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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 INDEPENDENT INTERNAL CONTROL REVIEW

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, 4 April 2022 and 4 July 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 and the Circular of the Company dated 8 July 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 of the Company for the year ended 31 December 2021 dated 30 June 2022; (collectively the “**Previous Announcements**”) and (xi) the annual report of the Company for the year ended 31 December 2021 published on 30 June 2022 (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.

BACKGROUND

As disclosed in the announcement of the Company dated 4 June 2021, the Stock Exchange set forth the Resumption Guidance, among other things, required the Company to demonstrate that the Company has in place adequate internal control systems to meet the obligations of the GEM Listing Rules.

To assist the Company in fulfilling the relevant Resumption Guidance, the Company has engaged GRC Chamber Limited (“**GRC**”) on 24 December 2021 as its independent internal control adviser to conduct a comprehensive review of the internal control system, policies and procedures of the Group in relation to the corporate governance and key business processes at entity and process levels for the period from 1 January 2021 to 28 February 2022, conducted the internal control follow-up review of the Group up to 14 July 2022 (the “**Internal Control Review**”), prepare an internal control review report (the “**Internal Control Review Report**”) and assist the management to improve the Group’s internal control system. The main purpose of the Internal Control Review is to assist the Board and the management of the Group to review and improve the internal control system designed and implemented by the management of the Group in accordance with the Corporate Governance Code, the relevant listing rules of the Stock Exchange (especially Chapter 17, Chapter 19, Chapter 20, Appendix 15, etc. of the GEM Listing Rules), and the relevant rules of the SFC (especially Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), and to evaluate the procedures formulated by the Group as to whether the procedures, systems and monitoring measures are sufficient to enable the Board to make an appropriate assessment of the financial position and prospects of the Group.

The Internal Control Review Report assesses the adequacy and effectiveness of the Group’s overall internal control system, identifies internal control weaknesses, and provides recommendations to the Group. GRC conducted the internal control follow-up review and issued the Internal Control Review Report on 14 July 2022. The Company would like to update its shareholders and set out the key findings of the Internal Control Review Report in this announcement.

OBJECTIVES AND SCOPE OF THE INTERNAL CONTROL REVIEW

The key objectives of the Internal Control Review are to assess and identify significant weaknesses in the relevant procedures, systems and controls of the Group, and to report findings and make recommendations for the enhancement of the internal control of the Group.

The scope of work of the Internal Control Review are evaluating the existing policies, procedures or control in relation to the corporate governance and financial reporting cycle under the internal control framework issued by the Committee of Sponsoring Organisation of the Treadway Commission to identify weaknesses in the relevant procedure, make recommendations for improvement and assessing whether the Company have taken adequate remedial measures to rectify the weaknesses by performing the internal control follow-up review of the Group.

The Internal Control Review covers, inter alia, the following aspect of the Group:

A. Corporate Governance aspect

- Implementation and monitoring of corporate governance policies;
- Implementation and oversight of accounting, operational and/or compliance policies;
- Corporate governance structure at the listed company and subsidiary level (including the Board's review of the suitability of directors and senior management);
- Internal controls relating to the GEM Listing Rules (especially Chapter 17, Chapter 19, Chapter 20, Appendix 15, etc. of the GEM Listing Rules);
- Internal controls relating to Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
- The system of authority and matters reserved to the Board of Directors; and
- Effectiveness of anti-fraud management systems, reporting policies, reporting mechanisms and oversight functions.

B. Operational aspect

- Financial Reporting Management;
- Budgeting and cash flow forecast management; and
- Management in relation to the revenue, accounts receivable collection, direct cost, general expense, capital expenditure, investment, debt and financing.

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

The key findings of, inter alia, the material deficiencies identified by GRC throughout the Internal Control Review, corresponding rectification recommendations, the Company's response and the remediation status are summarised as follows:

No.	Purpose of Independent Internal Control Review	Key internal control weaknesses	Rectification recommendations	Company's response and remediation status
1	Re-establishment of the GEM Listing Rules level governance policies	<p>The Company had designed and adopted a set of policies at the governance level in relation the GEM Listing Rules since its listing in GEM in 2012.</p> <p>However, the Company is unable to locate and provide written records of these policies during the review. The Company has indicated that these policies may have been stored on a server that is now sealed. In any event, this situation also indicates that the Company has not implemented an effective policy update, record-keeping and circulation process and system.</p>	<p>GRC recommends that the Board re-establish, review and approve a set of governance policies as soon as possible, including but not limited to:</p> <ol style="list-style-type: none"> 1. a connected transaction policy; 2. notifiable transaction policy; 3. internal information disclosure policy; 4. securities trading policy for directors; and 5. anti-corruption policy. 	<p>The management of the Company has developed a compliance manual (at the GEM Listing Rules level) setting out requirements relating to ongoing obligations, notifiable transactions, connected transactions, handling of inside information and codes for directors' securities transactions.</p>

