

spackmanentertainmentgroup
SPACKMAN ENTERTAINMENT GROUP LIMITED
(Company Registration No.: 201401201N)
(Incorporated in the Republic of Singapore on 10 January 2014)

FINDINGS OF THE INDEPENDENT REVIEWER REPORT

1. INTRODUCTION

- 1.1. The Board of Directors (the “**Board**”) of Spackman Entertainment Group Limited (the “**Company**” or “**SEGL**”, and together with its subsidiaries and associates, the “**Group**”) refers to the Notice of Compliance issued by SGX RegCo on 3 September 2020 (the “**Notice of Compliance**”) and the announcements made on 20 October 2020, 12 January 2021, 16 April 2021, 4 October 2021, 2 December 2021, 28 April 2022, and 26 May 2022 in relation to the updates on the Independent Review (collectively, “**Announcements**”).
- 1.2. Unless otherwise defined, all capitalised terms used herein shall bear the same meaning as defined in the Announcements.

2. BACKGROUND

- 2.1. Between March 2017 and August 2018, the Company acquired a total of 6,465,288 shares in the capital of Spackman Media Group Limited (“**SMGL**”) at US\$3 per SMGL share in five transactions from certain shareholders of SMGL (“**Vendors**”) which increased the Company’s shareholding in SMGL from 24.53% to 43.88% (“**Past Acquisitions**”). The details of each of the Past Acquisitions was announced by the Company in announcements dated 2 March 2017, 11 October 2017, 22 May 2018, and 6 August 2018.
- 2.2. In response to SGX RegCo’s queries on the Past Acquisitions, the Company explained in its announcements dated 6 June 2018, 23 August 2018, and 29 August 2018 that, among other things:
- 2.2.1. none of the directors or controlling shareholders of the Company has any direct or indirect interest in the Past Acquisitions;
- 2.2.2. the Past Acquisitions were part of a restructuring exercise in connection with a proposed listing of SMGL on the Hong Kong Stock Exchange (the “**Hong Kong Listing**”); and
- 2.2.3. the shareholding interest in SMGL was acquired at a premium to SMGL’s NTA and NAV as the Group believed that the Past Acquisitions were earnings accretive to the Group given that it is increasing its stake in a profitable company that also has the potential to grow significantly in value.
- 2.3. On 3 September 2020, pursuant to the Notice of Compliance, the SGX RegCo directed the ARMC to undertake the following (“**Review**”):
- 2.3.1. perform a holistic review on the Past Acquisitions, including but not limited to, background checks on the Vendors and assessment of whether these transactions were entered into on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders; and
- 2.3.2. provide SGX RegCo with details of past due diligence performed on the Past Acquisition and the Vendors.
- 2.4. As announced by the Company on 20 October 2020, the ARMC, in consultation with SGX RegCo and the Company’s Sponsor, appointed Deloitte & Touche Financial Advisory Services Pte Ltd (“**Independent Reviewer**”) to conduct the Review.

2.5. The Company wishes to update shareholders that the Independent Reviewer has completed the Review and submitted its report of its findings (“**IR Report**”) to the Company on 16 June 2022. A copy of the IR Report has been submitted to SGX RegCo on 16 June 2022.

2.6. The Board wishes to apprise shareholders on the key findings of the IR Report. A copy of the Executive Summary of the IR Report (“**Executive Summary**”) is attached to this announcement as **Appendix A**.

3. KEY HIGHLIGHTS OF THE EXECUTIVE SUMMARY

3.1. Unless otherwise defined, all abbreviated terms used in this section shall have the meanings ascribed in the Executive Summary.

A. Key Highlights

3.2. The Board wishes to highlight the following key findings of the Independent Reviewer:

3.2.1. The Independent Reviewer was unable to conclude if the acquisition price of US\$3 per SMGL share was reasonable due to the lack of a proper valuation conducted on SMGL. However, the interests of the Company and its minority shareholders may not have been prejudiced by the Past Acquisitions as the acquisition price was much lower than the price references relied upon by the Board for the approval of the Past Acquisitions.

3.2.2. None of the Vendors in the Past Acquisitions fell within the definition of “interested person” under the applicable Catalist Rules, although the majority of SMGL shares acquired in the Past Acquisitions were acquired from Vendors who had connections with Charles Choi Spackman, the former Chief Executive Officer of the Company (“**Charles**”), and Richard Lee, the former interim Chief Executive Officer of the Company in 2018 and presently a non-executive director of the Company (“**Richard**”). There was no finding of any breaches or violations of Catalist Rules with respect to potential interested person transactions (“**IPTs**”).

