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**STARLIGHT CULTURE
ENTERTAINMENT**

STARLIGHT CULTURE ENTERTAINMENT GROUP LIMITED

星光文化娛樂集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

INSIDE INFORMATION AND INTERNAL CONTROL REVIEW

Reference is made to the announcement of Starlight Culture Entertainment Group Limited (the “**Company**”) dated 23 March 2023 (“**Announcement**”) and the 2022 annual results announcement of the Company dated 30 June 2023 (“**Annual Results**”), in relation to, among others, the identification of Relevant Bank Account in the name of Starlight Media during the audit process for the year ended 31 December 2022 and the appointment of an independent professional advisor to conduct an internal control review on the Group, in particular, the bank accounts maintenance procedures and financial reporting system of Starlight Media (“**IC Review**”).

Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

INTRODUCTION

The Group would like to provide more information in relation to the follow-up actions of the Company regarding identification of Relevant Bank Account and IC Review.

Background and follow-up actions

In and around early March 2023, during the usual audit process of the Company, the Company's auditor, Baker Tilly Hong Kong ("**Baker Tilly**"), sent the bank confirmation to East West Bank, which is the principal bank of Starlight Media, to obtain the bank accounts information. Baker Tilly received the confirmation from East West Bank and enquired the Company on 14 March 2023 on the Relevant Bank Account which was shown in the replies from East West Bank. The Company reviewed the replies from East West Bank, which showed the Relevant Bank Account and the balance of which as shown therein was approximately US\$2,917,000 and US\$2,376,000 as at 31 December 2022 and 31 December 2021, respectively.

Bank confirmation was sent to and received from the East West Bank by the predecessor auditor of the Company for the financial year ended 31 December 2021. Information and balance of the Relevant Bank Account was not found on the bank confirmation returned by the bank.

Starlight Media therefore liaised with the East West Bank and confirmed the Relevant Bank Account was in the name of Starlight Media and was opened in November 2020. The first transaction of the Relevant Bank Account occurred in March 2021 and only deposits were made into the Relevant Bank Account since its opening without any withdrawal.

The information of the Relevant Bank Account was not properly recorded in the books of Starlight Media due to the omission at the transition between the outgoing and incoming finance staff during the period when COVID-19 was prevalent in the United States in 2021, and thus the transactions and balance of the Relevant Bank Account were not reported in the 2021 Financial Statements.

The Relevant Bank Account was opened by the relevant staff in the business department of Starlight Media in November 2020 amid the COVID-19 quarantine period upon the consent of the chief executive officer of the Group for the purpose of receipt and handling of funds other than daily routine business operations. Information of the Relevant Bank Account was subsequently provided to the then finance staff of Starlight Media (the "**Former Staff**") for record.

As ordered by the State of California of the United States on 19 March 2020, Starlight Media implemented the work-from-home policy and all the employees were not allowed to attend the office building to work during the period from April 2020 to May 2021. After termination of the work-from-home order by the State of California of the United States on 15 June 2021, Starlight Media gradually resumed to full operation only on 5 July 2021.

Due to the aforementioned policy, Starlight Media had encountered delay in preparing and reviewing the 2021 Financial Statements. Further, the Former Staff had departed from Starlight Media on 18 July 2021, and the transition period between the Former Staff and the incoming finance staff of Starlight Media (“New Staff”) was short. During the audit process of the 2021 Financial Statements, the accounts of Starlight Media were prepared and compiled by the New Staff based on the electronic bank statements of East West Bank which did not show the information and balance of the Relevant Bank Accounts.

The (i) omission at the transition between the Former Staff and New Staff during the period when COVID-19 was prevalent in the United States in 2021; (ii) electronic bank statements of East West Bank did not identify the Relevant Bank Account, and (iii) no information and balance of the Relevant Bank Account found on the bank confirmation sent to and received from the East West Bank by the predecessor auditor of the Company, resulted in the information of the Relevant Bank Account not being properly recorded in the books of Starlight Media, and thus the transactions and balance of the Relevant Bank Account were not reported in the 2021 Financial Statements.

Upon noting the incident, the management of the Company promptly informed the Audit Committee of the incident on 16 March 2023. On 17 March 2023, the Audit Committee held a meeting with the Auditor to discuss about the incident. The Audit Committee also decided to appoint an independent professional advisor to conduct an internal control review on the Group, in particular, the bank accounts maintenance procedures and financial reporting system of Starlight Media. On 9 May 2023, the Group engaged an independent professional advisor, namely Ace Sustainability & Risk Advisors Limited, (the “**IC Advisor**”) to conduct IC Review.

Given only deposits were made into the Relevant Bank Account since its opening without any withdrawal, the Company confirms that no loss provision to the financial statements of the Group will be required. These deposits include refund of prepayments, settlement of previously impaired trade receivables and contract assets, refund of over-accrued operating expenses and advance from customers for potential film investments. Consequently, the amounts presented in the Group’s 2021 Financial Statements have been restated to correct the errors identified. Summaries of the effect of the restatements due to correction of prior year errors on the Group’s 2021 Financial Statements could be referred to note 3 to the consolidated financial information of the Company’s Annual Results.

SCOPE OF IC REVIEW

On 9 May 2023, the Group engaged IC Advisor to conduct IC Review specifically on the Group's risk management process; the entity level control environment; resources, qualifications and experience of staff of accounting, internal audit and financial reporting functions, and their training programs and budget; and in connection with Starlight Media and Starlight Culture Entertainment Limited: prepayment process relating to films, film directors, and film rights; bank account opening and maintenance process; cash receipts process; cash disbursement process; and contract management process relating to films, film directors, and film rights from 1 January 2022 to 31 December 2022.

