



Hong Kong Regulatory Update

Contacts

Paloma Wang

Partner / Hong Kong
852.3740.6888
paloma.wang@skadden.com

Kai Sun

Partner / Hong Kong
86.10.6535.5533
kai.sun@skadden.com

Anthony Pang

Counsel / Hong Kong
852.3740.4831
anthony.pang@skadden.com

Lillian Lian

Counsel / Hong Kong
852.3740.4750
lillian.lian@skadden.com

Martina To

Asia Pacific Counsel / Hong Kong
852.3740.4776
martina.to@skadden.com

This memorandum is provided by Skadden, Arps, Slate, Meagher & Flom LLP and its affiliates for educational and informational purposes only and is not intended and should not be construed as legal advice. This memorandum is considered advertising under applicable state laws.

One Manhattan West
New York, NY 10001
212.735.3000

42/F, Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong
852.3740.4700

This update provides an overview of key regulatory developments in the past three months relevant to companies listed, or planning to list, on The Stock Exchange of Hong Kong Limited (**HKEx**) and their advisers. It covers amendments to the Rules Governing the Listing of Securities on HKEx (**Listing Rules**) as well as announcements, guidance and enforcement-related news from HKEx and the Securities and Futures Commission (**SFC**). Other recent market developments may also be included. We do not intend to cover all updates that may be relevant, but we welcome feedback, so please contact us if you would like to see analysis of other topics in the future.

New Listing Regime for Specialist Technology Companies Takes Effect

HKEx's new regime to permit the listing of "Specialist Technology Companies" in Hong Kong became effective on March 31, 2023.

The new rules permit listings by companies primarily engaged in the research, development and commercialization of products and services that apply science and technology within the following specified industry sectors: next-generation information technology; advanced hardware and software; advanced materials; new energy and environmental protection; and new food and agriculture technologies, referred to as "**Specialist Technology Products**." A new HKEx guidance letter provides further specific examples of the types of products and services that fall within these broad sector categories.

The following two categories of Specialist Technology Companies can list:

- Companies with at least HK\$250 million in revenue arising from their specialist technology business for the most recent audited financial year, referred to as "**Commercial Companies**."
- Companies that have not yet brought their products to commercialization and/or do not meet the minimum revenue requirement, referred to as "**Pre-Commercial Companies**."

A summary of the key requirements under the new Chapter 18C of the Listing Rules is set out on the following pages:

Hong Kong Regulatory Update

| Qualifications for Listing | | |
|--|---|---|
| Requirement | Commercial Company | Pre-Commercial Company |
| Market capitalization at the time of listing | HK\$6 billion | HK\$10 billion |
| Revenue | <ul style="list-style-type: none"> - HK\$250 million in revenue arising from the Specialist Technology business for the most recent audited fiscal year - Year-on-year revenue growth throughout track record period | N/A |
| Research and Development (R&D) track record | The applicant must engage in R&D of Specialist Technology Products for at least three fiscal years prior to listing. | |
| R&D expenditure i. on a yearly basis for at least two out of three financial years prior to listing; and ii. on an aggregate basis over all three fiscal years prior to listing | 15% of total operating expenditure | <ul style="list-style-type: none"> - 30% of total operating expenditure where revenue for the most recent fiscal year is HK\$150-\$250 million - 50% of total operating expenditure where revenue for the most recent fiscal year is less than HK\$150 million |
| Pre-IPO investment | <p>Investments from two to five "Pathfinder" Sophisticated Independent Investors (SIs) at least 12 months before the date of the listing application satisfying the following requirements:</p> <ul style="list-style-type: none"> i. Pathfinder SIs in aggregate (a) holding \geq 10% of issued share capital at the date of the listing application; or (b) invested aggregate of at least HK\$1.5 billion; and ii. at least two Pathfinder SIs (a) each holding \geq 3% of issued share capital at the date of the listing application; or (b) each invested at a minimum of HK\$450 million. <p>SIs are investors that: (x) have a portfolio size of at least HK\$15 billion or a portfolio of HK\$5 billion where the investments are primarily Specialist Technology investments, or are key participants in the relevant upstream or downstream industry with a meaningful market shares and size; and (y) are not connected persons, founders or controlling shareholders of the company.</p> | |
| Additional requirements for Pre-Commercial Companies | N/A | <p>The company must demonstrate and disclose a credible path to commercialization.</p> <p>The company must have working capital (including IPO proceeds) sufficient to cover 125% of costs for 12 months from the date of the prospectus. These costs must substantially consist of: (i) general, administrative and operating costs; and (ii) R&D costs.</p> <p>The primary reason for listing must be raising funds for R&D, manufacturing or sales/marketing of Specialist Technology Products to bring them to commercialization.</p> |

