

# HKEx proposes to increase Main Board Profit Requirement

## Highlights

HKEx proposes to increase the profit requirement for listing on Main Board by either:

**Option 1:** 150% to HK\$125 million (HK\$ 50 million in the most recent financial year, and HK\$75 million in aggregate in the two preceding financial years); or



**Option 2:** 200% to HK\$150 million (HK\$ 60 million in the most recent financial year, and HK\$ 90 million in aggregate in the two preceding financial years).



On 27 November 2020, the Stock Exchange of Hong Kong Limited (the “Exchange”) published a Consultation Paper on Main Board Profit Requirement to seek market views on increasing the minimum profit requirements under Main Board Rule 8.05(1)(a) (the “Profit Requirement”). The consultation will end on 1 February 2021.

## Profit Requirement

The current Profit Requirement requires a new applicant to have a minimum profit attributable to shareholders of (a)HK\$20 million in the most recent financial year, and (b) HK\$30 million in aggregate in the two preceding financial years.

The current requirement was introduced in September 1994 and has remained unchanged. Meanwhile, the minimum market capitalisation requirement under Main Board Rule 8.09(2) (the “Market Capitalisation Requirement”) was increased from HK\$200 million to HK\$500 million in 2018. Since such increase, the Exchange has seen an increase in listing applications from issuers that marginally met the Profit Requirement, but had relatively high proposed market capitalisations. The Exchange believes this misalignment between the Profit Requirement and the increased Market Capitalisation Requirement has raised regulatory concerns as to the quality of companies seeking Main Board listings. Consequently, the Exchange proposes to increase the Profit Requirement by either:

**Option 1:** 150%, based on the percentage increase in the Market Capitalisation Requirement in 2018; or

**Option 2:** 200%, based on the approximate percentage increase in the average closing price of the Hang Seng Index from 1994 to 2019.

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## Details of the two proposed options:

	Current requirement	Option 1	Option 2
Proposed increase (%)		+150%	+200%
Profit attributable to shareholders in aggregate in the first two financial years	HK\$30 million	HK\$75 million	HK\$90 million
Profit attributable to shareholders for the last financial year	HK\$20 million	HK\$50 million	HK\$60 million
<b>Total</b>	<b>HK\$50 million</b>	<b>HK\$125 million</b>	<b>HK\$150 million</b>
Implied historical P/E ratio (based on the Market Capitalisation Requirement)	25 times	10 times	8 times

## Temporary relief

Against the backdrop of the COVID-19 pandemic and the uncertainties arising from the economic and political tensions between the US and China, the Exchange also proposes to introduce temporary conditional relief from the profit spread in the increased Profit Requirement for applicants whose financial performance has been temporarily and adversely affected by the pandemic and the current economic downturn. The proposed conditions for the relief are:

the applicant's 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);

it had a positive cash flow generated from operating activities in the ordinary and usual course of business before changes in working capital and taxes paid in the last financial year during the track record period;

it demonstrates that the conditions and circumstances leading to its inability to meet the profit spread in the Profit Requirement are temporary;

the track record period must have at least consecutive six months that fall within the calendar year 2020; and

adequate disclosure is made in its listing document, including the likelihood of continuance or recurrence of the circumstances leading to the inability to meet the profit spread; measures taken to mitigate the impact of these circumstances; and a profit forecast covering the period up to the forthcoming financial year end date after the date of listing.

In all cases, an applicant seeking the relief will be required to submit an application to the Exchange for consideration on a case-by-case basis.

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## Transitional arrangements


To minimise the impact of the increased Profit Requirement on those potential applicants which have already commenced their listing preparation relying on the current Profit Requirement, the Exchange proposes to introduce the following transitional arrangements:


The effective date of the rule amendment will not be earlier than 1 July 2021 (the “Effective Date”).

Main Board listing applications (including applications for transfer of listing from GEM to the Main Board) that are submitted before the Effective Date and remain active as of the Effective Date will be assessed under the current Profit Requirement. Such application may be renewed once after the Effective Date for continued assessment under the current Profit Requirement, if the renewal is made within three calendar months from the date on which the previous application lapsed. Any subsequent renewals will be assessed under the increased Profit Requirement.


Full text of the Consultation Paper on Main Board Profit Requirement can be found on HKEx website.

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