



# Independent Review Report

Spackman Entertainment Group Limited

Prepared by: Deloitte & Touche Financial Advisory Services Pte. Ltd.

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## Glossary

Abbreviation	Description
Albert	Chiu Sin Chuen Albert
Andrew	Martin Andrew Mohabeer
Anthony	Anthony Wei Kit Wong
ARMC	Audit & Risk Management Committee
Awak Technologies	Awak Technologies Pte. Ltd.
Azur	Azur Investissement Ltd. (former Evergreen Logistics Ltd.)
Barcel	Barcel Investment Pte. Ltd.
Blackwell	Blackwell Associates Group Inc.
BOD	Board of Directors of SEGL
BVI	British Virgin Islands
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Charles	Charles Choi Spackman
Constellation Agency	Constellation Agency Pte. Ltd.
COO	Chief Operating Officer
Crowe Horwath	Crowe Horwath Korea, Hanul Choonjung LLC
DD	Due Diligence
DGA	Dominion Global Advisers
Director's Resolution	Director's Resolutions in writing by the Board of Directors of the Company Pursuant to Constitution of the Company in relation to the acquisition of SMGL shares.
Disposal Consideration	The consideration to sell SEGL's entire 43.88% interest in SMGL to SQG at no less than SGD 2.30 per SMGL share upon entering a MOU on 18 August 2020
Disposal Policy	Guidelines for new share issuance of the Group
DTFAS	Deloitte & Touche Financial Advisory Services Pte. Ltd.
DVG	DVG Limited
ESA	ESA Co., Ltd.
Esther	Esther Low Suet Cheng
Eugene	Yoo Jin Lee, Eugene
Eun	Eun Ja Kim
Fifth SPA	Under the SPA entered on 4 August 2018, SEGL agreed to purchase 1,345,288 SMGL shares for a total consideration of USD 4,035,864 worth of SEGL shares, which increased SEGL's shareholding in SMGL from 41.28% to 43.88%
First investment policy	First investment policy developed in 2015
First SPA	Under the SPA entered on 1 March 2017, SEGL agreed to purchase 1 million common voting shares of SMGL at USD 3 per SMGL share, which increased SEGL's shareholding in SMGL from 24.53% to 27.80%
Fourth SPA	Under the SPA entered on 21 May 2018, SEGL agreed to purchase 2,300,000 SMGL shares for a total consideration of USD 6,900,000 worth of SEGL shares, which increased SEGL's shareholding in SMGL from 33.76% to 41.28%
Frame Pictures	Frame Pictures Co. Ltd.

Abbreviation	Description
Funvest	Funvest Global Pte. Ltd.
GD Enterprises	GD Enterprises Holding Limited
Hong Whee	Ng Hong Whee
ICH Gemini	ICH Gemini Asian Growth Fund Pte. Ltd.
IDM	Internal Discussion Memo (also known as Board Investment Memo)
IDM 1	IDM dated 1 March 2017
IDM 2	IDM dated 3 October 2017
IDM 3	IDM dated 5 December 2017
IDM 4	IDM dated 3 May 2018
IDM 5	IDM dated 1 August 2018
IM	Board Investment Memo
Investment Policy	SEGL's Acquisition Investment Policy (Refer to Exhibit 1)
IPO	Initial Public Offering
IPT	Interested Person Transaction
Jae	Jae Seung Kim
Jang	Jang Jeong Seok
Jasmine	Jasmine Leong
Jessie	Jessie Thong Yuen Siew
Jin Suk	Yoo Jin Suk
Jung Suk Young	Suk Young
Kay	Kay Na Kyoungwong
Kee Wee	Kee Wee Soo
Kelvin	Kelvin Tan Hai Ching
KMP	Key Management Personnel
KOSDAQ	Korean Securities Dealers Automated Quotations
KSIC	Korean Standard Industrial Classification
KW Properties	KW Properties Pte. Ltd.
Lai Yee	Leong Lai Yee
Lerner	Lerner Griffin & Peltz Ltd.
Lian Sheng	Lian Sheng (Gold Dragon Edition) Asset Management Ltd.
Lion Speed	Lion Speed Developments Limited
Littauer	Littauer Technologies Co. Ltd.
Luke	Ru Ka Luke Kang
Management	Management of SEGL
Minmin	Zeng Minmin
Monitoring Checklist	SEGL Investment Monitoring Checklist
MOU	Memorandum of Understanding
NAV	Net Asset Value
Newyard Worldwide	Newyard Worldwide Holdings Ltd.
Nexia	Nexia TS Risk
NTAV	Net Tangible Asset Value

Abbreviation	Description
Past Acquisitions	5 Acquisitions of interest in SMGL in 2017 and 2018
Plutoray	Plutoray Pte. Ltd.
Poh Yock	Toh Poh Yock
PPCF	PrimePartner Corporate Finance
Proposed Divestment	SEGL's intention to sell its entire 43.88% interest in SMGL to SQG upon entering a MOU on 18 August 2020
Preliminary Investment Memo	Preliminary Investment Memo dated 17 August 2020
Pre-IPO	Pre-Initial Public Offering
Republic Park	Republic Park Production Limited
RHT	RHT Capital Pte Ltd
Richard	Richard Lee
Sang Yong	Yoo Sang Yong
Second investment policy	After update on the investment policy in 2019
Second SPA	Under the SPA entered on 10 October 2017, SEGL agreed to purchase 900,000 SMGL shares for a total consideration of USD 2,700,000 worth of SEGL shares, which increased SEGL's shareholding in SMGL from 26.17% to 29.12%
SEGL	Spackman Entertainment Group Limited
SEKI	Spackman Entertainment Korea Inc.
SeongUn	SeongUn Accounting Corporation
SGX RegCo	Singapore Exchange Regulation Pte. Ltd.
Share Issuance Policy	Guidelines for new share issuance of the Group
Siew Ling	Ng Siew Ling
SMGL	Spackman Media Group Limited
SMGPL	Spackman Media Group Pte Ltd
So Hee	So Hee Kim
SPA	Sale and Purchase Agreements for the Past Acquisitions
SQG	Spackman Equities Group Inc.
Starlight	Starlight Corp Pte. Ltd.
Tae Hun	Tae Hun Lee
Take Pictures	Take Pictures Pte. Ltd.
Teow Heng	Vincent Toe Teow Heng
Teras Conquest	Teras Conquest 7 Pte. Ltd.
The Group	SEGL and its subsidiaries
The Meeting	SEGL Board of Directors' Meeting held on 24 February 2017
Third SPA	Under the SPA entered on 22 December 2017, SEGL agreed to purchase 920,000 SMGL shares for a total consideration of USD 2,760,000 worth of SEGL shares, which increased SEGL's shareholding in SMGL from 29.12% to 32.13%
Trinity	Trinity Capital Advisors (former Smart Asia Logistics Ltd.)
TSX	Toronto Venture Exchange
Tzu Chien	Wu Tzu Chien
UBO	Ultimate Beneficial Owner
United Pictures	United Pictures Co. Ltd.

Abbreviation	Description
Vaara	Vaara Pte. Ltd.
Vendors	Vendors identified in the Past Acquisitions of interest in SMGL in 2017 and 2018
Vincent	Vincent Sim Teck Leng (Shen Delong)
Wabazaba	Wabazaba Co. Ltd.
Wen Jiong	Xu Wen Jiong
WL Properties	WL Properties Pte. Ltd.
Xidan	Xidan (BVI) Ltd.
Yellow Pearl	Yellow Pearl Investment Holdings Ltd.
Yu Huei	Alan Wang Yu Huei
Zenhua	You Zenhua
Zymmetry	Zymmetry Investments Ltd.

# 1 Executive Summary

## 1.1 Background

- 1.1.1 On 1 March 2017, Spackman Entertainment Group Limited (“SEGL”, or the “Company”) entered into a share Sale and Purchase Agreement (‘SPA’) with certain existing shareholders of Spackman Media Group Limited (“SMGL”), an associated company of SEGL.
- 1.1.2 SMGL has various subsidiaries, namely talent agencies located in South Korea. Each talent agency manages a pool of actors and actresses, and the agency is responsible for finding opportunities such as film production, advertisement, and modelling assignments, for their talents. According to the Management of SEGL (“Management”), 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 into such businesses that have potential for consistent growth in value by collaborating with the “brand” of these artists.
- 1.1.3 In respect of the SPA dated 1 March 2017, SEGL agreed to purchase 1 million common voting shares of SMGL at USD 3 per SMGL share which was satisfied by SEGL shares. This increased SEGL’s shareholding in SMGL from 24.53% to 27.80% (“First SPA”).
- 1.1.4 Subsequently, SEGL entered into four additional SPAs on 10 October 2017 (“Second SPA”), 22 December 2017 (“Third SPA”), 21 May 2018 (“Fourth SPA”) and 4 August 2018 (“Fifth SPA”), to purchase a total of 5,465,288 SMGL shares at USD 3 per SMGL share which were satisfied by SEGL shares. This further increased SEGL’s shareholding in SMGL to 43.88%.
- 1.1.5 We noted that between the periods of the First and Third SPA, SEGL acquired Frame Pictures Co. Ltd. (“Frame Pictures”)<sup>1</sup> and Constellation Agency Pte. Ltd. (“Constellation Agency”)<sup>2</sup> using SMGL shares which resulted in fluctuations of SEGL’s shareholding in SMGL throughout all five SPAs.
- 1.1.6 On 18 August 2020, SEGL entered into a non-binding memorandum of understanding (“MOU”) with its shareholder, Spackman Equities Group Inc. (“SQG”), a Toronto Venture Exchange (“TSX”) listed company in Canada, pursuant to which SEGL intended to sell its entire 43.88% interest in SMGL to SQG (the “Proposed Divestment”) at no less than SGD 2.30 per SMGL share (referred to as “Disposal Consideration”). According to Management, the MOU was intended to be a basis for further negotiations between the parties on, inter alia, the quantum of the Disposal Consideration. The Proposed Divestment was intended to be subject to certain conditions precedent, including, an independent valuation on SMGL commissioned by each of SEGL and SQG, if required. The transactions and SEGL participation in SMGL are summarised in the table below:

**Table 1.1**

Transaction Date	Transaction	Number of SMGL Shares Acquired	Price per SMGL Share (USD)	Total Consideration <sup>3</sup> (USD)	Resulting Direct SEGL Participation in SMGL
01/03/2017	First SPA	1,000,000	3.00	3,000,000	27.80%
10/10/2017	Second SPA	900,000	3.00	2,700,000	29.12%
22/12/2017	Third SPA	920,000	3.00	2,760,000	32.13%
21/05/2018	Fourth SPA	2,300,000	3.00	6,900,000	41.28%
04/08/2018	Fifth SPA	1,345,288	3.00	4,035,863	43.88%
18/08/2020	Proposed Divestment	13,968,038	1.68 <sup>4</sup>	23,464,222 <sup>4</sup>	0.00%

<sup>1</sup> SEGL announced that the Company entered into a SPA dated 14 March 2017 with the owner of Frame Pictures. The purchase consideration payable to the owner of Frame Pictures includes 497,250 ordinary shares of SMGL.

<sup>2</sup> SEGL announced that the Company entered into a SPA dated 22 December 2017, with independent third parties to acquire Constellation Agency, which were satisfied by SEGL shares. Constellation Agency had 500,000 SMGL shares prior to the acquisition by SEGL.

<sup>3</sup> The Consideration was satisfied by SEGL shares.

<sup>4</sup> Estimated using an exchange rate of 1 SGD = 0.73037 USD, according to rates sourced from Oanda at 18 August 2020. USD 1.68 was the minimum floor price of each SMGL share stated in the MOU.

- 1.1.7 On 3 September 2020, Singapore Exchange Regulation Pte. Ltd. (“SGX RegCo”) issued a Regulatory Actions/Notice of Compliance to SEGL in which it directed SEGL’s Audit & Risk Management Committee (“ARMC”) to perform a holistic review on the Past Acquisitions, including but not limited to, background checks on the vendors (“Vendors”) and assessment of whether these transactions were entered into on normal commercial terms, were not prejudicial to the interests of SEGL and its minority shareholders and were in the interests of SEGL’s shareholders.
- 1.1.8 In view of the above, the ARMC appointed Deloitte & Touche Financial Advisory Services Pte. Ltd. (“DTFAS”, “we”) to assist with the review on the Past Acquisitions, as directed by SGX RegCo.