3.2.3. The Past Acquisitions were disclosable transactions and the Company complied with its disclosure obligations under the applicable Catalist Rules in respect of the Past Acquisitions, save that there were mathematical errors in the Company’s computation which did not have a significant impact and that the Company did not announce the basis of how the Company derived the value of SMGL’s shares.

3.3. The Board is carefully reviewing the IR Report and will, in consultation with the ARMC, management team and other professionals, take such steps to address the areas of concern identified in the IR Report. In this regard, the Company remains committed to ensuring that its internal control systems and procedures are adequate and effective.

3.4. The key highlights of the Executive Summary is set out in greater detail below.

B. Circumstances leading to the Past Acquisitions

3.5. In May 2015, as part of an internal reorganisation, the Company injected certain business assets and cash investment into Spackman Media Group Pte Ltd (“**SMGPL**”) in return for 50% shareholding interest in SMGPL. At the same time, the Company raised funds of US\$6 million in cash investment from third party investors (including certain Vendors in return for 50% shareholding interest in SMGPL).

3.6. On 30 December 2015, the Company acquired approximately 27.4% shareholding interest in SMGL in connection with a spin-off of the Company’s shareholding interest in SMGPL as part of a restructuring exercise in connection with the proposed Hong Kong Listing. Pursuant to the restructuring exercise, other shareholders of SMGPL (other than SEGL) were also issued and allotted shares in SMGL. At the completion of the restructuring exercise, SMGPL became a wholly-owned subsidiary of SMGL.

3.7. In 2016, SMGL issued convertible notes to pre-initial public offering investors of SMGL and certain of these investors subsequently converted their notes into SMGL shares in 2018.

- 3.8. The rationales for the Company to increase its shareholding in SMGL were primarily the Company's optimistic business outlook on the future growth of SMGL, the proposed Hong Kong Listing and the un-locking of higher value through SMGL's talent management business after the lifting of the unofficial ban imposed by China on South Korean entertainment culture or "*hallyu*" that was imposed since 2016. It was explained to the Independent Reviewer that SMGL's talent management business would complement the Group's business of the Group, especially in the area of film production if the artistes would take on major roles in the Group's film productions. SMGL works closely with the talent agencies to identify areas in which SMGL can assist to enhance the value and potential of these talent agencies, including providing strategic advice to the talent agencies to selectively participate in and invest in businesses that have potential for consistent growth in value by collaborating with the "brand" of these artistes.
- 3.9. Whilst the Independent Reviewer has not sighted documentary evidence to substantiate these rationales, the findings indicate that there has been some reported news since 2017 that the China ban on South Korean entertainment may be lifted.
- 3.10. The Independent Reviewer's findings also indicate that the Company had agreed to increase the Company's stake in SMGL gradually over a period of time (may be over a year or longer) instead of over one transaction. The Independent Reviewer noted that the Independent Directors were unclear as to the specific reasons for doing so but vaguely recalled that it was related to the listing of SMGL's shares on the Hong Kong Stock Exchange. The Independent Reviewer has not sighted any written evidence which indicates that the Past Acquisitions were intended as one transaction.
- 3.11. For more details on the findings of the Independent Reviewer in relation to the circumstances leading to the Past Acquisitions, please refer to paragraphs 1.4.1 to 1.4.5 and 1.4.29(ii) of the Executive Summary.

