We object to the proposal of the Stock Exchange of Hong Kong Limited (the "**Exchange**") to increase the Profit Requirement by 150% or 200% for Main Board listing (the "**Profit Requirement**") as set out in the Consultation Paper on the Main Board Profit Requirement issued in November 2020 (the "**Consultation Paper**"). Reasons for our objection are as follows:

<u>1. Increasing the Profit Requirement by 150% or 200% is not an appropriate solution to address the Exchange's regulatory concern</u>

While we agree with the Exchange to address the regulatory concern of manufacturing of shell companies and the resulting potential losses to investors, there are ways other than raising the Profit Requirement to achieve this aim. As indicated in the Consultation Paper, the Exchange has already adopted a "heightened vetting approach" and the revised Guidance Letter HKEX-GL68-13A, among various other measures, to curb shell creation activities. In any case, the Exchange can always exercise its discretion to reject applications where the valuations of applicants cannot be justified.

The Exchange also attributed the over-valuation of certain listing applicants to the misalignment between the Profit Requirement and the Market Capitalisation Requirement. Rather than raising the Profit Requirement, which would cause significant collateral damages (to be outlined below) that the Exchange seem to not have properly taken into account, this misalignment should be addressed by lowering the Market Capitalisation Requirement. Furthermore, to effectively tackle the issue of shell creation, more post-listing enforcement actions should be taken instead.

<u>2. Unjustified increase in the Profit Requirement when high-risk, loss-making companies can now be listed</u>

The proposed increase in the Profit Requirement reflects the Exchange's assumption that bigger companies with higher pre-listing profit figures are more suitable for listing. Yet, this is an unjustified assumption as the size of a company may not strongly correlate to corporate governance and prospects, and company size should not be a key factor to determine its suitability for listing. Moreover, there is no guarantee for companies that make profits prior to listing to not incur losses once they are listed, whereas loss-making companies may instead make profits after being listed.

While we welcome the Exchange's initiatives to attract more new economy companies to list in Hong Kong, we disagree with the Exchange's apparent approach of only welcoming new economy companies but denying those in more traditional industries access to the Hong Kong capital market. The Exchange currently allows biotech companies that are known to be high-risk investments without any track record of making profits, as well as typically non-profit-making infrastructure and mineral companies to be listed in Hong Kong. By increasing the Profit Requirement, many companies that pose much lower risk to investors will be denied the chance to enter the Hong Kong capital market.

Ultimately, investors should not be denied the opportunity to invest in businesses of their own choice, whether it be high- or low-risk, profit- or loss-making, or otherwise. As a regulator, the Exchange should ensure that all applicants and listed companies comply with corporate governance and regulatory rules, but not impose requirements and restrictions that limit investment opportunities for investors which would in effect be making investment decisions for them.

<u>3. GEM is an inactive market, inadequate to support companies that are unable to meet the increased Profit Requirement</u>

The Exchange considered listing on GEM to be the solution for small or medium-sized companies that are unable to meet the proposed increased Profit Requirement. Yet, GEM is an inactive market where only 15 companies and 8 companies were listed, respectively, in 2019 and 2020. In reality, companies would have little or no incentive at all to list on GEM. If the Exchange pushes forward with its proposals under the Consultation Paper, those companies would either be forced to list in foreign exchanges or be denied the chance to be listed at all. This would gravely hurt the competitiveness of the Hong Kong capital market.

4. The role of the Exchange to serve Hong Kong companies and to continue to cater for a wide variety of issuers

Being the only exchange in Hong Kong, the Exchange should serve companies from this place that it calls "home". After raising the Profit Requirement, as stated in the Consultation Paper, up to 65% of the companies that listed between 2016 and 2019 would be ineligible for listing, which reflects that a large number of companies, particularly small to medium enterprises, that want to and have the means to list on the Main Board would be denied access to the local capital market. In that case, the Exchange would only be serving a small number of sizeable companies that are not from Hong Kong, hence going against its underlying role as the sole exchange in Hong Kong.

Furthermore, the Exchange has been catering for a wide variety of issuers, regardless of their size, where they are based/incorporated and whether they are traditional or new economy companies. It would be in the best interest of the Exchange itself and Hong Kong as a whole that the Exchange continues to serve a large variety of issuers.

5. Adverse impact on other stakeholders

As stated in the Consultation Paper, the proposed 150% or 200% increase would result in the Exchange having the highest profit requirement, thereby causing the Exchange to become the most expensive and most difficult market in the world for companies to list on. Foreign companies do not seem to have too much incentive to list in Hong Kong. Together with reduced listings from Hong Kong and Mainland companies, for reasons explained above, the competitiveness of the Exchange would be largely weakened. This would adversely affect stakeholders including, but not limited to, sponsors, legal counsels, accountants, valuers, industry consultants and financial printers. The demand of work in the capital market would plummet and lead to further escalation in the unemployment rate, which is particularly dreadful as we are currently situated in the worst economic environment as compared to the past few decades.

Broadly speaking, we are objecting to the current proposal in the Consultation Paper as it inappropriately limits to a significant extent the scope of issuers that the Exchange can cater for. However, we are supportive of the idea of progressively increasing the Profit Requirement with the ultimate objective of differentiating the Main Board from GEM, subject to two conditions: (1) after reviving GEM to an active and attractive market, such that it presents as a viable alternative for companies that cannot list on the Main Board due to inability to meet the increased Profit Requirement; and (2) if the Exchange increases the Profit Requirement gradually and incrementally, in order to avoid causing instant material adverse impact on the capital market and delivering a wrong message to the market that smaller companies are not welcome to list in Hong Kong.