

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

RESPONSE TO QUERY FROM SGX-ST ON THE PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN SIMPLEX FILMS LIMITED (“PROPOSED ACQUISITION”)

Unless otherwise defined, all capitalised terms used herein shall bear the meanings ascribed to them in the Company's announcement dated 15 July 2019 in relation to the Proposed Acquisition.

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 15 July 2019 in relation to the Proposed Acquisition.

Query of the SGX-ST

- 1. Noted that the consideration amount of S\$3.3 million took into account the unaudited net profit before tax of approximately S\$83,743 for the period from 1 January 2019 to 31 May 2019. Why did the Company take into consideration the profit/loss for this period in arriving at the consideration amount? How about prior periods?**

Company's Response

The purchase consideration is based on the valuation report performed by BKR Seonjin Accounting Corp, which is based on the Target Company's two upcoming films, *JESTERS: THE GAME CHANGERS* (2019) and *A BOLT FROM THE BLUE*. Conservatively, the 5 future pipeline films of the Target Company were not factored in the valuation report when the Management negotiated with the shareholders of Simplex.

Given that Simplex is an unlisted and start-up company in Korea, it is not reasonable to look at the current P/E ratio as Simplex is an early stage production company whose performance has not factored in the upcoming two films and its other 5 future pipeline films namely, *IRREVOCABLE PROMISE*, *OUR SUPERSTAR K*, *HAPPY MURDER*, *GIRL CRUSH* and *TEMPTATION*.

The 5 months profit & loss of Simplex does not contribute to the valuation amount stated in the valuation report. It only relates to the production revenue from *JESTERS: THE GAME CHANGERS* (2019). This film is Simplex's maiden film following the Proposed Acquisition.

For the purchase consideration of Simplex, the Company did not solely rely on the historical 5 months profit & loss of Simplex which is a start-up firm – the Company considered the valuation report which was primarily based on Simplex's upcoming two films, *JESTERS: THE GAME CHANGERS* (2019) to be released in August 2019 and *A BOLT FROM THE BLUE*, which will begin production in 2019.

2. What is the Target Company's NTA and NAV? Did the Company take into account the NTA/NAV in arriving at the consideration amount?

Company's Response

The Target Company is at a net tangible loss position of approximately US\$200,000. The Management views this as a unique opportunity to secure Simplex's two films which the Management sees potential performance in.

The net tangible loss position is mainly due to borrowings, which is secured over the film based on Simplex upcoming film, *JESTERS: THE GAME CHANGERS* (2019). Simplex plans to settle most of the borrowings after the film is released. However, even if the performance of *JESTERS: THE GAME CHANGERS* (2019) does not perform well at the Korean box office, Simplex stands a very good chance to have its loan to be extended or to have its existing borrowings to be secured over the next film because of the financing support from the Industrial Bank of Korea for Korean SMEs.

After South Korea government toughened rules on loans to households to curb property speculation, competition is becoming fiercer among Korea's major banks in the SME lending market. Industrial Bank of Korea (IBK) is owned by the Government of the Republic of Korea and it has been supporting SMEs vigorously. As reported by the Korea Times, it has extended loans to SMEs over the same period (January 2019 v January 2018).

Loans to SMEs (Unit: trillion won)

	Jan. 2018	Jan. 2019
KB Kookmin	89.6	98.3
Shinhan	78.7	85.7
Woori	73.1	77.5
KEB Hana	71.1	77.5
IBK	142.2	151.8

Source: each bank

Source: http://www.koreatimes.co.kr/www/biz/2019/02/488_263512.html

3. Did the Company perform any valuation of the Target Company?

Company's Response

Yes, the Company engaged BKR Seonjin Accounting Corp to perform the valuation, which is based on Simplex's two upcoming films, *JESTERS: THE GAME CHANGERS* (2019) and *A BOLT FROM THE BLUE*.

The Board and Management are comfortable with valuation basis and factored risk applied in the valuation report. The Board and Management are satisfied with Simplex CEO Ms Lim's track record of Korean films and her awards & accolades in Korea. The WACC has incorporated additional risk premium of 5.59% in calculating the cost of equity of Simplex, which is an unlisted and a start-up company. This additional risk premium has reduced the equity value to KRW 3,275 million.

Conservatively, the 5 future pipeline films were not factored in the valuation report when the Management negotiated with the shareholders of Simplex. Simplex have 5 films under developments under their pipeline following *JESTERS: THE GAME CHANGERS* (2019) and *A BOLT FROM THE BLUE*.

However, as these 5 films are still developing scripts and confirming their casting, the Company views that it is pre-mature to estimate the performance of these 5 films until definite details are available. Therefore the Company relied on the valuation report of Simplex based on its upcoming two films, *JESTERS: THE GAME CHANGERS* (2019), which shall be released in Korea in August this year, and *A BOLT FROM THE BLUE*, which is set to commence production this year.