## 1.2 Scope of work

- 1.2.1 Pursuant to the letter of engagement dated 14 October 2020, the ARMC appointed DTFAS to assist in conducting a review into the Past Acquisitions, including but not limited to, background checks on the Vendors, an assessment of whether these transactions were entered into on normal commercial terms, were not prejudicial to the interests of SEGL and its minority shareholders and were in the interests of SEGL’s shareholders.
- 1.2.2 This report sets out details of our review, observations and findings. Specifically, it considers:
- (i) The circumstances and events relating to the Past Acquisitions, the commercial terms of the Past Acquisitions, valuation that was performed on SMGL shares acquired under the Past Acquisitions and whether the transactions were in the interest of SEGL and its shareholders, including its minority shareholders;
  - (ii) The relationship between the Vendors of the Past Acquisitions and SEGL’s past and present Board of Directors (“BOD”), Key Management Personnel (“KMP”), Chief Executive Officer (“CEO”) and controlling shareholders, or their associates, as defined in the SGX Catalist Rules in order to identify any Interested Person Transactions (“IPT”) and/or related party transactions that was not disclosed to the public;
  - (iii) The adequacy of SEGL policies, standard operating procedures and controls relating to (a) Due Diligence (“DD”) on acquisitions and disposals; (b) release of announcements and (c) IPT; and
  - (iv) Whether there were potential breaches of SGX Catalist Rules.

## 1.3 Methodology

- 1.3.1 We performed the following procedures:
- (i) Review of SEGL’s policies, standard operating procedures and controls
    - a. Obtained an understanding of the circumstances and events relating to the SPAs SEGL entered into in 2017 and 2018 in respect of the Past Acquisitions.
    - b. Obtained and reviewed SEGL internal policies related to acquisitions, share issuances and disposals.
    - c. Obtained and reviewed the minutes of the BOD meeting held on 24 February 2017 relating to the acquisition of additional 1 million SMGL shares.
    - d. Obtained and reviewed the Internal Discussion Memo (“IDM”) and board resolutions in respect of the Past Acquisitions.
    - e. Obtained and reviewed the SPAs (and the supporting documents) SEGL entered in respect of the Past Acquisitions.
    - f. Reviewed how SEGL determined and agreed on SMGL transacted price of USD 3 per share in respect of the Past Acquisitions.
    - g. Obtained and reviewed SMGL audited financial statements for FY 2015-2016, FY2017, FY2018 and FY2019.
    - h. Considered the adequacy and effectiveness of SEGL’s internal policies, standard operating procedures and controls relating to (a) DD on acquisitions, share issuances and disposals; (b) release of announcements and (c) IPT.



- i. Considered if the relevant SGX announcements on the Past Acquisitions were accurate, factual, complete, clear and succinct, and if there was potential non-compliance with the Catalyst Rules.
- (ii) Relationship Mapping
- a. Obtained and reviewed the information of the directors and KMP of SEGL, SMGL, Spackman Media Group Pte Ltd (“SMGPL”)<sup>5</sup> and SQG from 2015 to present, in particular, focusing on the changes in BOD / KMP and the tenure of their appointments.
  - b. Obtained particulars of the associates of SEGL's past and present BOD, CEO and controlling Shareholders
  - c. Obtained and reviewed details of past DD performed by the then BOD of SEGL on the Past Acquisitions and the Vendors.
  - d. Reviewed the circumstances leading to the Vendors holding shares in SMGL, in particular, the parties from whom the Vendors acquired the SMGL shares, when the acquisitions took place, the rationale for doing so and the consideration paid.
  - e. Obtained and reviewed a list of shareholders of SMGPL from 2015 to present to establish the change in shareholders and / or shareholdings in SMGPL.
  - f. Obtained and reviewed a list of shareholders of SMGL from 2015 to present to establish the change in shareholders and / or shareholdings in SMGL.
  - g. Performed background searches on the Vendors and SEGL's BOD and KMP (including their associates, where applicable) by checking public databases (for instance, Accounting and Corporate Registries, corporate databases, Ministry of Law, Court databases - Insolvency Office, etc.) in Singapore, Korea, Canada, and US, as well as other identified countries of incorporation and places in which the entities operate in, or places where the individuals were born or had been connected to through the documents that were provided, and any other places which may have raised concerns arising from DTFAS' review, to the extent possible.
  - h. Performed network analysis to identify potential relationships (i.e. undisclosed related parties in the various announcements relating to the Past Acquisitions) between the Vendors of the Past Acquisitions and SEGL's past and present BOD, CEO and controlling shareholders, or their associates, as defined in the Catalyst Rules (provided the particulars of the associates were disclosed to us), to the extent possible.
- (iii) Interviews
- a. We invited the BOD, Management and the Vendors to interviews with us. We were informed by Management that all the Vendors declined to be interviewed. Table 1.2 summarises the directors/management of the Company involved in the Past Acquisitions who attended and declined our interviews:

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<sup>5</sup> Refer to paragraph 1.4.1 for the relationship between SMGPL with SEGL and SMGL.

Table 1.2

S/No.	Name	Position at SEGL (Unless Otherwise Stated) During the Period of the Past Acquisitions
<b>Parties that attended interview</b>		
1	Jessie Thong Yuen Siew (“Jessie”)	Lead Independent Director
2	Anthony Wei Kit Wong (“Anthony”)	Independent Director
3	Ng Hong Whee (“Hong Whee”)	Independent Director
4	Na Kyoungwong (“Kay”)	Chief Financial Officer (“CFO”)
5	Jasmine Leong (“Jasmine”)	Senior Manager
6	Ng Siew Ling (“Siew Ling”) <sup>6</sup>	Senior Manager, SMGPL
<b>Parties that declined interview</b>		
7	Charles Choi Spackman (“Charles”)	Executive Chairman CEO
8	Yoo Jin Lee, Eugene (“Eugene”)	Executive Director and Chief Producer
9	Jung Suk Young (“Suk Young”)	Executive Director
10	Richard Lee (“Richard”)	Executive Director and Interim CEO

- (iv) Reporting and Maxwellisation
- a. Performed maxwellisation with the interviewees before the report was finalised.

## 1.4 Review of the Past Acquisitions

### Circumstances and events leading to the Past Acquisitions

- 1.4.1 Prior to the Past Acquisitions, SMGPL was an investment holding company incorporated in Singapore in April 2015, as a subsidiary of SEGL and subsequently became an associate of SEGL due to the internal reorganization<sup>7</sup> in May 2015. SEGL held approximately a 24.53% equity interest in SMGL, obtained from a share swap transaction in December 2015 where SEGL sold all 45.8% of its SMGPL shares to SMGL in consideration for 7,500,000 ordinary shares in the capital of SMGL. The share swap transaction formed part of the restructuring exercise in connection with the proposed listing of SMGL group on the Hong Kong Stock Exchange<sup>8</sup>. Instead of receiving cash for the disposal of SMGPL shares, SMGL issued its own shares to SEGL as consideration. Subsequent to the share swap transaction, SMGPL became a wholly owned subsidiary of SMGL.
- 1.4.2 We observed that some of the Vendors of the Past Acquisitions originally obtained their SMGL shares through these share swap transactions.
- 1.4.3 Kay informed us in interview that some of the Vendors of the Past Acquisitions were the SMGL convertible noteholders. In 2016, SMGL issued convertible notes to pre- Initial Public Offering (“Pre-IPO”) investors. We noted that three of the noteholders (as Pre-IPO investors) subsequently converted their notes to SMGL shares in August 2018 and sold them to SEGL as Vendors of the Past Acquisitions, on or almost immediately after the issuance of the SMGL shares to them.
- 1.4.4 From the IDM provided by the Company, the rationale/reason for the Company to increase its shareholding in SMGL was due to the proposed listing of SMGL group on the Hong Kong Stock Exchange and the Company was optimistic about the future growth of SMGL. The Past Acquisitions would help unlock higher value for the Company’s shareholders through

<sup>6</sup> We were informed by Siew Ling that during the Past Acquisitions, she was hired under SMGPL. However, she was also responsible in assisting Kay in the accounting and finance function of SMGL and SEGL.

<sup>7</sup> As part of the internal reorganisation, in May 2015, SEGL injected certain business assets (Breakfastfilm) into SMGPL in return for 4,999,999 shares in SMGPL and cash investment of USD 999,999 into SMGPL for SMGPL’s investments into entertainment related businesses. At the same time in May 2015, SEGL raised funds of USD 6 million in cash investment from third party investors (includes certain Vendors) in return for 50% shareholding in SMGPL. On 1 December 2015, SMGL issued and allotted 8,875,000 shares for the acquisition of 7,100,000 shares (54.20%) in SMGPL from third party investors (includes certain Vendors), excluding SEGL, pursuant to a Share Swap Agreement dated 1 December 2015. As the result of these share swaps, SMGL owned 54.2% of SMGPL on 1 December 2015.

<sup>8</sup> As announced by SEGL on 30 December 2015, SEGL entered into the share swap transaction which was deemed to constitute a spin-off of SEGL’s interest in SMGPL (“Proposed Spin-Off”) to acquire 27.4% equity interest in SMGL as part of the restructuring exercise in connection with the proposed listing of SMGL on the Hong Kong Stock Exchange. This was completed on 13 May 2016.

SMGL’s talent management business after the China virtual ban since 2016 on “*hallyu*”, or South Korean entertainment culture, was lifted<sup>9</sup>.

- 1.4.5 Kay and the Independent Directors informed us in interview that SMGL’s talent management business would complement the business of the group especially in the area of film productions. It would put the group in an advantageous position to get the artists to take on the major roles in the film productions and if successful, it would enhance the financial performance of the group given the profit margin from film productions is lucrative.
- 1.4.6 Kay informed us in interview that Charles and Richard approached most of the SMGL shareholders and offered to acquire the SMGL shares held by them. Kay and the Independent Directors of the Company informed us that they do not have any knowledge on the selection criteria for the selected Vendors for the Past Acquisitions<sup>10</sup>.
- 1.4.7 We were provided with the following documents that were prepared by the Company in relation to the Past Acquisitions:
- (i) The IDMs and supporting documents summarising the assessment performed prior to the acquisitions.
  - (ii) The board meeting minutes dated 24 February 2017.
  - (iii) The board resolutions in writing.
  - (iv) The SPAs agreed with and signed by the Vendors.
  - (v) The announcements made on SGXNet portal.
- 1.4.8 Set out in the table below are the Vendors of the Past Acquisitions and the number of shares they sold to SEGL, extracted from the respective IDMs and SPAs:

**Table 1.3**

Transaction	Vendor Name	Vendor Name (Abbreviation)	Number of SMGL Shares
First SPA	Vincent Sim Teck Leng (Shen Delong)	Vincent	250,000
	Lian Sheng (Gold Dragon Edition) Asset Management Ltd. <sup>11</sup>	Lian Sheng	250,000
	DVG Limited	DVG	500,000
Second SPA	DVG Limited	DVG	500,000
	Kelvin Hai Ching Tan	Kelvin	100,000
	Chiu Sin Chuen Albert	Albert	100,000
	Ru Ka Luke Kang	Luke	100,000
	Zeng Minmin	Minmin	100,000
Third SPA	DVG Limited	DVG	920,000
Fourth SPA	Kee Wee Soo	Kee Wee	200,000
	Azur Investissement Ltd	Azur	825,000
	Leong Lai Yee	Lai Yee	200,000
	Trinity Capital Advisors	Trinity	825,000
	Zymmetry Investments Ltd.	Zymmetry	250,000
Fifth SPA	Yellow Pearl Investment Holdings Ltd.	Yellow Pearl	35,333
	ICH Gemini Asia Growth Fund Pte. Ltd.	ICH Gemini	583,288
	Wang Yu Huei	Yu Huei	176,667
	Trinity Capital Advisors	Trinity	550,000
<b>Total shares</b>			<b>6,465,288</b>

<sup>9</sup> According to the Company’s responses from the maxwellisation, the Independent Directors and Kay are of the view that the Past Acquisitions were in line with Management’s optimistic business outlook on the future growth of SMGL as announced on 30 December 2015, when the Company acquired the initial 27.4% equity interest in SMGL.