Hong Kong Regulatory Update

| IPO Requirements | | |
|--|---|------------------------|
| Requirement | Commercial Company | Pre-Commercial Company |
| Investments from SII | The total investment from all SII in aggregate, including pre-IPO investments and investments made as part of an IPO, as a percentage of total issued share capital at the time of listing (before exercise of overallotment options) needs to meet the following thresholds: | |
| - Where expected market capitalization is less than HK\$15 billion | 20% | 25% |
| - Where expected market capitalization is between HK\$15 billion and HK\$30 billion | 15% | 20% |
| - Where expected market capitalization is HK\$30 billion or more | 10% | 15% |
| Investment by “Independent Price-Setting Investors” | The company must allocate at least 50% of the shares offered in its IPO to institutional professional investors or investors with AUM/portfolio of HK\$1 billion or more. | |
| Subscription by existing shareholders | Existing shareholders may participate in the IPO. - Existing shareholders holding 10% or more of the company may only subscribe in the IPO as cornerstone investors. - Existing shareholders holding less than 10% may subscribe as cornerstone investors or placees. | |
| Initial allocation for public offering | At least 5% of shares offered in the IPO need to be initially allocated to a Hong Kong public offering. | |
| Clawback mechanism | Where a Hong Kong public offering is 10-50 times oversubscribed, the company must allocate 10% of the total offer shares offered to the Hong Kong public offering. Where a Hong Kong public offering is 50 times or more oversubscribed, the company must allocate 20% of the total offer shares to the Hong Kong public offering. | |
| Free float | In addition to usual public float requirements in LR 8.08 (public float of at least 25% or lower if waived), the company must have shares listed on HKEx with a market capitalization of at least HK\$600 million and not subject to any disposal restrictions. | |
| Post-IPO lock up | | |
| - Controlling shareholders - Founders - Executive directors and senior management - Key personnel responsible for technical operations or R&D at the time of listing - WVR beneficiaries and their respective close associates | 12 months | 24 months |
| - Pathfinder SII on which the company is relying to satisfy the minimum investment benchmarks, and their close associates | 6 months | 12 months |

Hong Kong Regulatory Update

HKEx Announces Listing Rule Amendments Following New PRC Regulations

Following the announcement of new regulations for overseas listing of PRC companies announced by the China Securities Regulatory Commission (CSRC) on February 17, 2023, HKEx made a several consequential amendments to the Listing Rules and conducted a market consultation on some of the additional proposed amendments in relation to PRC issuers. The consultation period for the HKEx consultation paper “[Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#)” closed on March 28, 2023.

The new PRC regulations took effect on March 31, 2023, and implemented the following changes:

- Two previously governing sets of rules — the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies and the Mandatory Provisions for Companies Listing Overseas — were repealed.
- The articles of association of all PRC issuers (including those listing in Hong Kong) will be required to comply with the Guidelines for the Articles of Association of Listed Companies issued by the CSRC (in place of the Mandatory Provisions).
- Domestic shares and H shares (both ordinary shares) will no longer be considered different classes of shares.
- A new filing regime requires PRC companies proposing to undertake an overseas listing or securities offering to make regulatory filings with the CSRC.

To reflect the new PRC regulations, key amendments to the Listing Rules include the following:

| | |
|---|--|
| Unification of share classes | Domestic shares and H shares will no longer be considered different classes of shares under the Hong Kong Listing Rules. |
| Abolishment of the class meeting requirement | The requirement for PRC issuers to hold class meetings to approve the issuance and repurchase of shares will be removed. |
| Mandate limits | Given the removal of the class distinction between domestic shares and H shares and the corresponding class meeting requirement, the general mandate to issue new shares and the share scheme mandate under Chapter 17 are proposed to be subject to a cap of 20% and 10% of total issued shares (rather than of each class of H shares and domestic shares separately). The relevant share price limits in both cases will continue to be benchmarked to the H share price. |

Amended requirements for articles of association

The requirements for PRC issuers’ articles of association to include the Mandatory Provisions and other specific provisions currently set out in Appendix 13D of the Listing Rules will be removed. Going forward, PRC issuers will be required to ensure their articles of association comply with the same core shareholder protection standards that are applicable to other issuers, set out in Appendix 3 of the Listing Rules.