C. Commercial terms of the Past Acquisitions

- 3.12. Pursuant to the Past Acquisitions, the Company acquired the SMGL shares from the Vendors at US\$3 per SMGL share to be paid by the issuance and allotment of SEGL shares. The findings indicate that the Board approved the acquisition consideration for the Past Acquisitions based on, amongst others:
- 3.12.1. SMGL's historical financial performance that were available to the Company in its capacity as a significant shareholder of SMGL and from the executive director of SMGL who was part of the senior management of the Company at the time of the Past Acquisitions;
- 3.12.2. Management's assessment of the favourable business outlook of the future growth of SMGL and the un-locking of higher value through SMGL's talent management business after the lifting of the unofficial ban imposed by China on South Korean entertainment culture or *hallyu* that was imposed since 2016;
- 3.12.3. corroboration of the assessed value of SMGL by:
- (i) third-party assessments of the value of SMGL in respect of other arms-length transactions between July 2016 to May 2017 which involved the issuance of SMGL shares or convertible notes to third-parties at USD3 per SMGL share;
 - (ii) analysts reports obtained in October 2016 and April 2017 that had valued SMGL shares in excess of USD3 per SMGL share; and
 - (iii) a professional valuation report that was obtained for external audit purposes in January 2018 which assessed the fair value of SMGL for impairment testing and there were no adjustment to SMGL's carrying amount
- 3.13. The Independent Reviewer is of the view that the Company should not have relied on the price references referred to at paragraph 3.12.3 above without having conducted a proper valuation as the said price references were prepared for different purposes, although the Independent Reviewer noted the Company's responses from the maxwellisation that the price references were arrived at arm's length commercial negotiations with third parties who had engaged professional advisors and had conducted due diligence on SMGL.

- 3.14. For more details on the findings of the Independent Reviewer in relation to the commercial terms of the Past Acquisitions, please refer to paragraphs 1.4.16 to 1.4.20 of the Executive Summary.

D. The Vendors of the Past Acquisitions

- 3.15. The Independent Reviewer conducted background searches between the members of the Company's past and present board of directors and management, and the Vendors of the Past Acquisitions. The findings indicate that:

3.15.1. Most of the Vendors of the Past Acquisitions had acquired SMGL shares in exchange for their SMGPL shares as part of the restructuring exercise in December 2015. The Company clarified that the total number of SMGL shares to be acquired by the Company had not been determined upfront and that the management was to ascertain the vendors from whom the Company would acquire additional shares. The Independent Reviewer noted that it has not seen any documentary evidence which indicates that the Past Acquisitions was intended as one transaction.

3.15.2. The majority of SMGL shares acquired in the Past Acquisitions (close to 60%) were acquired from Vendors who had connections with Charles and Richard. The findings indicate that:

- (i) Whilst the investment and due diligence memoranda ("**IDM**") for the Past Acquisitions that were prepared by the investment team (which comprised Na Kyoungwon ("**Kay**"), who was a former Chief Financial Officer of the Company and presently an Executive Director, President and Chief Operating Officer) (the "**Investment Team**") had indicated that Charles's brother-in-law was the ultimate beneficiary owner ("**UBO**") of a Vendor and a director of two of the Vendors, the IDM was not provided to the Board during the approval process for the Past Acquisitions. During the Board approval process for the First SPA, Charles had confirmed to the Board that there was no connected party involved in the transaction. The Independent Reviewer was not able to verify whether Charles was aware at the material times of the connection between these Vendors and his brother-in-law.
- (ii) With respect to the due diligence conducted by the Investment Team on the identity of the Vendors, the Independent Reviewer found that the Investment Team obtained and enclosed supporting documents such as photocopies of identity documents and passports for individuals, and certificates of incorporation, certificates of incumbency and memorandum and articles of association for corporations. The Investment Team also obtained verbal confirmations from the individuals or the UBO of the Vendor (where the Vendor is a corporation) on whether the Vendor was an interested party. The IDMs did not show any further work or background checks performed by the Investment Team.
- (iii) Based on information that came to light after the Past Acquisitions (and not identified through public available databases), the spouse of Charles was the UBO of one of the Vendors of the Past Acquisitions that took place after Charles had resigned from his office. The connection was not disclosed in the IDM that the Investment Team had prepared for the Past Acquisitions. The independent directors of the Company confirmed with the Independent Reviewer that they were not aware at the material times of the connection between the spouse of Charles and the said Vendor.
- (iv) Based on information that has come to light after the Past Acquisitions (and not identified through public available databases), Richard was purportedly the contact person appointed to hold "underlying documentation and records of the company (including accounting data)" for three of the Vendors. Richard was not the UBO of these Vendors. Apart from these connections in relation to the Past Acquisitions, there is no conclusive evidence on other relationship between the Richard and these Vendors.
- (v) Whilst the Independent Reviewer observed that the Company did not conduct background checks on third party databases (such as accounting and corporate registries, corporate databases, Ministry of Law, court databases – Insolvency Office in the relevant jurisdictions) on the Vendors, the Independent Reviewer's findings indicate that the connections referred to at paragraphs 3.15.2(iii) and (iv) above were not identified through publicly available databases.

