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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)

QUARTERLY UPDATE ON STATUS OF RESUMPTION

Financial adviser to the Company



瓏盛資本有限公司
Draco Capital Limited

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

References are made to (i) the announcements of the Company dated 4 June 2021, 28 June 2021 and 19 November 2021 in relation to, among others, the Resumption Guidance; (ii) the announcements of the Company dated 28 June 2021, 28 September 2021, 28 December 2021 and 4 April 2022 in relation to, among others, the quarterly update on the status of Resumption; (iii) the announcement of the Company dated 24 December 2021 in relation to, among others, the formation of an Independent Investigation Committee and the change of auditor; (iv) 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; (v) the announcement of the Company dated 15 March 2022, 4 April 2022 and 25 May 2022 regarding the formation of the Remedial Actions Committee and the key findings of the PRC Further Investigation and HK Legal Opinions; (vi) the announcement of the Company dated 26 January 2022, 1 June 2022 and 29 June 2022 and the circular of the Company dated 10 May 2022 in relation to, among others, the Very Substantial Disposal; (vii) the announcement of the Company dated 6 May 2022, 17 May 2022, 27 May 2022, 9 June 2022 and 10 June 2022 in relation to, among others, the listing committee decision on cancellation of listing and the review request made by the Company; (viii) the announcement of the Company dated 23 May 2022 in relation to, among others, the proposed Capital Reorganisation, the Subscription and the Whitewash

Waiver, (ix) the announcement dated 6 May 2022 in relation to the delay in publication of first quarter results of the Company for the three months ended 31 March 2022; (x) the audited annual results announcement for the year ended 31 December 2021; (collectively the “**Previous Announcements**”) and (xi) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined in the Previous Announcements and the 2021 Annual Report.

UPDATE ON BUSINESS OPERATIONS

As at the date of this announcement and with reference to the Previous Announcements, the business operations of the Group have been conducted on a continuing and normal basis in all material respects.

ACTION TO BE TAKEN IN RELATION TO THE CUSTODIES

The Company has continued to take active steps to address and comply with the Resumption Guidance.

As announced by the Company on 25 May 2022, the legal advisers of the Company, Dentons, CH Chambers and PMT, have issued the PRC Further Investigation Report and the HK Legal Opinions in relation to the Custodies. Among the key findings of the HK Legal Opinions:

- (i) 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;
- (ii) 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; and
- (iii) 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.

Based on the aforesaid findings (together with other findings in the PRC Further Investigation Report and the HK Legal Opinions), the Company is discussing with its legal advisers to recover from Mr. Zheng the damages he has caused to the Company. The Company is in the process of consulting with its legal advisers regarding the amount of recoupment involved and the Company is considering filing a formal claim against Mr. Zheng in court.

Based on the currently progress, the Company expects that the formal claim against Mr. Zheng in court will be filed by end of July 2022. The Company will issue further announcement(s) as and when necessary if there are development in the potential legal proceedings.

With reference to the announcement of the Company dated 19 November 2021, in response to the Resumption Guidance (a), which requires the Company to conduct an appropriate independent investigation into the Custodies, assess the impact on the Company's business operation and financial position, announce the findings and take appropriate remedial actions, the Company considers that such Resumption Guidance as completed upon the issuance of the PRC Further Investigation Report and the HK Legal Opinion.

COMPLETION OF THE VERY SUBSTANTIAL DISPOSAL

The circular in relation to the Disposal had been despatched to the Shareholders on 10 May 2022. The extraordinary general meeting in relation to the Disposal has been held on 1 June 2022. All the resolutions regarding the Disposal were duly passed by way of poll among such meeting.

As announced by the Company on 29 June 2022, all conditions precedent of the Sale and Purchase Agreement have been satisfied. The Completion in respect of the Disposal took place on 29 June 2022.