CSRC filing confirmation

Where, under the new PRC regulations, a new listing applicant incorporated in mainland China or with principal business operations in the mainland must make a filing with the CSRC in relation to its proposed HKEx listing, the applicant is required to submit to the HKEx (as a “four-day document” prior to the Listing Committee hearing) a notification issued by the CSRC confirming completion of the relevant filing procedures.

HKEx is using the updates as an opportunity to modernize and streamline the Listing Rules applicable to PRC issuers, including by removing additional undertakings required from directors, supervisors and sponsors of PRC issuers and no longer requiring certain PRC-specific prospectus disclosures.

SFC Clarifies Approach to Disclosure of Interests and Codes for PRC Issuers

Following the PRC regulatory changes outlined above, the SFC has clarified its approach to PRC issuers for the purposes of the Codes on Takeovers and Mergers and Share Buy-backs (**Code**) and the disclosure of interest requirements under Part XV of the Securities and Futures Ordinance (**SFO**).

In an [FAQ issued in March 2023](#), the SFC clarified that for the purpose of the disclosure of interest requirements under the SFO, notwithstanding the changes to the Listing Rules, H shares and domestic shares are not fungible and thus will continue to be regarded as separate classes of shares. Interests in the H shares of a PRC issuer should therefore continue to be calculated as a proportion of the number of issued H shares, separately from the number of issued domestic shares.

In addition, the SFC issued [Practice Note 25](#) to the Code to provide guidance on the application of the Code to PRC issuers in light of the recent PRC regulatory changes. Highlights include:

- H shares and domestic shares will generally continue to be treated as separate classes of shares for the purposes of the takeovers code, including in particular:

Hong Kong Regulatory Update

- Separate class votes are required for transactions that would result in a delisting of a PRC H share issuer or the issuer being taken private.
- A comparable offer must be made for the A shares during an offer for the H shares unless class shareholder approval is obtained.
- In determining whether a party is an associate by virtue of holding 5% or more of any class of shares under the takeovers code, H shares will be treated as a separate class of shares from domestic shares.
- For the purposes of the share buy-back code:
 - Separate class meetings will not be required for approval of off-market share buybacks or buybacks by general offer.
- However, if a proposed buyback proposal includes a proposal to delist or privatize the issuer, approval of the H shareholders in class meeting is required.

HKEx Reviews Annual Report Disclosures

HKEx published its “Review of Issuers’ Annual Reports 2022” in January 2023, which summarizes its findings and recommendations in relation to annual report disclosure requirements following its review of annual reports issued by listed companies for the 2021 financial year.

Listed companies should note the findings and recommendations set out in the review in order to preempt comments from HKEx on upcoming annual reports and to improve transparency and accountability to shareholders.

Highlights from the review include:

| | |
|---|---|
| Financial reporting reminders | <p>HKEx expressed concerns about failures to make adequate accounting estimates and deficiencies in risk management and internal controls leading to modified opinions or delays in financial reporting. Directors are primarily responsible for preparing the financial statements, which they should prepare in accordance with the relevant accounting standards before the auditors review the statements. Directors should consider all relevant factors when making accounting estimates and ensure that sufficient and objective information is available to substantiate the underlying assumptions. The audit committee should take an active role in overseeing the company’s financial reporting system, risk management and internal controls. In particular, the audit committee should maintain close dialogue with the auditors to fully understand the progress of the audit and facilitate the resolution of any audit issues identified during the audit.</p> |
| Specifications for disclosing material asset impairments | <p>Companies must include in their annual reports a discussion and analysis (often referred to as the “MD&A”) of the firm’s performance during the fiscal year and the material factors underlying the resulting financial results and position. Where companies recorded a material impairment of assets, the MD&A should discuss the circumstances that led to the impairment. Where the impairment is supported by a valuation, companies should disclose: (i) details of the valuation, including the valuation method and the reasons for using that method, (ii) details of the inputs used and the related basis and assumptions and (iii) explanation of any changes in the valuation method used or the inputs or assumptions.</p> |
| Notes on money lending activities | <p>The exchange emphasized that directors of companies with material loan receivables bear fiduciary duties to safeguard company assets. In particular, regardless of whether money lending is a principal business segment of the company, directors should critically assess the commercial rationale for entering into any lending transactions, manage the credit risk exposure, monitor the recoverability of loans and the adequacy of collateral, and provide timely and sufficient information to shareholders about material asset impairments. For companies operating money lending businesses, at a minimum, HKEx recommends that disclosure includes: (i) descriptions of business models, including the nature of lending services, customer profiles, risk management policies and loan impairment policies; (ii) breakdowns of loan portfolios, including number and size of loans, number of borrowers, maturity profiles, interest rates, collateral, size and diversity of borrowers and aging analysis of the outstanding loans; and (iii) discussion of the movement of impairments or write-offs of loan receivables and the basis of impairment assessments.</p> |
| Details regarding use of proceeds and material changes in business | <p>Companies must make timely disclosure of any material changes to their use of IPO proceeds or business plans. Where material events arise after listing that lead to material changes in a company’s financial performance or business plan, the company should make timely announcements disclosing such matters clearly and concisely (and not merely repeating facts previously disclosed in the prospectus).</p> |

