

LCQ7: Profit requirements for companies to be listed on Main Board

Following is a question by the Hon Christopher Cheung and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (June 9):

Question:

At present, companies seeking to be listed on the Main Board have to satisfy the following profit requirements: the profit attributable to shareholders in the most recent financial year of the trading record period must not be less than \$20 million (Threshold A), and the profit attributable to shareholders in the two preceding financial years must not be less than \$30 million (Threshold B). The Stock Exchange of Hong Kong Limited (the Exchange) launched a two-month public consultation exercise at the end of November last year on a proposal to raise the profit requirements either by 150 per cent (i.e. raising Thresholds A and B to \$50 million and \$75 million respectively) or by 200 per cent (i.e. raising Thresholds A and B to \$60 million and \$90 million respectively). As revealed in the consultation findings published last month, among the 115 non-duplicated responses, respectively 17 per cent and 83 per cent supported and did not support the proposal to raise the profit requirements. The Exchange indicated that, after careful consideration of all responses, it had decided to raise Thresholds A and B to \$35 million and \$45 million respectively (i.e. raising Thresholds A and B from an aggregate \$50 million by 60 per cent to \$80 million). The new profit requirements will take effect on January 1 next year. In this connection, will the Government inform this Council:

(1) whether it has gained an understanding from the Exchange why it had not gone along with the mainstream responses collected from the public consultation exercise by shelving the proposal to raise the profit requirements;

(2) whether it will request the Exchange to review and shelve its decision, so as to go along with the mainstream responses collected from the public consultation exercise; and

(3) as some practitioners of the securities industry have pointed out that upon upward adjustment of the profit requirements, the threshold for listing on the Main Board of the Exchange would be the highest among the securities markets in the world, how the Government ensures that small and medium enterprises can still make use of the securities market of Hong Kong to raise fund through launching initial public offerings?

Reply:

President,

At present, the Listing Rules of the Hong Kong Exchanges and Clearing Limited (HKEX) requires that companies applying for listing (listing applicants) should meet requirements such as minimum market capitalisation, profit, etc. The relevant requirements aim at upholding market quality and strengthening Hong Kong's position as an international financial centre. The HKEX has all along been adjusting the relevant requirements in light of the latest development of the market.

The profit requirements for listing applicants have not been revised since 1994. While the HKEX increased the minimum market capitalisation requirement for listing applicants in 2018, it did not correspondingly increase the minimum profit requirements. The Securities and Futures Commission (SFC) and the HKEX notice that there have been listing applicants who could marginally meet the profit and market capitalisation requirements and with relatively high valuation when compared with their listed peers. Many of these companies could not maintain the relevant valuation after listing, causing losses for investors and hence regulatory authorities' concern about the basis of these listed companies' valuation. The SFC and the HKEX also note that certain misconduct, including the orchestration of "ramp-and-dump" schemes, etc., usually involved listed companies that could barely meet the minimum market capitalisation requirement but with relatively low profit.

In order to address these regulatory issues, the HKEX considers it necessary to increase the profit requirements and consulted the market on such proposals from November 2020 to February 2021. Specifically, the HKEX proposed to increase the profit requirements by 150 per cent (Proposal 1) or 200 per cent (Proposal 2). Having carefully considered the respondents' feedback, the HKEX issued the consultation conclusions in May 2021 with the decision to increase the profit requirements by 60 per cent and postpone the implementation date to January 1, 2022. At the same time, the SFC and the HKEX issued a joint statement setting out issues that have been identified in recent initial public offerings and the commitment to step up their collaboration to tackle misconduct and improper behaviour involving newly-listed companies.

Having consulted the SFC and the HKEX, my reply to the three parts of the question is as follows:

(1) and (2) It has been the HKEX's established practice to conduct market consultation on proposed amendments to the Listing Rules and make suitable adjustments to the proposals as set out in the consultation paper having regard to the views received from market participants. Doing so would ensure that the rules formulated are in the overall interest of the market and investors.

In respect of the increase in profit requirements of listing applicants, the HKEX has also conducted a consultation in accordance with the abovementioned arrangement and it has carefully considered the feedback received. The HKEX stated in the consultation conclusions that majority of

the 17 per cent of the respondents were inclined to support Proposal 1 and the rest of the respondents did not support the proposals due to various reasons. Although these respondents did not agree to the level of increase in profit requirement (i.e. Proposal 1 or Proposal 2) as proposed by the HKEX, they were not against the principle of improving the quality and maintaining the diversity of the capital market in Hong Kong.

After careful consideration of the respondents' feedback and the principle of upholding market quality and protecting the interest of the investing public, the HKEX decided to adjust the level of increase in profit requirements, i.e. from an increase by 150 per cent or 200 per cent to an increase by 60 per cent, and postpone the implementation date to January 1, 2022.

(3) The specific business and financial requirements for listing applicants of the securities exchanges in different jurisdictions vary and therefore cannot be directly compared. As far as profit requirements are concerned, the three-year minimum aggregate profit requirement for listing on the NASDAQ's Global Select Market or the New York Stock Exchange ranges from US\$11 million to US\$12 million (i.e. approximately HK\$85 million to HK\$93 million), which is higher than the profit requirements to be imposed by the HKEX from January 1, 2022 (i.e. three-year total of HK\$80 million). The NASDAQ's Global Select Market and the New York Stock Exchange also require issuers to have minimum public float of US\$40 million (i.e. approximately HK\$310 million), which is significantly higher than the minimum public float of HK\$125 million for the HKEX's Main Board listing applicants.

The HKEX will continue to implement initiatives to promote further market development and uphold market quality in light of its latest development, thereby strengthening Hong Kong's position as an international financial centre.