

On 27 November 2020, the Stock Exchange of Hong Kong Limited (the “HKEx”) issued a consultation paper proposing to substantially increase the profit requirement for listing on the Main Board, to be effective no earlier than 1 July 2021 (the “Effective Date”). The proposal, if materialised, is expected to have significant impact on listing applications by small-to-medium sized enterprises (the “SMEs”).

The proposal reflected the HKEx’s objectives to: (i) correct the misalignment of the profit requirement (which has remained unchanged for the past 26 years) (the “Profit Requirement”) with the increased market capitalisation requirement of the Main Board (which was increased from HK\$100 million in 1994 to HK\$500 million in 2018) (the “Market Capitalisation Requirement”); (ii) address the regulatory concerns regarding the quality of Main Board applicants, especially those Small Cap Issuers¹; and (iii) widen the gap between the Main Board and GEM Board and attract sizeable applicants for the Main Board.

1. Proposal to increase the Profit Requirement

(1) Current requirement

Under LR8.05 (1)(a) of the Main Board Listing Rules, the minimum amount of profit attributable to shareholders of a new applicant shall be: (i) HK\$20 million for the most recent financial year; and (ii) HK\$30 million in aggregate in the two preceding financial years. The current Profit Requirement has remained unchanged since it was first introduced in 1994.

(2) The proposed options

The HKEx proposes two options:

- (a) **Option 1:** increase the Profit Requirement by 150%, to align with the percentage increase in the Market Capitalisation Requirement which was increased to HK\$500 million in 2018. This will increase the minimum amount of profit attributable to shareholders to (i) HK\$50 million in the most recent financial year; and (ii) HK\$75 million in aggregate in the two preceding financial years; **or**

¹ Small Cap Issuer refers to an issuer that applies to list on the Main Board pursuant to the Profit Requirement with a proposed market capitalisation at the time of listing of equal to or less than HK\$700 million.

Partners

Dennis Fong WK 方緯谷
Bosco Leung MS 梁名山

- (b) **Option 2:** increase the Profit Requirement by 200%, to reflect the percentage increase in the Hang Seng Index from 1994 to 2019. This will increase the minimum amount of profit attributable to shareholders to (i) HK\$60 million in the most recent financial year; and (ii) HK\$90 million in aggregate in the two preceding financial years.

The table below summarises the differences between the current requirement and the two proposed options:

	Current	Option 1	Option 2
Proposed increase (%)	N/A	150%	200%
	HK\$ million		
In aggregate for the first two financial years	30	75	90
For the last financial year	20	50	60
Total	50	125	150

(3) Potential impacts of the proposed options

The HKEx performs an analysis on the 745 Main Board listing applications submitted between 2016 and 2019 (both inclusive) which relied on the Profit Requirement (the “**Profit Requirement Applications**”). 382 (51%) were submitted by Small Cap Issuers, the majority of which were in traditional industries. Supposing Option 1 or Option 2 was adopted during that time, Option 1 would have resulted in 59% (437) of the Profit Requirement Applications being ineligible for listing, while Option 2 would have resulted in 65% (486) of the Profit Requirement Applications being ineligible for listing. Under both options, approximately 30% of the ineligible applications have not met the Market Capitalisation Requirement² and 46% of the ineligible applications were Small Cap Issuers with proposed market capitalisations between HK\$500 million and HK\$700 million.

2. Temporary conditional relief

Considering potential applicants’ financial performance may have been adversely affected by the negative market conditions in 2020, the HKEx plans to introduce a temporary conditional relief if the applicant meets certain conditions and is able to prove that its inability to meet the profit spread in the new Profit Requirement are temporary, provided that, among others (i) its aggregate profit during the track record period meets the aggregate profit threshold (i.e. HK\$125 million under Option 1 or HK\$150 million under Option 2); and (ii) the track record period must have at least consecutive six months that fall within the year 2020. So the proposed relief will not provide any exemption to the aggregate profit threshold during the track record period, it can only provide a temporary relief for the applicants that fail to meet the profit spread in the new Profit Requirement.

² Those applications were submitted prior to 15 February 2018 or under transitional arrangements as set out in 2017 Consultation Conclusions and therefore were able to rely on the previous market capitalisation requirement of HK\$200 million.

3. Transitional arrangement

For Main Board listing applications (including GEM Transfer applications) that are submitted before the Effective Date and remain active as of the Effective Date, they will be assessed under the current Profit Requirement and will be allowed for renewal once after the Effective Date for continued assessment under the current Profit Requirement. Thereafter, the application will be assessed under the new Profit Requirement. Besides, a new applicant is not permitted to withdraw its listing application before it lapses and resubmits shortly before the Effective Date such that the application will be assessed in according with the current Profit Requirement for a longer period.

The public consultation period lasts from 27 November 2020 to 1 February 2021. Since the proposed increase in the profit requirement will have significant impact on SMEs' Main Board listing applications once effective, it is expected that those intended listing applicants that are relatively less hampered by COVID-19 pandemic during 2020 will accelerate their preparation of listing applications in order to submit the applications during the first half of 2021.

The [Consultation Paper](#) is available on HKEx website.

For enquiries, please contact:

Dennis Fong & Co., Solicitors (in association with Llinks Law Offices)

Dennis Fong

Partner

Tel: +852 2592 1978

Email: dennis.fong@llinkslaw.com.hk

Bosco Leung

Partner

Tel: +852 2592 1983

Email: bosco.leung@llinkslaw.com.hk