<sup>10</sup> According to the Company’s responses from the maxwellisation, as far as Kay is aware, there were not many vendors who were willing to sell SMGL shares at USD 3 at that time.

<sup>11</sup> Although the vendor was Lian Sheng, the SEGL shares were issued to Esther Low Suet Cheng (“Esther”), who is a Director and 100% beneficial owner of Lian Sheng.

- 1.4.9 We noted that most of the SMGL shares acquired by SEGL above were from the Vendors who had acquired SMGL shares via the share swap transactions in December 2015, where they swapped their SMGPL shares with SMGL shares, save for the following:
- (i) DVG conducted a share swap with SMGL exchanging 600,000 shares of SMGPL for 750,000 SMGL shares on 1 December 2015. However, we also noted that DVG obtained additional 2,425,000 SMGL shares via share swap transactions by exchanging DVG's shareholdings in Crystal Planet Limited and Fiftyone K Inc. for SMGL shares on 31 December 2015 and 21 July 2016 respectively.
  - (ii) Azur originally acquired 4 million SMGL shares at USD 1 per share<sup>12</sup> from GD Enterprises Holding Limited ("GD Enterprises") on 21 November 2017 (see paragraph 1.4.11).
  - (iii) Trinity originally acquired 3,503,850 SMGL shares at HKD 1 per share<sup>13</sup> from GD Enterprises and 383,333 SMGL shares at HKD 1 per share<sup>14</sup> from DVG on 22 February 2018 (see paragraph 1.4.12).
  - (iv) Zymmetry acquired 250,000 SMGL shares from DVG on 22 February 2018<sup>15</sup>.
  - (v) Yellow Pearl, ICH Gemini and Yu Huei subscribed to the convertible notes of SMGL in August 2016 and converted their convertible notes of SMGL to SMGL shares on 3 August 2018. We understand from Kay that the convertible noteholders subscribed to the convertible notes as the Pre-IPO investors.
- 1.4.10 As stated in paragraphs 1.4.9 (ii) and (iii) above, Azur and Trinity acquired their shares at much lower price from GD Enterprises and thereafter within a short period of time sold their shares to SEGL at a much higher price. We noted that GD Enterprises is a BVI company owned by Jae Seung Kim ("Jae"), brother-in-law of Charles<sup>16</sup>, the former CEO and Executive Chairman of SEGL.
- 1.4.11 According to the 2018 Company Registry Form NAR1 filed by SMGL, Azur originally acquired 4 million SMGL shares at USD 1 per share<sup>17</sup> from GD Enterprises on 21 November 2017. On 22 May 2018, during the Fourth SPA, Azur transferred 825,000 SMGL shares to SEGL at USD 3 per SMGL share, and the remaining 3,175,000 shares were transferred to Plutoray Pte. Ltd. ("Plutoray")<sup>18</sup> on 24 April 2019 at HKD 1 per share<sup>19</sup>.
- 1.4.12 According to the 2018 Company Registry Form NAR1 filed by SMGL, on 22 February 2018 Trinity originally acquired 3,503,850 SMGL shares at HKD 1 per share<sup>20</sup> from GD Enterprises and 383,333 SMGL shares at HKD 1 per share<sup>21</sup> from DVG. During the Fourth SPA, Trinity then transferred 825,000 SMGL shares to SEGL at USD 3 per SMGL share, and another 550,000 shares on the Fifth SPA, or about five months after the acquisition from GD Enterprises. The remaining 2,578,968 SMGL shares were transferred to Plutoray on 24 April 2019 at HKD 1 per share<sup>22</sup>.
- 1.4.13 We sought confirmation from Kay and the Independent Directors in interview as to whether they were aware of the lower transacted prices per SMGL share paid by Azur and Trinity (only a few months prior to the Fourth and Fifth SPAs), and Plutoray (less than a year). They informed us that they were not aware of such transactions in relation to the acquisition and the disposal of SMGL shares that involved third parties outside of SEGL group until they read it in an article published on Governance for Stakeholders dated 2 September 2020<sup>23 24</sup>.
- 1.4.14 Based on the Shareholder Data of SEGL as at 31 December 2018, we noted that save for the following, the rest of the vendors are no longer shareholders of SEGL:

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<sup>12</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>13</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>14</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>15</sup> According to the 2018 Company Registry Form NAR1 filed by SMGL the share transfer was completed on 22 February 2018

<sup>16</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>17</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>18</sup> No potential relationship between Plutoray and Vendors of the Past Acquisitions, and SEGL's past and present Board of Directors, Key Management was identified.

<sup>19</sup> According to the 2019 Company Registry Form NAR1 filed by SMGL – Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>20</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>21</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>22</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document

<sup>23</sup> <https://governanceforstakeholders.com/2020/09/02/watching-spackman-entertainment/>

<sup>24</sup> According to the Company's responses from the maxwellisation, Kay was aware of these transactions at the time but was not aware of the transacted price.

Table 1.4

Transaction	Name	Number of Shares
First SPA	Esther (Ultimate Beneficial Owner (“UBO”) of Lian Sheng)	62
Fourth SPA	Lai Yee	7,770,935
Fourth SPA	Kee Wee	6

- 1.4.15 After the IPO of SMGL group did not materialise, the Vendors of Past Acquisitions who exchanged the SMGL shares for SEGL shares had subsequently disposed of their SEGL shares.
- 1.4.16 Kay and the Independent Directors informed us in interview that the BOD approved the Past Acquisitions at USD 3 per SMGL share, which was proposed by Charles at the board meeting on 24 February 2017<sup>25</sup>, based on the following:
- (i) On 14 March 2017, SEGL entered into a Sale and Purchase Agreement to acquire Frame Pictures from Kim Jun Young. The Company paid for this transaction using SMGL shares valued at USD 6.80 each. Therefore, the share swap price of USD 3 per SMGL share was acceptable since it was much lower than the transacted price of USD 6.80 per SMGL share accepted by Kim Jun Young, who was a third party to the Group<sup>26</sup>.
  - (ii) The price of USD 3 per SMGL share could be further supported by an analyst report<sup>27</sup> from RHB Bank dated 13 October 2016 that valued SEGL’s participation on SMGL at approximately USD 45 million, which resulted in USD 5.41 per SMGL share<sup>28</sup>. For the Second SPA, references were made to another report<sup>29</sup> from RHB Bank dated 6 April 2017 which stated SMGL was a “hidden gem” that may be worth around USD 45 million, or USD 7 per share<sup>30</sup>.
  - (iii) SMGL issued convertible note to six noteholders amounting to USD 4,900,000 with a conversion price of USD 3 (subject to adjustments), between July 2016 to 5 August 2016. According to Kay and the Independent Directors, since the noteholders agreed to the conversion price of USD 3 per SMGL share, they believed that the share swap price of USD 3 per SMGL share was acceptable since it was the same as the conversion price (subject to adjustment) of the convertible notes<sup>31</sup>.

<sup>25</sup> According to the Company’s responses from the maxwellisation, the share swap price of USD 3 per SMGL share that was proposed by Charles at the Board Meeting on 24 February 2017 was primarily arrived at taking into account Management’s favourable business outlook on the future growth of SMGL at the material time. The Independent Directors noted the Group’s strategy on raising its stake in SMGL and are aware of the Korean wave also known as “hallyu” which is the phenomenal growth of Korean culture and entertainment that has made an incredible rise since the past two decades. The future growth of SMGL is underpinned by the star power of the SMGL artists that was reported in the RHB Bank’s report dated 13 October 2016 titled A Hallyu Star At Its Inflection Point (“RHB 2016 Report”) and evident from the media articles on SMGL artists released by major news publications, and the Group’s ability to leverage on the portfolio of SMGL and its film-producing capabilities to break barriers of entry in the Korean entertainment sector.

<sup>26</sup> According to the Company’s responses from the maxwellisation, in relation to the reference SMGL share value of USD 6.80 that SEGL had paid for the acquisition of Frame Pictures, the Independent Directors were given to understand by Management that the transacted price of USD 6.80 per SMGL share was arrived at arm’s length commercial negotiations with a third-party vendor who had engaged professional advisors and had conducted due diligence on SMGL at around the material time. The Independent Directors had no reason to question the value of the SMGL share accepted by the third-party vendor. Notwithstanding that the acquisition of Frame Pictures was only finalised on 14 March 2017 and the BOD approved the First SPA on 24 February 2017, the SMGL share value of USD 6.80 that SEGL had paid for the acquisition of Frame Pictures was made aware to the BOD prior to the completion of the First SPA on 20 March 2017. This information provided comfort to the Independent Directors and Richard (then-Managing Director of SMGL) on the reasonableness of the share swap price of USD 3 per SMGL share that was proposed by Charles.

<sup>27</sup> <http://nebula.wsmg.com/aab93f7b0a41c5b4a822c6552070252e?AccessKeyId=CFB69E6CC12E39216AB4&disposition=0&alloworigin=1>  
We arrived at USD 5.41 per SMGL share assuming the total outstanding shares was 30,575,000 as at 13 October 2016 (USD 45,000,000 / [27.2% x 30,575,000 total SMGL shares]) = USD 5.41 per SMGL share.

<sup>28</sup> According to the Company’s responses from the maxwellisation, the RHB 2016 Report valued the Group’s stake in SMGL based on the peer comparison of talent management agencies in South Korea, which were trading at an average P/E of 56x. The RHB 2016 Report took into account the star power of SMGL, stating that “SMG is the largest talent management agency, with its stable of renowned top-tier artistes like Soo Ye-jin, Song Hye Kyo and Yoo Ah-in.” The analyst also highlighted that SMGL artists provide an access for potential investment opportunities where projects that starred SMGL artists would provide the avenue for SMGL to also participate in such works. The example given was “In August, MS Team Entertainment Co Ltd (MS Team) was the co-presenter of The Last Princess, which debuted on top of the South Korean box office and took in over KRW44.4bn in ticket sales (i.e. well over 5.6m admissions). This was made possible by the draw of the main cast, which include MS Team artist Son Ye-jin.”. The RHB 2016 Report also considered SMGL’s potential partnerships with giant Chinese peers and China’s surging investments into the Korean entertainment industry.

<sup>29</sup> <http://nebula.wsmg.com/a3a4374c855546b47998d1b9236515f7?AccessKeyId=CFB69E6CC12E39216AB4&disposition=0&alloworigin=1>

<sup>30</sup> According to the Company’s responses from the maxwellisation, in relation to the reference to the SMGL share value of USD 5.41 per SMGL share and USD 7 per SMGL share based on the RHB 2016 Report, the Independent Directors noted the basis of the assumptions adopted by the RHB 2016 Report was based on recent transaction of peers and peers’ P/E ratio of listed companies in the Korean and Chinese entertainment sector as outlined in RHB 2016 Report, and they had no reason to question RHB 2016 Report’s analysis of the value of SMGL shares at the material times.

<sup>31</sup> According to the Company’s responses from the maxwellisation, in relation to the reference to the conversion price of USD 3 per SMGL share for the convertible notes, the Independent Director noted that the conversion price was determined by arm’s length commercial negotiations with third party noteholders who had engaged professional advisors and had conducted due diligence on SMGL at around the material time. The Independent Directors had no reason to question the value of the SMGL share accepted by the noteholders.