Following the Completion, the Target Companies ceased to be subsidiaries of the Company and the Company ceased to have any interests in the Disposal Group. The financial results of the Disposal Group would no longer be consolidated into the Group's financial statements. In addition, the Remaining Group would not hold any of the LPs and ABS and accordingly, it is expected that the Remaining Group would not retain any limited partnerships or assets-backed securities as referred to in the Basis for Disclaimer of Opinion in the 2020 Annual Report.

Meanwhile, the net proceeds of the consideration of the Disposal of approximately HK\$12.4 million has been received by the Company as at the date of this announcement. Such consideration shall be applied towards the repayment of indebtedness and for the general working capital of the Remaining Group after the Disposal. It is expected that, following the Disposal, the Remaining Group would be able to have sufficient working capital to sustain its operations.

As at the date of this announcement, the Board has no plan to change the principal business of the Group. Immediately after the Disposal, the Remaining Group would be mainly engaged in the operation of the financial service platform (as part of the fin-tech platform) and the provision of consultation services. It is also expected that the Remaining Group would carry on identifying appropriate opportunities of the investment in property development projects subject to the prevailing market conditions and available funds of the Group.

DESPATCH OF THE 2021 ANNUAL REPORT AND THE AUDIT MODIFICATIONS

As disclosed in the 2020 Annual Report, the former auditor of the Company (the “**Former Auditor**”) expressed disclaimer of opinion on the consolidated financial statements of the Company due to the matters described in the “Basis for Disclaimer of Opinion” section of the 2020 Annual Report. The summary below sets out the background and details of the matters described in such regard:

(1) Scope limitation on the valuation of investments in limited partnerships

As disclosed in the 2020 Annual Report, the Former Auditor was not able to obtain sufficient requested information and materials for the audit of the LPs and there were no alternative audit procedures that we could perform to satisfy the Former Auditor itself as to whether the fair value of the Group’s investments in the LPs as at 31 December 2020 was reasonably estimated.

(2) Scope limitation on the valuation of assets-backed securities

As disclosed in the 2020 Annual Report, the Former Auditor was not able to obtain sufficient requested information and materials for the audit of the ABS to support the cash flow estimation used in measuring the fair value of ABS as at 31 December 2020 and there were no alternative audit procedures that the Former Auditor could perform to satisfy itself as to whether the fair value of the Group’s investments in the ABS as at 31 December 2020 was reasonably estimated.

(3) Scope limitation on PRC bank related balances, PRC loans and accounts receivables, PRC other payables and disclosures

As disclosed in the 2020 Annual Report, the Former Auditor were unable to send confirmation requests to the banks and other counterparties of the above-mentioned items to confirm the existence and balances of the various bank balances and the other accounts since the confirmation requests need to be authorised by the PRC subsidiaries evidenced by applying company seals which were taken into custody by the Nanshan Branch of the Shenzhen Public Security Bureau in the PRC.

(4) Scope Limitation relating to going concern

As disclosed in the 2020 Annual Report, due to the limitations on the scope of work, the Former Auditor unable to obtain sufficient appropriate evidence to determine whether the directors’ conclusion that the Group is able to continue as a going concern and the consolidated financial statements prepared on a going concern basis is appropriate.

As disclosed in the announcement of the Company dated 24 December 2021, the Former Auditor has resigned as auditor of the Company with effect from 23 December 2021 as the Company and the Former Auditor could not reach a consensus on the audit fee of the Company for the year ended 31 December 2021.

Save for the aforesaid, the Former Auditor has confirmed to the Company that there are no matters in relation to its resignation that need to be brought to the attention of the shareholders of the Company. Meanwhile, both the Board and the audit committee of the Company at the material time also confirm that there is no disagreement between the Company and Former Auditor, and there are no other matters in respect of the resignation of auditor that need to be brought to the attention of the shareholders of the Company. The Company further announced that, with the recommendation of the audit committee of the Company, the Board has resolved to appoint Elite Partners CPA Limited as the New Auditor of the Company with effect from 24 December 2021 to fill the casual vacancy following the resignation of former auditor of the Company and to hold office until the conclusion of the next annual general meeting of the Company.

