

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Two Former Directors of Ourgame International Holdings Limited (Stock Code: 6899)

SANCTIONS

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

IMPOSES A DIRECTOR UNSUITABILITY STATEMENT against:

- (1) Madam Fu Qiang (**Madam Fu**), former non-executive director of Ourgame International Holdings Limited (**Company**);

CRITICISES:

- (2) Mr Yang Qing Eric (**Mr Yang**), former Chairman and executive director of the Company;

(The directors identified at (1) to (2) above are collectively referred to as the **Relevant Directors**.)

The statement made in respect of Madam Fu above is made in addition to a public censure against her. The Director Unsuitability Statement is a statement that, in the Exchange's opinion, Madam Fu is unsuitable to occupy a position as director or within senior management of the Company or any of its subsidiaries.

AND FURTHER DIRECTS:

15 hours of training on regulatory and legal topics and Listing Rule compliance for Mr Yang.

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SUMMARY OF FACTS

In early 2018, the Company granted 6 **Loans** totaling over \$62 million to a **Borrower**, which was introduced to the Company by its substantial and single largest shareholder at the time, Irena Group Co. Ltd (**Irena**). Madam Fu was a substantial shareholder of Irena.

Mr Yang was responsible for arranging and approving the Loans. He submitted he had approved the Loans with a view to increasing interest income on the idle cash of the Company and on the basis that Irena would provide a guarantee for the Loans. Having considered Irena's status as the Company's largest shareholder, the fact that it was quoted and traded on the National Equities Exchange and Quotations, and that Irena's substantial shareholder, Madam Fu, was also a director of the Company, Mr Yang did not conduct any due diligence on the Borrower.

After the Borrower defaulted on the Loans, Mr Yang discovered that no guarantee was provided for the Loans. Nonetheless, he demanded Irena to honour the parties' initial understanding that the Loans would be guaranteed.

Following the parties' negotiations, Irena arranged for a third party company, **Merit Horizon**, to enter into an agreement (**Merit Horizon Agreement**) with the Company, whereby Merit Horizon undertook to repay the outstanding principal of the Loans. Madam Fu asserted that she was not aware of the Loans at the time they were granted but despite this, she agreed to provide a personal guarantee in respect of Merit Horizon's payment obligations under the Merit Horizon Agreement in favour of the Company.

During the period from August 2018 to March 2019, Mr Yang followed up with Madam Fu with respect to her guarantee obligations.

It was subsequently revealed that Madam Fu had also entered into an agreement with Merit Horizon, under which Madam Fu agreed to "waive" all of Merit Horizon's repayment liabilities owed to the Company under the Merit Horizon Agreement.

Based on its own investigation, the Company took the view that Madam Fu had misappropriated the assets of the Company through the Loans and via the Borrower.

Madam Fu did not provide any substantive response to the Exchange's investigations.

RULE REQUIREMENTS

Rule 3.08 provides that the Exchange expects directors 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. Under Rule 3.08, directors must act honestly and in good faith in the interests of the issuer as a whole, act for proper purpose, be answerable to the company for the application or misapplication of its assets, avoid actual and potential conflict of interest and duty, and apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the issuer.

The Relevant Directors are also subject to the obligations under the Declaration and Undertaking with regard to Directors in the form of Appendix 5B to the Listing Rules (**Undertaking**), which provides, among other things, that they shall: (i) cooperate in any investigation conducted by the Listing Division (**Division**) and/or the Listing Committee; and (ii) promptly and openly answer any questions addressed to them.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) Madam Fu was in breach of Rule 3.08 as a result of the following matters:
 - (a) Madam Fu claimed (in the Company's submissions which she endorsed) that she had no knowledge of the Loans before Mr Yang and Irena requested her to personally guarantee the Merit Horizon Agreement. However there was a real and obvious concern as to whether there were some side arrangements involving Irena/ Madam Fu on one hand and the Borrower/ Merit Horizon on the other hand given the fact that (i) there was no apparent commercial rationale for Irena/ Madam Fu to guarantee the Loans and for Merit Horizon to enter into the Merit Horizon Agreement, and (ii) the Loans and the Merit Horizon Agreement were both proposed and arranged by a representative of Irena.

Further, even if she had no involvement in the arrangement for the Loans, and was willing to guarantee the Loans in any event, Madam Fu was still reasonably expected to (i) make proper enquiry into the default of the Loans and the proposed arrangement involving Merit Horizon, and (ii) ensure proper due diligence was conducted in respect of Merit Horizon, for the sake of ensuring the Company's interests were properly safeguarded under the Merit Horizon Agreement and in relation to the Loans.

- (b) Madam Fu’s “waiver” of Merit Horizon’s liabilities owed to the Company under the Merit Horizon Agreement which was/ would have been prejudicial to the Company’s rights and interests.
- (2) Madam Fu breached her Undertaking to cooperate in the Exchange’s investigation. Despite the fact that Madam Fu had full knowledge of the Exchange’s investigation, she did not provide any substantive response to the Exchange’s enquiries, which was a serious breach of the Listing Rules.
- (3) Mr Yang has failed to discharge his duties under Rule 3.08 as a result of his failure to:
- (a) conduct proper due diligence:
 - (i) Mr Yang failed to conduct any due diligence nor credit assessment in respect of the Borrower. Even if he was satisfied that the Borrower’s risk of default was covered by the proposed guarantee and the short term tenor of the Loans, he was still reasonably expected to conduct some due diligence against the business and background of the Borrower and to assess whether there are other potential risks involved in conducting business with the Borrower.
 - (ii) Despite his heavy reliance on the proposed guarantee in his assessment of the Loans, Mr Yang did not conduct any due diligence in respect of the financial status and creditworthiness of the proposed guarantor, namely Irena.
 - (b) exercise due care in arranging and handling the Loans:
 - (i) Mr Yang did not take proper steps to ensure that the proposed guarantee was duly provided and that the Company’s interests were properly safeguarded. In fact, he only became aware of the fact that no guarantee was provided for the Loans after the Borrower defaulted on the Loans.
 - (ii) Mr Yang’s failure to exercise proper care and diligence in the course of arranging and handling the Loans is also evidenced by the following facts:
 - 1. The Loans were never executed by the Company, but Mr Yang was not aware of such default in execution.

2. Mr Yang failed to identify the material errors in the details of the Loans entered in the Company's contract management system when he was approving the Loans.
 3. Despite his heavy reliance on the short term of the Loans in his risk assessment, he did not take any steps to ensure the Borrower's timely repayment nor did he follow up on the status of the Loans when the Loans matured.
 4. Mr Yang did not take proper steps to ensure the Loans and the proposed guarantee were in order before he authorised the drawdown of the Loans.
- (c) make reasonable enquiry into the circumstances of the guarantee arrangements relating to the Loans and the Merit Horizon Agreement.

In addition, given there was a real and obvious concern as to whether there were some side arrangements involving Irena/Madam Fu on the one hand and the Borrower/Merit Horizon on the other hand as referred to above, Mr Yang was reasonably expected to make proper enquiry for the purposes of satisfying himself that the interests of the Company and its investors were not prejudiced.

CONCLUSION

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

For the avoidance of doubt, the Exchange confirms that the above sanctions apply only to the Relevant Directors, and not to any other past or present directors of the Company.

Hong Kong, 17 August 2023