

spackmanentertainmentgroup

SPACKMAN ENTERTAINMENT GROUP LIMITED

(Company Registration No.: 201401201N)

(Incorporated in the Republic of Singapore on 10 January 2014)

RESPONSE TO SGX QUERY ON THE PROPOSED DISPOSAL BY THE COMPANY'S SUBSIDIARIES OF THEIR ENTIRE SHAREHOLDING INTEREST IN ZIP CINEMA CO., LTD.

Unless otherwise defined, all capitalised terms used herein shall bear the meanings ascribed to them in the Company's announcement dated 14 September 2021.

The Board of Directors (the "Board") of Spackman Entertainment Group Limited (the "Company" and together with its subsidiaries, the "Group") would like to provide the following information in response to query from the Singapore Exchange Securities Trading Limited (the "SGX-ST") in respect of the Company's announcement dated 14 September 2021.

Query of the SGX-ST & Company's Response

1. In the Group's FY2020 annual report released on 15 Apr 2021, it was stated that "Zip Cinema has achieved notable critical and box office success" and films produced by Zip Cinema had recorded good ticket sales. It was also stated that films produced by Zip Cinema had achieved commercial success in the world amidst of the current on-going COVID-19 pandemic. Based on the FY2020's financial results, production of film was a significant revenue contributor amounting to 50% of Group's revenue. Please further elaborate on:
 - a. Board's consideration and rationale for the Proposed Disposal, and how this is in the best interest of the Company and its shareholders;

The Board is of the view that Zip Korea is only one of the film production subsidiaries of the Group and Zip Korea's revenue is derived mainly from theatrical sales. As consumers grow more accustomed to online viewing and social distancing, the film and drama sector will likely evolve towards distributing on Over-The-Top ("OTT") platforms to cater to the demands of consumers. It has become increasingly popular to watch film and drama on OTT platforms at the comfort of home as compared to going to the cinema. This change in market trend has led to a decline of the theatrical film business.

Accordingly, the Proposed Disposal provides the Group with the opportunity to expand its content production for OTT business by increasing the Group's capacity to invest in content development and to enter into partnerships with popular OTT platforms. This creates more opportunities for the Group to expand its content production for OTT business.

The Consideration of S\$19.8 million, which is higher than the Company's current market capitalization of S\$7.6 million, was arrived at after arms' length negotiations and on a willing buyer willing-seller basis, and is supported by the valuation conducted by Echon Accounting Corporation, Morison KSi Korea.

In line with the Group's intention to strategically diversify into the production and financing of US movies and to overhaul the overall direction of the Group's business, the Proposed Disposal will allow the Group to obtain the necessary funds to diversify into the US Hollywood film sector, which is potentially more profitable than Korean films due to a wider international audience base.

After taking into account the gain from the Proposed Disposal, the Group would be in an improved financial position and have higher liquidity to execute its business plan to focus more on content production for OTT business and the US Hollywood film sector.

- b. Does the Group intend to continue producing films? Are other subsidiaries of the Group also involved in film production? How will future film production (if any) be conducted?; and

Yes. The Group will continue to produce films and dramas via its film production subsidiaries, Studio Take Co. Ltd, Simplex Films Co. Ltd and Greenlight Co. Ltd.

- c. What will be the Group's focus and plans going forward?

Other than Korean film production, the Group's focus will be co-producing and financing US films and also be involved in content production for OTT business as mentioned above.

2. How was Kakao Entertainment Corp (the "**Purchaser**") introduced to the Company?

Zip Korea is well-known in the Korean entertainment sector and Kakao Entertainment approached Zip Korea directly on the negotiations of the Proposed Disposal as it has been expanding its content production business.

3. Please provide details on the valuer, Echon Accounting Corporation, Morison KSi Korea, including its experience and track record.

Established in 2001, Echon Account Corporation is registered as an independent member of Morison KSi and has a total of 153 professionals as of July 2021. They have experience and track record in the valuation work for listed entertainment-related companies in Korea such as CJ CGV, Longtu Korea Inc, JYP Entertainment Corp and Ein's M&M Co. Ltd.

4. The Valuation of Sale Shares as at 31 December 2020 is approximately KRW15.1 billion to KRW17.7 billion. Please explain:

- a. Does the above valuation include the office building (the "**Paju Office Building**") owned by Zip Korea?;

Yes.