- 1.4.17 In addition, when approving the acquisition price of USD 3 per SMGL share for the Fourth and Fifth SPAs, the BOD and Kay took into consideration a valuation report by Crowe Horwath Korea, Hanul Choonjung LLC (“Crowe Horwath”) dated 20 January 2018, which was conducted for the purposes of impairment testing for the FY2017 year end audit (external audit). Although this report was for the purposes of justifying if impairment was required for the SMGL shares acquired in the First to Third SPAs, the BOD used this as a reference to approve the subsequent acquisition price of USD 3 per SMGL share for Fourth and Fifth SPAs.
- 1.4.18 Kay also took into consideration a valuation report by SeongUn Accounting Corporation (“SeongUn”), a Korean CPA firm, dated 30 April 2018, which was conducted for the purposes of assessing the value of SMGL should the China “hallyu” bans not be lifted and hence the forecasted revenue from the China market not being materialised. Although this report was not circulated to the BOD, Kay mentioned in interview that he had drawn comfort that the valuation of the SMGL shares of USD 3.09 per share was still higher than the acquisition price of USD 3 per SMGL share.
- 1.4.19 We also noted that the IDMs prepared for the Past Acquisitions quoted the reasons stated in paragraphs 1.4.16 (i), 1.4.16 (ii), 1.4.17<sup>32</sup> and 1.4.18 as the basis to justify the USD 3 per SMGL share.
- 1.4.20 Kay and the Independent Directors informed us in interview that the BOD approved the acquisition price of USD 3 per SMGL share based on the fact that this price was much lower than the various reference prices of SMGL shares as stated in paragraphs 1.4.16 and 1.4.17. We are of the view that the Company should not have relied on these price references without having conducted a proper valuation given they were prepared for different purposes<sup>33</sup>. In addition, Kay should have circulated the valuation report stated in paragraph 1.4.18 to the BOD for their consideration.
- 1.4.21 From our review of the internal policies and supporting documents provided in relation to the Past Acquisitions, we set out below a summary of our findings and observations.

***Indications of non-compliance with SEGL’s internal policies and lack of board meetings to approve SPAs***

- 1.4.22 We note that only the First SPA was discussed and recorded in an SEGL BOD Meeting. This meeting was held on 24 February 2017 (referred to as “the Meeting”) and was attended by the following BOD and key management of SEGL, SMGL and SMGPL:

**Table 1.5**

S/No.	Names	Position
SEGL		
1	Charles	Executive Chairman and CEO
2	Eugene	Executive Director and Chief Producer
3	Suk Young	Executive Director
4	Jessie	Lead independent Director
5	Anthony	Independent Director
6	Hong Whee	Independent Director
7	Kay	CFO and Joint Company Secretary
8	Jasmine	Senior Manager
SMGL		
9	Richard	Managing Director
SMGPL		
10	Siew Ling	Senior Manager

<sup>32</sup> There was subsequent update in IDMs 1 to 3 which made reference to Crowe Horwath valuation report dated 20 January 2018.

<sup>33</sup> According to the Company’s responses from the maximisation, the Independent Directors and Kay do not agree with the stated view that the Company should not have relied on the price references without having conducted a proper valuation. These 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. The Independent Directors had no reason to question the Management commercial view in respect of the Past Acquisitions and the value of the SMGL share accepted by the third party on commercial basis.

- 1.4.23 We noted that Charles resigned as CEO and stepped down as chairman and board member on 19 December 2017. The rest of the key personnel of SEGL remained in office throughout the period of the Past Acquisitions. Both Richard and Kay were appointed as directors of SEGL on 18 January 2018 while at the same time they were also the directors of SMGL. Although Kay was the director of SMGL and CFO/Joint Company Secretary of SEGL, he attended the Meeting in his capacity as officer of SEGL.
- 1.4.24 We understand that the investment team prepared an IDM for each acquisition. These IDMs were the consolidation of the IDM and DD report stated in the Company’s internal policies. However, we noted that they were dated either on the same day or only a few days prior to the acquisition dates of the Past Acquisitions. This is not in compliance with the Investment Policy which states that the investment review shall be carried out at least one week prior to the execution date of the investment.
- 1.4.25 From our review of the documents stated in paragraph 1.4.7, we summarise below a table showing the dates reflected in each document:

**Table 1.6**

Transaction	IDM Dates	BOD Meeting	BOD Resolution Dates	Date of SPA Reported in SGX Announcements <sup>34</sup>	SPA Dates
First SPA	01/03/2017	24/02/2017	01/03/2017	01/03/2017	01/03/2017
Second SPA	03/10/2017	Not held	10/10/2017	10/10/2017	10/10/2017
Third SPA	05/12/2017	Not held	18/01/2018 <sup>35</sup>	22/12/2017	22/12/2017
Fourth SPA	03/05/2018	Not held	21/05/2018 <sup>36</sup>	21/05/2018	21/05/2018
Fifth SPA	01/08/2018	Not held	04/08/2018	04/08/2018	03/08/2018 <sup>37</sup>

- 1.4.26 There were no board meetings held to discuss the Second to Fifth SPAs and they were approved by way of BOD resolutions in writing. We noted that these resolutions<sup>38</sup> were dated the same day of the announcements save for the BOD resolutions in writing for the Third SPA which was dated after the date of the announcement. According to Management, it was an oversight as they forgot to date the BOD resolutions in writing for the Third SPA after the release of the announcement. The Independent Directors informed us in their interviews that they left it to Management to date the BOD resolutions in writing so as to align with the dates of announcement of the Past Acquisitions.
- 1.4.27 We noted that the date reflected on the Sale and Purchase Agreement of the Fifth SPA was different from those announced on the SGX announcements. The Independent Directors were unaware of the above as they left it to the Management to ensure that all the dates are reflected in accordance with the actual events.
- 1.4.28 According to the Investment Policy, the role of the investment team is to prepare the IDM and DD report for the review of the investment review committee and the role of the CEO is to approve and execute the investment agreements. We have not sighted written approval of the investment review committee in any of the IDMs although certain members of the investment review committee who were also board members at the material time approved the Past Acquisitions through the various BOD resolutions in writing. Kay and the Independent Directors of the Company confirmed in interview that there were no documents circulated prior to or during the Meeting and the signing of the board resolutions for the Past Acquisitions.

<sup>34</sup> According to the announcements made on SGX.

<sup>35</sup> The BOD resolution in writing for the Third SPA was dated 18 January 2018, as it contains the resolution to affect the appointment of the new CEO, Executive Director and Non-Executive Chairman

<sup>36</sup> The signed BOD resolutions in writing were dated 21/05/2017. The Company represented that the year has been dated wrongly. It should be dated 21/05/2018.

<sup>37</sup> We noted that all the Sale and Purchase Agreements executed by the vendors of the Fifth SPA were dated 3 August 2018 except for the Sale and Purchase Agreement executed by Trinity, which was undated

<sup>38</sup> Review of SEGL transactions involving SMGL shares, some of the BOD resolution in writing did not present signatures from all members of the BOD.

- 1.4.29 During our interviews with Kay and the Independent Directors, we were informed of the following in relation to the Past Acquisitions:
- (i) The IDMs prepared by the investment team were only for internal purposes to validate and facilitate the discussions with the investment review committee. Kay was the only investment team member and the investment review committee consisted of Suk Young, Richard, Eugene and Kay. Kay informed us that he discussed the IDMs with the investment review committee verbally and they approved the Past Acquisitions<sup>39</sup>. Kay confirmed in interview that there were no written documents to evidence that the Past Acquisitions were approved by the investment review committee.
  - (ii) Kay informed us that the IDMs were not shared with the BOD and during our interviews with the Independent Directors, they confirmed that they have not seen the IDMs.
  - (iii) Notwithstanding that the minutes of the Meeting only recorded the acquisition of the additional 1,000,000 SMGL shares, Kay and the Independent Directors clarified subsequent to the interviews that in or around February 2017, the total number of SMGL shares to be acquired had not been determined and Management was to ascertain the vendors from whom SEGL would acquire additional SMGL shares. We understand from the Independent Directors that Charles advised them that PrimePartners Corporate Finance (“PPCF”)<sup>40</sup> and 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 Directors were unclear as to the specific reasons for doing so but they vaguely recalled it was related to the listing of SMGL’s shares on the Hong Kong Stock Exchange. As a result, the Company acquired the 19.34% of SMGL shares over five tranches. We have requested a copy of the written advice issued by PPCF from the Company and the Independent Directors, but we were not provided with such document. Instead, the Independent Directors shared with us a screenshot in their group chat dated 4 October 2017, in which Charles mentioned such advice by PPCF. We have not been provided with any written evidence which indicates that the Past Acquisitions was intended as one transaction.
  - (iv) Although the minutes of the Meeting did not record at length and in detail the rationale and future plan of increasing the SMGL shareholding, the Independent Directors represented to us that Charles did present and share with them verbally the prospect of the acquisition of additional SMGL shares at length prior to the Meeting, without any supporting documents and presentation materials. We were informed by the Independent Directors that the Board was satisfied that the Past Acquisitions were beneficial to the Company for the reasons stated in paragraph 1.4.5 above and hence approved the Past Acquisitions.
  - (v) We understand from the Independent Directors that they have not been provided with any valuation reports that were conducted for the purposes of the Past Acquisitions despite their numerous follow up with Kay. In this regard, the BOD relied on the representations from Management, in particular Kay, and the past events stated in paragraphs 1.4.16 and 1.4.17 above, as the basis and justification to approve the acquisition price of USD 3 per SMGL share for the Past Acquisitions.
- 1.4.30 We further clarified the above information with PPCF on the gradual acquisitions of SMGL. We were informed by PPCF that they were not appointed by the Company to advise on any acquisition of SMGL shares and did not have any recollection of advising the Company with respect to increasing its stake in SMGL gradually over a period of time instead of one transaction. PPCF further clarified that the Company was required by them to aggregate the three separate acquisitions (being the First, Second and Third SPA) as if they were one transaction, in order to assess and determine the requirements of the Catalist Rules 1006(c) and as recorded in Paragraph 7, Note (3) of the Company’s announcement entitled “Share Sale and Purchase Agreement between Spackman Entertainment Group Limited and a Certain Existing Shareholder of Associated Company, Spackman Media Group Limited” and dated 22 December 2017. According to PPCF, this aggregation requirement would appear to be contrary to the representation that PPCF provided advice to acquire SMGL’s shares in several tranches, as noted in paragraph 1.4.29(iii) above.

<sup>39</sup> We were unable to confirm if the investment review committee members approved the IDMs as they declined to be interviewed.

<sup>40</sup> The sponsor of the Company up to 7 March 2018



### ***Insufficient DD analyses performed prior to the acquisition of SMGL's shares***

- 1.4.31 The IDMs were prepared by Kay. The IDMs showed a summary of the proposed transactions, the DD analyses performed (financial, legal and vendor), the rationale of the acquisitions, the steps for the value recognition of SMGL shares and supporting documents as appendices. All five IDMs are similar in terms of format and content and presented a high-level analysis of the proposed investments.
- 1.4.32 For the financial DD, the IDMs showed the key audited SMGL financial figures: revenue, gross profit, net profit and net asset value. They did not contain any further analysis performed by the investment team nor by an independent third-party. For the qualitative comments, it was stated in the IDMs that the acquisition of SMGL shares by SEGL "will help unlock higher value of the company's shareholders through its talent management business after the uplift of China virtual ban on "hallyu", or South Korean entertainment culture, since 2016"<sup>41</sup>. There is no evidence that the quantitative or qualitative aspects were challenged or tested<sup>42</sup>.
- 1.4.33 The Investment Policy does not cite any detailed checks that should be performed to verify whether the investments involved any IPT. The Share Issuance Policy states that the "Company recommends the vendors who shall receive the new shares to provide the documents listed below, as part of the corporate governance on the DD performed on the vendors. If vendors are unable to provide the said documents, the Company seeks the confirmation from the vendors, either verbal or written, to verify if it is an IPT".
- 1.4.34 For the vendors DD for the Past Acquisitions, the investment team simply obtained and enclosed supporting documents such as photocopies of identity documents and passports for individuals, and Certificate of Incorporation, Certificate of Incumbency and Memorandum and Articles of Association for corporations as evidence of DD performed. Aside from these documents, the IDM stated that the investment team also obtained verbal confirmations from either the direct individuals or from the ultimate beneficial owners informed by the vendors in the case of vendors being corporations. The IDMs did not show any further work or any background checks was performed by the investment team.
- 1.4.35 Kay informed us that as he was the Director of SMGL, he was well aware of the financial positions and operations of SMGL. Hence, there was not much DD analysis required.
- 1.4.36 Notwithstanding that Kay was involved in the management of both SEGL and SMGL, SMGL was an associated company of SEGL, which means that SEGL has significant influence but no control over SMGL. Hence, an independent third party or another party within the SEGL should have conducted the DD process and analysis to ensure that the DD analyses were objective and impartial.

