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China Bright Culture Group **煜盛文化集團***

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1859)

KEY FINDINGS OF INDEPENDENT INVESTIGATION

This announcement is made by China Bright Culture Group (the “**Company**”, together with its subsidiaries, the “**Group**”) in accordance with Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company (collectively, the “**Announcements**”) dated 30 March 2023, 24 May 2023, 21 September 2023, 2 January 2024, 8 February 2024, 21 March 2024, 3 April 2024, 8 April 2024 and 1 July 2024 in relation to, among others, (i) suspension of trading in the shares of the Company; (ii) the letter received from the Stock Exchange on 19 March 2023 setting out the guidance for the resumption of trading in the shares of the Company on the Stock Exchange (the “**Initial Resumption Guidance**”); (iii) the publication of annual results of the Company for the 2022 Annual Results; (iv) quarterly update on recent development of suspension; (v) update on recent development of suspension; (vi) the letter received from the Stock Exchange on 26 March 2024 setting out additional guidance for the resumption of trading in the shares of the Company on the Stock Exchange (the “**Additional Resumption Guidance**”); and (vii) the letter received from the Stock Exchange on 27 June 2024 setting out additional guidance for the resumption of trading in the shares of the Company on the Stock Exchange (the “**Further Additional Resumption Guidance**”, together with the Initial Resumption Guidance and the Additional Resumption Guidance, the “**Resumption Guidances**”), as well as the 2022 Annual Report published on 26 June 2024. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

Pursuant to the Additional Resumption Guidance, the Company is required to, among others, conduct an appropriate independent investigation on the Allegations, announce the findings and take appropriate remedial actions. In fulfilment of this requirement, the Audit Committee has appointed Grant Thornton Advisory Services Limited (the “**Independent Investigator**”) to conduct an independent investigation on the Allegations (the “**Independent Investigation**”). As at the date of this announcement, the Independent Investigator has issued its independent investigation report (the “**Independent Investigation Report**”) to the Audit Committee.

This announcement sets out the key findings of the Independent Investigation Report.

BACKGROUND

As disclosed in the announcement of the Company dated 21 March 2024, the audit committee of the Company (the “**Audit Committee**”) received a letter from the Auditor on 18 March 2024 regarding an allegation made against the Company that was sent to the Auditor. The allegation was purportedly sent to the Auditor via email in response to the Auditor’s request for confirmation on the receivables between a Chinese state-owned enterprise (the SOE) and Beijing Sino-Prosperty Culture Group Co., Ltd. (北京中廣煜盛文化傳播有限公司) (“**Zhongguang Yusheng**”). It was alleged that: (i) the SOE did not owe Zhongguang Yusheng any receivables as at the date of the said response; and (ii) Zhongguang Yusheng submitted a series of forged supporting documents affixed with forged seals of the SOE to a bank based in Guangzhou (the “**Lending Bank**”) in November 2022 for the purpose of application of a bank loan (collectively, the “**Allegations**”).

Zhongguang Yusheng is the PRC operating entity of the Company under the existing contractual arrangements. As disclosed in the announcement of the Company dated 25 July 2023, the Company entered into a series of new contractual arrangements, and the existing contractual arrangements will terminate upon completion of the transfer of the business of Zhongguang Yusheng to the new PRC operating entity. The Company will make further announcement when such transfer of business is completed.

INDEPENDENT INVESTIGATION

The Audit Committee appointed the Independent Investigator to conduct the Independent Investigation. As at the date of this announcement, the Independent Investigator has issued its Independent Investigation Report to the Audit Committee. Details of the Independent Investigation Report are set out below:

Scope of the Independent Investigation

An accusation letter bearing the letterhead of the SOE and containing the Allegations was received by the Auditor on 11 March 2024 (the “**Letter**”). The scope of the Independent Investigation includes investigating the following Allegations for the period from 1 January 2022 to 31 December 2022:

- (i) There were alleged discrepancies between the Auditor’s request for confirmation on receivables and the SOE’s accounting records regarding the receivables due from the SOE to Zhongguang Yusheng (the “**First Allegation**”); and
- (ii) Zhongguang Yusheng allegedly used forged seals of the SOE to produce false documents, such as the cooperation agreement for the TV program “Lego Masters” (《樂高大師》), the advertising income settlement confirmation and the notification of change of payment account, in order to obtain a loan in the amount of RMB30,000,000 (the “**Bank Loan**”) from the Lending Bank in November 2022 (the “**Second Allegation**”).