Continued on page 6

Hong Kong Regulatory Update

Analysis of financial statement disclosure under accounting standards

When making significant judgments and estimates in applying accounting policies, HKEx recommends companies provide more tailored and detailed information based on their own specific circumstances (rather than merely repeating the corresponding accounting policies) and disclose the quantitative sensitivity analysis underlying the calculation and the range of reasonably possible outcomes. Such judgments, estimates and related disclosure should be timely assessed and updated to reflect the current circumstances, especially given the current economic uncertainty and market volatility.

SFC Takes Next Steps Toward Uncertificated Securities Market

The SFC has issued a consultation paper to develop the next steps in the lengthy process to implement a paperless (uncertificated) securities market in Hong Kong.

The “[Consultation Paper on Proposed Subsidiary Legislation for Implementing an Uncertificated Securities Market in Hong Kong](#)” sets out the proposed subsidiary legislation that will be necessary to implement the model for an uncertificated securities market, which idea was endorsed following a previous market consultation in 2019/2020. The SFC amended the SFO in 2021 to insert provisions providing the broad framework for the new uncertificated securities market regime.

The legislation considered in the present consultation proposes that the SFO include a number of rules and amendments to existing rules to provide for technical and operational matters and processes in the uncertificated securities market environment and to regulate securities registrars that will provide registrar services to issuers under the new regime.

The consultation period is open until June 30, 2023.

HKEx Enforcement Bulletin Highlights ‘Partial Truth’ Disclosures

In its [March 2023 Enforcement Bulletin](#), HKEx highlighted the issue of “partial truth” disclosures and urged listed issuers to ensure that any announcements they publish are not passively or indirectly misleading. HKEx defines a “partial truth” disclosure as one that omits, buries or downplays material facts of an unfavorable nature or that presents favorable possibilities as more probable than they really are.

HKEx noted a number of these “partial truth” announcements by listed companies represent only part of the company’s situation. Though the provided facts and information are not false, the company’s omission of other relevant information may present a misleading picture to investors.

Examples include focusing on positive future prospects of a newly acquired business while failing to disclose that operation of the new business would be contingent upon securing governmental approvals known to be difficult to obtain, or attributing a delay in the publication of audited results to the Covid-19 pandemic when the issuer is also aware, but does not disclose, that the auditors have raised serious audit issues that would likely have resulted in

delayed publication regardless of the pandemic. Other common examples are director resignation announcements that simply state that a director is resigning “for personal reasons,” or auditor resignation announcements that cite an inability to agree on audit fees, when there may be other relevant details that should be disclosed to investors.

HKEx notes in the bulletin that an announcement that is misleading by omission can be just as damaging as an announcement that states incorrect or untrue information, and directors should not take false comfort in an announcement on the basis that what it contains is “true” if it also contains material omissions.

Enforcement Matters

HKEx Takes Disciplinary Action Against Hygieia Group for Failure To Disclose Contemplated Investment in Prospectus

A recent HKEx disciplinary cases highlights the importance of full and accurate prospectus disclosure, including of transactions proposed to be entered into shortly after listing.

