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中金投集团

China Financial Services Holdings Ltd

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(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

INSIDE INFORMATION

MAJOR FINDINGS OF INVESTIGATION

This announcement is made by China Financial Services Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions under Part XVIA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

Reference is made to the announcement of the Company dated 19 October 2020 (the “**Announcement**”). Unless otherwise specified in this announcement, capitalized terms used in this announcement shall have the same meaning as defined in the Announcement.

In October 2020, the Company, through its legal advisor, engaged one of the big four accounting firms as an independent forensic consultant (the “**Consultant**”) to investigate the Incidents (the “**Investigation**”). The purpose of this announcement is to provide an update on the Investigation and a summary of the major findings of the Investigation based on information available as at 24 March 2021.

SUMMARY OF MAJOR FINDINGS OF THE INVESTIGATION

Based on the report of the Consultant and information available as at 24 March 2021, the major findings of the Investigation are as follows:

- (1) Mr. Luo Rui (“**Mr. Luo**”) was appointed as the chief executive officer of the Company in July 2011 and an executive director in August 2013 and had been primarily responsible for the Group’s business development and operation before being removed from the positions in October 2020, and Madam Guan Xue Ling (“**Madam Guan**”) was appointed as an executive director in August 2013 and the chief operating officer of the Group in 2014 and had been primarily responsible for the Group’s risk management, accounting and financial matters before being removed from the positions in October 2020;
- (2) from February 2017 to October 2020, five subsidiaries of the Company and three companies outside the Group issued a total of 330 financial products (the “**Financial Products**”). The Financial Products were traded on, amongst others, Tian An Internet Financial Asset Exchange Center Co., Ltd. or Tian Dong Rural Title Exchange Center Co., Ltd. with total outstanding amounts of approximately RMB1,376,900,000 payable by the issuers of the relevant financial products as at the date of the Announcement, which were guaranteed by the Company pursuant to certain guarantee contracts executed by Mr. Luo, former chief executive officer and former executive director of the Company and Madam Guan, former chief operating officer and former executive director of the Company purportedly for and on behalf of the Company (collectively, the “**Guarantee Contracts**”) and the signing of most of these Guarantee Contracts were without authorization of the board of directors of the Company (the “**Board**”);
- (3) the proceeds from the Financial Products were primarily used to provide loans to third parties independent of the Company (the “**Loans**”) in breach of the Group’s lending policies and without authorization of the relevant personnel and the Board. As at the date of the Announcement, a total of approximately RMB1,196,000,000 of the principal of the Loans remained outstanding;
- (4) the Guarantee Contracts and the Loans were either not fully reflected or not reflected at all in the Group’s consolidated financial statements for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the six months ended 30 June 2020 and the accounting records of the relevant PRC subsidiaries; and

- (5) in relation to the Incidents, it was found that:
- (i) the issue of the Financial Products and the entering into most of the Guarantee Contracts were conducted at the direction of Mr. Luo and Madam Guan without submitting to the investment committee of the Company or the Board for approval in accordance with the Company's established practice despite that both Mr. Luo and Madam Guan were each a member of the investment committee and the Board at the relevant time;
 - (ii) in contravention of the Company's internal rules and procedures, (a) the Loans were granted to the borrowers at the direction of Mr. Luo and Madam Guan without obtaining the required approval from the loan approval committee of the Company despite that both Mr. Luo and Madam Guan were each a member of the loan approval committee at the relevant time, (b) no due diligence was conducted on the relevant borrowers or due diligence was only conducted after partial funds were released to the relevant borrowers, (c) funds were released to a borrower despite adverse findings against that borrower and its guarantor from the due diligence conducted, which indicated that the borrower would use the funds to repay its other borrowings and any lending to that borrower should be approached with caution and that there were unreliable sales figures and substantial funds missing and unaccounted for in the financial information of the guarantor for the relevant Loans, and (d) the funds were released to the relevant borrowers without obtaining the required approval from the financial controller of the Company and vice president and chairman of the Board;
 - (iii) the responsible personnel failed to accurately reflect the issue of the Financial Products, the Guarantee Contracts and the Loans in the Group's consolidated financial statements and the accounting records of the relevant PRC subsidiaries;
 - (iv) while the investment committee and loan approval committee of the Company were authorized by the Company to handle matters relating to financing and lending, there was no formal guideline requiring the said committees to report the Group's financing and lending to the Board;

- (v) according to the Company's internal guidelines, the responsible staff shall properly collate information, file documents, regularly inspect the files and report to the supervisors in case any issues are identified, but certain personnel involved in the transactions relating to the Incidents failed to properly record or retain the related documents in accordance with the Company's internal guidelines; and
- (vi) the relevant transactions relating to the Incidents were not properly recorded, for example, certain proceeds were mistakenly recorded as the Company's related party transactions instead of proceeds from specific project or failed to be recorded at all, and specific details or nature of certain transactions were not recorded in the receipts for the transactions, making it difficult or impracticable to identify the nature of the transactions.