Major Investigation Procedures

The major investigation procedures conducted by the Independent Investigator include, but are not limited to, the following:

- (i) **Data analysis and document review:**
 - a. obtaining and reviewing relevant documents, correspondences and emails between Zhongguang Yusheng and the SOE;
 - b. obtaining and reviewing relevant contracts and accounting records between Zhongguang Yusheng and the SOE (including but not limited to TV program cooperation agreements, advertising income settlement confirmation letters, and payment and receipt records) in order to understand the nature of transactions and fund transfers between Zhongguang Yusheng and the SOE;
 - c. obtaining and reviewing relevant documents of Zhongguang Yusheng in order to assess the compliance with the company's policies and procedures regarding contract approval and seal usage approval;
 - d. obtaining and reviewing the authentication reports on the authenticity of the seals, contract seals, legal representative seals of the SOE found on the relevant documents;
 - e. obtaining and reviewing documents related to the police reports filed by the SOE in Mainland China; and
 - f. obtaining and reviewing the relevant legal and litigation documents related to the SOE and the Lending Bank;
- (ii) **Interviews:** Conducting interviews with relevant personnel of the Group and relevant external parties, including but not limited to the SOE and the Lending Bank to understand details of the Allegations and the relevant procedures for approval and segregation of duties;
- (iii) **Independent background checks:** Performing independent background checks and company searches on the Group, the relevant personnel of the Group and the SOE to ascertain their relationship with the Group;
- (iv) **Confirmations:** Obtaining confirmations from the Lending Bank and the SOE; and
- (v) **Specific internal control assessment:** Conducting interviews with the relevant personnel of the Group, obtaining and reviewing internal written policies and procedural manuals of the Group, and reviewing the internal control procedures related to the cooperation with the SOE and the Bank Loan.

During the performance of the above procedures, there were certain limitations encountered by the Independent Investigator. Please refer to the section headed "Limitations of the Independent Investigation" below for details.

Key Findings of the Independent Investigation

Based on the major investigation procedures set out above, the key findings of the Independent Investigation are as follows:

The First Allegation

Receivables arising from cooperation with the SOE

The Independent Investigator found inconsistencies between the accounting records provided by the Company and the results of the interviews conducted by the Independent Investigator with the SOE. According to the Company's accounting records, as at 31 December 2022, receivables in the total amount of RMB109,250,000 arising from the TV programs titled "Lego Masters", "Hello! Interviewer" (《你好! 面試官》) and "Life Reshaping" (《二次重塑》) were due from the SOE to Zhongguang Yusheng. However, based on the interviews conducted by the Independent Investigator with the relevant personnel of the SOE, there was no amount due from the SOE to Zhongguang Yusheng. The SOE denied having cooperated with Zhongguang Yusheng on "Lego Masters" or "Life Reshaping". According to the SOE, while they did cooperate with Zhongguang Yusheng on "Hello! Interviewer" during 2019 to 2020, no payment was due to Zhongguang Yusheng in accordance with the terms of the relevant agreement.

