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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
SUPPLEMENTAL 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 announcement of the Company dated 12 July 2024 regarding the key findings of the independent investigation (the “**Announcement**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

At the request of the Audit Committee, the Independent Investigator has conducted further independent investigation based on an extended scope of investigation (the “**Supplemental Independent Investigation**”) to collect further information on the facts and circumstances surrounding the Allegations and related areas in order to assist the Company to identify, assess and remedy all relevant issues. As at the date of this announcement, the Independent Investigator has issued its draft report on the Supplemental Independent Investigation to the Audit Committee.

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

SUPPLEMENTAL INDEPENDENT INVESTIGATION

Scope of the Supplemental Independent Investigation

In addition to the Independent Investigation, the Audit Committee has instructed the Independent Investigator to further investigate the following areas for the period from 1 January 2021 to 30 June 2024 (the “**Investigation Period**”):

- (i) All facts and circumstances surrounding the receivables from the SOE arising from the TV programs “Hello! Interviewer”, “Life Reshaping” and “Lego Masters” (the “**Alleged Receivables**”);
- (ii) Revenue generated from all TV program investments of Zhongguang Yusheng; and
- (iii) All loans of the Group which were secured by receivables of the Group as collateral (collectively, the “**Additional Investigation Matters**”).

Major Investigation Procedures

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

- (i) **Review of documents and records:**
 - a. Obtaining and reviewing breakdown of revenue from TV program investments and bank loans;
 - b. Obtaining and reviewing documents relating to all TV program investments, including but not limited to cooperation agreements, advertising income settlement confirmation letters, notification letters, payment and receipt records, invoices, internal approval records, accounting documents, bank account ledgers, bank reconciliation statements and bank records;
 - c. Obtaining and reviewing all supporting documents relating to the Alleged Receivables, including but not limited to advertising income settlement confirmation letters, accounting documents and internal approval records;
 - d. Obtaining and reviewing documents relating to loans secured by receivables of the Group as collateral, including but not limited to cooperation agreements, advertising income settlement confirmation letters, notification letters, payment and receipt records, invoices, internal approval records, accounting documents, bank account ledgers, bank reconciliation statements and bank records;

- (ii) **Interviews:** Conducting interview with the management, relevant employees and customers of the Group;
- (iii) **Independent background checks:** Performing independent background checks and company searches on customers of the Group to ascertain their background and relationship with the Group;
- (iv) **Confirmations:** Obtaining confirmations from customers of the Group to confirm their transactions with the Group;
- (v) **Specific internal control assessment:** Obtaining and reviewing the internal approval records relating to the agreements entered into with customers of the Group;
- (vi) **Computer forensic examination:**
 - a. Interviewing the IT department of the Group in order to formulate a specific forensic examination plan for the Group;
 - b. Obtaining the relevant personnel's electronic devices (including but not limited to computers) and creating mirror images;
 - c. Obtaining archived emails from the email server;
 - d. Analysing the mirror images created, including but not limited to examining the data system and recovering deleted files;
 - e. Analysing user behavior from the electronic data obtained, including but not limited to analysing deleted electronic data; and
 - f. Performing keyword searches on users generated contents (such as emails, Word, Excel and PDF files) and reviewing documents that could be relevant to the investigation.

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 Supplemental Independent Investigation" below for details.

Key Findings of the Supplemental Independent Investigation

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

The Alleged Receivables

Chronology of major events

Set out below is a chronology of the major events surrounding the Alleged Receivables.

Date	Event
October 2020	Zhongguang Yusheng entered into a cooperation agreement with the SOE for “Life Reshaping”
January 2021	Zhongguang Yusheng entered into a cooperation agreement with the SOE for seasons 8, 9 and 10 condensed edition of “Hello! Interviewer”
June 2021	Zhongguang Yusheng recorded revenue and receivables in the amount of RMB12,500,000 for seasons 8, 9 and 10 condensed edition of “Hello! Interviewer”
October 2021	Zhongguang Yusheng entered into a cooperation agreement with the SOE for “Lego Masters”
December 2021	Zhongguang Yusheng entered into a cooperation agreement with the SOE for “潮玩大灣區”
December 2021	Zhongguang Yusheng recorded: <ul style="list-style-type: none">(a) Revenue in the amount of RMB90.75 million from “Lego Masters”(b) Cost of sales in the amount of RMB84 million for “Lego Masters”(c) Inventory in the amount of RMB47.25 million for “潮玩大灣區”
February 2022	An advertising income settlement confirmation letter issued by the SOE for “Lego Masters” shows an amount of RMB90.75 million payable to Zhongguang Yusheng

