

## STATEMENT OF DISCIPLINARY ACTION

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Exchange's Disciplinary Action against FingerTango Inc. (Stock Code: 6860)  
and Eight Former Directors

### SANCTIONS AND DIRECTIONS

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

#### **CENSURES:**

(1) **FingerTango Inc. (Company);**

#### **IMPOSES:**

**A DIRECTOR UNSUITABILITY STATEMENT and CENSURE** against:

- (2) **Mr Liu Zhanxi**, former executive director (**ED**) and chief financial officer of the Company (**Mr ZX Liu**);
- (3) **Mr Wang Zaicheng**, former ED and joint company secretary of the Company (**Mr Wang**);
- (4) **Mr Wu Junjie**, former ED of the Company (**Mr Wu**);
- (5) **Ms Yao Minru**, former independent non-executive director (**INED**) of the Company (**Ms Yao**);

**A PREJUDICE TO INVESTORS' INTERESTS STATEMENT and CENSURE** against:

- (6) **Mr Liu Jie**, former ED, chairman and chief executive officer of the Company (**Mr J Liu**);

#### **CRITICISES:**

- (7) **Mr Zhu Yanbin**, former ED of the Company (**Mr Zhu**);
- (8) **Mr Guo Jingdou**, former INED of the Company (**Mr Guo**); and
- (9) **Dr Liu Jianhua**, former INED of the Company (**Dr Liu**);

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## **DIRECTS:**

each of Mr Zhu, Mr Guo and Dr Liu to attend 18 hours of training on regulatory and legal topics and compliance with the Listing Rules, including at least three hours on each of (i) directors' duties, (ii) the Corporate Governance Code (**CG Code**) and (iii) the Listing Rule requirements for notifiable transactions, as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange;

## **AND FURTHER DIRECTS:**

that the listing of the Company's shares be cancelled under Rule 2A.10A(2)(b) if any of Mr J Liu and Mr Wu occupies a position as director or within senior management of the Company and/or its subsidiaries upon the expiry of 14 days from the date of this Statement of Disciplinary Action.

(The directors identified at (2) to (9) above are collectively referred to as the **Relevant Directors**.)

The Director Unsuitability Statement is a statement that, in the Exchange's opinion, Mr ZX Liu, Mr Wang, Mr Wu and Ms Yao are unsuitable to occupy a position as director or within senior management of the Company or any of its subsidiaries.

The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, the occupying of the position of director or senior management of the Company or any of its subsidiaries by Mr J Liu may cause prejudice to the interests of investors.

## **SUMMARY OF FACTS**

### *Failures in respect of use of listing proceeds*

The Company was listed on 12 July 2018 and raised net proceeds of HK\$967 million. Just two business days after listing, the Company subscribed for an unlisted wealth management product in the principal sum of HK\$450 million (**Subscription**).

The Subscription was funded by the listing proceeds. The size of the Subscription was significant. It represented more than 35% and 46% of the expected and actual net listing proceeds respectively.

The prospectus stated that if the proceeds were not immediately applied to certain specified purposes, then the Company intended to apply them to short-term demand deposits and/or money market instruments. The Subscription was not such a deposit or instrument. Furthermore, the prospectus stated the Group did not plan to purchase wealth management products.

Using the listing proceeds for the Subscription was a deviation from the intended use of proceeds as described in the prospectus. However, there was no disclosure of such intended use, or change in intended use, either in the Company's prospectus published on 26 June 2018 or in the announcement of its allotment results on 11 July 2018 (**Allotment Results Announcement**).

The Company did not consult its then compliance adviser when it was contemplating the Subscription.

The Company did not receive full repayment for redemption of the Subscription until May 2020. The change in the use of listing proceeds thus continued to take place for more than 21 months. The Company did not disclose the change in use of its listing proceeds in its annual reports for the financial years ended 31 December 2018 and 2019 and interim report for the six months ended 30 June 2019 (**Relevant Annual and Interim Reports**).

Mr J Liu, Mr ZX Liu and Mr Wang were involved in the negotiation, consideration and/or approval of the Subscription. Mr J Liu and Mr ZX Liu approved the Subscription pursuant to a fund management policy, which was endorsed by the Company's board of directors (**Board**) for the purpose of managing the cash reserves of the Company and its subsidiaries (**Group**).