The Independent Investigator further found that Mr. Liu Mu (former executive Director, chairman of the Board and chief executive officer of the Company) was the person responsible for the then cooperation or alleged cooperation between Zhongguang Yusheng and the SOE. Based on the interviews conducted by the Independent Investigator with certain personnel of the Company and the SOE, Mr. Liu Mu was the main contact person for liaisons with the SOE. The Independent Investigator noted from interviews with certain senior management of the finance department of the Company that the receivables due from the SOE arising from "Lego Masters" were recorded on the Company's accounts solely based on the cooperation agreement for "Lego Masters" and the related advertising income settlement confirmation, and as per instructions from Mr. Liu Mu, the finance department did not communicate or check with the SOE regarding the amount of the receivables.

Internal control weaknesses

In relation to the above, the Independent Investigator found that there was room for improvement in the internal control system of the Group, in particular:

- (i) the Company did not have written policy for the management and bookkeeping of receivables;
- (ii) there was a lack of proper segregation of duties within the Group for carrying out contract and seal usage approval processes; and
- (iii) amendments to accounting records were not properly made in accordance with accounting policy. The Independent Investigator noted that the relevant finance personnel directly amended a previously recorded amount of receivables in the bookkeeping software without proper record of the amendment.

The Second Allegation

Authenticity of the seals

The Independent Investigator noted that the purported seals of the SOE applied to the documents provided by Zhongguang Yusheng to the Lending Bank for the purpose of obtaining the Bank Loan (including but not limited to the cooperation agreement for “Lego Masters”, the advertising income settlement confirmation and the notification of change of payment account) were not the same as the templates of the seals provided by the SOE. Based on the forensic report issued by the Guangdong Zhongyi Forensic Science Center (廣東中一司法鑒定中心), the relevant seals included the company seal of the SOE, the seal of the SOE for contracts, and the seal of the SOE’s legal representative. The Independent Investigator also noted that the SOE has reported the alleged seal forgery case to the Shenzhen law enforcement authority.

The Bank Loan

Through various discovery and inquiry procedures, the Independent Investigator found that Mr. Liu Mu was the person responsible for the application of the Bank Loan. The key events pertaining to the Bank Loan are as follows.

In early November 2022, an application was made by Zhongguang Yusheng to the Lending Bank for the Bank Loan in the amount of RMB30,000,000. The loan agreement was sealed with the seal of Zhongguang Yusheng and the seal of Mr. Liu Mu (as legal representative). The Company and Mr. Liu Mu each entered into a guarantee agreement to guarantee the repayment obligations of the Bank Loan by Zhongguang Yusheng, which were (i) sealed with the seal of the Company and signed by Mr. Liu Mu (as authorised person to use the seal) and (ii) signed by Mr. Liu Mu in his own capacity, respectively. Zhongguang Yusheng also entered into a pledge agreement pursuant to which receivables in the amount of RMB90,750,000 (being the receivables due from the SOE in relation to “Lego Masters”) were pledged to the Lending Bank. The pledge agreement was sealed with the seal of Zhongguang Yusheng and the seal of Mr. Liu Mu (as legal representative).

On 17 November 2022, as per the fund transfer application of Zhongguang Yusheng received by the Lending Bank, the Lending Bank transferred RMB20,000,000 to Shanghai Cunxian Culture Media Co. Ltd.* (上海存賢文化傳媒有限公司) (“**Shanghai Cunxian**”) for settling service fee and RMB10,000,000 to Shanghai Manxi Culture Media Co. Ltd.* (上海漫曦文化傳媒有限公司) (“**Shanghai Manxi**”) for settling TV program production fee. The Independent Investigator was not able to verify the purposes of these transfers. During the investigation process, the Independent Investigator found that Shanghai Cunxian was an independent third party of the Company and Zhongguang Yusheng. Shanghai Manxi became wholly-owned by Mr. Nie Lei (former executive Director) in December 2023. Mr. Nie Lei was appointed as an executive Director in March 2023 and resigned in March 2024. Mr. Nie Lei informed the Independent Investigator that he acquired Shanghai Manxi due to personal reasons and that he was not aware of nor involved in matters relating to the Bank Loan.