Date	Event
November 2022	Zhongguang Yusheng and the Lending Bank entered into a loan agreement and related pledge agreement for the Bank Loan in the amount of RMB30 million
May 2023	An attorney of the SOE reported the alleged seal forgery case to the PRC law enforcement authority
June 2023	The Lending Bank initiated an arbitration proceeding against Zhongguang Yusheng, requesting full repayment of the outstanding principal amount of the Bank Loan together with interest
August 2023	The PRC law enforcement authority confirmed that a file has been opened to investigate into the alleged seal forgery case
March 2024	The former auditors of the Company received a complaint letter bearing the letterhead of the SOE

Commercial substance and financial impact

Based on the management accounts of Zhongguang Yusheng, during the Investigation Period, the revenue generated from cooperation with the SOE was related to the TV programs “Hello! Interviewer” and “Lego Masters” only. For the year ended 31 December 2021, Zhongguang Yusheng recorded revenue in the amount of RMB12.5 million from “Hello! Interviewer”, but no cost of sales was recorded for the year ended 31 December 2021 and during the Investigation Period for “Hello! Interviewer”. As at 31 December 2021 and 30 June 2024, the amount of receivables due from the SOE for “Hello! Interviewer” was RMB12.5 million.

For “Lego Masters”, Zhongguang Yusheng recorded revenue in the amount of RMB90.75 million and cost of sales in the amount of RMB84 million for the year ended 31 December 2021. The payables of such cost of sales were netted off against the receivables arising from “Hello! Interviewer”. As at 31 December 2021 and 30 June 2024, the amount of receivables due from the SOE for “Lego Masters” was RMB90.75 million.

For “Life Reshaping”, Zhongguang Yusheng did not record any revenue or cost of sales for the Investigation Period. As at 31 December 2021 and 30 June 2024, the amount of receivables due from the SOE for “Life Reshaping” was RMB6 million.

In the course of audit, the then auditors of the Company made audit adjustments to the revenue, cost of sales and receivables arising from “Lego Masters”, such that after the adjustments, the total revenue arising from cooperation with the SOE was RMB12.5 million, cost of sales was nil, and receivables was RMB18.5 million for the year ended 31 December 2021.

The Independent Investigator did not find any actual fund inflow or outflow for Zhongguang Yusheng in connection with “Hello! Interviewer”, “Life Reshaping” or “Lego Masters” during the Investigation Period.

The Independent Investigator noted from interview that a senior finance personnel was instructed by the then financial controller to amend a previously recorded amount of receivables based on an advertising income settlement confirmation letter in June 2021. The relevant personnel was unable to recall the TV program that such revenue corresponded to and the exact date of such amendment.

In addition, the seals of the SOE found on the cooperation agreements for “Hello! Interviewer”, “Life Reshaping” and “Lego Masters” did not bear any serial number, which was inconsistent with the seals of the SOE shown in the forensic report issued by the Guangdong Zhongyi Forensic Science Center. Based on interviews conducted by the Independent Investigator with employees of the SOE, the contract seal of the SOE has a serial number.

Based on the above findings, the Independent Investigator was unable to ascertain the commercial substance of the TV programs “Hello! Interviewer”, “Life Reshaping” and “Lego Masters” and the recoverability of the Alleged Receivables.

Relevant personnel

Mr. Liu Mu (former executive Director, chairman of the Board and chief executive officer of the Company) was the person responsible for communicating with the SOE in connection with the cooperation between Zhongguang Yusheng and the SOE. The Independent Investigator did not identify any other personnel who had involvement in the business cooperation with the SOE during the Investigation Period.

