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**ANNOUNCEMENT REGARDING REPORT MADE TO THE MINISTER OF FINANCE**

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The Board of Directors of Kingsmen Creatives Ltd. (the “**Company**”) wishes to announce that Ernst & Young LLP (“**E&Y**”), the external auditors for the Company, have submitted a confidential report dated 11 January 2013 to the Minister of Finance (the “**Minister**”) pursuant to section 207(9A) of the Companies Act (Chapter 50 of Singapore) on the basis that E&Y has reasons to believe that serious offences involving fraud or dishonesty have been committed against two subsidiaries of the Company as follows:

**Matters relating to Kingsmen Beijing Co., Ltd (“KBJ”)**

In the course of reviewing an internal risk review conducted on the Group, the AC noted that a few finance employees of KBJ were involved in a misappropriation of KBJ’s funds between 2009 and 2011. The misappropriation involved instances of invoices being paid twice, unrecorded cash payments and missing cash. The AC engaged E&Y to independently investigate on the matter.

Management of KBJ had earlier carried out an investigation into the matter and reported that RMB614,001 was misappropriated between 2009 and 2011. Management informed E&Y that RMB467,166 has since been recovered, and that the four employees involved have been dismissed. Management of KBJ informed E&Y that they did not file any police report.

In E&Y’s report to the AC, E&Y informed that based on the agreed-upon procedures conducted by E&Y, E&Y did not uncover any material information that was inconsistent with the aforesaid findings of KBJ’s management.

In response to the matters concerning KBJ, management informed E&Y and the AC the following:

- (a) The loss is RMB146,835 (approximately S\$29,000). As the loss was insignificant relative to the China business of the Group and for the smooth continuity of business, the Management of KBJ did not pursue the matter further and did not file a police report in the People’s Republic of China.
- (b) KBJ management has since conducted a full review of the internal controls and put in place a new finance structure, systems and procedures to prevent any recurrence. Internal reviews will also now be conducted more regularly.

**Matters relating to Kingsmen Exhibits Pte. Ltd. (“KE”)**

The Audit Committee of the Company (the “**AC**”) appointed E&Y to independently investigate certain alleged irregularities, which have been brought to the attention of the AC, involving KE, a wholly-owned subsidiary of the Company. Based on the outcome of certain agreed-upon procedures performed by E&Y pursuant to its independent investigations, E&Y noted the following:

- (a) A Settlement Agreement (which was dated 22 December 2010) was executed between Subcontractor A, Subcontractor B and KE to resolve certain issues between KE and Subcontractor A, and for Subcontractor B to assume the repayment of a prepaid amount of S\$2,756,097.85 made by KE to Subcontractor A. Subcontractor A and Subcontractor B were the subcontractors to KE for a project (“**Project**”).
- (b) During the independent investigations by E&Y, two employees of KE (“**Employees**”) verbally informed E&Y that they had provided, around the time when the Settlement Agreement was entered into, a personal guarantee to Subcontractor B for the Project. When the personal

guarantee is viewed together with the Settlement Agreement, it would appear that some of the costs of the Project were under-recognised.

- (c) One of the Employees also approved payments of S\$180,261 and S\$100,000 to Subcontractor B and its related party, in response to a repayment plan for settling the above-mentioned personal guarantee. Services of the value may not have been rendered by Subcontractor B and its related party at the time of payment.

During the investigations by E&Y, management informed E&Y that they approved the advance payments to Subcontractor B and its related party for working capital purposes, and these were required due to Subcontractor B and its related party's urgent need for funding to finance subcontracting works for other projects. Management informed that they were not aware that the payments were made towards the purpose of paying off the personal guarantee.

In response to the matters concerning KE, management informed E&Y and the AC the following:

- (a) Senior management has represented that they did not have any prior knowledge of the personal guarantee.
- (b) It was agreed in the Settlement Agreement dated 22 December 2010 for Subcontractor B to assume the repayment of a prepaid amount of S\$2,756,097.85 ("**Prepaid Amount**") made by KE to Subcontractor A. At the relevant time, Subcontractor A and Subcontractor B were related parties. S\$1,300,000 was written off in FY2010 due to management being unsure of a full recovery of the Prepaid Amount. This leaves a balance of S\$1,456,097.85.
- (c) In consideration for the repayment of the net Prepaid Amount of S\$1,456,097.85, KE has withheld payments to Subcontractor B from its invoices for work done amounting to S\$764,619.60. As at 10 January 2013, the net amount recoverable from Subcontractor B amounted to S\$691,478.25.
- (d) Based on the information gathered since the investigations commenced, Management reassessed the value of the works done and acknowledged that services of value equivalent to the Prepaid Amount had in fact been rendered.

In light of this, KE entered into a final commercial settlement on 10 January 2013, pursuant to which (i) KE has paid a settlement sum of S\$764,619.60; (ii) Subcontractor B has released the personal guarantee; and (iii) KE has cancelled the balance of S\$691,478.25 of the amount payable by Subcontractor B to KE as set out in the 22 December 2010 agreement.

- (e) Management has estimated the financial impact in relation to the aforesaid matter concerning KE as follows:

<b>Commercial Settlement Agreement between KE and Subcontractor B on 10 January 2013</b>	<b>Reference</b>	<b>Loss S\$</b>
Cancellation of net amount recoverable from Subcontractor B	Para (c) and (d)	691,478.25
Settlement Sum paid to Subcontractor B per Commercial Settlement Agreement	Para (d)	764,619.60
		1,456,097.85
Total amount charged to profit and loss and equity *		1,456,097.85

\* As the audit of KE is in progress, management is reviewing KE's legal obligations together with the business rationale of the transaction to determine the appropriate period to record the charge.

The AC has notified the Commercial Affairs Department (“CAD”) on the abovementioned matters.

The Board will be appointing a reputable international accounting firm to conduct a complete review of the Group's internal controls and to develop a comprehensive Group Risk Assurance Framework to enhance and strengthen the Group's internal controls and risk management.

The Board is of the view that there is sufficient information in the market for trading in the Company's securities to continue. The Company will expeditiously make further announcements on the above matters as and when there are material developments thereon.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Company's shares. When in doubt shareholders and potential investors are advised to seek independent advice from their professional advisers before trading or making any investment decision on the Company's shares.

**BY ORDER OF THE BOARD**

Soh Siak Poh Benedict  
Executive Chairman  
18 January 2013