- 3.16. While the Independent Reviewer observed connections or relationships between Vendors of the Past Acquisitions on the one hand and Charles and Richard on the other hand, none of the connections or relationships fell within the definition of “interested person” under the applicable Catalist Rules at the material times of the Past Acquisitions. The Independent Reviewer also found that none of the Independent Directors were aware of the connections or relationships between the Vendors of the Past Acquisitions on the one hand and Charles and Richard on the other hand.
- 3.17. The Independent Reviewer is of the view that by way of good corporate governance, Charles and Richard should have disclosed their relationships with certain Vendors and abstained from voting and approving the Past Acquisitions.
- 3.18. For more details on the findings of the Independent Reviewer in relation to the Vendors of the Past Acquisitions, please refer to paragraphs 1.4.9, 1.4.29, 1.4.34, 1.4.39 to 1.4.54, 1.4.62, and 1.5.2 of the Executive Summary.

E. Interests of SEGL and minority shareholders

- 3.19. The Independent Reviewer’s findings indicate that the Company ought to carry out proper valuation of the SMGL shares to safeguard the interest of the Company’s shareholders. Whilst the Independent Reviewer was unable to conclude if the acquisition price was reasonable due to lack of proper valuation conducted on SMGL, the findings indicate that the interests of the Company and its minority shareholders may not have been prejudiced as the acquisition price was much lower than the price references relied upon by the Board for the approval of the Past Acquisitions.
- 3.20. For more details on the findings of the Independent Reviewer in relation to the interests of SEGL and minority shareholders, please refer to paragraph 1.5.1 of the Executive Summary.

F. The Company’s disclosure obligations with respect to the Past Acquisitions

- 3.21. The Independent Reviewer found that the Past Acquisitions were disclosable transactions under Rule 1004 read with Rules 1006(b), (c) and (e) of the Catalist Rules. The Company complied with its obligations to disclose the Past Acquisitions as the Company did make the announcements in relation to the Past Acquisitions. In addition, notwithstanding the Independent Reviewer’s observation of connections or relationships between Vendors of the Past Acquisitions on the one hand and Charles and Richard on the other hand, the findings do not identify any relationship that would have required the Company to make an announcement under Rule 1010(11) of the Catalist Rules.
- 3.22. However, the Independent Reviewer’s findings indicate that:
 - 3.22.1. There were mathematical errors in the computation that was announced by the Company in relation to the Past Acquisitions, but the errors did not have a significant impact on the classification of the transactions and the Company’s obligations under Chapter 10 of the Catalist Rules.
 - 3.22.2. There could be a potential breach of Rule 1010(5) of the Catalist Rules which provides for the announcement of the “*value (book value, net tangible asset value and the latest available open market value) of the assets being acquired or disposed of, and in respect of the latest available valuation, the value placed on the assets, the party who commissioned the valuation and the basis and date of such valuation*” in the event the transaction is a disclosable transaction under Rule 1010 of the Catalist Rules. Whilst the Company had complied with Rule 1010(5) as it had announced the book value, the net tangible asset value of the SMGL shares to be acquired and the purchase consideration of US\$3 per SMGL share was agreed between the Company and the Vendors on a willing buyer and willing seller basis, the Independent Reviewer noted that the Company did not announce the basis and any other information on how the Company derived the value of SMGL’s share. During maxwellisation, the Company explained to the Independent Reviewer that the professional valuation report obtained in 2018, which corroborated the assessed value of SMGL shares, was obtained for external audit purposes and were not prepared on an open market basis.
- 3.23. For more details on the findings of the Independent Reviewer on the Company’s disclosure obligations, please refer to paragraphs 1.4.67 to 1.4.73 and 1.5.1 of the Executive Summary.