TV Program investments of Zhongguang Yusheng

Commercial substance and financial impact

During the Investigation Period, Zhongguang Yusheng recorded revenue arising from 11 TV programs (the “**TV Programs**”), including “Hello! Interviewer” and “Lego Masters”. The relevant customers were primarily TV networks, broadcasting companies or TV production companies.

In the course of audit, the then auditors of the Company made audit adjustments to the revenue for the year ended 31 December 2021, such that the adjusted revenue from TV programs for the said year was approximately RMB303 million. This was mainly due to downward adjustments made to the revenue arising from “2060”, “The Taste of the People” (《百姓的味道》), “Tribute to the Centuries” (《致敬百年風華》) and “Lego Masters”.

The payables of the cost of sales relating to “Lego Masters”, “Tribute to the Centuries”, “The Taste of the People”, “2060” and “Home Coming from the end of the Yangtze River” (《從長江的盡頭回家》) were netted off against the receivables from the relevant same customer (“**Netting Off Arrangement**”). Based on the documents reviewed and interviews conducted, the Independent Investigator noted that there was no actual fund inflow or outflow for Zhongguang Yusheng in connection with those TV programs subject to the Netting Off Arrangement, except for “Home Coming from the end of the Yangtze River”.

As at 30 June 2024, the receivables arising from “Hello Food” (《誰是你的菜》) and “Young” (《青春百 Young》) were fully settled, and the receivables arising from “樂無止境” and “Home Coming from the end of the Yangtze River” were partially settled. Save as aforesaid, Zhongguang Yusheng had not recovered any of the receivables arising from TV programs or received any fund inflow in connection thereto. The receivables from “One Shop One Dream” (《我想開個店》) were written off as bad debt by the management in 2022. As at 30 June 2024, the amount of outstanding receivables relating to TV programs amount to approximately RMB541 million.

Save for the agreements relating to “Young” and “One Shop One Dream”, the agreements or supporting documents relating to the other 9 TV programs were either not made available to the Independent Investigator or bear seals that do not have a serial number. The revenue arising from these 9 TV programs amount to approximately RMB408 million (approximately RMB93.1 million post-audit adjustments) for the year and the relevant receivables as at 30 June 2024 amount to approximately RMB541 million, which represents the total amount of outstanding receivables relating to TV programs as at 30 June 2024.

The Independent Investigator noted from independent background checks (including watching the relevant program) that the Company was indicated to be a co-producer of “Home Coming from the end of the Yangtze River”, co-investor of “One Shop One Dream”, the investor of “Hello Food”, and the investor of an episode of “Hello! Interviewer” aired in June 2021.

In addition, the Independent Investigator noted from interview that a senior finance personnel was instructed by the then financial controller to amend a previously recorded amount of receivables based on an advertising income settlement confirmation letter in June 2021. The relevant personnel was unable to recall the TV program that such revenue corresponded to and the exact date of such amendment.

Based on the above findings, the Independent Investigator was unable to ascertain the commercial substance of the aforesaid TV program investments and the recoverability of the relevant receivables.

Relevant personnel

Mr. Liu Mu (former executive Director, chairman of the Board and chief executive officer of the Company) was the person responsible for communicating with customers in connection with the TV program cooperation between Zhongguang Yusheng and the relevant customers. The Independent Investigator did not identify any other personnel who had involvement in the business cooperation with the customers during the Investigation Period. A senior finance personnel was involved in amending the accounting records based on instructions from the then financial controller.

Loans secured by receivables

Fund flow

The Independent Investigator identified two loans of the Group secured by receivables during the Investigation Period, namely the Bank Loan and the loan in the amount of RMB20 million (the “**Bank Loan II**” and together with the Bank Loan, the “**Bank Loans**”) owing by Zhongguang Yusheng to a bank based in Xiamen (the “**Lending Bank II**”). Zhongguang Yusheng pledged receivables in the amount of RMB90.75 million arising from “Lego Masters” for the Bank Loan and receivables in the amount of RMB87.39 million arising from “Tribute to the Centuries” for the Bank Loan II. As at 30 June 2024, the outstanding loan amount under the Bank Loan and Bank Loan II were RMB27.38 million and RMB19.7 million, respectively.

