

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SPACKMAN ENTERTAINMENT GROUP LIMITED

## Report on the Audit of the Financial Statements

### **Qualified Opinion**

We have audited the accompanying financial statements of Spackman Entertainment Group Limited (the "Company") and its subsidiaries (the "Group"), as set out on pages 81 to 155, which comprise the balance sheets of the Group and of the Company as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the financial year ended on that date.

### **Basis for Qualified Opinion**

On 18 August 2020, the Company announced that it has entered into a non-binding memorandum of understanding with its substantial shareholder, Spackman Equities Group Inc ("SQG") in relation to the sale of the Company's entire interest in Spackman Media Group Limited ("SMGL") to SQG (the "Proposed Divestment").

On 3 September 2020, Singapore Exchange Regulation ("SGX RegCo") issued a Notice of Compliance to the Company in view that the common directors (past and current) in the Company, SMGL and/or SQG raises concerns on whether the Company's acquisitions of interest in SMGL on 1 March 2017, 11 October 2017, 22 December 2017, 22 May 2018 and 6 August 2018 to purchase a total of 5,465,288 SMGL shares at USD3 each (the "Past Acquisitions") and the Proposed Divestment were entered into on normal commercial terms and in the interest of the Company and its shareholders. In addition, the disposal consideration for the Proposed Divestment is significantly lower as compared to the consideration paid by the Company for its Past Acquisitions. SGX RegCo directs that the following should be undertaken in the interest of shareholders:

- (i) The Company's Audit & Risk Management Committee ("ARMC") to:
  - (a) perform a holistic review on the Past Acquisitions, including but not limited to, background checks on the vendors and assessment of whether these transactions were entered into on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders (the "ARMC Review"); and
  - (b) provide SGX RegCo with details of past due diligence performed on the Past Acquisitions and the vendors; and
- (ii) The Company not to enter into a binding agreement in relation to the Proposed Divestment prior to completion of the ARMC Review, and SGX RegCo being satisfied with the findings of the review.

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## Report on the Audit of the Financial Statements (Continued)

### *Basis for Qualified Opinion* (Continued)

As at the date of this report, the ARMC Review is still ongoing. Consequently, we were unable to determine the potential financial impact, if any, to the Group in respect of the Past Acquisitions as recorded in the consolidated financial statements of the Group and whether any adjustments might be necessary in respect of the impairment loss on investment in SMGL of USD5,180,000 recorded in the consolidated profit or loss and other comprehensive income of the Group for the financial year ended 31 December 2020.

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2020, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Because of the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, we were unable to conclude whether or not the other information is materially misstated with respect to this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

#### **1. Impairment assessment on intangible assets**

As at 31 December 2020, the Group has goodwill, customer contracts, customer relationships and copyrights of USD5,713,489, USD9,430, USD553,511 and USD269,781 respectively. These intangible assets had been allocated to certain cash generating units ("CGUs") as disclosed in Note 12 to the financial statements.

The Group has performed an impairment assessment in accordance with SFRS(I) 1-36 *Impairment of Assets* to determine the value-in-use of the respective CGUs. This process requires estimating future cash flows based on management's view of future business prospects with consideration of the impact of COVID-19 on the future cash flows, and applying appropriate terminal growth rates and discount rates to the cash flow projections. Given the significant level of judgement and estimation involved, and the significance of the assets to the Group's consolidated financial position, we identified this to be a key audit matter.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SPACKMAN ENTERTAINMENT GROUP LIMITED

## Report on the Audit of the Financial Statements (Continued)

### Key Audit Matters (Continued)

#### 1. Impairment assessment on intangible assets (Continued)

The key assumptions and estimates used in the value-in-use calculation are disclosed in Note 3 and Note 12 to the financial statements.

##### *Our procedures to address the key audit matter*

We evaluated management's value-in-use calculations and the process by which they were developed. We assessed and challenged the key estimates applied in the value-in-use calculations by comparing the cash flow projections to the Group's historical data and performance, existing contracts and other relevant documents and published industry data. We reviewed the management's assessment on the existing and anticipated effects of COVID-19 on the impairment assessment. We also compared current year actual results to prior year forecast where relevant, to assess the reasonableness of the estimates made. We assessed the sensitivity of the key estimates on the impairment assessment, based on reasonably possible changes in the key estimates. We involved our internal valuation specialists in assessing the reasonableness of the discount rates used. We recomputed the comparison between the recoverable amounts based on value-in-use calculation and the carrying value of the CGU in which the intangible assets are attributable to.