The Company has published its audited annual results announcement for the year ended 31 December 2021 and the 2021 Annual Report on 30 June 2022. As disclosed in the 2021 Annual Report, the New Auditor expressed disclaimer of opinion on the consolidated financial statements of the Company due to the matters described in the “Basis for Disclaimer of Opinion” section of the 2021 Annual Report.

The summary below sets out (i) the background and details of the matters described in the Disclaimer of Opinion; and (ii) the view of the Board and the Audit Committee on how such Disclaimer of Opinion has been fully addressed.

(1) Material uncertainties relating to going concern

As disclosed in the 2021 Annual Report, the New Auditor was unable to obtain sufficient appropriate evidence from the management to assess the appropriateness and reasonableness for their underlying assumptions relating to the going concern

The Board and the audit committee of the Company (the “**Audit Committee**”) are of the view that, after completion of the Disposal, the Company had obtained sales proceeds of HK\$15.0 million to repay its indebtedness and enhance the general working capital. On the other hand, the Company had entered into the Subscription Agreement with the Subscriber to conduct the Subscription (with net proceeds of HK\$23.95 million) to strengthen the business operation of the Company.

Coupled with the steady development of the financial platform services of the Group, the Board and the audit committee of the Company are confident that the Group could continue to operate as least 18 months after the year ended 31 December 2021.

(2) Opening balances and corresponding figures

The auditor’s report on the consolidated financial statements of the Group for the year ended 31 December 2020 (“**2020 Financial Statements**”) contained qualifications on the limitation of audit scope relating to (i) the valuation of investments in the LPs; (ii) the valuation of ABS; (iii) PRC bank related balances, PRC loans and accounts receivables, PRC other payables and disclosures; and (iv) material uncertainty relating to going concern (“**Qualifications**”). Details of which has been set out in the auditor’s report for 2020 Financial Statements dated 31 March 2021.

As the 2020 Financial Statements formed the basis for the corresponding figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the Qualifications would have an effect on (i) the opening balances on the consolidated financial position of the Group as at 31 December 2021; (ii) corresponding figures in the consolidated financial statements for the year ended 31 December 2021; and (iii) the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2021.

Given that almost all the PRC subsidiaries that Ms. Guo is the director and legal representative were included in the disposal group of the Disposal, the Board and the Audit Committee concur with the view and consider that, following the completion of the Disposal, the issue would be resolved during the year of 2022.

(3) Scope limitation on certain bank balances in the PRC

As disclosed in the 2021 Annual Report, the New Auditor was unable to obtain sufficient requested information and materials to perform appropriate bank confirmation circularisation procedures.

The Board and the Audit Committee concur with the view and consider that the qualifications in the auditors' report for the year ended 31 December 2020 had been resolved during the year ended 31 December 2021.

As at the date of this announcement, the first quarter results of the Company for the three months ended 31 March 2022 have not been published. Following the publication of the 2021 Annual Report, the Company is in the course of the preparation of the publication of the first quarter results of the Company for the three months ended 31 March 2022. It is expected that such quarter results will be published on or before 11 July 2022.

With reference to the announcement of the Company dated 19 November 2021, in response to the Resumption Guidance (c), which required the Company to address the issues giving rise to the disclaimer of opinion on the 2020 Annual Report, provide comfort that the disclaimer of opinion in respect of such issues would no longer be required and disclose sufficient information to enable investors to make an informed assessment of its financial positions as required under Rule 17.49B of the GEM Listing Rules, the Company considers that such Resumption Guidance as substantial completed upon the despatch of the 2021 Annual Report and as completely completed upon the publication of the first quarter results of the Company for the three months ended 31 March 2022.

UPDATE ON THE INTERNAL CONTROL REVIEW

Following, including but not limited to, (i) the issuance of the PRC Further Investigation Report and the recommendations made by the Remedial Actions Committee to the Board; (ii) the completion of the Disposal; and (iii) the despatch of the audited annual results of the Company for the year ended 31 December 2021, the Company considers that it has taken follow-up actions and implement the corresponding improvement measures in order to adopt adequate internal control systems to meet the obligations of the GEM Listing Rules pursuant to the findings and advices addressed by the internal control consultant.