### ***Investment monitoring***

- 1.4.37 As defined in the Investment Policy, the investment team should evaluate the quantitative and qualitative performance of SMGL on a yearly basis after the investment is completed, by filling in the Investment Monitoring Checklist ("Monitoring Checklist"). We have not been provided with any Monitoring Checklists evidencing that SEGL was monitoring the performance of SMGL after each of the acquisition. Although there was no formal post evaluation performed on the investment in SMGL, Kay and the Independent Directors informed us that the financial performance of SMGL was presented by Kay to the board during the quarterly board meetings. From the board minutes, we noted some discussion on the group numbers (which included the performance of SMGL) but there were no direct or in-depth discussions on the performance of SMGL minuted in the quarterly board meetings<sup>43</sup>.

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<sup>41</sup> There has been some reported news since 2017 that this ban may be lifted - [http://www.koreatimes.co.kr/www/art/2021/03/398\\_229456.html?tw](http://www.koreatimes.co.kr/www/art/2021/03/398_229456.html?tw) and <https://www.screendaily.com/features/is-china-finally-opening-to-korean-content-as-political-relations-improve/5157997.article>

<sup>42</sup> According to the Company's responses from the maxwellisation, the Independent Directors and Kay are of the view that further analysis of the SMGL financials by an independent third-party valuation seems unnecessary given that SMGL is an associate/related company and Management had the requisite financial and operational information of SMGL to form its commercial view on the value of SMGL shares.

<sup>43</sup> According to the Company's responses from the maxwellisation, the Independent Directors and Kay recalled that during board meetings, there were direct discussions or in-depth discussion on the performance of SMGL, notwithstanding the board minutes did not record such discussions. In addition, Management prepared Executive Summary of SMGL which was updated annually and the ARMC/BOD materials presented to the BOD contains a line item "share of results of associates". Further, the Independent Directors are of the view that as Kay was the CFO of SEGL as well as the director of SMGL, they trusted that Kay was aware of all the issues and performance of SMGL and relied on Kay to raise any issues and concerns pertaining to the Past Acquisitions at the Meeting or subsequent to the Meeting.

***Relationship between the Vendors of the Past Acquisitions and SEGL's past and present Board of Directors and Management***

- 1.4.38 From SGX announcements on the Past Acquisitions and in response to SGX RegCo's queries, SEGL confirmed that none of its directors or the controlling shareholders of SEGL has any direct or indirect interest in the Past Acquisitions, nor are they related to the Vendors of the Past Acquisitions.
- 1.4.39 We performed background checks on the vendors, focusing on information related to their corporate affiliations, such as directorship or shareholding positions, in order to identify whether there were potential non-disclosed interested persons. We observed connections between the Vendors of the Past Acquisitions and certain SEGL entities and personnel that were not disclosed by the investment team or were not informed by the Vendors in their verbal confirmation. Some of these connections were identified through the online document<sup>44</sup>.
- 1.4.40 According to Management, Charles was appointed as a director and the CEO of SEGL on 20 June 2014 and 8 August 2016 respectively. Charles resigned from both roles on 19 December 2017, three days before the Third SPA. Charles was also a director of SMGL since 28 June 2016, and resigned on 3 March 2017, two days after the First SPA.
- 1.4.41 In the last paragraph of section 18.1 (c) of the Meeting minutes, it was stated that: "Mr. Wong<sup>45</sup> asked if there is any connected party involved in these transactions and Chairman confirmed that there isn't". Based on the Meeting minutes, we noted that when asked about any connected party involved in these transactions, Charles did not mention that one of the SMGL vendors, DVG, at that time was owned by his brother-in-law, Jae<sup>46</sup>. Based on our background searches, Jae is also the executive director of Spackman Entertainment Korea Inc. ("SEKI"), a wholly owned subsidiary of SEGL. Subsequently, it was documented that the proposed deals were resolved and approved in principle.
- 1.4.42 Under these circumstances, Charles should have disclosed to the BOD his close relationship with DVG and abstained from opining or voting when presenting the proposals in relation to the acquisition of SMGL shares. We noted from the IDM 1 that Jae was stated as the owner of DVG. IDM 1 was prepared by Kay who attended the Meeting. When asked why Kay did not disclose this relationship when Mr. Wong sought confirmation in the Meeting if there was any connected party involved<sup>47</sup>, Kay informed us in interview that he thought Mr. Wong was asking if there were any IPT and clearly there was none as although this transaction involved Jae, who is the brother-in-law of Charles, it did not fall under the definition of IPT at the material time.
- 1.4.43 In addition to the above, we noted that certain UBO of the Past Acquisitions, although not reflected in the IDMs as UBO during the verbal legal DD process, were related to Charles. If the Company had performed thorough due diligence by at least obtained the written evidence to verify the UBO and/or conduct background checks<sup>48</sup> on the Vendors, the following relationships might have been identified.
- 1.4.44 As presented in the relationship mapping below, we noted the following connections between Charles's spouse, So Hee Kim ("So Hee"), and Jae, with the Vendors.

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<sup>44</sup> These connections were not identified through publicly available databases. Refer to paragraph 1.6.7 on the disclaimer for the online court document.

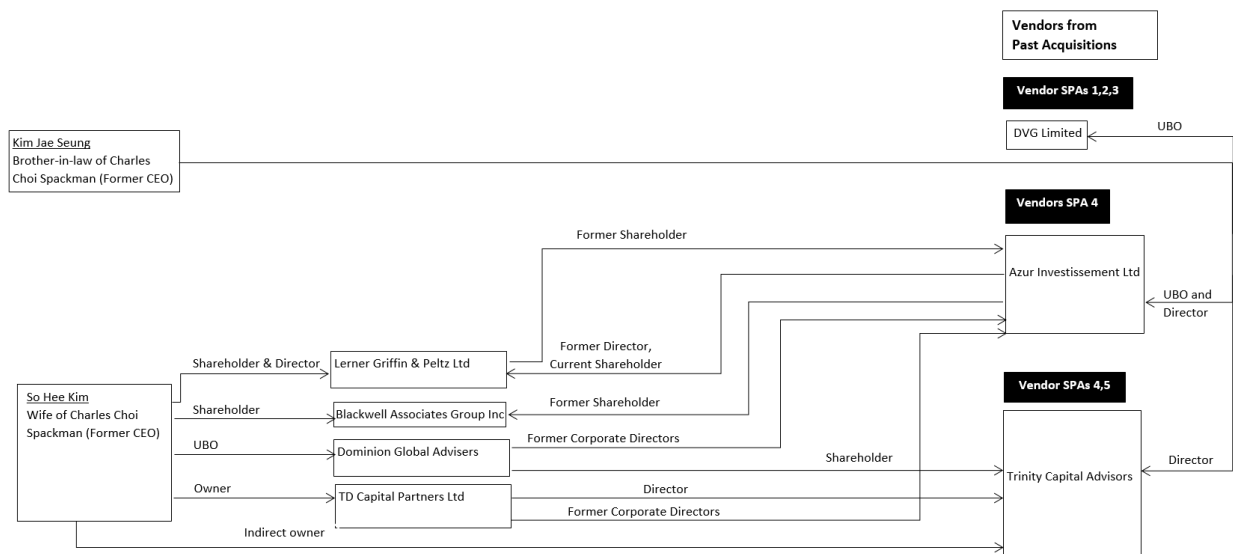
<sup>45</sup> Anthony Wong, current Independent Director of SEGL.

<sup>46</sup> Informed by the investment team in the Internal Discussion Memos. We have not had a chance to interview Charles to find out whether he knew of Jae's connection with DVG.

<sup>47</sup> We understand from Mr. Wong in interview that when he asked the question, he was referring to any related party involved in the transaction, not only IPT

<sup>48</sup> According to the Company's responses from the maximisation, although there were no specific guidelines in the First Investment Policy which requires specific third party checks to be performed on the vendors, the Company obtained verbal confirmation from the Vendors that they were not interest persons. Had the Company conducted publicly available searches at the material times, the actual UBOs of these companies would not be revealed by these searches.

Figure 1.1: Overview of relationships between So Hee and Jae with the Vendors



1.4.45 Jae was the UBO of DVG, a vendor of the First, Second and Third SPAs. We also noted the following information relating to Jae with SEGL, DVG, Azur and Trinity:

- (i) As stated in the IDMs, Jae was the UBO of DVG and director of Trinity<sup>49</sup> and Azur when these entities participated in the Past Acquisitions as vendors.
- (ii) Our search of publicly available information also identified Jae as the executive director of SEKI, a subsidiary of SEGL, since 28 March 2016. Previously he also served as an executive director (from 1 August 2012 until 8 November 2013) and CEO (from 16 September 2013 until 8 November 2013) of SEKI. Kay and the Independent Directors of SEGL informed us in interview that they were not aware that Jae was the CEO of SEKI during the Past Acquisitions.
- (iii) Based on an online court document<sup>50</sup>, we noted Charles provided confirmation that Jae was also the owner of Azur.<sup>51</sup> In addition, based on BVI corporate registry records, we noted that Lerner Griffin & Peltz Ltd. (“Lerner”) was a shareholder of Azur, and transferred the total 50,000 shares of Azur to Jae on 16 May 2008.<sup>52</sup> However, according to the assessment performed by the investment team for the Fourth SPA, Jae, who identified himself as a director of Azur, verbally confirmed that Azur’s UBO was Yoo Jinsuk (“Jin Suk”)<sup>53</sup>. This relationship was not reflected on the IDM.
- (iv) Given the Company’s responses from the maxwellisation noted in paragraph 1.4.45 (iii) that the disposal of Azur shares from Jae to Jin Suk did not materialise, Kay confirmed to us that he was informed by Jae that he had authorized Jin Suk to sign the SPA on behalf of Azur, on Azur’s company stamp.

1.4.46 Based on our searches, we note the following relationships between So Hee, Azur and Trinity:

- (i) As shown in Figure 1.1 above, So Hee was identified as a shareholder and director of Lerner since 16 May 2008 and 19 May 2008<sup>54</sup> respectively<sup>55</sup> while Azur was listed as the former director<sup>56</sup> until 19 May 2008 and current shareholder of Lerner since 23 December 2003.

<sup>49</sup> Formerly known as Smart Asia Logistics Ltd.

<sup>50</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>51</sup> Formerly known as Evergreen Logistics Ltd.

<sup>52</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>53</sup> According to the Company’s responses from the maxwellisation, Kay stated that he checked with Jae in September 2020 and understood that Jae had agreed to sell Azur to Yoo Jinsuk at around the time of the Past Acquisitions and so when Jae was then asked who the UBO of Azur was, it was disclosed to Kay that the UBO of Azur was Yoo Jinsuk. However, subsequently the sale of Azur to Yoo Jinsuk did not go through and so Jae has continued to remain as the UBO of Azur.

<sup>54</sup> <https://offshoreleaks.icij.org/nodes/219133>

<sup>55</sup> Our searches on publicly available information has not identified the date of cessation of So Hee’s shareholdings and directorship in Lerner.

<sup>56</sup> Directorship role ended on 19 May 2008 and DTFAS is not aware why Azur, a company, was listed as a formal director of Lerner

- (ii) So Hee is also a shareholder of Blackwell Associates Group Inc (“Blackwell”) since 16 May 2008<sup>57</sup> <sup>58</sup> while Azur was listed as a former shareholder of Blackwell from 2 December 2003 until 10 January 2006.
- (iii) Online court documents<sup>59</sup> show a written resolution of Azur, which indicated the appointment of Dominion Global Advisers (“DGA”) (BVI Company owned by So Hee<sup>60</sup>) and TD Capital Partners Ltd (BVI company owned by So Hee<sup>61</sup>) as corporate directors of Azur.
- (iv) Online court documents signed on 2 June 2020 show Charles stated that Trinity is “indirectly owned” by his wife, So Hee<sup>62</sup> through her shareholding in DGA<sup>63</sup>. DGA was a shareholder of Trinity<sup>64</sup>. Online court documents<sup>65</sup> indicated that as of 2017, Jae executed a Change of Registered Office Questionnaire Form indicating that So Hee was the UBO of Trinity. In the same online documents<sup>66</sup>, Ms Sandra Vasquez, the Managing Director of Overseas Management Company Trust (B.V.I) Ltd executed an affidavit on 19 February 2019 which indicating that So Hee was still UBO of Trinity.
- (v) Online court documents<sup>67</sup> indicated the BVI Corporate Registry has listed Jae and TD Capital Partners Ltd<sup>68</sup> (BVI company owned by So Hee<sup>69</sup>) as directors of Trinity.