We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

#### 2. Impairment assessment on investment in associated company, Spackman Media Group Limited ("SMGL")

As at 31 December 2020, the carrying amount of the Group's and the Company's investment in SMGL amount to USD14,785,834 and USD14,897,897 after recognising impairment loss of USD5,180,000 as disclosed in Note 17 to the financial statements. The Group had engaged an external valuation expert to assist in the value-in-use calculation of SMGL. The value-in-use calculation involves management's assumptions and forecast of future cash flow of the business with consideration of the impact of COVID-19 on the cash flow projections, and the appropriate terminal growth rates and discount rates applied to the cash flow projections.

We focus on this area due to the significance of the asset to the Group's and Company's balance sheets as well as the significant estimates and assumptions involved in management's determination of the value-in-use.

##### *Our procedures to address the key audit matter*

We assessed the competence, objectivity and capabilities of the external valuation expert engaged by the Group. We assessed and challenged the key estimates and assumptions applied in the value-in-use calculation by comparing the cash flow projection to historical data, existing contracts and published industry data. We reviewed management's assessment on the existing and anticipated effects of COVID-19 on the value-in-use calculation. We assessed the sensitivity of the key estimates on the impairment assessments, based on reasonably possible changes in the key estimates. We involved our internal valuation specialists in assessing the discount rate used. We recomputed the comparison between the recoverable amount based on value-in-use calculation and the carrying amount of the investment.

We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

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TO THE MEMBERS OF SPACKMAN ENTERTAINMENT GROUP LIMITED

## Report on the Audit of the Financial Statements (Continued)

### Key Audit Matters (Continued)

#### 3. Business combination

On 20 August 2019, the Company completed the acquisition of the entire issued and paid-up share capital of Simplex Films Limited and its subsidiary ("Simplex") for a total consideration of USD1,786,746 satisfied by the issuance of 165,000,000 new ordinary shares of the Company. During the financial year, the Group completed the purchase price allocation ("PPA") arising from the acquisition of Simplex and recognised final goodwill of USD1,881,939.

The Group's disclosure of the business combination accounting applied to the acquisition of Simplex is set out in Notes 3 and 16(c) to the financial statements.

We focused on this area because of the quantitative impact of the acquisition on the consolidated financial statements and that the PPA exercise, which involves the fair valuation of the consideration transferred, the identification of the acquired assets and liabilities and their respective fair values, requires the use of significant management judgement and estimates. Management has engaged an external valuation expert to assist them with the PPA exercise for the acquisition of Simplex.

#### *Our procedures to address the key audit matter*

We obtained an understanding of management's process related to the acquisition accounting. We reviewed the board memorandum and sales and purchase agreement and assessed the accounting treatment in accordance with SFRS(I) 3 *Business Combinations*.

We assessed the competence, objectivity and capabilities of the external valuation expert engaged by the Group and evaluated the reasonableness of their conclusions in relation to the key assumptions used. This included assessing the completeness of assets and liabilities identified, and the appropriateness of the fair value of the consideration transferred and the identifiable assets acquired and liabilities assumed. We involved our internal valuation specialist in evaluating the reasonableness of the key estimates used in the valuation.

We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

### **Responsibilities of Management and Directors for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SPACKMAN ENTERTAINMENT GROUP LIMITED

## Report on the Audit of the Financial Statements (Continued)

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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TO THE MEMBERS OF SPACKMAN ENTERTAINMENT GROUP LIMITED

## **Report on the Audit of the Financial Statements** (Continued)

### ***Auditor's Responsibilities for the Audit of the Financial Statements*** (Continued)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, except for the matter described in the *Basis for Qualified Opinion* section of our report, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Guo Shuqi.

Baker Tilly TFW LLP  
Public Accountants and  
Chartered Accountants  
Singapore

14 April 2021