Based on bank account statements, the Independent Investigator found that out of the RMB30 million proceeds from the Bank Loan, approximately RMB21.57 was ultimately indirectly transferred to Mr. Liu Mu for repayment of loan in November 2022. For the Bank Loan II, the relevant bank account statements show that out of the RMB20 million loan proceeds, RMB7 million was ultimately indirectly paid to Mr. Liu Mu for repayment of loan.

Relevant personnel

Mr. Liu Mu was the person primarily responsible for the application for the Bank Loan and Bank Loan II. A senior finance personnel assisted with preparing the financial information required for the application for the Bank Loan as instructed by Mr. Liu Mu. A legal department personnel signed as witness to the loan agreement for the Bank Loan II and was responsible for submitting the loan application documents to the bank at the instructions of Mr. Liu Mu.

Limitations of the Supplemental 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. The Independent Investigator also did not verify the genuineness of all the documents reviewed during the investigation process;
- (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;
- (iv) The Independent Investigator was unable to verify the genuineness of the seals on the agreements and other documents relating to the TV Programs;
- (v) The Independent Investigator was unable to obtain certain documents relating to the TV Programs, including but not limited to internal approval documents, and some of the relevant invoices and settlement confirmation letters;
- (vi) The Independent Investigator was unable to conduct interviews with the relevant personnel of the Lending Bank and Lending Bank II and hence it could not ascertain the actual circumstances pertaining to the application for the Bank Loans and the accuracy of the related documents;
- (vii) The Independent Investigator was unable to conduct interview with the then auditors of the Group and hence it could not ascertain the reasons why audit adjustments were made to the revenue and receivables relating to “Lego Masters”, “Tribute to the Centuries”, “The Taste of the People” and “2060” for the year ended 31 December 2021;
- (viii) The Independent Investigator was unable to conduct interviews with certain former personnel (including Mr. Liu Mu, most of the other former Directors of the Company and certain finance personnel) and customers of the Group, who were either not contactable or did not respond to interview invitations, and hence it could not ascertain all the details relating to the business cooperation between Zhongguang Yusheng and the SOE, the revenue arising from the TV Programs, the application for the Bank Loans, and the fund flow of a certain portion of the proceeds from the Bank Loans;

- (ix) As at the date of the report, the Independent Investigator received responses from the Lending Bank and Lending Bank II that due to the lack of legal representative seal on the bank confirmation sent by the Independent Investigator, they were not able to verify the details on the bank confirmation; and
- (x) As at the date of the report, the Independent Investigator did not receive any written response from the relevant customers to enquiries regarding their cooperation with Zhongguang Yusheng and the related transaction amounts and balance.

VIEWS OF THE AUDIT COMMITTEE

The Audit Committee accepts the report on the Supplemental Independent Investigation 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 Additional Investigation Matters to the extent practicable. On this basis, the Audit Committee accepts the findings of the Independent Investigator on its Supplemental Independent Investigation and has no disagreements thereto.

Based on the findings of the Independent Investigator, the commercial substance of the cooperation for some of the TV Programs entered into under the previous management may be questionable and subject to adjustment. Based on the Independent Investigation, the Independent Investigator has categorised certain revenue of the Group arising from the video content operation segment into two categories with basis set out below, namely (i) revenue from the SOE, and (ii) revenue without settlement in the Investigation Period:

	For the year ended		For the year ended	
	31 December 2021^(Note 1)		31 December 2022^(Note 1)	
	<i>Proportion to</i>		<i>Proportion to</i>	
	<i>total revenue</i>		<i>total revenue</i>	
	<i>(RMB'000) of the Group</i>		<i>(RMB'000) of the Group</i>	
Revenue from the SOE	11,793	3.0%	–	N/A
Revenue without settlement in the Investigation Period ^(Note 2)	21,678	5.6%	34,906	54.7%

Notes:

- The total revenue generated from the video content operation segment accounted for approximately 15.7% and 74.9% of the Group's total revenue for the years ended 31 December 2021 and 2022, respectively.
- There was no subsequent settlement of receivables arising from the relevant TV programs during the Investigation Period.

In addition, it is noted that there was possible misuse of loan proceeds from the Bank Loans of up to approximately RMB28.57 million, which was found to be ultimately indirectly paid to Mr. Liu Mu for alleged loan repayment.

