

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Two Former Directors of Forgame Holdings Limited (Stock Code: 484)

SANCTIONS AND DIRECTIONS

The Stock Exchange of Hong Kong Limited (**Exchange**)

CENSURES:

- (1) **Ms Li Luyi (Ms Li)**, former Chairman and executive director (**ED**) of Forgame Holdings Limited (stock code: 484) (**Company**);

CRITICISES:

- (2) **Mr Wang Dongfeng (Mr Wang)**, former Chairman and ED of the Company.

AND FURTHER DIRECTS:

18 and 15 hours of training on regulatory and legal topics and Listing Rule compliance for Ms Li and Mr Wang respectively.

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SUMMARY OF FACTS*Internet Micro-credit Business*

In January 2017, the Company began to operate licensed micro-credit services through its wholly-owned subsidiary (**Internet Micro-credit Business**). Guaranteed and collateralized personal loans were provided to customers in the PRC. In 2019, the Company expanded the Internet Micro-credit Business to also provide corporate loans. After the appointment of Ms Li as the ED in April 2019, she had primary responsibility for overseeing the Internet Micro-credit Business. Ms Li established a Credit Risk Control and Management Committee responsible for monitoring the corporate loans. Ms Li and Mr Wang were the final approvers in the loan approval process.

In December 2019, the corporate loan receivables amounted to approximately RMB135 million. The corporate loans granted to ten borrowers had become overdue, and the borrowers of seven of those loans were unreachable. This resulted in an impairment loss amounting to RMB99.7 million for the year ended 31 December 2019.

As a result, the Company established an independent investigation committee, appointed a professional adviser to investigate into the corporate loans granted under the Internet Micro-credit Business, and engaged an independent consultant to conduct a review on the internal control system in respect of the Internet Micro-credit Business. The investigation and internal control review identified, among others, the following internal control deficiencies (**Deficiencies**):

- (a) The Credit Risk Control and Management Committee had not been properly established in accordance with the relevant policy existing at the material time.
- (b) The setup of the reporting line for the approval of loan applications in respect of the Internet Micro-credit Business did not follow the Company's relevant policy existing at the material time and was inappropriate, resulting in a lack of independence of the credit risk control department.
- (c) No written working procedures had been established for either due diligence on loan approvals or monitoring of loans after they had been granted.
- (d) Certain loan records and supporting documents were incomplete and/or had been insufficiently reviewed.

For some of the corporate loans, concerns had been raised to Ms Li and Mr Wang in respect of the loan applications, with some risk factors identified and recommendations made as to control measures. For example, a concern was raised regarding the doubtful accuracy of a borrower's financial data and the effectiveness of the proposed security, and a recommendation was made to verify the borrower's financial data. However, Ms Li and Mr Wang approved the loans without any written records showing that they had followed up on these concerns or recommendations.

Decoration Services Agreement

In May 2019, an agreement was entered into between Beijing Xigua Huyu Technology Co., Ltd (**Beijing Xigua**) which later became the Company's subsidiary and a company owned by the nephew of Ms Li for the provision of decoration services to Beijing Xigua (**Decoration Services Agreement**). After the Company acquired Beijing Xigua in June 2019, the Decoration Services Agreement constituted a continuing connected transaction of the Company.

The Company failed to announce the continuing connected transaction on time, as it alleged that it was unaware that the counterparty of the Decoration Services Agreement was a connected person at the material time, due to Ms Li's failure to disclose her relationship under the Company's relevant connected transaction policy.

RULE REQUIREMENTS

Rule 3.08 provides that the Exchange expects directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. These duties include a duty to apply such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge and experience and holding his/her office within the issuer.

Pursuant to the Declaration and Undertaking with regard to directors in the form set out in Appendix 5B to the Listing Rules (**Undertaking**), each of Ms Li and Mr Wang is obliged to (a) comply with the Listing Rules to the best of his/her ability; and (b) use his/her best endeavours to procure the Company to comply with the Listing Rules.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) Ms Li and Mr Wang breached Rule 3.08 and their Undertakings by failing to exercise reasonable skill, care and diligence to take sufficient steps to safeguard the Company's interests in respect of the Internet Micro-credit Business:
 - a. Ms Li and Mr Wang were responsible for loan approval for the Internet Micro-credit Business. They approved certain corporate loans despite the risk alerts and risk control measures raised to them by other parties involved in the loan approval process. Ms Li and Mr Wang submitted that they had taken those alerts and control measures into account, but thought it was necessary to strike a balance between the facilitation of business development and risk alerts in the course of loan approvals. Despite the various risks alerts, including risks related to the Company's ability to recover the loans, the loans were approved, with no documentation to support that Ms Li and Mr Wang had taken sufficient steps to address them, thus resulting in impairment losses to the Company.
 - b. Ms Li further failed to ensure the Company had implemented and maintained adequate and effective internal controls in respect of the Internet Micro-credit Business, and to follow the internal controls that were in place. Ms Li was responsible for overall operation management and risk assessment in respect of the Internet Micro-credit Business. She had primary responsibility for implementing and maintaining adequate and effective internal controls for that business, and for following the same. The investigation and internal control review identified the Deficiencies, which were caused by Ms Li's failure to supervise the Internet Micro-credit Business in accordance with the Company's financial business project management policy.
- (2) Ms Li breached Rule 3.08 to exercise reasonable skill, care and diligence by failing to inform the Company of her connected relationship with her nephew. Ms Li was required to fill in and provide up-to-date details of the connected person questionnaire under the Company's connected transaction policy, but she did not mention her relationship with her nephew at the material time, resulting in the Company's breaches of Chapter 14A provisions applicable to the Decoration Services Agreement. Accordingly, she also

breached her Undertaking by failing to procure the Company's compliance with the Listing Rules in respect of the Decoration Services Agreement.

CONCLUSION

The Listing Committee decided to impose the sanctions and direction set out in this Statement of Disciplinary Action.

For the avoidance of doubt, the Exchange confirms that the above sanctions and direction apply only to Ms Li and Mr Wang, and not to the Company or any other past or present members of the board of directors of the Company.

Hong Kong, 16 March 2023