The Company is working with the internal control consultant in finalising the final internal control review report of the Company. The Board considers that upon the issue of such final internal control review report, (i) the independent internal control review shall have fully evaluated the effectiveness of the Group's internal control system and has identified deficiencies in it; (ii) the identified deficiencies in the independent internal control review shall have been followed up and improved; and (iii) the follow-up actions and improvement measures implemented by the Group shall be sufficient in addressing the identified deficiencies. The final internal control review report of the Company is expected to be issued by mid-July 2022 and the Company will issue the respective announcement as and when appropriate.

PROPOSED CAPITAL REORGANISATION, THE SUBSCRIPTION AND THE WHITEWASH WAIVER

As announced by the Company on 23 May 2022, the Company proposes to implement the Capital Reorganisation which will involve the Share Consolidation, the Capital Reduction and the Share Sub-division.

The Company entered into the Subscription Agreement with the Subscriber on even date, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 36,042,067 New Shares at the Subscription Price of HK\$0.72 per Subscription Share to the Subscriber.

Upon the completion of the Subscription, the Subscriber will then hold 36,042,067 New Shares, representing approximately 51% of the then issued share capital of the Company as enlarged by the Subscription and adjusted for the effect of the Capital Reorganisation (assuming there will be no other change in the number of issued Existing Shares and New Shares between 23 May 2022 and the completion of the Subscription, save for the Capital Reorganisation and the Subscription).

Following the Completion of the Subscription, the Subscriber (which is not connected with or acting in concert with Mr. Zheng, Ms. Guo Chanjiao and three former employees of the Group who committed the offence of illegal absorption of public deposits (as referred to in the Company's announcement dated 22 February 2022)) will be the controlling shareholder of the Company. The Company believed that in such circumstance, the Subscription could facilitate and strengthen investor confidence that the Company's management and operation would not be subject to any substantial influence of Mr. Zheng (who has integrity concern).

As announced by the Company on 13 June 2022, the Circular containing, among other things, further details of (i) the Capital Reorganisation, the Subscription, the Specific Mandate, the Whitewash Waiver and all the transactions contemplated thereunder; (ii) letters of recommendation from the Independent Board Committees to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders in relation to the Subscription, the Specific Mandate, the Whitewash Waiver and the respective transactions contemplated thereunder; and (iv) a notice of the EGM and a form of proxy, is expected to be despatched to the Shareholders on or before Friday, 8 July 2022.

UPDATE ON PROGRESS OF RESUMPTION

Since the suspension of trading of the Shares on 29 March 2021, the Board has been continuously making effort in taking steps to fulfil the Resumption Guidance.

After receiving the Letter date 6 May 2022 from the Stock Exchange in relation to the Delisting Decision, the Company has submitted a formal request to the secretary of the Listing Review Committee of the Stock Exchange on 17 May 2022 for the Delisting Decision to be referred to the Listing Review Committee for review pursuant to Chapter 4 of the GEM Listing Rules.

The Board has further made its written submission including the key addition information required together with the respective supporting documents to the Listing Review Committee of the Stock Exchange on 9 June 2022 for the purposes of the Review Hearing, which has been scheduled for 10:30 a.m. on Wednesday, 3 August 2022.

The Company will continue to work towards fulfilling the Resumption Guideline prior to the Review Hearing and will present the relevant information to the Listing Review Committee by the time the Review Hearing is held.

As always emphasized by the Company, the Company attaches great importance to the interests of the shareholders of the Company. The Company will use its best endeavor to act in accordance with the rules and regulations of the Stock Exchange, make reasonable efforts and never give up the case until the end.

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, 4 July 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 Stock Exchange’s website at www.hkexnews.hk for a minimum period of seven days from the date of its publication and on the Company’s website at www.flyingfinancial.hk.