- 4. Are any of the relative figures for 1006 computation a negative figure? Please note that as per Catalist Rule 1007(1), if any of the relative figures is negative, there is a need to consult the Exchange.**

Company's Response

As disclosed in the announcement dated 15 July 2019, there were no 1006 negative figures.

- 5. Which are the other subsidiaries that are in the Group's film production business segment?**

Company's Response

Zip Cinema Co., Ltd. and Take Pictures Pte Ltd. All film production subsidiaries would be run separately but will share their business relationships and contacts to secure opportunities to enter into top quality film projects in terms of script, director and casting. As such, the Company views that the sharing of resources brings about higher business synergy and efficiency in the Group's film production business segment.

- 6. What is the background of BKR Seonjin Accounting Corp? What is its track record in valuation? In particular, valuation of film production company?**

Company's Response

BKR Seonjin Accounting Corp. is an independent member of BKR International which has a presence in over 500 offices and 80 countries.

According to an ACCA article "International Accounting Bulletin's 2018 survey of global accountancy networks and associations has found that the market share of the biggest firms continues to grow", BKR is ranked #10 in terms of Accountancy Associate By Fee Income based on the 2018 Survey By International Accounting Bulletin. Taken from the following reference: <https://www.accaglobal.com/in/en/member/member/accountingbusiness/2018/10/practice/top-global.html>

According to international accounting bulletin, BKR International is placed sixth in the 2018 World Survey for global associations, with \$1.4 billion in annual fees, up by 3% from last year.

The clientele of the valuation team of BKR Seonjin Accounting Corp is as follows:

Major Valuation Services

- Valuation for Intangible assets(goodwill) : CJ CGV, LONGTU KOREA, Ein's M&M, HEM Korea, etc.
- Valuation for operating division : GS Retail
- Valuation of equity : Mirae Asset Life Insurance, Hanaro Dream, Four Thirty Three, Automobile Industrial Ace, etc.

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Referring to the above, one of the major clients of the valuation team of BKR is CJ CGV (listed on KRX:Main Board) which is an entertainment giant and film distribution/content monopoly in South Korea. CJ CGV has expansive footprints in China, Indonesia, Myanmar, Turkey, Vietnam and the USA.

7. What valuation method was used?

Company's Response

The valuation is based on discounted cashflow of the Target for films to be released, namely, *JESTERS: THE GAME CHANGERS* (2019) and *A BOLT FROM THE BLUE*. The movie production plan by Simplex after 2020 is also provided to the valuer but only the abovementioned films are taken into consideration for valuation as it is difficult to estimate the specific cash flow for those production plans as the script and casting have yet to be confirmed.

8. The Target Company has no operations before 2019? If not, what were the profit/loss in prior periods?

Company's Response

As announced, the Target is an early stage production firm that was founded by CEO Ms Lim Ji-young ("**Ms Lim**") who is a veteran producer in Korea. Before 2019, during 2016 to 2018, Ms Lim was focusing on the development of Simplex's movie slates, which includes the two upcoming films *JESTERS: THE GAME CHANGERS* and *A BOLT FROM THE BLUE* and 5 future pipeline films. Before 2016, in 2014 and 2015, Ms Lim produced *MISS GRANNY (2014)* and started production for *FABRICATED CITY (2017)* in 2015 (supported by online public source). During 2014 and 2015, Ms Lim was already committed to these films at the pre-development stage which was prior to the Target's incorporation. Generally, in the film production sector, it takes time to make a film from its pre-development stage to development stage and then to post-production stage. Therefore, Ms. Lim only produced *FABRICATED CITY (2017)* and *MISS GRANNY (2014)* under her own name and not under Simplex.

9. The 5-month P&L relates to the production revenue from JESTERS: THE GAME CHANGERS (2019). This film will only be released in August. If so, why would there be production revenue already?

Company's Response

Consistent with the Company's business model since IPO, the production revenue is determined from the stage of completion of the film *JESTERS: THE GAME CHANGERS* (2019) by reference to the actual costs (comprises pre-production, production and post-production costs) is incurred up to the balance sheet date as a proportion of the total estimated costs for each contract which is an appropriate measure of progress towards complete satisfaction of the performance obligations under SFRS(I)15.

10. In the appointment announcement of Mr Ko as the CEO, we noted that he no longer held shares in the Company. What was his rationale for selling off the shares shortly after acquiring it as part of the consideration shares for the acquisition of Greenlight Content?

Company's Response

Based on the Company's understanding, his sale of the Company's shares prior to his appointment as CEO was due to his own personal reasons.

BY ORDER OF THE BOARD

John Ko

Chief Executive Officer

24 July 2019

*This announcement has been prepared by the Company and its contents have been reviewed by the 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 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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