Three days after its listing, Hygieia Group Limited entered into an investment management agreement, pursuant to which an investment manager would manage HK\$16.5 million for an unspecified term on a discretionary basis for a prepaid management fee of HK\$1.58 million. The investment manager placed nearly the entire investment amount into the shares and promissory note of a private company that trades antique jewelry. Hygieia directors were not aware of the details of the investment and made no enquiries about the nature or risk of the investments. The investment management agreement constituted a disclosable transaction under the Listing Rules; however, Hygieia did not make any announcement or consult its compliance adviser.

In addition, Hygieia entered into several service agreements shortly before or after its listing, resulting in significant levels of cash outflow. The company did not disclose these transactions in its prospectus. And the company did not conduct adequate due diligence on the service providers or obtain comparable fee quotations as required by its own internal controls procedures. An auditor later determined that some of the services performed were redundant and found the service fees paid to be excessive.

The above incidents resulted in a delay in publication of financial information, and Hygieia was required to have an independent professional adviser investigate the matters raised by the auditor.

Hong Kong Regulatory Update

HKEx found that Hygieia had breached the relevant Listing Rules by failing to (i) publish and dispatch annual and interim results on time; (ii) issue an announcement for the investments and consult with a compliance adviser; and (iii) disclose its intention to enter into the investment management agreement in its prospectus. HKEx found that the directors breached their undertakings by failing to exercise due skill, care and diligence.

HKEx reminded companies of their obligation to disclose contemplated investments in their prospectuses, regardless of whether the investment will use proceeds from the IPO. Further, issuers should only enter into service agreements after conducting thorough due diligence to ensure service fees are reasonable and the agreements are based on sound commercial rationale.

HKEx Censures Fusen Pharmaceutical and Its Directors for Payments to Chairman

Listed company directors have a duty to monitor the company's financial position and ensure effective controls are in place to identify and handle transactions subject to listing rule obligations. This can be particularly important where a company is led by a dominating key individual, such as a chairperson and/or controlling shareholder.

In a recent disciplinary case, HKEx found that Fusen Pharmaceutical Company Limited made twenty advances totalling approximately RMB258 million and two payments of RMB50 million each to a company that is 50% owned by its chairman, Mr. Cao Chang Cheng. The advances (which were significantly larger than the cash generated from operations of RMB41 million) were unsecured and occurred with no written agreement or agreed fixed repayment term.

Chairman Cao, who was also the legal representative, executive director and general manager of the receiving company, denied knowledge of the transactions. Although the other four executive directors of Fusen Pharmaceutical were fully aware of the company's financial position as contained in the monthly financial statements, no issues were raised at the time, as the directors prioritized profit and revenue over liquidity. A subsequent internal control review revealed deficiencies in the company regarding monitoring, detection, approvals and disclosure of connected transactions.

These transactions constituted notifiable and connected transactions, but Fusen Pharmaceutical failed to disclose and seek independent shareholder approval as required under the Listing Rules. The company also failed to consult its compliance adviser when the transactions were contemplated and did not properly or transparently manage conflicts of interest. As a result, HKEx censured Fusen Pharmaceutical and the executive directors involved and ordered each director to attend training on regulatory and legal topics.

HKEx Takes Disciplinary Action Against Directors of Agritrade for Self-Dealing

Transactions entered into by a listed company that appeared to enrich one of its directors to the detriment of the company were the focus of a recent HKEx disciplinary decision that centered on the absence of effective internal controls, in particular at the subsidiary level.

Between August 2019 and March 2020, the former chief financial officer and executive director of Agritrade Resources Limited, Mr. Ashok Sahoo, carried out a series of transactions that effectively gave him greater personal control and ownership over a power plant owned by a subsidiary of Agritrade. This included selling convertible debentures to a private company beneficially owned by him and his wife constituting 15% shareholding of the power plant subsidiary upon conversion. In addition, Mr. Sahoo arranged for a sum of US\$100,000 to be transferred from an Agritrade subsidiary to a company beneficially owned by him and his wife. To execute this transaction, Mr. Ng Xin Wei, Agritrade's former executive director and chief executive officer, signed a blank fund transfer form with the payee and transfer amount inserted subsequently by Mr. Sahoo.

The effected transactions were prejudicial to the interests of Agritrade and enabled Mr. Sahoo and his wife to acquire a stake in the power plant at a steep discount. Mr. Sahoo knowingly put himself into a position of conflict between his personal interests and his duty to act in the best interests of Agritrade and the group companies. These transactions were only subsequently discovered by the company's board in April 2020. The relevant transactions constituted connected transactions, but the company did not comply with the relevant disclosure and independent shareholder approval requirements.

