

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

**RESPONSES TO QUESTIONS FROM THE
SECURITIES INVESTORS ASSOCIATION (SINGAPORE)**

The Board of Directors (the “**Board**”) of Spackman Entertainment Group Limited (the “**Company**”) wishes to announce its responses to the questions from the Securities Investors Association (Singapore) (“**SIAS**”) received on 18 April 2022. The questions from SIAS and the Company’s responses are as follows:

Q1. On 3 September 2020, the company received a notice of compliance from Singapore Exchange Regulation (SGX RegCo) relating to concerns that certain acquisitions carried out in the past and the proposed divestment may not have been entered into on normal commercial terms and may not be in the interest of the company and its shareholders.

The audit & risk management committee (ARMC) was to carry out a holistic review and to provide SGX RegCo with certain information while the company was not to enter into a binding agreement in relation to the proposed divestment.

In the last update posted by the company on 2 December 2021, the company was still in the process of maxwellisation and the relevant parties are “in the process of finalising their comments”. It added that it could not determine the completion date of the report.

- i. **Can the board, especially the ARMC, help shareholders understand the reasons for the delay?**

Company’s Response:

“Maxwellisation” is a process by which those subject to potential criticism are given an opportunity to make representations on an investigation’s findings before they are finalised. By giving individuals an opportunity to comment on the investigation findings, this provides due process and can have the effect of making the investigation findings more robust and credible.

As “Maxwellisation” involves giving several parties and opportunity to provide input on the investigation findings and the Independent Reviewer to consider these input, the independent review report will be completed after due process.

The ARMC and the Management had been actively discussing and following up with the working parties to be mindful of the timeline to ensure there was no delay for the Maxwellisation process and the preparation of the independent review report relating to the five share swaps.

ii. **How have the directors facilitated the independent reviewer?**

Company's Response:

The directors have extended full cooperation to the Independent Reviewer and ensured that the Company made available information and relevant documents and records within its possession and extended assistance to procure documents and records that belong to third parties to the extent possible. The directors have also facilitated interview requests identified by the Independent Reviewer as well as the "Maxwellisation" process. The directors also actively asked for periodic updates from the relevant working parties.

iii. It has been more than 1 year 7 months since the NOC and more than 4 months since the first draft was received. **Can the ARMC provide shareholders with an update?**

Company's Response:

The "Maxwellisation" process has completed following which the Company has received comments from various professional parties. The Company is in the midst of addressing those comments, and this might lead to additional or changes to the information in the independent review report.

iv. **With more than 4 months of maxwellisation and finalising comments, has there been sufficient progress made in the report that the ARMC can consider publishing a summary of the key findings?**

Company's Response:

Please see the response to question (iii) above.

Once the Company has addressed the comments from the various professional parties and the independent review report is finalised, the relevant findings will be announced.

v. **Has the ARMC considered a voluntary suspension of the trading of the company's shares in the interest of maintaining a fair, orderly and transparent market?**

Company's Response:

The ARMC is not aware of any reason why trading of the Company's shares should be voluntarily suspended.

Q2. The group has three business segments, namely Drama & film production, Talent management and Collaborative business. The group showcases its films, including upcoming films, on pages 3 to 8.

The group sold Zip Cinema to fund its further expansion into the development, production and financing of Korean dramas and the foray into US Hollywood movies.

- i. **What are the lessons gleaned from the successes of other Korean shows, such as *Squid Game*, and how has it shaped the group's strategy?**

Company's Response:

Recent success of other Korean shows, such as *SQUID GAME*, on OTT platforms underscores the popularity of Korean content not only in the US and Asia, but globally.

In view of the current trend, the Group is excited to embark on opportunities to capitalize on the burgeoning demand for Korean content and is proactively exploring new projects in the pipeline.

With signs of China's ban on Korean content softening, coupled with the burgeoning demand for Korean dramas and films across the world, the Group shall reinforce its strategy to continue to develop, produce and invest in top quality Korean content projects by leveraging on the resources and networks of its subsidiaries, such as Take Pictures, Simplex Films, Greenlight Content and Novus Mediacorp.

- ii. **The Korean star, Wi Ha-jun, is managed the group's associated company, Spackman Media Group Limited ("Spackman Media Group" or "SMGL"). What are the economic benefits, if any, for the group with the success of Wi Ha-jun in *Squid Game*?**

Company's Response:

The Group's associated company, Spackman Media Group, adopts a revenue sharing ratio model between the artist and itself, i.e. the acting, commercial films (including *SQUID Game*) and endorsement revenues of Wi Ha-jun are split and contribute to the revenue of Spackman Media Group. Increase in revenue from its talent management business contributes to the overall value of Spackman Media Group, in which the Group owns a 43.88% equity stake, and therefore, financially benefits the Group.

