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## **Flying Financial Service Holdings Limited**

**匯聯金融服務控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8030)**

### **INSIDE INFORMATION KEY FINDINGS OF PRC FURTHER INVESTIGATION AND HK LEGAL OPINION**

This announcement is made by Flying Financial Service Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 17.10(2)(a) of the Rules Governing the Listing of Securities on GEM (the “**GEM Listing Rules**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to (i) the announcements of the Company dated 4 June 2021, 28 June 2021, 28 September 2021 and 19 November 2021 in relation to, among others, the resumption guidance handed down by the Stock Exchange (the “**Resumption Guidance**”); (ii) the announcement of the Company dated 22 February 2022 regarding, among others, the key findings of independent investigation and the key findings of the report of the PRC legal advisers in relation to the Custodies (the “**PRC Investigation Report**”); (iii) the announcement of the Company dated 15 March 2022 and 4 April 2022 regarding the formation of the Remedial Actions Committee (collectively, the “**Resumption Announcements**”); and the circular of the Company dated 10 May 2022 regarding, among others, the very substantial disposal of the Company in relation to the disposal of the Company’s shareholding interests in the relevant subsidiaries (the “**VSD Circular**”). Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Resumption Announcements and the VSD Circular.

## BACKGROUND

As disclosed in the Company's announcement dated 4 June 2021 and 19 November 2021, the Company received letters from the Stock Exchange regarding the Resumption Guidance on 4 June 2021 and 19 November 2021, pursuant to which, the Company is required to:

- (i) conduct an appropriate independent investigation into the custody of Mr. Zheng, Ms. Guo and three employees of the Group (the “**Three Employees**”) (collectively, the “**Individuals Involved**”) by the Nanshan Branch of Shenzhen Public Security Bureau (the “**Bureau**”) since December 2020 pending investigation regarding certain suspected illegal absorption of public deposits conducted by a subsidiary of the Company (i.e., the Custodies), assess the impact on the Company's business operation and financial position, announce the findings and take appropriate remedial actions (Resumption Guidance (i)); and
- (ii) demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations which may pose a risk to investors and damage market confidence (Resumption Guidance (ii)) (collectively, the “**Investigation Issues**”).

After obtaining and reviewing the PRC Investigation Report, the Board resolved to appoint Beijing Dentons Law Offices, LLP (“**Dentons**”), the PRC legal advisers of the Company, to conduct a supplemental independent investigation in relation to the Custodies in the PRC (the “**PRC Supplemental Investigation**”).

Dentons issued the supplemental investigation report regarding the Custodies in the PRC dated 17 May 2022 (the “**PRC Further Investigation Report**”).

On the other hand, the Board resolved to appoint CHENG HUAN S.C.'s CHAMBERS (“**CH Chambers**”) and Patrick Mak & Tse Solicitors (“**PMT**”), being independent professional law chamber and law firm in Hong Kong, as the independent professional advisor to provide Hong Kong legal opinion in relation to the Investigation Issues. Such appointment was made further to the requests received from the Stock Exchange in the Resumption Guidance.

PMT and CH Chambers issued the legal opinions regarding the Investigation Issues dated 19 May 2022 (the “**HK Legal Opinions**”).

## SCOPE OF THE PRC SUPPLEMENTAL INVESTIGATION

As agreed between Dentons and the Remedial Actions Committee, Dentons is required to issue a supplemental investigation report on the matters in relation to the Custodies in the PRC, in particular, in relation to the following issues:

1. To conduct an independent investigation into whether the Board at the material time was aware of and authorised the illegal activities carried out by Mr. Zheng, Ms. Guo and the Three Employees regarding the Custodies;
2. To conduct a further investigation on the relation between the Seized Assets and the Offence.

## Major procedures of the PRC Supplemental Investigation

The major investigation procedures conducted by Dentons included, but not limited to, the following:

- (i) obtaining and reviewing the internal and external documents in relation to the subsidiaries of the Company in the PRC; and
- (ii) conducting interviews with the relevant personnel of the Group.

## SCOPE OF THE HK LEGAL OPINIONS

As agreed between CH Chambers, PMT and the Remedial Actions Committee, CH Chambers and PMT are required to give a legal opinion on the matters in relation to the Investigation, in particular, in relation to the following issues:

1. The director's duties and responsibilities of Mr. Zheng and Ms. Guo as an executive Director of the Company at the material time, and whether there was any breach of director's duties thereof;
2. The director's duties and responsibilities of other members of the board of directors of the Company (other than Mr. Zheng and Ms. Guo) at the material time, and whether there was any breach of director's duties thereof;
3. The remedial actions taken and/or to be taken by the Company.