#### *Grant and/or extension of loans leading to significant impairment*

Between 2018 and 2021, the Group granted and/or extended 22 loans in a total principal sum of approximately RMB426.5 million (**Loans**). This represented a significant increase in lending activity. In 2020 alone, the Group increased its loan portfolio exposure more than ten-fold to nearly RMB400 million.

A large majority of the Loans were unsecured. Two Loans were both interest-free and unsecured. Some of the Loans were advanced directly to recipients other than the borrowers named in the loan agreements.

Almost all of the Loan receivables were impaired. The Company made loss allowance provisions on the Loan receivables in its financial statements for the years ended 31 December 2021 and 2022 in the sums of approximately RMB321 million and RMB51.57 million respectively.

Mr ZX Liu and Mr Wang were the key personnel responsible for negotiating the terms of the Loans and the size test computations. Mr J Liu and/or Mr ZX Liu approved the grant and/or extension of the Loans.

At the material time, there was a consensus among the Company's directors (**Directors**) to use the Group's funds to provide external loans. However, there was no proper oversight over the Group's loan business at the Board level. Apart from Mr J Liu, Mr ZX Liu and Mr Wang, the other Directors were not aware of the details of the Loans. There was no evidence of any Board's discussions of the Loans, or the substantial increase in the Group's external loan portfolio, until after a majority of the Loans had defaulted.

Amongst the Loans, the Group had granted and/or extended the following loans:

Borrower	Loan / Extension Agreement Date	Maturity / Extended Maturity Date	Principal Amount (in HK\$ million)
Brick Heads Limited ( <b>Brick Heads</b> )	07/07/2020	09/07/2021	25
Brick Heads	18/09/2020	24/09/2021	15
Sze Ka Ho	18/05/2020 18/11/2020	18/11/2020 18/05/2021	27
Nai Renkun	07/12/2020	30/06/2021	50
HK Baiyu International Trading Limited ( <b>Baiyu</b> )	14/12/2020	15/04/2021	50
Thomas Shie	04/01/2021	04/01/2022	33
Thomas Shie	29/03/2021	28/09/2021	7

In its announcement of 29 July 2022, the Company admitted its failure to comply with the announcement requirement in respect of the Loans to Brick Heads (**Brick Heads Loan**) and Sze Ka Ho (**Sze Loan**) (each a discloseable transaction).

Shortly after entering into the loan agreements with Nai Renkun, Baiyu and Thomas Shie (together, **Shie Loan**), the Company advanced the Shie Loan directly to Thomas Shie or his related entities. The Shie Loan constituted a discloseable transaction when calculated on an aggregated basis. The Company did not announce the Shie Loan.

#### *Non-cooperation*

The Listing Division (**Division**) made numerous enquiries with the Company and its Directors in relation to the above matters. As part of the investigations, the Division sent investigation and reminder letters to Mr ZX Liu, Mr Wang, Mr Wu and Ms Yao but received no response from them.

## **LISTING RULE REQUIREMENTS**

Rule 2.13(2) provides that the information contained in any announcement or corporate communication must be accurate and complete in all material respects and not misleading or deceptive. Corporate communications include a prospectus and any equivalent document in connection with an application for listing.

Rule 3A.23 provides that a listed issuer must consult with and, if necessary, seek advice from its compliance adviser on a timely basis during the fixed period as defined in Rule 3A.01(4), where, among others, (a) a transaction, which might be a notifiable transaction, is contemplated, or (b) the listed issuer proposes to use the proceeds of the initial public offering in a manner different from that detailed in the listing document or where the business activities, developments or results deviate from any forecast, estimate, or other information in the listing document.

Under Rule 11.07, as an overriding principle, a prospectus must contain such particulars and information which is necessary to enable an investor to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer, among others.

Under Rule 11.12, directors of an issuer are responsible for the information contained in the listing document.

Rule 11.13 provides that if at any time after the issue of the listing document and before the commencement of dealings in securities, the issuer becomes aware that there has been a significant change affecting any matter contained in the listing document, the issuer shall, as soon as practicable, submit to the Exchange for its review and issue a supplementary listing document giving details of the change.

