

HKEX LISTING DECISION

HKEx-LD133-2022 (May 2022)

[\[Streamlined and incorporated into the Guide for New Listing Applicants in January 2024\]](#)

Summary	
Parties	Company X – a Main Board listing applicant Dr. A and his wife – Company X’s executive directors and controlling shareholders
Issue	Whether Company X is suitable for listing in light of the material reliance on Dr. A
Listing Rule	Main Board Rule 8.04
Related Publication	Guidance Letter HKEX-GL68-13 (“ GL68-13 ”)
Decision	The Exchange decided that Company X was not suitable for listing and rejected its listing application

FACTS

1. Dr. A and his wife founded and operated a medical specialist practice by operating two specialist clinics, where they were the respective sole resident medical specialists, through the establishment of Company X. Throughout Company X’s operating history, Dr. A and his wife generated substantially all (i.e. over 90%) of Company X’s revenue. Particularly, Dr. A contributed around 70% to 80% of Company X’s total revenue during the track record period.
2. In an attempt to address the reliance concern, Company X hired an additional medical specialist to join one of its clinics in the last year of the track record period (the “**New Hire**”). However, the revenue contributed by the New Hire was insignificant since his joining. Dr. A continued to contribute over 70% of Company X’s revenue and hence, reliance on Dr. A remained significant.
3. Company X had proposed plans to reduce reliance on Dr. A, such as recruiting eight new medical specialists and opening four new clinics within six months to three years after listing (the “**Plans**”).

ISSUE RAISED FOR CONSIDERATION

4. Whether Company X is suitable for listing in light of the material reliance on Dr. A.

APPLICABLE RULES AND PRINCIPLES

5. Main Board Rule 8.04 states that both the issuer and its business must, in the opinion of the Exchange, be suitable for listing.
6. GL68-13 states that material reliance on another party may threaten a new applicant’s business sustainability if it is likely that the relationship with such party may materially adversely change. Examples of material reliance include dependence on the controlling shareholder for critical functions, such as sales. A new applicant’s material reliance on another party can be addressed by way of disclosure only if, absent any red flag

indicating otherwise, (a) the relationship with the other party is unlikely to materially adversely change or terminate; or (b) the new applicant is/ will be able to effectively mitigate its exposure to any material adverse changes to or termination of its relationship with the other party.

ANALYSIS

7. Given almost all of the revenue generated during the track record period was attributable to Dr. A and his wife (to a large extent, on Dr. A), the level of reliance was extreme. The Exchange is of the view that such significant reliance cannot be dealt with by way of disclosure because, notwithstanding Dr. A is the co-founder, executive director and controlling shareholder, any material changes in his relationship with Company X (e.g. Dr. A ceasing to hold controlling interest in Company X or departing from Company X) will have material adverse impact on Company X's business and financial conditions, thereby raising concerns on Company X's suitability for listing and sustainability based on the existing business model.
8. In addition, the Exchange also takes the view that Company X has failed to demonstrate that it has been and would be able to effectively mitigate its exposure to any material adverse changes to or termination of its relationship with Dr. A for the following reasons:
 - (a) Company X's operations were essentially a medical practice operated by two doctors who are husband and wife. In such context, it is believed that a doctor's experience, skills and expertise are unique and critical to the past and future success of the medical practice, and the personal reputation and trust with patients that were built up by Dr. A and his wife over the years may not be transferrable to other doctors or replicated in other clinics. The fact that Company X only generated minimal revenue from the New Hire (who is a medical doctor with over 10 years of experience) and failed to reduce revenue contribution from Dr. A might suggest that Company X is not able to readily reduce its extreme reliance on Dr. A and his wife.
 - (b) Company X proposed the Plans to reduce reliance on Dr. A. However, the Plans were preliminary and none of them would be materialised before listing. The Plans had never been executed during the track record period. Since the establishment and throughout the track record period, Company X has only operated two clinics and it took four to six years before Company X ran them successfully. The proposed expansion by way of opening additional clinics with new hires were never successfully implemented or proven by Company X. There remained questions as to whether Company X can identify qualified specialists fit for their practice, or its management has adequate experience in developing and operating a chain of clinics, or given Company X is limited to a distinct specialist area, whether there will be sufficient market demand to support its expansion plan (from two to six clinics) within the next three years. The feasibility of the Plans is called into question.

DECISION

9. Based on the foregoing, the Exchange was of the view that Company X had not demonstrated that the material reliance on Dr. A could be effectively reduced, and that the reduction of support from Dr. A would not result in material adverse impact on Company X's business. Accordingly, the Exchange considered that such reliance issue

could not be dealt with by way of disclosure, and that the extreme reliance on Dr. A posed grave concerns on Company X's business sustainability and suitability for listing under Main Board Rule 8.04 and decided to reject the listing application.
