

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

RESPONSE TO SGX QUERY ON ENTRY INTO NON-BINDING MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED DIVESTMENT OF THE COMPANY'S SHARES IN SPACKMAN MEDIA GROUP LIMITED TO SPACKMAN EQUITIES GROUP INC ("PROPOSED DIVESTMENT")

Unless otherwise defined, all capitalised terms used herein shall bear the meanings ascribed to them in the Company's announcement dated 18 August 2020 in relation to the entry into the non-binding MOU for the Proposed Divestment.

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 18 August 2020 in relation to the entry into the non-binding MOU for the Proposed Divestment.

Query of the SGX-ST & Company's Response

1. What is Spackman Media Group's ("SMGL") latest financials (including PBT, NTA, NAV)?

Based on SMGL's latest audited financial statements for the financial year ended 31 December 2019 ("**FY2019**"),

SMGL's Loss Before Tax for FY2019 = USD 502,513
SMGL's NTA as at 31 December 2019 = USD 9,737,270
SMGL's NAV as at 31 December 2019 = USD 14,689,687

2. When the Company acquired stakes in SMGL, it had acquired at about US\$3 per share, which was at a significant premium to SMGL's NAV and NTA. It had represented that "The Purchase Consideration took into account the growth strategies of both the Company and SMGL, in the Group's objective to be a leading entertainment group in driving primary content creation and content production."

(i) In this regard, how was the Proposed Divestment Consideration of not less than S\$32,126,487 derived?

Even though the Company had previously acquired SMGL shares at approximately US\$3 per share in 2018, since then the value of SMGL shares has declined due to unexpected economic conditions which have affected SMGL, including the prolonged China ban on South Korean entertainment and the current COVID-19 situation.

Notwithstanding, the Parties, in arriving at the base consideration, had mutually agreed to take reference from the last transacted price of SMGL shares on January 2020 between independent third parties, which was equivalent to S\$2.30 per share and accordingly, the price per SMGL share in relation to the Proposed Divestment shall be no less than KRW 2,000 (equivalent to S\$2.30). Therefore, the Company's entire interest in the 13,968,038 common voting shares of SMGL is valued at no less than KRW 27,936,076,000 (equivalent to S\$32,126,487).

The Consideration shall be further negotiated and agreed upon between the Purchaser and the Company.

(ii) What had the Board considered to decide on the S\$2.30 per share?

For the avoidance of doubt, the S\$2.30 per SMGL share is the floor price which the Board had set, after taking into account the most recent significant transaction of SMGL shares as described above. The final consideration will be further negotiated and discussed at arm's length between both Parties before the Parties enter into a definitive agreement.

(iii) In view of the 30 September 2020 deadline, has the Company appointed a valuer and who? What is the expected completion date of the valuation, and would this have an impact on the final divestment consideration?

The Company will be appointing a competent independent valuer for the purpose of the Proposed Divestment in due course. In any case, the valuation will have to be completed prior to the despatch of the circular to the shareholders of the Company in relation to the Proposed Divestment.

The valuation may have an impact on the final divestment consideration depending on the outcome of the valuation and on-going discussions between both Parties.

Notwithstanding the above, the Company is mindful that the MOU is non-binding in nature and there is no certainty or assurance that a definitive agreement will be entered into, or that the Proposed Divestment will be completed.

3. If the Proposed Divestment proceeds, SQG will become a subsidiary of the Company.

(i) Why does SEGL board feel that the Proposed Divestment is in the interest of the Company?

Upon the completion of the Proposed Divestment, SQG, which is listed on the TSX Venture Exchange in Canada, will be a subsidiary of the Company. SQG's listing status in Canada and presence in North America is expected to create new opportunities for the Group, and will help the Group to diversify into the production and financing of US Hollywood movies, an initiative that the Group plans to unveil in the near future. In doing so, SQG will leverage on its network of film producers and directors to expand into the US film industry.

(ii) Whilst SQG will hold SMGL, what other business does SQG have?

SQG is an investment company that selectively invests into growth companies (both public equities and privately-held companies) that possess proprietary know-how or technologies.

Other than its current investments in the Company and SMGL (approximately 0.4% of the total issued shares of SMGL), SQG is planning to engage in the development, production and financing of US Hollywood film investments and expand the talent representation business into North America.

(iii) What is SQG's financial performance (including PBT, assets, liabilities, cash flow position)?

Based on SQG's latest audited financial statements for FY2019,

SQG's Loss Before Tax for FY2019 = CAD 1,480,119

SQG's Total Assets as at 31 December 2019 = CAD 2,744,011

SQG's Total Liabilities as at 31 December 2019 = CAD 660,075

SQG's Net Cash Position as at 31 December 2019 = CAD 95,342

(iv) What due diligence have been and will be conducted for SQG?

The Company intends to commence its due diligence (including but not limited to legal due diligence and financial due diligence) on SQG in due course.

- 4. When the Company invested in SMGL, it stated that "SMGL was earnings accretive and will contribute to the Group. The Company is optimistic of the future growth of SMGL and believes that SMGL will help unlock value for the Company's shareholders through its talent management business."**

What is the rationale for the Proposed Divestment, given that when SEGL acquired stakes in SMGL it had seen SMGL as a synergistic business which can contribute to the Company's financials? What has changed since then?

Based on the MOU, the Consideration for the Proposed Divestment shall be fully satisfied by newly issued common shares of SQG. Accordingly, following the completion of the Proposed Divestment, SQG is expected to become a subsidiary of the Company. By leveraging the listing status of SQG in Canada, the Group shall then be able to better position its strategy of penetrating into the North America market. The collaboration between the SQG and the Group includes capitalizing on SMGL's talent management platform and the Group's production capability to participate in the production and financing of quality US Hollywood movies.

As such, the Proposed Divestment would bring about more opportunities for the Group to shift its business model towards producing US Hollywood films while being able to continue to tap on the synergistic value of SMGL, which is collectively one of the one of the largest entertainment talent agencies in Korea in terms of the number of artists under management.

BY ORDER OF THE BOARD

Na Kyoungwon
Chief Operating Officer, President and Executive Director
21 August 2020

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, RHT Capital Pte. Ltd. ("**Sponsor**") for compliance with the Singapore Exchange Securities Trading Limited ("**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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