1.4.47 In our interviews with the Independent Directors, we inquired whether they were aware of the relationships between Jae and So Hee with the Vendors from the Past Acquisitions. The Independent Directors informed us that they were not aware of these relationships as Charles, Richard and Kay did not disclose these to them<sup>70</sup>. During interview, Kay admitted that he was aware that Jae was the UBO of DVG but he claimed that he was not aware that Jae was the UBO of Azur and So Hee was the UBO of Trinity<sup>71</sup>.

1.4.48 As presented in the table below, out of the total shares acquired through the Past Acquisitions, 63.72% of SMGL’s shares were acquired from entities that were connected to Jae and So Hee, who are close relatives of Charles;

**Table 1.7**

Transaction	Vendor Name	Vendor Name (Abbreviation)	Number of SMGL Shares	Relationship to Charles
First SPA	DVG	DVG	500,000	UBO is Charles’ brother-in-law
Second SPA	DVG	DVG	500,000	UBO is Charles’ brother-in-law
Third SPA	DVG	DVG	920,000	UBO is Charles’ brother-in-law
Fourth SPA	Azur Investissement Ltd	Azur	825,000	UBO is Charles’ brother-in-law
	Trinity Capital Advisors	Trinity	825,000	UBO is Charles’ spouse
Fifth SPA	Trinity Capital Advisors	Trinity	550,000	UBO is Charles’ spouse
<b>SMGL Shares Acquired through Jae and So Hee</b>			<b>4,120,000</b>	
<b>Total shares acquired</b>			<b>6,465,288</b>	
			<b>%</b>	<b>63.72%</b>

<sup>57</sup> <https://offshoreleaks.icij.org/nodes/10090662>

<sup>58</sup> Our searches on publicly available information has not identified the date of cessation of So Hee’s shareholdings in Blackwell

<sup>59</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>60</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>61</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>62</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>63</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

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<sup>65</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>66</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>67</sup> It is not clear why TD Capital was listed as a director of Trinity as we understand that a director should be an individual – Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>68</sup> DTFAS is not aware why the BVI Corporate Registry listed TD Capital Partners Ltd, an entity, and not an individual as the director.

<sup>69</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>70</sup> According to the Company’s responses from the maxwellisation, the Independent Directors are of the view that at the material time, the BOD was not presented with information that would have prompted the Independent Directors to require further due diligence. Be that as it may, with the benefit of hindsight, the Independent Directors would encourage Management to adopt an attitude of disclosure of all facts and allow the BOD to determine the relevance or otherwise of such facts and then decide on the appropriate steps to be taken, assuming any are required. Leaving aside matters discovered post-transactions and assessing the transactions solely on their merits, the Independent Directors remain of the view that the transactions are beneficial to the Group.

<sup>71</sup> According to the Company’s responses from the maxwellisation, Kay checked with Jae in September 2020 and understood that So Hee had agreed to sell Trinity to Yoo Sang Yong at around the time of the Past Acquisitions and so when Jae was then asked who the UBO of Trinity was, it was disclosed to Kay that the UBO of Trinity was Yoo Sang Yong. However, subsequently the sale of Trinity to Yoo Sang Yong did not go through and So Hee has continued to remain as the ultimate beneficial owner of Trinity.

- 1.4.49 Based on our background searches, we identified the following connections between Richard and certain vendors of the Past Acquisitions, namely DVG, Azur and Trinity:
- (i) Online court documents<sup>72</sup> indicated that on 27 April 2017 Jae executed a Company Update Request Form with AMS Financial Group indicating that Richard as the contact responsible for holding "underlying documentation and records of the company (including accounting data)" for DVG.
  - (ii) Online court documents<sup>73</sup> indicated that as of 2017, Jae executed a Change of Registered Office Questionnaire Form indicating that Richard was the contact responsible for keeping "*accounting records and underlying documentation*" of Azur. In the same online documents<sup>74</sup>, Ms Sandra Vasquez, the Managing Director of Overseas Management Company Trust (B.V.I) Ltd executed an affidavit on 19 February 2019 which indicating that Richard was still the contact responsible for keeping accounting records.
  - (iii) Online court documents<sup>75</sup> indicated that as of 2017, Jae executed a Change of Registered Office Questionnaire Form indicating that Richard was the contact responsible for keeping "*accounting records and underlying documentation*" of Trinity. In the same online documents<sup>76</sup>, Ms Sandra Vasquez, the Managing Director of Overseas Management Company Trust (B.V.I) Ltd executed an affidavit on 19 February 2019 which indicating that Richard was still the contact responsible for keeping accounting records<sup>77</sup>.
  - (iv) Despite Richard being indicated as the contact responsible for holding "underlying documentation and records of the company (including accounting data)" for DVG<sup>72</sup>, Azur<sup>74</sup> and Trinity<sup>76</sup>, we noted there is no conclusive evidence on other relationships between Richard and DVG, Azur and Trinity in relation to the Past Acquisitions.
- 1.4.50 During the periods when the First, Second and Third SPAs occurred, Richard was a member of SEGL's investment review committee. During the periods when the Fourth and Fifth SPAs occurred, Richard was the Executive Director and Interim CEO of SEGL and director of SMGL<sup>78</sup>. According to the online court document, Richard was responsible for holding underlying documentation and records of DVG, Trinity and Azur (including accounting data)<sup>79</sup> during the period of the Past Acquisitions<sup>80</sup>.
- 1.4.51 Despite all the above connections, the Independent Directors informed us in interview that Richard did not disclose these connections to the BOD and did not abstain from approving the acquisitions of SMGL shares in his capacity as the investment review committee member, Executive Director and Interim CEO of SEGL. Undisclosed connections between Charles and Richard with certain vendors of SMGL would have prevented them from voting and approving the acquisition of SMGL shares<sup>81</sup>.
- 1.4.52 According to the Catalist Rule 904, issuer and its subsidiary/associated company are required to announce and seek approval for IPT. An interested person means: "*(a) a director, chief executive officer, or controlling shareholder of the issuer; or (b) an associate of any such director, chief executive officer, or controlling shareholder*".

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<sup>72</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>73</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>74</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>75</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>76</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>77</sup> According to the Company's responses from the maxwellisation, the Independent Directors and Kay are given to understand that: (i) Richard is a friend of Jae for nearly 20 years and at the request of Jae, Richard's address in Hong Kong was used solely as a matter of convenience since the BVI agent was located in Hong Kong while Jae resided in Korea, so that mail addressed to DVG, Azur and Trinity in the BVI could be forwarded to it, if necessary. (ii) Richard did not in fact receive any mail related to or from DVG, Azur and/or Trinity whilst he resided at the reported address between January 2017 and 6 January 2019. (iii) Richard has never been a corporate secretary nor a director of DVG, Azur and Trinity.

<sup>78</sup> Richard Lee was appointed as SEGL Executive Director and Interim CEO on 18 Jan 2018. He was re-designated from Executive Director and Interim CEO to Non-executive Director on 20 Feb 2019. Prior to this, according to Management, Richard Lee joined SEGL on 1 October 2013 and ceased as Head of Business Development of the Company with effect from 30 September 2016.

<sup>79</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>80</sup> According to the Company's responses from the maxwellisation, the Independent Directors are of the view that at the material time, the BOD was not presented with information that would have prompted the Independent Directors to require further due diligence. Be that as it may, with the benefit of hindsight, the Independent Directors would encourage Management to adopt an attitude of disclosure of all facts and allow the BOD to determine the relevance or otherwise of such facts and then decide on the appropriate steps to be taken, assuming any are required. Leaving aside matters discovered post-transactions and assessing the transactions solely on their merits, the Independent Directors remain of the view that the transactions are beneficial to the Group.

<sup>81</sup> According to the Company's responses from the maxwellisation, the Independent Directors are of the view that at the material time, the BOD was not presented with information that would have prompted the Independent Directors to require further due diligence. Be that as it may, with the benefit of hindsight, the Independent Directors would encourage Management to adopt an attitude of disclosure of all facts and allow the BOD to determine the relevance or otherwise of such facts and then decide on the appropriate steps to be taken, assuming any are required. Leaving aside matters discovered post-transactions and assessing the transactions solely on their merits, the Independent Directors remain of the view that the transactions are beneficial to the Group.

1.4.53 Although we identified relationships between certain vendors of the Past Acquisitions with Charles and Richard, those relationships do not fall under the definition of IPT as described in Catalist Rule 904 at the time when the transactions occurred due to:

- (i) Jae, who is the brother in law of Charles, did not fall under the definition of associate as prescribed in Catalist Rulebook.
- (ii) At the point when SEGL acquired the SMGL shares from Trinity which So Hee was the UBO, Charles was no longer the director of SEGL.
- (iii) Richard was not the UBO of DVG, Azur and Trinity.

1.4.54 As stated above, SEGL acquired the SMGL shares from Trinity which So Hee was the UBO during Fourth and Fifth SPA, while Charles was no longer the director of SEGL. So Hee held shares in Trinity through her shareholdings in DGA<sup>63</sup> (see paragraph 1.4.46 iv). DGA was the shareholder of Trinity since 2002<sup>64</sup>. We do not have the documents which confirm the date that So Hee became the shareholder of DGA. We noted that Trinity acquired its SMGL shares from DVG and GD Enterprise (see paragraph 1.4.9(iii)), which Jae is the UBO. At the time of the First SPA, had the Fourth and Fifth SPA occurred on 1 March 2017 (First SPA) and if So Hee was the UBO of Trinity on 1 March 2017, where Charles was still the CEO and Board member of SEGL, the acquisition of SMGL shares from Trinity would have been considered to be an IPT under Rule 904 (4). Pursuant to Rule 906 (1), an issuer must obtain shareholder approval for any IPT of a value equal to, or more than 5% of the group's latest audited net tangible assets, when aggregated with other transactions entered into with the same interested person during the same financial year. Set out in the table below is the percentage of the IPT value calculated should the acquisitions of SMGL shares from Trinity had taken place on 1 March 2017 and if So Hee was the UBO of Trinity at that time:

**Table 1.8**

Rule 906 (1)	Number of SMGL Shares	Price SMGL per share	IPT value	Group's audited net tangible assets as at 31 December 2016	Percentage of the IPT
<b>Trinity</b>					
Fourth SPA	825,000	USD 3	USD 4,125,000	USD 11,917,136	34.6%
Fifth SPA	550,000				

1.4.55 Based on the above, the transaction involved Trinity represents 34.6% of the net tangible assets of the Company of USD 11,917,136 (as stated in paragraph 8.3 of the First SPA announcement) and the Company should obtain shareholders' approval on the Past Acquisitions<sup>82</sup>.

**Adequacy of investment and disposal policies**

1.4.56 We obtained and reviewed SEGL's internal policies that were used as guidelines for SEGL's investment team and the BOD to conduct the assessment of the investments made in SMGL. We understand that these internal policies, tabled below, are applicable to SEGL and its subsidiaries ("the Group"):

**Table 1.9**

SEGL Policies	Description
Acquisition Investment Policy ("Investment Policy")	Provides investment guidelines for new business acquisitions, film production investments and other general investments of the Group
New Share Issuance Policy ("Share Issuance Policy")	Provides guidelines for new share issuance of the Group
Disposal Policy ("Disposal Policy")	Provides guidelines for disposals of assets under the Group

1.4.57 The Investment Policy was undated and Management represented that it was in use in the period of the Past Acquisitions.

<sup>82</sup> On the assumption that the IPT is disclosed to the Company.