- b. If so, what is the valuation on the Paju Office Building?; and

There is no separate stand-alone valuation on the Paju Office Building. The valuation of Zip Korea has taken into consideration the value of the Paju Office Building.

The Paju Office Building is used by Zip Korea for its operations and administrative work in film production and partially rented out.

Therefore, the valuation report has taken into consideration the rental income and the relevant operating revenue from film production arising from the use of the Paju Office Building.

- c. If not, will there be a separate valuation conducted on the Paju Office Building?

Please refer to the response in 4b above.

- 5. We note that the entry into a real property sale and purchase agreement ("**Property SPA**") with a prospective buyer with respect to the Paju Office Building is a part of Proposed Disposal.

- a. Please elaborate on who will be the counterparty to the Property SPA as the prospective buyer?;

The potential buyer is a publishing company which is a non-related third party to the Company and the Board.

- b. When is the property disposal expected to be completed?; and

The expected property disposal is expected to be completed around mid of November to end of December this year.

- c. Who will be entitled to the sales proceeds from the sale of the building? If it is the Purchaser, please elaborate on whether the Valuation conducted on the Sale Shares had taken into account the value of the Paju Office Building?

Zip Korea. Kakao Entertainment intended to sell the Paju Office Building to a third party, a publishing company, who would be using the building as a knowledge asset centre. Kakao Entertainment's intended purpose of the building is different from the Company's usage for Zip Korea to function as an office for film production and administrative work. The Company's original purpose of the building was taken into account in the valuation as answered in question 4b.

- 6. One of the conditions precedent to the Proposed Disposal is for Zip Korea to distribute to Zip Cinema (HK) Limited ("**Zip HK**") dividends amounting to KRW500 million (before tax).

- a. How was this dividend amount arrived at?; and

This amount was arrived after negotiation with Kakao Entertainment for the Company to partially settle intercompany balance between Zip Korea and other subsidiaries of the Company as commercial terms.

- b. Has Zip Korea been distributing dividends to Zip HK in the past? If so, please provide the details.

No, Zip Korea has not distributed any dividends to Zip HK in the past.

- 7. One of the conditions precedent to the Proposed Disposal is for the Seller to settle its existing intercompany debts to and receivables from Zip Korea. What are the amounts owing to and owing from Zip Korea?

Description	Approximate Amount Owing From Zip Korea (KRW)
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Related party loan payable to Spackman Entertainment Group Limited	223,000,000
Dividend to Zip Cinema (HK) Limited	500,000,000

Description	Approximate Amount Owing To Zip Korea (KRW)
Advance received payable by Studio Take Co., Ltd.	250,000,000
Related party loan payable by Spackman Entertainment Korea Inc.	871,000,000

8. Among the reasons for the Proposed Disposal, the Group intends to expand into other businesses, such as co-producing and financing US films. The Group has a pipeline of 4 potential US Hollywood projects.

- a. Does the Group have experience in the US film market?; and

Yes. As compared to Korean films, the production of US films is similar in business model except it is more flexible in terms of structure, which will provide the Group with the opportunity to leverage on its capability of delivering quality films on competitive budget to produce US Hollywood film productions, which appeal to a wider base of international audience.

The Group co-produced critically acclaimed Hollywood sci-fi action film *SNOWPIERCER* headlined by Chris Evans, Song Kang-ho, Tilda Swinton, Jamie Bell, Octavia Spencer, Go Ah-sung, John Hurt, and Ed Harris, and directed by Bong Joon-ho of Oscar-winning *PARASITE*.

The Group also invested in another US comedy drama film *WHEN I LIVE MY LIFE OVER AGAIN* starring Christopher Walken and Amber Heard, and directed by Robert Edwards.

- b. What would be the Group's role with respect to the US Hollywood projects?

The Group will secure the opportunity to participate in US Hollywood films through the development, co-production and financing of these projects.

9. What are the safeguards over the net proceeds from the Proposed Disposal amounting to approximately KRW18 billion?

The Group has a cash management policy in place which shall also apply to the net proceeds. The finance team will seek approval from the Audit & Risk Management Committee and the Board, as and when, there are significant utilisation of the net proceeds as guided by the Company's procedures set in the cash management policy.

The Company will announce, as and when, if there are significant utilisation, and reallocation of the uses of proceeds.

BY ORDER OF THE BOARD

Na Kyoungwon
Chief Operating Officer, President and Executive Officer
17 September 2021

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. (the "**Sponsor**"), for compliance with the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this announcement.

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

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