No.	Purpose of Independent Internal Control Review	Key internal control weaknesses	Rectification recommendations	Company's response and remediation status
2	Examining Board Effectiveness, Independence and Diversity	<p>Based on the Board minutes and practices for the period from 2019 to 2021, it appears that the Company does not have a formal system to ensure that corporate governance is driven from the top.</p> <p>During the past year, there has been a relatively high turnover of the Board of Directors and relatively significant changes in the Company's operations. The complexity and workload of restarting the Company's operations in the future appears high. From a corporate governance perspective, the Board may not have adequately demonstrated from a corporate governance perspective, the Board may not have fully demonstrated its effectiveness, independence and diversity.</p>	<p>GRC recommends that the Board of Directors should conduct a regular evaluation of its performance pursuant to the principles of B.1 and B.1.5 of the Corporate Governance Code. The Board should allocate specific responsibilities to individual directors while maintaining a balance of power.</p> <p>In the event that new roles will be assigned or new directors will be appointed, the Board should also consider the related corporate governance code as set out in Appendix 15 of the GEM Listing Rules.</p>	<p>On 20 May 2022, the Board approved resolutions to:</p> <ol style="list-style-type: none"> 1. change the composition of the Remuneration Committee and the Nomination Committee of the Company; 2. appoint Ms. Liu Yi as an executive Director; and 3. change the compliance officer of the Company; <p>On 9 June 2022, the Other Board Members confirmed they would resign from the Board with effect from the resumption of trading in the Shares upon the fulfilment of the Resumption Guidance, if materialised and approved by the SFC and the Stock Exchange.</p> <p>On 17 June 2022, the Board reviewed the composition of the Board, including the proposed resignation of the Other Board Members and considered that the effectiveness of the Board would not be affected.</p>

No.	Purpose of Independent Internal Control Review	Key internal control weaknesses	Rectification recommendations	Company's response and remediation status
3	Reviewing the governance structure at the subsidiary level to achieve segregation of duties and greater legal protection	In general, the Company has not established or has not revised effective policies or practices to regulate the appointment or removal of key positions, such as directorship and legal representative in its subsidiaries.	GRC recommends that the Board review and, if necessary, revise the governance structure and bylaws at the level of all subsidiaries, the representation, segregation, powers and authority of its registered directors, corporate and officers. It also recommends that the Company seek the assistance of legal adviser on these issues.	The Group had transferred and/or avoided the relevant risks following the completion of the Disposal on 29 June 2022. The Board has also resolved to approve to replace the directors of the Group's subsidiaries in the PRC of the Remaining Group.
4	Finalise a specific plan for making reasonable claims for losses from unauthorized and concealed transactions in relation to the Custodies	Under the GEM Listing Rules and the Corporate Governance Code, the Directors have a collective and individual responsibility to discharge their fiduciary duties and duties of skill, care and diligence in accordance with standards at least commensurate with those required by the law of Hong Kong, including being accountable to the listed company for the application or misapplication of its assets. Having considered the happening of the Custodies, the Board has not developed a specific plan to propose, approve and implement the follow-up action.	The Board shall develop a follow-up action plan to achieve the compliance with the requirements of the GEM Listing Rules and the Corporate Governance Code as soon as possible.	The Company has engaged Dentons, CH Chambers and PMT to conduct the PRC Further Investigation and obtain the HK Legal Opinion in order to obtain professional opinions or to investigate the Incident. The Remedial Action Committee, who also serve as Directors, have also indicated that the Board will decide on claims based on cost and benefits and the best interests of the Shareholders.

No.	Purpose of Independent Internal Control Review	Key internal control weaknesses	Rectification recommendations	Company's response and remediation status
5	Enhance monthly management reporting systems and procedures to allow for more timely and comprehensive reporting of key matters to Board members	<p>The Company had not required management of the Group to submit the required information to all members of the Board on a regular basis in accordance with C1.1–C1.2. of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules.</p> <p>In practice, the Company's management provides key information including financial information and management accounts on a quarterly basis for review by the Board. It is understood that the information provided is primarily focused on financial information and the frequency of reporting is set to quarterly. The frequency and content of the reports do not appear to be at a level that would provide directors with more comprehensive and timely access to key information.</p> <p>It is reasonable to believe that with a better designed reporting system, important events involved in the Group's operations, including the provision of guarantee for certain unsettled repayment of funds to the lenders involved in the financial service platform of the Group; could have been reported to the Board much earlier.</p>	GRC recommends that the Company optimise and implement a more comprehensive periodic reporting system that requires management to present key financial, operational and compliance information to the Board on a regular basis.	The Board has approved the necessary monthly reporting procedures to form the basis of support for compliance with the Corporate Governance Code. The Board shall continue to monitor the ongoing and specific implementation and updating of this policy.