G. The Company's internal controls and risk management with respect to the Past Acquisitions

- 3.24. The Independent Reviewer observed that the Company maintains a system of internal policies which were used as guidelines by the Company's Investment Team and the Board, namely, the Investment Policy, which provides investment guidelines for new business acquisitions, film production investments and other general investments of the Group, the Share Issuance Policy, which provides guidelines for new share issuance of the Group and the Disposal Policy, which provides guidelines for disposals of assets under the Group.
- 3.25. The Investment Policy, which the Company applied in respect of the Past Acquisitions was first developed in 2014 which was reviewed by Nexia TS, and subsequently reviewed in 2018 by Crowe Horwath as part of an annual internal audit commissioned by the Company. Following the annual internal audit, the Company's Audit Committee accepted Crowe Horwath's recommendations and updated the Investment Policy in 2019.
- 3.26. The Independent Reviewer identified a potential breach of Rule 719(1) of the Catalist Rules in connection with the Investment Policy as there were some potential lapses which could limit the effectiveness of the Company's system of internal controls. The Independent Reviewer also identified areas for improvement in the Company's Investment Policy. Examples of the identified potential lapses include the following:
- 3.26.1. The Investment Policy and Disposal Policy were general and do not contain information such as the steps and assessment procedures to be undertaken to assess or determine the materiality of the proposed transactions to comply with the Catalist Rules in respect of significant transactions, information required to be presented in the IDM, and record keeping procedures required in relation to IPTs. Whilst the Investment Policy contained a general requirement for checks to be done to ensure legal and regulatory compliance, there was no specific reference to requiring third-party checks to be performed on vendors or verification of the identities of UBOs and there was no guidance as to when independent legal or other advisors (for example valuer) should be appointed to assist the Company with its legal and regulatory compliance.
- 3.26.2. The Investment Policy was not strictly adhered to in relation to written approvals from the investment review committee (which comprised Suk Young, Richard, Eugene, who were executive directors of the Company at the material time, and Kay, who was part of the management team of the Company at the material time) ("IRC") as the Independent Reviewer noted that there were no written documents to evidence that the Past Acquisitions were approved by the IRC, although the Company explained to the Independent Reviewer that members of the IRC had discussed the Past Acquisitions at board meetings, and members of the IRC who were also executive directors of the Company, had subsequently approved the Past Acquisitions through various written board resolutions.
- 3.26.3. Apart from the First SPA which was discussed and recorded in a Board meeting held on 24 February 2017, there was no documentation of direct discussions or in-depth discussions during board meetings on the other SPAs, the performance of SMGL and the prospects of the acquiring additional SMGL shares, although the Company had explained to the Independent Reviewer that such discussions had taken place.
- 3.26.4. Although the Investment Team had prepared the IDMs, which presented a high-level analysis of the Past Acquisitions and contained a summary of the proposed transactions, the rationales for the Past Acquisitions, the steps for value recognition of the SMGL shares and due diligence analysis that were performed, the IDMs were not shared with the Board and they did not contain (i) further analysis by the investment or independent third-parties, (ii) any background checks or verification on the identity of the UBO by the investment team or (iii) evidence that the quantitative or qualitative criteria stipulated in the investment policy were challenged or tested.
- 3.26.5. There was no documentation of any direct discussions or in-depth discussion on the performance of SMGL or investment monitoring checklist as stipulated under the Investment Policy, although the Company had explained to the Independent Reviewer that financial performance of SMGL were presented during quarterly board meetings and the minutes

recorded some discussions on the performance of SMGL. In addition, the Management prepared the Executive Summary of SMGL annually.

- 3.27. For more details on the findings of the Independent Reviewer on the Company's internal controls and risk management, please refer to paragraphs 1.4.56 to 1.4.65, 1.4.74, 1.5.2 and 1.5.3 of the Executive Summary.

4. FOLLOW-UP ACTION

- 4.1. The Board is carefully reviewing the IR Report and will, in consultation with the ARMC, management team and other professionals, take such steps to address the areas of concern identified in the IR Report. The Board agrees with the Independent Reviewer that the connections highlighted by the Independent Reviewer should be disclosed to the Board as good corporate governance practice even though the connections may not require the Company to announce or render the relevant transactions as "interested party transactions" under the applicable Catalist Rules.
- 4.2. Amongst other things, the Board had taken action to enhance the Company's internal control and corporate governance. In November 2021, the Board had engaged its internal auditor to review and enhance the Company's operating procedures and internal controls. In addition, the Nominating Committee is actively looking for potential candidates to refresh the Board to improve the Board's capabilities and diversity.
- 4.3. The Company will make further announcement(s) as may be necessary and appropriate to update shareholders on these matters.

Shareholders and potential investors of the Company are advised to read this announcement and any further announcement made by the Company carefully. Shareholders and potential investors of the Company are advised to refrain from taking any action with respect to their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. Shareholders and potential investors of the Company should consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

Anthony Wee Kit Wong
Chairman, Audit & Risk Management Committee

16 June 2022

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. (the "Sponsor") for compliance with the relevant rules of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the "SGX-ST").

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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