The Exchange's then applicable Guidance Letters GL86-16 and GL98-18 contained guidance on the information to be included in a listing document. This included disclosing the issuer's future plans and prospects and a detailed breakdown of the use of proceeds. An issuer may change the use of proceeds due to certain contingencies if these are discussed specifically and the alternatives are clearly described in the "Use of Proceeds" section of the listing document. Any material change of use of proceeds is generally price sensitive. An issuer must make an announcement to notify investors of the change if such information was not previously disclosed in the listing document.

The then applicable Appendix 16 to the Listing Rules set out the minimum financial information that an issuer shall include in, among others, its preliminary announcements of results, interim reports, and annual reports. Paragraph 11(8) of the then Appendix 16 provided that, in the case of any issue for cash of equity securities, an issuer shall disclose the total funds raised from the issue and details of the use of proceeds, including whether the proceeds were used, or are proposed to be used, according to the intentions previously disclosed by the issuer, and the reasons for any material change or delay in the use of proceeds.

Rule 14.22 provides that the Exchange may require listed issuers to aggregate a series of transactions and treat them as if they were one transaction if they are all completed within a 12-month period or are otherwise related. In such cases, the listed issuer must comply with the relevant disclosure and approval requirements for the relevant transaction when aggregated.

Rule 14.23 sets out the factors that the Exchange will take into account in determining whether transactions will be aggregated. Such factors include whether the transactions are entered into by the listed issuer with the same party or with parties connected or otherwise associated with one another.

Rule 14.34 requires a listed issuer to publish an announcement as soon as possible after the terms of, among others, a discloseable transaction have been finalised.

Under Rules 3.08, 3.16 and 13.04, directors of an issuer are both collectively and individually responsible for the issuer's management and operations, and are collectively and individually responsible for the issuer's compliance with the Listing Rules.

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 the 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 (Rule 3.08(f)). Rule 3.08 also highlights the importance of directors taking an active interest in the issuer's affairs. This includes an obligation to follow up anything untoward that comes to their attention.

Under Rules 3.09B, 3.09C and 3.20, a director has obligations to:

- (a) use his/her best endeavours to procure the issuer's compliance with the Listing Rules;
- (b) cooperate in any investigation conducted by the Division, which includes promptly and openly answering any questions, promptly providing any documents and attending any meeting or hearing requested of him/her;
- (c) inform the Exchange of any change to his/her contact details for correspondence from and service of notices and other documents by the Exchange, during the directorship and for a further period of three years from the date on which he/she ceases to be a director of the issuer; and
- (d) keep the Exchange informed of his/her up-to-date contact details. If he/she fails to provide the Exchange with his/her up-to-date contact details or arrange for notices, documents or correspondence to be forwarded to him/her, he/she may not be alerted to any proceedings commenced against him/her by the Exchange.

Under the CG Code, directors are required to, among others, oversee the issuer's risk management and internal control systems on an ongoing basis; ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems, covering all material controls including financial, operational and compliance controls, has been conducted at least annually; and when conducting their annual review, directors should consider the scope and quality of management's ongoing monitoring of risks and of the internal control systems (then code provisions C.2.1 and C.2.3).

The CG Code requires a listed issuer's management to provide all members of the board with monthly updates in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 (then code provision C.1.2).

## **LISTING COMMITTEE'S FINDINGS OF BREACH**

The Listing Committee found as follows:

### **Company**

The Company used a substantial amount of its net listing proceeds shortly after listing to subscribe for an unlisted wealth management product.

The Subscription was not a short-term demand deposit or money market instrument, and therefore the Subscription did not fall within the disclosures of intended use of idle listing proceeds in the prospectus.

The use, or change in use, of listing proceeds on the Subscription was material information, and should have been disclosed, to enable the investors to make an informed assessment of their potential investment. However, the Company did not disclose its intention, and/or change in intention, to use the listing proceeds to subscribe for wealth management products in the prospectus and the Allotment Results Announcement. The disclosures in these documents were therefore not accurate and complete in all material respects and were misleading. The prospectus did not contain all information necessary to enable the investors to make an informed assessment of the Company's assets, financial position and activities.

The Company also failed to disclose the change in use of its net listing proceeds on the Subscription in the Relevant Annual and Interim Reports.