- 1.4.58 The policies provided general and indirect descriptions of performance parameters to be met for each proposed investment, share issuance or disposal for consideration and approval. According to the section Criteria for investment review of the Investment Policy, all investments are assessed on quantitative aspects (revenue generation, costs saving from the synergistic operations and overall business efficiency) and on qualitative aspects (alignment between businesses with regards to growth and expansion strategy of SEGL, reputational concerns/risks and compliance to legal and regulatory requirements). Although the policies stated criteria such as “*reap higher sales growth, higher return on investment*”, the minimum expected growth or return were not quantitatively presented.
- 1.4.59 One of the qualitative criteria is legal compliance for the purposes of determining whether the investment complies with legal and regulatory requirements. It was not clearly defined what these legal and regulatory requirements are and who is responsible for checking them. We did not note any references regarding the involvement of legal counsel for the review of the contract during the investment review process.
- 1.4.60 The Investment Policy did not provide details on what information was required for both IDM and DD report prepared by the investment team, and what types of DD should be performed, such as financial, legal, commercial, or others, as well as whether independent third-party DD reports were required. The absence of such details in the policies may have compromised the quality of the assessment performed by the team for any potential acquisitions.
- 1.4.61 As stated in paragraph 1.4.33, the Investment Policy did not mention any checks that should be performed by the investment team to verify whether the investments/acquisitions involved any IPT. The specific rules to check whether the vendors were interested parties, as defined by in Chapter 9 of the SGX Catalist Rulebook, were only mentioned in the Share Issuance Policy. This may imply that only the investments that are paid via issuance of new shares will have the vendors checked for IPT which is not in line with the provisions in the Catalist Rules.
- 1.4.62 The Share Issuance Policy stated that the Company accepts either written or verbal confirmation from the vendors, stating that they are not interested persons. Based on our review of the Past Acquisitions, we observed that the investment team documented that they had verbally confirmed with the vendors whether they were interested persons, and no recording was kept. Also, apart from obtaining the verbal confirmation whether the vendor was an interested party, no other procedures were highlighted in the Share Issuance Policy, such as checks on independent third-party databases to verify the information provided.
- 1.4.63 The Disposal Policy focused on Rules 1006, 1010, 1011 and 1014 from the Chapter 10 - Significant Transactions of the SGX Catalist Rulebook. These rules refer to assessing the materiality and disclosure requirements on both acquisition and disposal of assets; however, they are not included in the Investment Policy. The Disposal Policy also did not provide clear definition on steps that should be carried out to ensure that the Company adhere to those rules.
- 1.4.64 The Disposal Policy did not state the procedure/ processes for assessment for disposal of assets and the approval process for decision making flow.
- 1.4.65 Similar to the Investment Policy, the Disposal Policy did not cite any detailed checks that should be performed to verify whether the disposals of assets involve any IPT.

#### **Potential breaches of SGX Catalist Rules**

- 1.4.66 We reviewed the announcements in relation to the First to Fifth SPAs to establish whether they appear actual, factual, complete, clear and succinct and in compliance with Chapter 10 – Significant Transactions from the SGX Catalist Rules which were relevant and in force during the period of the Past Acquisitions<sup>83</sup>. Our findings are set out below.

#### ***Review of relative figures***

- 1.4.67 As defined in Rule 1004, a transaction may be classified as non-disclosable, disclosable, major, and very substantial or reverse takeover, depending on the size of the relative figures computed under bases defined in Rules 1006 (a) to (e). We noted that Rules 1006 (a) and (e) were not applicable to the Past Acquisitions.

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<sup>83</sup> <http://rulebook.sgx.com/rulebook/chapter-10-significant-transactions>

- 1.4.68 We reperformed the calculations of the relative figures under bases defined in Rules 1006 (b), (c), and (d) for all Past Acquisitions considering them as either standalone transactions, transactions that happened within the 12 month period and also considering a hypothetical scenario where all of them had taken place at the same time on 1 March 2017, the date when the First SPA took place.
- 1.4.69 We noted that for all calculations we reperformed, the relative figures for Rule 1006(d) did not exceed 75%, which is the threshold defined in Rule 1014 to define major transactions. As the relative figure under Catalist Rule 1006 (b) and (d) are more than 5% but less than 75%, the proposed acquisition of the Sale Shares constitutes a “disclosable transaction”.
- 1.4.70 Therefore, all Past Acquisitions fall under disclosable transactions which is in line with the First to Fifth SPA announcements.
- 1.4.71 Although the classification of the transactions fall within the definition of disclosable transaction and there would be no further impact on the requirements listed in Chapter 10 of the Catalist Rules, we observed inconsistencies in the First to Fifth SPA announcements released by SEGL. These were mainly relating to mathematical errors in the computation and did not have a significant impact on the classification of the transactions and its requirements in terms of the requirements set out in Chapter 10 of the Catalist Rules. These inconsistencies mainly related to Rule 1006 (b), (c) and (d), and did not materially impact the numbers/ figures presented in the First to Fifth SPA announcements.

**Potential breaches in relation to Rule 1010**

- 1.4.72 We identified potential breaches in the First to Fifth SPA announcements released by SEGL in relation to Rule 1010 as in force during the Past Acquisitions, as set out in the table below:

**Table 1.10**

S/No.	Rule	Potential Breaches
1	Rule 1010 (5): Announced 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	The Company only announced the purchase consideration of USD 3 per SMGL share were agreed between the Company and the Vendors based on willing buyers and willing sellers’ basis. However, at least for Fourth and Fifth SPAs the Company did not announce the latest available valuation dated 30 April 2018 issued by SeongUn <sup>84</sup> , basis and any other information on how they derived the value of SMGL <sup>85</sup> .

- 1.4.73 We did not identify any relationship that may fall under Rule 1010(11) whereby the Company is required to announce whether any director or controlling shareholder has any direct or indirect interest, in the transaction and the nature of such interests. However, as part of good corporate governance, the following relationships should have been disclosed to the BOD for them to consider if these relationships should be announced in the respective announcements for the SPAs<sup>86</sup>:

<sup>84</sup> According to the Company’s responses from the maxwellisation, the latest available valuation dated 30 April 2018 issued by SeongUn was not prepared on an open market value basis.

<sup>85</sup> According to the Company’s responses from the maxwellisation, the Company did assess and place value of the SMGL shares acquired pursuant to the Past Acquisitions, which was based on (a) SMGL historical financial performance that were available to the Company as the substantial shareholder of SMGL and from executive director of SMGL who were senior management of the Group at the time of the Past Acquisitions, (b) Management’s assessment of the enhanced financial performance of the Group as a result of the lifting of the China virtual ban on South Korean entertainment culture and complementary nature of SMGL’s talent management business to the business of the Group especially in the area of film productions, and (c) third party assessments of the value of SMGL share during the Past Acquisitions from March 2017 to August 2018 as set out in paragraphs 1.4.16 to 1.4.18 that had corroborated the assessed value of SMGL.

<sup>86</sup> According to the Company’s responses from the maxwellisation, the Independent Directors are of the view that at the material time, the BOD was not presented with information that would have prompted the Independent Directors to require further due diligence. Be that as it may, with the benefit of hindsight, the Independent Directors would encourage Management to adopt an attitude of disclosure of all facts and allow the BOD to determine the relevance or otherwise of such facts and then decide on the appropriate steps to be taken, assuming any are required. Leaving aside matters discovered post-transactions and assessing the transactions solely on their merits, the Independent Directors remain of the view that the transactions are beneficial to the Group.



- (i) Richard was responsible for holding "underlying documentation and records of the company (including accounting data)" for DVG<sup>87</sup>, Azur<sup>88</sup> and Trinity<sup>89 90</sup>.
- (ii) Jae is the brother in law of Charles and an Executive Director of SEKI. He was also the UBO of DVG, the director of Azur and Trinity and the shareholder of Azur.

**Potential breaches in relation to Rule 719 (1)**

1.4.74 We identified potential breaches in the Company’s internal controls and risk management in relation to Rule 719 (1) as in force during the Past Acquisitions, as set out in the table below:

**Table 1.11**

S/No.	Rule	Potential Breaches
1	An issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks. The audit committee (or such other committee responsible) may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the systems of internal control. In arriving at the decision, the audit committee should consider the recommendation of the continuing sponsor.	<p>The Company maintains a system of internal policies, including (but not limited to) the Investment Policy (first developed in 2015 and updated in 2019), Share Issuance Policy and Disposal Policy. The Investment Policy, which provides guidelines for new business acquisitions, film production and investments, was applied by the Company in respect of the Past Acquisitions.</p> <p>However, we have identified some potential lapses in the Investment Policy which was applied in respect of the Past Acquisitions which could limit the effectiveness of the Company’s system of internal controls<sup>91</sup>:</p> <ol style="list-style-type: none"> <li>1. While the Investment Policy contained a general requirement for checks to be done to ensure legal and regulatory compliance, there is no specific reference to requiring any third-party checks to be performed on vendors. There is also 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.</li> <li>2. The Investment Policy was not adhered to strictly as no written approvals were obtained from the investment review committee for the Past Acquisitions<sup>92</sup>.</li> </ol> <p>We further note that there appears to be room for improvement in the Company’s Investment Policy and internal control. For instance:</p> <ol style="list-style-type: none"> <li>1. The Investment Policy should specify the specific information which should be included in an IDM or DD report.</li> </ol>

<sup>87</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>88</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>89</sup> Refer to paragraph 1.6.7 on the disclaimer for the online court document.

<sup>90</sup> According to the Company’s responses from the maxwellisation, the Independent Directors are of the view that at the material time, the BOD was not presented with information that would have prompted the Independent Directors to require further due diligence. Be that as it may, with the benefit of hindsight, the Independent Directors would encourage Management to adopt an attitude of disclosure of all facts and allow the BOD to determine the relevance or otherwise of such facts and then decide on the appropriate steps to be taken, assuming any are required. Leaving aside matters discovered post-transactions and assessing the transactions solely on their merits, the Independent Directors remain of the view that the transactions are beneficial to the Group. The Independent Directors and Kay are given to understand that: (i) Richard is a friend of Jae for nearly 20 years and at the request of Jae, Richard’s address in Hong Kong was used solely as a matter of convenience since the BVI agent was located in Hong Kong while Jae resided in Korea, so that mail addressed to DVG, Azur and Trinity in the BVI could be forwarded to it, if necessary. (ii) Richard did not in fact receive any mail related to or from DVG, Azur and/or Trinity whilst he resided at the reported address between January 2017 and 6 January 2019. (iii) Richard has never been a corporate secretary nor a director of DVG, Azur and Trinity.

<sup>91</sup> According to the Company’s responses from the maxwellisation, the Company maintains a system of internal policies including (but not limited to) the Investment Policy, which was first developed in 2014 and was part of the scope of work reviewed by the appointed internal auditor. The Company had commissioned an internal control review of certain Korean subsidiaries of the Group by Crowe Horwath in 2018. As part of the internal control review, Crowe Horwath reviewed the investment policy, of those subsidiaries, which was the same Korean investment policy for the Company at that point of time.

<sup>92</sup> According to the Company’s responses from the maxwellisation, the investment review committee members at the time of the respective Past Acquisitions were Kay, Suk Young, Richard and Eugene. Although the investment review committee did not approve the Past Acquisitions in writing, the investment review committee had discussed the Past Acquisitions and approved the same verbally. Further, certain members of the investment review committee who were the executive directors of SEGL approved the Past Acquisitions through the various BOD resolutions in writing.

S/No.	Rule	Potential Breaches
		<ol style="list-style-type: none"> <li>2. Procedures should be put in place for the maintenance of proper documentation of, among other things, the approvals of the IDMs, recording of minutes of meetings and directors’ resolutions.</li> <li>3. Procedures should include obtaining documents to confirm the identity of the UBO and conduct searches to the extent possible<sup>93</sup>.</li> <li>4. No board meetings held subsequent to the Meeting to discuss the performance of SMGL before the Second SPA to Fifth SPA.</li> </ol>

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<sup>93</sup> According to the Company’s responses from the maxwellisation, although there were no specific guidelines in the First Investment Policy which requires specific third party checks to be performed on the vendors, the Company obtained verbal confirmation from the Vendors that they were not interest persons. Had the Company conducted publicly available searches at the material times, the actual UBOs of these companies would not be revealed by these searches.