With the international success of its artists, Spackman Media Group leverages on its collective roster of artists to act as a platform that allow us access to, and in many cases "a first look" at production, investment and participation in a diverse array of quality content projects in film, drama, variety shows, and other entertainment content in Korea, and globally.

By leveraging on Spackman Media Group, this will provide economic opportunities for the Group to participate into top quality projects in content development, production and investment.

- iii. **Can management elaborate further on the operational and financial impact of the sale of Zip Cinema on the group?**

Company's Response:

Operational

The sale of Zip Cinema will provide the Group with the funds to expand further into the development, production and financing of Korean dramas and foray into US Hollywood movies, as well as to expand its opportunities to collaborate with Spackman Media Group to participate in new content productions for OTT platforms.

Financial

The sale of Zip Cinema was expected to bring about an increase in NTA and reduction in the loss per share, and a higher current ratio and liquidity.

The expected improvement on NTA per share would increase to US\$0.017 as compared to US\$0.012, and the loss per share would reduce to US\$0.708 as compared to US\$1.205 based on the Group's audited FY2020 results that were used for comparison during the sale of Zip Cinema as per announced.

- iv. Similarly, for the benefit of shareholders, can the board/management elaborate the financial impact of its shows/actors/actresses becoming a hit on over-the-top (OTT) platforms?**

Company's Response:

It is common knowledge in the Korean entertainment industry, that there are significant barriers to entry in accessing investment opportunities of the top-tier entertainment content projects that have high expectations of commercial success.

By leveraging on Spackman Media Group's platform of artists, the success of its artists globally on OTT platforms would bring about more opportunities for the Group to collaborate with Spackman Media Group to have access to and participate into the highest quality Korean content projects which would be expected to bring about financial and economic benefits to the Group.

- v. What is the basis of management's confidence that it can successfully co-produce and finance US/Hollywood films and drama series?**

Company's Response:

The Group has the relevant experience in the production and financing of US/Hollywood films.

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.

Previously, 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.

Q3. On 14 April 2022, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2021 following the finalisation of audit.

The announcement on the unaudited financial results for the financial year ended 31 December 2021 was first released via SGXNet on 28 February 2022. The announcement of material variance came more than 6 weeks after the company first

announced the unaudited financial statements.

Following the finalisation of audit, the company's profit after tax from continuing operation decreased from US\$2.02 million to US\$657,000 while revenue increased significantly from US\$3.18 million to US\$14.93 million.

The variances were as large as US\$11.8 million.

Reasons provided by the company for the variances include:

- Reclassification of US\$843,526 from long-term borrowings to short term borrowings as the debenture matures within next 12 months
- Recognition of higher share of loss (US\$107,182)
- Reclassification of gain from disposal of subsidiary from other income and gains to discontinued operation
- Reclassification of loan interest from finance cost to interest income

i. Is the group (including its officers) familiar with the Singapore Financial Reporting Standards (International)?

Company's Response:

Yes, the group is familiar with the Singapore Financial Reporting Standards (International).

ii. How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

Company's Response:

In the Group's latest Annual Report FY2021 published on 14 April 2022, it was stated:

"The Board has obtained assurance from Mr Ko Jihwan, CEO and Mr Lae Min Ryu, Group Financial Controller of the Company in respect of FY2021 that:

(i) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and

(ii) the Company's risk management and internal control systems are adequate and effective.

Other than the qualification which relates to the NOC, the Board has relied on the independent auditor's report as set out in this Annual Report as assurance that the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances. The Board has additionally relied on the IA report issued to the Company in February 2021 as assurance that the Company's risk management and internal control systems are adequate and effective." Therefore, the Board is of view that the Company's internal controls (including financial, operational, compliance and information technology controls) and risk management systems were adequate and effective for FY2021.

Furthermore, key management personnel regularly evaluates, monitors and reports to the ARMC on material risks and discussions were held between the ARMC and auditors in the absence of the key management personnel to review and address any potential concerns.

The ARMC will continue to monitor the adequacy and effectiveness of the internal controls and augment them with new controls implementation to ensure the internal controls remain relevant and adequate in the Group's ever-changing operational and business landscape.