For the purpose of the provision of the HK Legal Opinions, CH Chambers and PMT relied upon the facts and information as revealed in the PRC Investigation Report, the PRC Further Investigation Report and other materials provided by the Company in relation to:

- (i) the commercial substance and business rationale for conducting certain suspected illegal absorption of public deposits by SZ Flying Financial;
- (ii) the commercial substance and business rationale for providing guarantee for certain unsettled repayment of funds to the lenders involved in the financial service platform of the Group;
- (iii) the criminal judgement made by the People's Court of Nanshan District of Shenzhen on 18 October 2021 against the Individuals Involved following the relevant investigations of the PRC authority and criminal proceedings of first instance trial in the PRC (i.e., the October 2021 Judgement);
- (iv) the record of the Bureau in relation to the Guarantee Documents and the Seized Assets;
- (v) details of the nature, terms, guarantors and securities (if any) of the Seized Assets;
- (vi) details of the Group's due diligence, internal control and approval procedures conducted and materials considered to support its decision of conducting certain suspected illegal absorption of public deposits by SZ Flying Financial; and
- (vii) the Directors (other than Mr. Zheng and Ms. Guo) at the material time involvement in the Custodies (the "**Other Board Members**").

## Major procedures of the preparation of the HK Legal Opinions

The major procedures conducted by CH Chambers and PMT included, but not limited to, the following:

- (i) obtaining and reviewing relevant internal and external documents relating to the aforementioned fact-finding exercise being conducted;
- (ii) reviewing the policies and procedures manual of the Group; and
- (iii) conducting interviews with the relevant personnel of the Group.

## SUMMARY OF KEY FINDINGS

### Background and Material Facts

#### *The Custodies and the October 2021 Judgement*

1. On 8 December 2020, it became known to the Company that the Individuals Involved have been held in custody since the evening of 7 December 2020 by the Bureau pending investigation regarding certain suspected illegal absorption of public deposits (i.e., the Custodies).
2. Due to the Custodies, certain assets of the Group had been seized by the Bureau for the purpose of the Custodies. The said assets comprised, inter alia, 12 investment properties and the equity interests of the Group in certain property development projects through limited partnerships (i.e., the Seized Assets).
3. On 18 October 2021, the People's Court of Nanshan District of Shenzhen issued the October 2021 Judgment, whereby Mr. Zheng, Ms. Guo, and the Three Employees was each convicted of the criminal offence of illegal absorption of public deposits through online financial service platforms (the “**P2P Platforms**”) (the “**Criminal Convictions**”), whereby Mr. Zheng was sentenced to 7 years' imprisonment in addition to a fine of RMB500,000. Ms. Guo was sentenced to 4 and a half years' imprisonment in addition to a fine of RMB300,000.
4. Mr. Zheng and Ms. Guo confessed to committing the criminal offence of illegal absorption of public deposits (i.e., the Offence).
5. The Three Employees confessed to committing the Offence and their respective sentences.
6. The Company and SZ Flying Financial were not regarded as subject of crime. The Offence was individually committed by Mr. Zheng, Ms. Guo and the Three Employees.

#### *The Seized Assets and the relevant PRC subsidiaries*

7. Ms. Guo was the legal representative, general manager, and the only director of Shenzhen Flying Internet Financial Limited\* (深圳市匯聯互聯網金融服務有限公司) (the “**SZ Flying Financial**”), an indirect wholly owned subsidiary of the Company, which was principally carrying on the businesses of operation of the P2P Platforms.

8. Mr. Zheng was the legal representative, general manager, and the only director of Qianhai Flying Financial Service (Shenzhen) Limited\* (前海匯聯金融服務(深圳)有限公司) (the “**Qianhai Flying Financial**”), an indirect wholly owned subsidiary of the Company.
9. Mr. Zheng was the legal representative, general manager, and the only director of Flying Investment Service (Shenzhen) Limited\* (匯聯投資服務(深圳)有限公司) (the “**Flying Investment**”), an indirect wholly owned subsidiary of the Company.
10. The main complaints against Mr. Zheng and/or Ms. Guo arise out of a series of guarantee agreement in connection with the Seized Assets which was mainly owned by SZ Flying Financial, Qianhai Flying Financial, or Flying Investment of the Group.

#### *The Guarantee Documents*

11. The Seized Assets were subject to certain guarantees (the “**Guarantee Documents**”) provided by Qianhai Flying Financials, SZ Flying Financial and Flying Investment for certain unsettled repayment of funds to the lenders involved in the P2P Platform (the “**Loan Guarantee**”).
12. The respective Guarantee Documents were entered into by Mr. Zheng or Ms. Guo as the case may be and issued by Qianhai Flying Financial, SZ Flying Financial or Flying Investment as the case may be.
13. However, no record of the then Board’s meeting minutes or resolution was found to be accompanied by the aforesaid Guarantee Documents.