MATERIAL FINDINGS OF IC REVIEW

The table below summarises the material findings of IC Review conducted by the IC Advisor on the Group and the remedial actions to be taken by the Group.

Material findings	Remedial actions to be taken
Relevant Bank Account in the name of Starlight Media was not recorded in the ledger, movements and balance of the bank account were not reflected in the 2021 Financial Statements.	<p>Policies and procedures on bank account opening and maintenance would be documented for employees to follow.</p> <p>Opening of a bank account would be approved by the board with a board resolution.</p> <p>All bank accounts and related information including account numbers and signatories would be accurately and completely recorded and maintained in a bank register or in a bank account list.</p>

Material findings

Remedial actions to be taken

Monthly bank reconciliation would be prepared promptly with reconciling items followed up, reviewed, and filed. Cashier would be responsible to ensure complete bank statements are received for all bank accounts and all bank statements received through mail are opened and sent to a separate accounting staff member in charge of bank reconciliation to reconcile with bank ledger.

Reconciling the daily cash receipts with third-party statements or contracts and cash recorded would be performed with supporting documents and reviewed by a full-time qualified accountant.

Policies and procedures to enter into business contracts were not established.

Policies and procedures to enter into business contracts would be established for employees to follow.

A well-defined entity-wide risk management process was not established and applied.

An entity-wide risk management policy to identify relevant risks at both the entity level and the process activity level, perform risk assessment and provide a basis for managing the risks would be prepared and adopted.

Monitoring activities of subsidiaries or business units were not enhanced with documentation.

Monitoring activities of subsidiaries or business units would be enhanced with documentation, such as establishment of policies and procedures, monitoring cash movement, dual approval of cash disbursements, safeguard of cash, management meeting minutes, and report to board of directors.

Material findings

Policies and procedures to identify and report connected persons and connected transactions were not documented.

A full-time employee with qualification and experience on accounting and financial reporting was not hired for Los Angeles operation to be in charge of accounting and financial reporting function.

Comprehensive policies and procedures on preventing and detecting management overriding established controls were not in place.

A compliance officer is not designated and policies and procedures on compliance function were not documented.

Policies and procedures on anti-fraud, anti-money laundering, anti-corruption mechanisms, including whistleblower program, were not documented.

Remedial actions to be taken

The connected transaction policies would be documented. A summary of connected persons would be distributed to relevant heads of business units as soon as possible.

A full-time employee with qualification and experience on accounting and financial reporting would be hired/assigned to be in charge of accounting and financial reporting function for Los Angeles operation, as well as to comply with the Listing Rules.

Comprehensive policies and procedures on preventing and detecting management overriding established controls would be established.

A compliance officer would be designated to oversee the compliance of laws and regulations. Policies and procedures on compliance function would be documented and followed.

Policies and procedures on anti-fraud, anti-money laundering, anti-corruption mechanisms would be documented to include whistleblower program.

Material findings

Policies and procedures on financial statement closing process were not documented for employees to follow.

Local ledger of Los Angeles operation was kept on cash basis, prepayments were not recorded initially when payments were made instead that investments are recorded, and certain adjustments were made at the consolidated level and then at the local level to carry forward.

Policies and procedures for instructing film distributors, directors, production firms and lenders to deposit funds into a particular bank account were not documented for employees to follow.

Only one layer of processing was required for payments through banks.

Remedial actions to be taken

Policies and procedures on financial statement closing process would be documented for employees to follow, including: compliance with policies and procedures on journal entry and posting procedures, cut-off, valuation, closing accounts, reconciliation, statutory audits and local tax filing, and group reporting.

Local ledger of Los Angeles operation would be on accrual basis, prepayments would be recorded initially when payments are made at local level.

Policies and procedures for instructing film distributors, directors, production firms and lenders to deposit funds into a particular bank account would be documented for employees to follow.

For all payments through banks or on-line banking, three layers of processing (i.e. preparation, review, and approval) would be required to be performed by three separate personnel with authorization.

Material findings

The authorized signatories of certain bank accounts of a subsidiary of the Company include several external individuals involving in production of a film.

A loan agreement was not entered into with a lender in writing.

Following IC Review, the Group is in the process to implement internal control measures to enhance the Group's internal control system and expects to provide relevant documents to the IC Advisor for a follow-up review within a period of two to three months, and the follow-up review is expected to be completed in January 2024. The Company will keep Shareholders informed of the matter by way of further announcement(s) as and when appropriate.

Remedial actions to be taken

All bank accounts' authorized signatories would be approved by the board with board resolution. The Group's role and involvement in movie production activities would be defined so that proper scope of work for employees can be managed accordingly.

For all amounts borrowed, loan agreements would be entered into with lenders in writing to protect the Group's interest and properly account for.

By order of the Board

Starlight Culture Entertainment Group Limited

Tang Liang

Chairman

Hong Kong, 30 August 2023

As at the date of this announcement, the Board comprises six executive Directors, namely Mr. Tang Liang, Mr. Jing Xufeng, Mr. Chau Chit, Mr. Luo Lei, Mr. Sang Kangqiao, and Ms. Wu Xiaoli; and three independent non-executive Directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, and Mr. Wu Hongliang.