Accordingly, the Company breached:

- (a) Rules 2.13(2), 11.07 and/or 11.13 in respect of its disclosure in the prospectus and the Allotment Results Announcement and by failing to disclose the intended use and/or change in intended use of net listing proceeds on the Subscription.
- (b) Rule 2.13(2) and paragraph 11(8) of the then Appendix 16 to the Listing Rules by failing to disclose the change in use of its net listing proceeds in the Relevant Annual and Interim Reports.
- (c) Rules 3A.23(2) and 3A.23(3) in respect of its failure to consult its compliance adviser in relation to the Subscription.



The Company also breached Rule 14.34 by failing to timely announce each of the Brick Heads Loan, the Sze Loan and the Shie Loan.

## **Relevant Directors**

### **Mr J Liu, Mr ZX Liu and Mr Wang**

Mr J Liu, Mr ZX Liu and Mr Wang breached Rule 3.08 and their obligations now set out in Rule 3.09B(2), for the reasons set out below:

- (a) They failed to exercise sufficient skill, care and diligence and use their best endeavours to procure the Company's compliance with the Listing Rules (i) in relation to the disclosures of the intended use and change in use of the net listing proceeds in connection with the Subscription and (ii) by failing to procure the Company to consult its compliance adviser before entering into the Subscription.
- (b) They failed to consider the Listing Rule implications, and use their best endeavours to procure the Company's compliance with the Listing Rules, in respect of the Brick Heads Loan, the Sze Loan and the Shie Loan despite the common recipients and/or borrowers and the time proximity of the advances.
- (c) They failed to discharge their fiduciary duties and apply the levels of skill, care and diligence required in conducting, supervising and/or monitoring the Group's business in respect of its external loans and/or their extension, and in managing the Group's funds. They did not conduct adequate due diligence and/or credit assessment on the borrowers and/or their guarantors and collateral (if any), and/or to take sufficient steps to safeguard the Company's interests to ensure that the risks related to the Loans were properly managed. There was no proper assessment of the enforceability of the security or guarantee (if any).
- (d) Mr J Liu and Mr ZX Liu also failed to ensure there was sufficient commercial substance in approving a number of loans, including two interest-free and unsecured loans.
- (e) Mr J Liu, Mr ZX Liu and Mr Wang were expected, but failed, to keep the entire Board informed of material information in connection with the Group's external loan business, such as the defaults in principal and interest repayments and the substantial increase in loan portfolio. They failed to place the other Directors in a position to have sufficient oversight over the Group's external loan business.

## All Relevant Directors (except Mr Wu)

The Relevant Directors (except Mr Wu) breached Rule 3.08 by failing to take sufficient steps to ensure the Company had adequate and effective internal controls in place to safeguard the Company's interests.

Directors of listed issuers are collectively and individually responsible for ensuring adequate and effective internal controls are in place over the issuer's business and operations. In light of the consensus to use the Group's funds to provide external loans, the Relevant Directors (except Mr Wu who ceased to be a Director in 2019 before the Group substantially increased its loan portfolio) were expected to take active steps to ensure the Group had adequate and effective internal controls over its external loan business, but they failed to do so.

The Company did not have adequate and effective internal controls in place in relation to its external loan business, as exemplified by the deficiencies below.

- (a) There was no money lending policy and no internal control review over the loan business.
- (b) There was no considered business and risk management plan regarding the lending portfolio, including, for example, the substantial increase in its external loans, analysis of risk appetite against potential return and the risk of default, and monitoring of overall exposure at the Board level.
- (c) There was no Board oversight, and no regular review and monitoring at the Board level of the loan portfolio or the status of any repayments, until after the default of a majority of the Loans. The Board did not receive monthly management updates.

## Non-cooperation

Further, Mr ZX Liu, Mr Wang, Mr Wu and Ms Yao breached their obligations now set out in Rule 3.09C(2) by failing to cooperate in the Division's investigation. Their obligation to provide information reasonably requested by the Exchange did not lapse after he or she ceased to be a Director.

*Serious and repeated failure to discharge responsibilities*

The conduct of Mr J Liu, Mr ZX Liu, Mr Wang, Mr Wu and Ms Yao amounted to a serious and repeated failure to discharge their responsibilities under the Listing Rules.

**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 directions apply only to the Company and the Relevant Directors, and not to any other past or present directors of the Company.

Hong Kong, 16 January 2025