#### **Findings of Dentons**

Based on the major investigative procedures as set out in the section headed “Major procedures of the PRC Supplemental Investigation” above, Dentons has the following key findings:

14. Besides the information as announced or published by the Company, Dentons found no clear and direct evidence that, before the Individuals Involved were held in custody, the Other Board Members was aware of and authorised the illegal activities carried out by Mr. Zheng, Ms. Guo and the Three Employees regarding the Custodies.

#### **Findings of CH Chambers and PMT**

Based on the major procedures as set out in the section headed “Major procedures of the preparation of the HK Legal Opinions” above, CH Chambers and PMT have the following key findings:

15. The Company’s case is that Mr. Zheng and/or Ms. Guo acted in breach of their duties and obligations and were responsible for the arrangements of Loan Guarantee given by the Company and/or the Company’s subsidiaries within the Group.
16. Mr. Zheng and Ms. Guo owed the Company duty of care under statute and fiduciary duty under common law and equity. There is relatively strong case that Mr. Zheng and/or Ms. Guo failed to discharge the aforesaid duties.

17. In respect of the Loan Guarantee, CH Chambers opine that there is flagrant breach by Mr. Zheng given that the arrangement involves obvious conflicting interest between the Company and himself. Both statute and common law principles prohibit such arrangement made without sufficient authorization or disclosure.
18. Regarding the Guarantee Documents, in the event the Court accepts the evidences in the October 2021 Judgement and form a view that the arrangement made by Mr. Zheng and/or Ms. Guo was made out of their honest belief in the Company's interest, it is likely the Court will find Mr. Zheng and Ms. Guo in breach of fiduciary duty to act *bona fide* in the Company's interest. Nevertheless, there is risk that the Court may form its own view regardless of the October 2021 Judgement.
19. Since the loss of the Company was wholly or partially caused by the alleged breaches by Mr. Zheng and Ms. Guo, the Loan Guarantee is likely to be voidable and equitable compensation may be ordered against Mr. Zheng and Ms. Guo if the Court accept they are in breach.
20. Based on the present information available and without undertaking any investigative action, there is no evidence as to whether the Other Board Members had actual knowledge of the illegal fundraising activities acted through SZ Flying Financial. Further, it was also no evidence as to whether the Other Board Members had actual knowledge of the Loan Guarantee.
21. As at the date of the HK Legal Opinions, there has been no Custodies instituted against any Other Board Members in relation to the P2P Platform and/or the affairs of SZ Flying Financial. Further, each of the Other Board Members has confirmed that he or she was not involved in the Offence.
22. Given the circumstances that Mr. Zheng had dominant control over the corporate structure of the Company, and had actual control over SZ Flying Financial, it is possible that the Other Board Members had been circumvented in any criminal activities or unauthorized civil activities undertaken by the PRC subsidiaries of the Company. In this relation, there is no sufficient evidence to support that there has been breach of the Director's Duties on the part of the Other Board Members.
23. However, the Custodies and the lack of knowledge of the Group's operating subsidiaries exposed that the board of directors of the Company has not been capable of ensuring an effective internal control and risk management system within the Group. It is also questionable whether the internal audit of the Group has been undertaken effectively. The corporate governance practices of the Company, of which the board of directors are ultimately responsible, had been unsatisfactory.

## **BASIC ASSUMPTIONS OF THE PRC SUPPLEMENTAL INVESTIGATION REPORT AND THE HK LEGAL OPINIONS**

In the preparation of the PRC Supplemental Investigation Report and the HK Legal Opinions, Dentons, CH Chambers and PMT have conducted due diligence exercises which considered to be necessary by them respective and that the PRC Supplemental Investigation Report and the HK Legal Opinions are subject to certain basic assumption including, but not limited to:

24. The information and documents obtained by Dentons, CH Chambers and PMT from the Company for the purpose of the PRC Supplemental Investigation Report and the HK Legal Opinions would be complete, true and not misleading;
25. The signatures on the copied documents are all authentic, if applicable;
26. Concerning the matters which could not be independently verified by Dentons, Dentons has relied upon the information of the relevant PRC authority, websites and the Company's information, confirmation and documents.

The Remedial Actions Committee considered that such assumptions to be fair and reasonable.