Mr. Ng was appointed to the board of directors of the power plant subsidiary to provide a check and balance over the authority and power of Mr. Sahoo, but Mr. Ng failed to discharge his duty: He did not actively participate in the power plant's affairs and operations and allowed Mr. Sahoo's authority to operate unsupervised. Mr. Ng also demonstrated a lack of corporate governance awareness when he signed the blank transfer form. In additional problematic conduct, the remaining three directors of Agritrade failed to cooperate with HKEx's investigation.

HKEx found the relevant directors to have breached their directors' undertakings. Accordingly, the exchange censured Agritrade and imposed a statement of prejudice to investors' interests against all the directors.

This case emphasizes directors' duties to act in good faith in the best interests of the company and to avoid placing their own interests ahead of those of the company. In addition, this case serves as a reminder to issuers that checks and balances are an important part of a robust control environment, and they

Hong Kong Regulatory Update

must be actively implemented to be effective. Issuers should be particularly alert to ensure that oversight and control are maintained over any operating subsidiaries.

HKEx Disciplinary Actions Remind Companies and Directors To Cooperate With Enquiries Investigations

Listed issuers must timely respond to HKEx's enquires and provide information required for investigations. Directors will risk inviting severe sanctions for failing to procure listed companies' compliance with the Listing Rules and to cooperate in HKEx's investigations. In particular, former directors' obligations to provide information reasonably required by HKEx do not lapse after the directors stop serving as directors. Failures in this regard may lead to the directors being declared unsuitable for office, and to the cancellation of an issuer's listing.

HKEx has taken action in two recent cases where companies and their directors (including former directors) failed to comply with these obligations.

In the first case, HKEx made enquiries with China Gem Holdings Limited regarding its 2019 annual results. After seeking multiple time extensions, China Gem did not respond to the enquiries. HKEx then commenced an investigation into possible breaches of Listing Rules in relation to certain transactions by China Gem that had resulted in a substantial impairment in its 2019 results. HKEx sent investigation and reminder letters to the company and its directors (including two past directors who were in office at the time of the transactions subject to the investigation). The two past directors confirmed their contact details but did not respond to HKEx's enquires. The other directors did not take any action to respond to or cooperate in the investigation.

HKEx censured China Gem and the relevant directors for failing to respond to HKEx's enquiries or cooperate in the investigation. HKEx imposed a statement of director unsuitability against each director. HKEx further ordered that the listing of China Gem's shares be cancelled if any of the directors continued to occupy a position as director upon the expiry of 14 days from the date of the Statement of Disciplinary Action. All directors have since resigned.

In the second case, HKEx found that the two former directors of China Bozza Development Holdings Limited breached their undertakings and the relevant Listing Rules requirement by failing to respond to an investigation letter from HKEx. Furthermore, HKEx found that such failure to cooperate constituted a serious breach, and hence censured and imposed a statement of director unsuitability against the relevant directors, which declares that they are unsuitable to occupy positions as directors or within senior management of the company or any of its subsidiaries.

Recent HKEx Disciplinary Action Highlights Risks of Entering New Business Lines

A recent HKEx disciplinary action highlights the need for companies to approach new business lines carefully, in particular where those businesses have specific risk issues, such as in lending activities.

After initially operating an online gaming business, Forgegame Holdings Limited subsequently established a new corporate lending business. However, Forgegame recorded a substantial impairment loss of nearly RMB100 million for loans it advanced, constituting nearly three-quarters of its total corporate loan receivables. The impairment was necessary because many of the loans were overdue and several of the borrowers had become unreachable. Evidence shows that the borrowers had questionable financial data and offered ineffective security. The two directors involved were aware of the risks, yet still approved the loans without any follow-up actions. An investigation also revealed a lack of internal control process regarding Forgegame's lending business.

HKEx found that the directors had failed to exercise reasonable skill, care and diligence to take sufficient steps to safeguard Forgegame's interests regarding its lending business. Further, the directors breached their undertaking to use their best endeavors to comply and procure Forgegame to comply with the Listing Rules. HKEx censured the directors and ordered them to attend training on regulatory and legal topics.

The case emphasizes directors' obligations to conduct proper due diligence for risk management as part of a lending business. Specifically, records of sufficient commercial assessment must be kept, especially if suspicious factors arise.