## 1.5 Conclusions and Recommendations

- 1.5.1 Based on our procedures performed, we are unable to conclude if the acquisition price of USD 3 per share by SEGL was reasonable due to the lack of a proper valuation being conducted on SMGL. However, given the acquisition price was much lower than the price references relied on by the BOD, the interests of SEGL and its minority shareholders may not have been prejudiced. In order to confirm this, the BOD ought to carry out a proper valuation of the SMGL shares to safeguard the interest of the Company’s shareholders<sup>94</sup>.
- 1.5.2 We also note the following concerns in relation to the circumstances surrounding the Past Acquisitions and provide our recommendations for the Company’s consideration:

**Table 1.12**

S/No.	Findings	Recommendations
1	The BOD did not discuss the Past Acquisitions at length either in the Meeting or any subsequent quarterly board meetings <sup>95</sup> .	For any major acquisition and disposal of the assets of the Company, the BOD should conduct robust and in-depth discussions prior to approving them. Those discussions should be minuted.
2	Some of the Sale and Purchase Agreements executed with the Vendors were undated.	Management should ensure all the executed Sale and Purchase Agreements are properly dated.
3	No background check on third party databases was conducted on the Vendors of the Past Acquisitions. By way of good corporate governance, Charles and Richard should have disclosed their relationships with DVG, Azur and Trinity to the BOD <sup>96</sup> and abstained from voting and approving the Past Acquisitions <sup>97</sup> .	Management conduct background check on the vendors through third party databases to identify potential conflicts of interest for each acquisition. The results should be maintained in the Company’s records and disclosed to the BOD for them to decide appropriate action, including if any further disclosure requirements are necessary.
4	Inadequate legal and financial DD <sup>98</sup> was conducted on the Vendors and SMGL, which was an associated company where SEGL has significant influence but no control despite having certain common key management.	Ensure the legal and financial DD procedures are objective and impartial for any investment opportunities by engaging independent third parties (or at least a party within SEGL who has no direct interest on the transactions) to conduct and document the outcomes. The BOD should be informed on the outcomes and findings of the DD and the discussions of which should be recorded at length in the minutes of the board meetings.

<sup>94</sup> According to Company’s responses from the maxwellisation, the Independent Directors and Kay do not agree with the stated view that the Company should not have relied on the price references without having conducted a proper valuation. These 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. The Independent Directors had no reason to question Management commercial view in respect of the Past Acquisitions and the value of the SMGL share accepted by the third party on commercial basis.

<sup>95</sup> According to the Company’s responses from the maxwellisation, the Independent Directors and Kay stated that there were direct discussions or in-depth discussion on the performance of SMGL during the Past board meetings, notwithstanding the board minutes did not record such discussions. In addition, Management prepared Executive Summary of SMGL which was updated annually and the ARMC/BOD materials presented to the BOD contains a line item “share of results of associates”. Further, the Independent Directors are of the view that as Kay was the CFO of SEGL as well as the director of SMGL, they trusted that Kay was aware of all the issues and performance of SMGL and relied on Kay to raise any issues and concerns pertaining to the Past Acquisitions at the Meeting or subsequent to the Meeting.

<sup>96</sup> These relationships do not fall under the definition of IPT as described in Catalist Rule 904 at the time when the transactions occurred.

<sup>97</sup> According to the Company’s responses from the maxwellisation, the Independent Directors are of the view that at the material time, the BOD was not presented with information that would have prompted the Independent Directors to require further due diligence. The Independent Directors, Jasmine and Siew Ling recalled that the question was raised during the Meeting on whether there was any “connected” party involved in the transactions and Charles confirmed that there wasn’t. This was recorded in the minutes of the Meeting. Richard did not have an interest in the Past Acquisitions – based on the confirmation letters from the BVI agent managing these BVI companies, Richard was never a corporate secretary nor a director of the Vendors (in particular, DVG, Azur and Trinity). Be that as it may, with the benefit of hindsight, the Independent Directors would encourage Management to adopt an attitude of disclosure of all facts and allow the BOD to determine the relevance or otherwise of such facts and then decide on the appropriate steps to be taken, assuming any are required. Leaving aside matters discovered post-transactions and assessing the transactions solely on their merits, the Independent Directors remain of the view that the transactions are beneficial to the Group.

<sup>98</sup> According to the Company’s responses from the maxwellisation, the Independent Directors and Kay are of the view that further analysis of the SMGL financials by an independent third-party valuation seems unnecessary given that SMGL is an associate/related company and Management had the requisite financial and operational information of SMGL to form its commercial view on the value of SMGL shares.

S/No.	Findings	Recommendations
5	The IDMs for the Past Acquisitions were prepared by the investment team, which consisted only of Kay. No written approvals from the investment review committee were sighted <sup>99</sup> .	The IDM should be signed and approved in writing by the investment review committee and the SPAs should be approved in writing by the CEO. Discussions on the assessment of any proposed acquisition with the investment review committee should be documented and circulated and approved by the investment review committee. The approved IDMs shall be circulated to the BOD before the execution of any acquisition.

1.5.3 In part, the above concerns may have arisen due to the Company’s Investment, Disposal and Share Issuance Policies and Procedures being too general and providing indirect descriptions of performance parameters to be met by proposed investments, share issuance or disposals. Our findings in this regard and associated recommendations for the Management and BOD to consider include:

**Table 1.13**

S/No.	Findings	Recommendations
1	The Investment Policy did not provide details on what information was required for IDM, DD report and what types of DD should be performed as well as whether independent third-party DD reports were required.	The Investment Policy to state clearly the information required to be presented in the IDM and the requirements for DD reports.
2	The Investment and Disposal Policies did not mention any checks that should be performed by the investment team to verify whether the investments/acquisitions involved any IPT.	The Investment and Disposal Policies to include an IPT requirement and cover acquisition/ disposal transactions where consideration is satisfied by shares or cash.
3	No record keeping procedures were required in the Investment, Disposal and Share Issuance Policies in relation to IPT checks required to be conducted.	The Investment, Disposal and Share Issuance Policies to include requirements for written confirmations to be obtained from vendors and checks on independent third-party databases to be performed to verify the information provided.
4	The Investment and Disposal Policy did not provide clear definition on steps/assessment procedures that should be carried out to ensure the Company adheres to Rules 1006, 1010, 1011 and 1014 of Chapter 10-Significant Transactions of the SGX Catalyst Rulebook.	Reference the applicable rules in Chapter 10 in the Investment and Disposal Policy and include steps that need to be taken to assess/determine if the acquisition/disposal transactions comply with the Catalyst Rules, considering the materiality of the transactions.
5	The information required, the procedure/ processes for assessment for disposal of assets and the approval process for decision making flow was not stated in the Disposal Policy.	Disposal Policy to include requirements such as background checks and the assessment of the financial standings of the potential buyers. It is also advisable to set a cut off value for disposal transactions to be reviewed by the committee.

<sup>99</sup> According to the Company’s responses from the maxwellisation, notwithstanding the absence of written approvals on the IDMs for the Past Acquisitions, the Independent Directors noted that the investment team consisted of only Kay, who prepared the IDMs, and hence the absence of written approval by the investment team on the IDMs is not material. Given that the members of the investment review committee and CEO were present at the Meeting to discuss and certain members of the investment review committee who were the executive directors of SEGL approved the Past Acquisitions, the absence of formal written approval by the investment review committee and the CEO was not material.

S/No.	Findings	Recommendations
6	As defined in the Investment Policy, the investment team should evaluate the quantitative and qualitative performance of SMGL on a yearly basis after the investment is completed. We have not been provided with any supporting documents evidencing that SEGL was monitoring the performance of SMGL after each of the acquisition <sup>100</sup> .	The investment team should adhere to the requirement set out in the Investment Policy to evaluate and monitor the performance of each investment and document such evaluation and monitoring.

- 1.5.4 The BOD should consider the potential breaches of Rule 1010(5) of Chapter 10 - Significant Transactions and Rule 719 (1) of Chapter 7 - Internal Controls and Risk Management Systems of the SGX Catalyst Rulebook and take such steps and legal advice as may be appropriate to safeguard the interests of SEGL.

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<sup>100</sup> According to the Company's responses from the maxwellisation, the Independent Directors and Kay stated that there were direct discussions or in-depth discussion on the performance of SMGL during the Past board meetings, notwithstanding the board minutes did not record such discussions. In addition, Management prepared Executive Summary of SMGL which was updated annually and the ARMC/BOD materials presented to the BOD contains a line item "share of results of associates". Further, the Independent Directors are of the view that as Kay was the CFO of SEGL as well as the director of SMGL, they trusted that Kay was aware of all the issues and performance of SMGL and relied on Kay to raise any issues and concerns pertaining to the Past Acquisitions at the Meeting or subsequent to the Meeting.

## 1.6 Disclaimer and Limitations

- 1.6.1 Our work has been limited by the time available within which to complete the tasks, the agreed scope of the engagement and nature of the information made available to us during the engagement. We are unable to verify the authenticity, correctness and integrity of any information provided to us.
- 1.6.2 Our work has been limited by access to information sources. In such circumstances, our ability to report adequately may be materially prejudiced and you should not rely on our work and our report as being comprehensive, as we may not become aware of all facts or information that may be regarded as relevant. Some of the documents we requested were given to us by Management as pdf soft copies and we could not verify the authenticity of these documents. We accept no responsibility for matters not covered by our report or omitted due to the limited nature of our review.
- 1.6.3 In carrying out the engagement, DTFAS has assumed that all information made available is complete and reliable for our purposes. We have relied upon the records and representations provided by SEGL up to 27 May 2022. In some cases, documentation was not made available to DTFAS for our consideration and inclusion in this document. Our observations may subject to change if additional information is provided at a later date after the issuance of this report. Any statements provided may result from the subjects' recollection and memory. DTFAS is not responsible for any inaccuracy thereof.
- 1.6.4 For the avoidance of doubt, our work has not included:
- (i) Any statutory audit on the information provided to us and we will not accept responsibility for the accuracy of the information provided to us.
  - (ii) An internal audit on the internal control system of SEGL and will not be assessing the adequacy and effectiveness of the internal control system.
  - (iii) The provision of legal advice on the legal implications/consequences.
  - (iv) Any representation or substitution of company management.
- 1.6.5 Our work or procedures performed may not have necessarily resulted in any conclusive findings and / or the uncovering of irregularities such as fraud or corrupt practices. We do not warrant as to the adequacy or sufficiency of the methodology or procedures to be employed.
- 1.6.6 The procedures performed do not and will not constitute an audit, review compilation or attestation services as described in the pronouncements on professional standards issued by the American Institute of Certified Public Accountants or any successor standards setting body nor an evaluation of SEGL's internal control systems or an evaluation of compliance with laws, regulations, or other matters.

### **Limitations of our background searches**

- 1.6.7 We have relied upon online court documents. These online court documents contain only interlocutory findings and no conclusive findings of fact after trial. As such, the findings and information in the online court documents must be viewed with caution and not taken as concrete proof of undisputed facts. Our observations, findings and conclusions in this Report may subject to change if conclusive findings of fact after trial of such information from the online court documents are subsequently made available.
- 1.6.8 In carrying out corporate intelligence into individuals or entities, we use our professional judgment to identify the online sources that are searched in our work, taking into consideration the requested scope and purpose of the scope, the location of the subjects, and budgetary and time considerations. While we have access to numerous potential data sources, we cannot possibly search all of them in the course of any one-research assignment. We caution that other professional services firms might reach different judgments about the databases to be searched or produce different findings. In addition, we note that online records can be incomplete or inaccurate, and that there may be considerable additional information which has either not been reported or is not available through online sources. Since coverage periods may vary depending upon any database provider, the type of information sought, and the source of the information, the possibility exists that the coverage provided by these databases will not yield the information sought. Accordingly, we assume no responsibility for the accuracy of the information obtained from online sources, nor do we guarantee that we have located all relevant information that might exist regarding a certain subject.
- 1.6.9 Save where indicated to the contrary, it should be assumed that information provided has been obtained from an outside source. Whilst we will endeavor, if requested, to provide you as far as possible with information on the type of source from which the information we gather has come, this may not be possible in all cases and we retain the right to refuse to identify any such source. We may not be in a position to test the accuracy or completeness of information from an outside source. The source which we use may itself not have direct information and may rely upon another party. We therefore accept no responsibility for, and do not warrant the accuracy or completeness of, any information, or any inference that you draw from that information. Save as specifically provided, we will not analyse the information received and provided to you.
- 1.6.10 Information is provided to you on the basis that the recipient will not rely upon it as the sole basis for any action or decision. Where necessary, should you so wish, you should seek to confirm our findings through an alternative source. You agree that we will not audit or otherwise test or verify the information given to us, in writing or orally, during the course of the Services.



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