## **VIEWS OF THE REMEDIAL ACTIONS COMMITTEE**

Having considered the findings of the PRC Investigation Report, PRC Supplemental Investigation Report and the HK Legal Opinions, the Remedial Actions Committee noted that the incidents covered in the Investigation remain mostly conducted by Mr. Zheng, Ms. Guo as the then Directors and the Three Employees as the former employees of the Group at relevant times and were primarily caused by:

1. overriding the Company's internal control to (i) control, organise and operate the illegal fundraising activities of SZ Flying Financial (through online and offline channels); and (iii) use and allocate the raised funds;
2. arranging SZ Flying Financial to enter into arrangements regarding the suspected illegal absorption of public deposits with various lender without authorisation and approval from the Board at the material time;
3. arranging Qianhai Flying Financial, SZ Flying Financial and Flying Investment to provide guarantee for certain unsettled repayment of funds to the lenders involved in the financial service platform of the Group without authorisation and approval from the Board at the material time; and
4. concealing the actual financial performance of the ABS Investment and the LPs, and/or providing information that is inconsistent with facts to other Directors in relation to the repayment, return, distribution or fair value of the ABS Investment and the LPs.

The Remedial Actions Committee concurs with the findings of CH Chambers and PMT that the Other Board Members, being the one executive Director and the three independent non-executive Directors at the material time, have not been capable of ensuring an effective internal control and risk management system within the Group and the internal audit of the Group has not been undertaken effectively at the material time. The corporate governance practices of the Company at the material time, of which the Other Board Members were ultimately responsible, had also been unsatisfactory.

## **RECOMMENDATIONS FROM THE REMEDIAL ACTIONS COMMITTEE**

The Remedial Actions Committee has reviewed the HK Legal Opinions. After due and detailed discussion, the Remedial Actions Committee is of the view that the content and findings in the HK Legal Opinions are reasonable and acceptable.

Accordingly, the Remedial Actions Committee has recommended that the Board adopt the findings of the Investigation. Further, the Remedial Actions Committee has made recommendations (the “**Recommendations**”) to the Board in the following:

1. In respect of the GEM Listing Rules compliance matters, to seek advices from financial and legal advisers on alleged non-compliance matters as identified in the Investigation and report to relevant regulatory authorities if required;
2. In respect of asset recovery in relation to the Seized Assets, to obtain legal advice and take legal action to recover the Seized Assets including, but not limited to, taking legal actions against the Individuals Involved;
3. In respect of enhancement of internal control system, to:
  - (i) ensure the strict implementation of recommendations to the Company’s internal control system made by the internal control consultant;
  - (ii) conduct executive directors’ training, recruit new Board members and/or restructure the Board as appropriate, appoint external compliance advisor, appoint financial controller and strengthen internal support for group governance and compliance;
  - (iii) perform evaluation on staff who were previously involved in the subject matters of the Investigations to assess their ability, performance and level of involvement for their continued employment or termination and consideration of their suitability with the Group;
  - (iv) optimize and improve the corporate governance mechanism under the guidance of the Board of Directors, strengthen the authority management of major matters and the scope of matters reported to the Board of Directors for deliberation through quantitative and qualitative methods, and improve and expand the management to regularly report to the Board of Directors on business, financial and internal control status and other governance improvements;

- (v) establish compliance committee comprising executive Director(s) and at least a non-executive Director, and to formulate, monitor and maintain the Group's compliance requirements under the GEM Listing Rules and laws, and formulate a Whistleblowing Policy to encourage employees to report any violations and misconduct; and
- (vi) to increase the financial controller's participation in the business operation and investment decision of the Group who would be required to report to the Board directly instead of to the chief executive officer.

## **OVERALL RESPONSES FROM THE BOARD**

The Board has reviewed the HK Legal Opinions and the Recommendations made by the Remedial Actions Committee. The Board agreed with the Recommendations of the Remedial Actions Committee and has resolved that the Recommendations of the Remedial Actions Committee be implemented as soon as practicable.

In addition, the Board has resolved to expand the current Board by appointing additional Directors with experience with public listed companies. Suitable candidates will be identified for the consideration of the Nomination Committee as soon as possible.

The Board is of the view that the issues identified in the HK Legal Opinions do not have material adverse impact on the business operations of the Group. The Group's business operations continue as usual despite the suspension of trading in the Shares since 29 March 2021.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 11:19 a.m. on 29 March 2021 and will remain suspended until the Company fulfils the Resumption Guidance. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares.

By the Order of the Board  
**Flying Financial Service Holdings Limited**  
**Zhang Gongjun**  
*Chairman and Chief Executive Officer*

Hong Kong, 25 May 2022

*As at the date of this announcement, the executive Directors are Mr. Zhang Gongjun (Chairman and Chief Executive Officer), Ms. Wan Suyuan, Mr. Leung Man Kit and Ms. Liu Yi; and the independent non-executive Directors are Dr. Vincent Cheng, Dr. Miao Bo, Mr. Hsu Tawei, Mr. Tsao Hoi Ho and Mr. Lau Jing Yeung William.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and there are no other matters the omission of which would make any statement herein or in this announcement misleading.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for a minimum period of seven days from the date of its publication and on the Company’s website at [www.flyingfinancial.hk](http://www.flyingfinancial.hk).*