- iii. Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

Company's Response:

Yes, the AC has evaluated that the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff.

- iv. What role did the AC play in the preparation of the financial statements? Was it adequate? What were the reasons debenture maturing within 12 months were (wrongly) classified as long-term borrowings?**

Company's Response:

Yes, it was adequate as the AC reviewed the unaudited financial statements that were prepared by the Group's finance team and reviewed by the auditors. There was the annual AC meeting to review the financial statements that were presented by the Group Financial Controller and findings of the internal auditor report were presented by the internal auditor. Subsequently, the audit of the financial statements was completed by Baker Tilly and the Group Finance Controller reported the material variances between the unaudited and audited financial statements accordingly to the AC.

The US\$11.8 million variance in the revenue is due to the reclassification of the disposed entity, Zip Cinema, financial results from discontinued operation to continuing operation.

Based on SFRS(I) 5, discontinued operation is a component of an entity that represents either a separate major line of business or a geographical area of operations.

Therefore, the financial results of Zip Cinema is part of the continuing operation in view that the Group continues the production of film business segment in the same geographical area via its other film production subsidiaries such as Studio Take Co. Ltd., Simplex Co. Ltd and Greenlight Co. Ltd.

The US\$0.8 million debenture maturing within 12 months for the Group's subsidiary, Novus Mediacorp, was classified as long-term borrowings because following the board meeting of Novus Mediacorp before the end of 2021, the intention was to extend the debenture as per its board meeting minutes, hence it was classified and recorded as non-current under the announcement of the unaudited full year financials of 2021.

However, following the subsequent board meeting of Novus Mediacorp after the end of 2021 and considering the change in business strategies, the board decided to withdraw the application for the extension of the debenture and changed to repayment without extension instead.

Based on the revised condition of the debenture, it had to be re-classified as short-term instead under the audited full year financials of 2021.

- v. **What changes have been made/will be made to the group's financial reporting systems and processes?**

Company's Response:

The AC will continue to monitor the adequacy and effectiveness of the Group's financial reporting systems and processes to ensure that the financial records have been properly maintained and the financial statements give true and fair view of the Group's operations and finances, and that the Group's risk management and internal control systems are also adequate and effective.

Q4. The company's cut-off for shareholders to submit the question is 5:00 pm on 18 April 2022. It is noted that 15 April 2022 is a public holiday in Singapore. Essentially, the company has only given shareholders a single working day to review the auditor's comments, the discrepancies between unaudited and audited accounts, the notice of meeting and the 161-page annual report before submitting their questions by the deadline.

- i. **Can the independent directors help shareholders understand the reasons for the early cut-off? Did the directors consider it reasonable to give such short notice?**

Company's Response:

Based on the AGM guidelines published by SGX online dated 16 December 2021, and as advised by our corporate secretary and sponsor, "All substantial and relevant questions received from shareholders prior to a general meeting, should be publicly addressed by the Board of Directors and/or management at least:-

(i) 48 hours prior to the closing date and time for the lodgement of the proxy forms, if the notice of general meeting is to be sent to shareholders at least 14 calendar days before the meeting; and

(ii) 72 hours prior to the closing date and time for the lodgement of the proxy forms, if the notice of general meeting is to be sent to shareholders at least 21 calendar days before the meeting."

In this case our lodgement of proxy forms for our AGM & EGM would be on the 27 April and at least 48 hours/72 hours prior which would be 23 or 24 April for the Company to publish its answers by shareholders.

In view of the above guidelines, the timeline was discussed and reviewed with the corporate secretary and sponsors to ensure compliance with SGX requirements.

No shareholders questions were received as of date of the cut-off date.

- ii. **Since this practice does not appear to be in line with SGX requirements and guidance, would the board be pushing back the cut-off to give shareholders the time to review the material?**

Company's Response:

Yes, even though the cut-off is on 18 April 2022, shareholders may still send their feedback and questions to info@spackmanentertainment.com.

iii. Would the board consider adding live Q&A and live voting features at the AGM?

Company's Response:

Yes, the Board will consider adding these features in the future, in line with SGX requirements.

By Order of the Board

Na Kyoungwon
Chief Operating Officer, President and Executive Director

28 April 2022

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 relevant rules of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the "SGX-ST").

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 correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Mah How Soon, Registered Professional, RHT Capital Pte. Ltd., 6 Raffles Quay #24-02, Singapore 048580, sponsor@rhtgoc.com