In respect of Mr. Luo and Madam Guan's acts relating to most of the Guarantee Contracts and the Loans which were carried out without authorization of the Board, the Company has reported to the Hong Kong police and the relevant authorities in the PRC. The Company will consider initiating legal proceedings against Mr. Luo and Madam Guan and seeking restitution for any losses which may be suffered by the Group as and when appropriate taking in account the advice of the Company's legal counsel.

To strengthen the Group's internal control, the Group has adopted the following tightened internal policy:

- (a) the Group has appointed Mr. Zhang Min ("**Mr. Zhang**"), the Chief Risk Officer of the Company to oversee the legal and compliance matters and internal control of the Group in relation to fund raising, guarantees, loan underwriting and capital management. Mr. Zhang has over 20 years of experience in the banking industry through his work with China Construction Bank Corporation and its subsidiaries and has extensive knowledge and experience in compliance and internal control matters in respect of Hong Kong listed companies. Mr. Zhang had previously served as a director of several Hong Kong listed companies and served as the chairman of Beijing Banking Association and Beijing Investment Association;

- (b) in respect of any guarantee proposed to be given by the Group or any proposed fund raising by the Group in Hong Kong or other jurisdictions outside the PRC, the finance department of the Group shall submit details of the proposal to the legal department of the Group, which shall then review the proposal and submit its recommendations to the chief financial controller. Upon approval by the chief financial controller, the proposal and his recommendations shall be submitted to the Group's Management Committee (the "**Management Committee**") comprising Dr. Cheung Chai Hong, the executive director of the Company, Mr. Zhang Min and Mr. Fang Feiyue, a non-executive director of the Company. The Management Committee is only authorized to approve, if the members of the Management Committee consider appropriate, guarantee and funding in the amount of less than HK\$100 million. For any guarantee and funding in the amount of more than HK\$100 million, the Management Committee shall submit details of the proposal and its recommendation to the Board for approval and assessment on any Listing Rules implications to ensure compliance of the same;
- (c) in respect of any guarantee proposed to be given by the Group or any proposed fund raising by the Group in the PRC, in addition to the approval procedure above, details of the proposal must also be submitted to the legal department and chief financial officer of the Company's subsidiaries in the PRC for review and approval, before submitting to the Management Committee and the Board;
- (d) further to the above, in respect of any guarantee proposed to be given by the Group or any proposed fund raising by the Group, once any guarantee and/or fund raising agreement has been entered into by the Group, regardless of whether such agreement was for more or less than HK\$100 million, copies of the executed document(s) shall be submitted to the Board together with a summary highlighting the key terms of the transactions;

- (e) in respect of any loan proposed to be underwritten, the Group has implemented a more comprehensive set of lending and authorization policies, under which loans shall be first approved by the general manager the relevant subsidiary of the Company, followed by the loan approval committee of the Company. The Group has also adopted a well-defined tiered approval system, which stipulates the level of authorization required based on the amount of loans to be underwritten, the types of loan collateral and the regions in which the loan is proposed to be underwritten. In addition, the Group has adopted a lower threshold in respect of the maximum amount of loan that may be underwritten by each subsidiary of the Company without submitting to the loan approval committee for approval. A centralized risk management department has been set up to manage the risk of the loan books of each subsidiary of the Company and oversee the loans underwritten by each subsidiary of the Company to ensure they are in compliance with the Group's risk management guidelines; and
- (f) in respect of capital management policies, both onshore and offshore fund movements shall be centrally managed under the finance department of the Group, whilst funds movement between subsidiaries of the Company and external parties shall be reported to the Management Committee monthly.

The Board believes that the above measures will strengthen the internal control of the Group and would be effective at remedying the key internal control issues identified in the Investigation. The Company will continue to engage the Consultant or other professional internal control adviser to provide advice and suggestions regarding the Group's internal control measures with a view to strengthen the Group's internal control policies and ensure the internal control policies are properly implemented and complied with.

The Company expects that the financial impact of the Incidents on the Company will be reflected in the announcement in respect of the financial results for the year ended 31 December 2020, which is expected to be published by the Company on or around 30 March 2021. The Company will keep the shareholders of the Company and potential investors informed of any further material developments in connection with the Incidents by way of further announcement(s) as and when appropriate and in accordance with the Listing Rules.

Shareholder and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

By Order of the Board
China Financial Services Holdings Limited
Chung Chin Keung
Company Secretary

Hong Kong, 26 March 2021

As at the date of this announcement, the directors of the Company are:

Executive Director:

Dr. Cheung Chai Hong

Non-executive Directors:

Mr. Chan Yuk Ming (*Chairman*)

Mr. Fang Feiyue

Mr. Dong Yibing

Mr. Wu Xinjiang

Independent Non-executive Directors:

Mr. Chan Chun Keung

Mr. Chan Wing Fai

Dr. Zhang Xiao Jun

Madam Zhan Lili