Pursuant to an undated notification of change of payment account sealed with the seal of Zhongguang Yusheng and the seal of Mr. Liu Mu (as legal representative), Zhongguang Yusheng informed the SOE that the receivables due from the SOE to Zhongguang Yusheng totaling RMB90,750,000 arising from “Lego Masters” shall henceforth be paid by the SOE directly to the Lending Bank.

During the interview with the Independent Investigator, Mr. Nie Lei indicated that Zhongguang Yusheng had repaid RMB3,000,000 of the Bank Loan in 2023.

Based on the arbitral award of the Shenzhen Court of International Arbitration dated June 2023 for an arbitration case involving the Lending Bank as claimant and Zhongguang Yusheng, Mr. Liu Mu, the Company and Beijing Fuyu Culture Technology Co., Ltd.* (北京馥煜文化科技有限公司) (“**Beijing Fuyu**”) (being the new PRC operating entity under the new contractual arrangements of the Company with effect from July 2023) as respondents, it was held, among others, that Zhongguang Yusheng shall repay the outstanding principal loan amount of RMB27,353,121.18 together with default interest in the amount of RMB54,326 to the Lending Bank.

Through independent background searches, the Independent Investigator found a 2023 case at the Beijing Financial Court under which the Lending Bank applied for enforcement of judgment against Zhongguang Yusheng, Mr. Liu Mu and Beijing Fuyu with regards an amount of RMB27,979,678 (the “**Beijing Financial Court Case**”). The Independent Investigator was told by Mr. Nie Lei during interview that the relevant court documents were misplaced during relocation of office and could not be located.

Internal control weaknesses

The Independent Investigator found that there was room for improvement in the internal control system of the Group as set out below:

- (i) there was a lack of internal control policy regarding bank loan applications. During the interviews conducted, the Independent Investigator was given to understand that Mr. Liu Mu was the sole person responsible for submitting the application for the Bank Loan and no other personnel of the Group was aware of matters relating to the Bank Loan;
- (ii) while the Company used the Lark software for approving seal usage, the Company was unable to provide the relevant documentation of the seal usage approval process for the cooperation agreement for “Lego Masters” and the agreements for the Bank Loan;
- (iii) while the Company had a policy of approving contracts via email, the Company was unable to provide any documentation of the contract approval process for the cooperation agreement for “Lego Masters” and the agreements for the Bank Loan; and
- (iv) the Company’s document retention policy was not properly implemented. Certain documents were lost during relocation of office and could not be provided to the Independent Investigator.

Limitations of the Independent Investigation

The Independent Investigator encountered limitations during its investigation in the following aspects:

- (i) as the Independent Investigator did not have mandatory investigative power, the investigation relied on the voluntary cooperation of the Group and the relevant persons. Accordingly, the Independent Investigator was not able to fully verify the statements made by interviewees during the investigation and cannot fully assure that the results of the investigation are free of any errors or omissions;
- (ii) the SOE was unable to provide a sealed version of the Letter, hence the Independent Investigator could not ascertain the validity and effectiveness of the Letter;
- (iii) the Independent Investigator was unable to obtain certain documents related to the Allegations, hence it could not verify the accuracy of the documents and matters referred to in the Allegations. In particular, the following documents were not provided:
 - a. list of all business agreements of the Company;
 - b. the contract approval records and seal usage approval procedures for the cooperation agreement for “Lego Masters” and the agreements relating to the Bank Loan;
 - c. the agreements relating to service fee to Shanghai Cunxian and the TV program production fee to Shanghai Manxi;
 - d. the documents relating to the Beijing Financial Court Case; and
 - e. the fee settlement confirmations for “Life Reshaping” and “Hello! Interviewer”;
- (iv) the Independent Investigator was unable to conduct interviews with the relevant personnel of the Lending Bank and hence it could not ascertain the actual circumstances pertaining to the application for the Bank Loan and the accuracy of the related documents;
- (v) the Independent Investigator was unable to conduct interviews with certain former personnel of the Group (including Mr. Liu Mu and most of the other former Directors of the Company) and hence it could not ascertain the details of the business cooperation between Zhongguang Yusheng and the SOE, the cooperation agreement for “Lego Masters”, the application for the Bank Loan, and the accuracy of the related documents;
- (vi) as at the date of the Investigation Report, the Independent Investigator did not receive any written response from the Lending Bank to enquiries regarding the Bank Loan application and the outstanding balance of the Bank Loan as at 31 December 2022; and
- (vii) as at the date of the Investigation Report, the Independent Investigator did not receive any written response from the SOE to enquiries regarding the receivables due from the SOE to Zhongguang Yusheng.