The report on the Supplemental Independent Investigation has been brought to the attention of the current auditors of the Company, Zhonghui Anda CPA Limited (“**Zhonghui Anda**”), who will take into account all relevant facts and circumstances in performing the audit for the Company. The Supplemental Independent Investigation indicates that certain information could not be obtained and as a result, a disclaimer of opinion in relation to the Additional Investigation Matters will be issued for the financial statements of the Company for the year ended 31 December 2023. As the entities involved in the Additional Investigation Matters have been disposed of by the Group in August 2024, the Additional Investigation Matters will no longer affect the consolidated financial statements of the Company starting from August 2024 when the disposal took place, except for the contingent liabilities arising from the guarantee agreement entered into for a bank borrowing of Zhongguang Yusheng. Based on the above, the Audit Committee considers that the Supplemental Independent Investigation is adequate for the Company to identify, assess and remedy all relevant issues, and has fully addressed the issues raised by the Company’s former auditors in their audit opinion in the 2022 annual report.

The Audit Committee noted that there are weaknesses in the Group’s contract approval and seal usage approval procedures, bookkeeping practices, and receivables management system. There was also a lack of internal control procedures for bank loan applications. The Audit Committee has already engaged an independent internal control consultant to conduct an independent review on the internal control policies and procedures of the Group including, among others, the purchase and payment cycle, financial reporting cycle, loan management cycle, as well as operating expenses and payment cycle. The Company will make further announcement on the key findings of the independent internal control review and the remedial actions taken by the Company in due course.

The Independent Investigator has identified that Mr. Liu Mu, as former executive Director, chairman of the Board and chief executive officer of the Company, was the person primarily responsible for the cooperation between Zhongguang Yusheng and its customers for the TV Programs, as well as the application for the Bank Loans. Certain personnel in the finance department and legal department were involved in assisting with the application for the Bank Loans only to a very limited extent and merely followed the instructions of Mr. Liu Mu. The Audit Committee is of the view that the very limited involvement of these employees in the Bank Loans do not impugn their integrity. One of the finance personnel was involved in amending an accounting entry in accordance with the instructions of the then financial controller, who has already left the Group. As at the date of this announcement, the Company is identifying a qualified and competent candidate to fill the role of financial controller, who will monitor the practices of the finance department to ensure strict compliance with the Group’s internal control policies going forward to ensure similar incident will not occur again in the future.

As for Mr. Liu Mu, since the Board has not been able to get in touch with him to ascertain with him the circumstances pertaining to the Additional Investigation Matters, the Board is not in a position to comment on Mr. Liu Mu's involvement in such matters. The Audit Committee is 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. All of the current members of the Board were appointed in the first half of 2024, while the cooperation for the TV Programs were entered into and the Bank Loans were obtained (and the relevant fund flows occurred) in or prior to 2022 under the previous 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 Additional Investigation Matters to the extent that would impugn their integrity;
- (ii) 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;
- (iii) On 25 September 2024, Eastern Pearl Capital SPC – Eastern Pearl Caelus Fund SP (the “**Eastern Pearl**”), a substantial shareholder of the Company has entered into a conditional sale and purchase agreement for the purchase of an aggregate of 230,236,000 shares of the Company, representing approximately 14.39% of the Company's total issued share capital. Completion of the sale and purchase of the shares is subject to the condition that the shares of the Company having resumed trading on the Stock Exchange. Upon completion of the sale and purchase, Eastern Pearl will hold 461,537,933 shares in the Company, representing approximately 28.85% of the Company's total issued share capital and will become the single largest shareholder of the Company; and
- (iv) As disclosed above, an independent internal control review has been conducted to identify the Group's internal control weaknesses. Remedial actions have been taken accordingly to prevent the occurrence of similar incidents. The Group has also engaged an independent internal control specialist to monitor the implementation of the remedial actions for the two years ending 31 December 2025.

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 for the resumption of trading in the shares of the Company on the Stock Exchange. 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, 30 September 2024

As at the date of this announcement, the executive Directors are Mr. SU Lei and Mr. MA Hongsen, the non-executive Director is 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*