No.	Purpose of Independent Internal Control Review	Key internal control weaknesses	Rectification recommendations	Company's response and remediation status
6	Establish, implement and communicate more detailed limits of authority (matters reserved for the Board)	<p>In accordance with C.3.1 of the Corporate Governance Code in Appendix 15 of the GEM Listing Rules, listed issuers should have a formal arrangement for matters specifically reserved for board approval and formally specify the functions reserved for the board. The board should also not delegate matters of such importance to board committees, executive directors or management as to materially impede or reduce the ability of the board as a whole to perform its functions.</p> <p>The Company has not had special provisions to specifically regulate the matters reserved to the Board. This has led to a situation where individual directors are permitted (or not prohibited) from approving some matters that should be reserved for the Board.</p> <p>One of the new executive Directors noted that specifically listing important matters reserved to the Board, including but not limited to the specific matters set out in Chapter 17 of the GEM Listing Rules, is a reasonable process for fulfilling fiduciary duties and corporate governance principles.</p> <p>The absence of such a system makes it difficult to distinguish between the management responsibilities of individual directors in their roles as directors and management when significant issues arise, to measure and limit the expansion of individual directors' authority, and to account for individual cases of excess of authority or violation of corporate rules.</p>	GRC recommends that the Board review the limits of its authority through quantitative and qualitative considerations, refine existing limits of authority in areas where they are applicable, and develop a policy that specifies the matters reserved for the Board.	On 20 May 2022, the Board decided approved, confirmed and rectified the policies, including the Reserved Matters for the Board, and emphasised that the policies presented would effectively strengthen the Company's compliance governance.

No.	Purpose of Independent Internal Control Review	Key internal control weaknesses	Rectification recommendations	Company's response and remediation status
7	Review the sustainability of the Company's current operations	Currently, the Board has not formally discussed and made a conclusive decision regarding the uncertain risk of the remaining business of the Group.	GRC recommends that the Board should hold formal discussions and make a conclusive decision on this uncertain risk as soon as possible.	The Company has prepared a profit and cash flow forecasts for the Remaining Group. The Remaining Group will reduce its reliance on the affected business. Meanwhile, new business partners will be introduced to the Remaining Group.
8	Re-establishing the internal audit department and strengthening its independence and work requirements	<p>The Corporate Governance Code requires the Company to establish an internal audit function, and the Board should review the internal audit function, and the adequacy and independence of the resources of the internal audit function.</p> <p>The management of the Company have both oversight responsibilities and their own management responsibilities, including the implementation of internal controls.</p> <p>From a more macro perspective, the internal audit function should be separated from the management of the Company. A higher level of control can be achieved if the Company has a further independent head to handle and monitor risk management and internal control.</p> <p>If the Company has an effective and independent internal audit function, even if certain transactions are hidden, the Company should be able to detect some of the key internal control deficiencies or risk factors/ signals at an earlier stage.</p>	<p>GRC recommends that the Company should separate the internal audit function from the management function and formally appoint an experienced and independent manager to lead the internal audit department.</p> <p>The Board should also direct the internal audit department to perform more frequent oversight work and independently report the results to the Board.</p>	<p>On 20 May 2022, the Board decided approved, confirmed and rectified the policies, including the internal audit charter, and emphasised that the policies presented would effectively strengthen the Company's compliance governance.</p> <p>An executive Director, who is also a member of the Remedial Action Committee, has entered into a 1 year agreement with an independent internal control consultant. The main terms include the preparation of internal audit plan, development of internal audit process of the Company and submission of internal audit and risk control reports to the Audit Committee for evaluation.</p>

RESULTS OF THE INTERNAL CONTROL REVIEW

As at the date of this announcement, the Group has (i) fully adopted and implemented the aforesaid recommendations made by GRC; and (ii) rectified the relevant deficiencies in the Group's internal control system.

Based upon the results of the above-mentioned Internal Control Review, GRC is of the view that the deficiencies identified by GRC in the Group's internal control system have been remediated and those newly adopted or modified measures and policies of the Company can be considered to be effectively designed and implemented from the perspective of managing the associated risks commensurate with the existing operations and scale of the Group upon the date of the Internal Control Review Report.

OPINIONS OF THE REMEDIAL ACTION COMMITTEE AND THE BOARD

Having considered the Internal Control Review Report and the remediated actions taken by the Group, the Remedial Action Committee and the Board are of the view that the enhanced internal control measures implemented by the Company based on the recommendations made by GRC are adequate and sufficient to address the key findings of the Internal Control Review Report and the Company has in place adequate internal controls and procedures to meet obligations under the GEM Listing Rules. As such, the Company considers that the relevant Resumption Guidance mentioned above in this announcement as completed.

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, 18 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 (<http://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.