VIEWS OF THE AUDIT COMMITTEE AND THE BOARD

The Audit Committee accepts the Independent Investigation Report as a whole, including among others, the limitations mentioned above, which the Audit Committee considers reasonable and acceptable in the circumstances. The Audit Committee is of the view that the Independent Investigator has investigated into the Allegations to the extent practicable. On this basis, the Audit Committee accepts the findings of the Independent Investigator on its Independent Investigation into the Allegations and has no disagreements thereto.

The Audit Committee noted that the incidents in the Allegations were primarily caused by the lack of internal control procedures for bank loan applications and weaknesses in the implementation of the contract approval and seal usage approval procedures. The Audit Committee also acknowledged that the Company could improve its bookkeeping and receivables management practices, as well as enhance its document retention policy to ensure proper storage and safekeeping of documents. In light of these internal control weaknesses identified in the Independent Investigation Report, the Audit Committee has engaged an independent internal control consultant to conduct an independent review on the internal control policies and procedures of the Group with a focus on the incidents in the Allegations and provide corresponding recommendations for remedial actions in order to improve the Group's internal control system. As at the date of this announcement, the independent internal control review is still underway. The Company will make further announcement on the findings of the independent internal control review and the remedial actions taken by the Company in due course.

The Audit Committee noted that the incidents stated in the Allegations were mainly conducted by Mr. Liu Mu as former executive Director, chairman of the Board and chief executive officer of the Company. Since the Board has not been able to get in touch with Mr. Liu Mu to ascertain with him the circumstances pertaining to the incidents in the Allegations, the Board is not in a position to comment on Mr. Liu Mu's involvement in the Allegations. The Audit Committee and the Board are of the view that there is no reasonable regulatory concern about the 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 for the following reasons:

- (i) The management and operations of the Company are under the directions and control of the current members of the Board and senior management. To the best of the Directors' information, knowledge and belief, there is no evidence to show that any current Director or senior management was involved in the Allegations;
- (ii) All of the current members of the Board (save for Mr. Wang Daotie) were appointed in the first half of 2024. The Board and the nomination committee of the Company, having considered the character, integrity, experience and competence of each of the current Directors, is satisfied that each of them fulfills the requirements set out in Rules 3.08 and 3.09 of the Listing Rules to serve on the Board. The Board is therefore of the view that the current Board is well-functioning and effective to safeguard the interests of the Shareholders and relevant stakeholders; and
- (iii) As disclosed above, an independent internal control review is being conducted to identify the Group's internal control weaknesses. Remedial actions have been or will be taken accordingly to prevent the occurrence of similar incidents.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company (Stock Code: 1859) on the Stock Exchange has been suspended with effect from 9:00 a.m. on 31 March 2023 and will remain suspended until the Company fulfils the Resumption Guidances. The Company will make further announcement(s) in due course to inform shareholders and potential investors of any information update.

Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the shares of the Company.

By Order of the Board
China Bright Culture Group
SU Lei
Chairman

Hong Kong, 12 July 2024

As at the date of this announcement, the executive Directors are Mr. SU Lei and Mr. MA Hongsen, the non-executive Directors are Mr. WANG Daotie and Ms. WU Yaping, and the independent non-executive Directors are Mr. TO Siu Lun, Mr. HAN Hao and Mr. SHAN Yiqi.

* *For identification purpose only*