

spackmanentertainmentgroup

SPACKMAN ENTERTAINMENT GROUP LIMITED

(Company Registration No.: 201401201N)

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

UPDATE ON DISPOSAL OF 100% EQUITY INTEREST IN FRAME PICTURES CO., LTD.

1. INTRODUCTION

- 1.1. The Board of Directors (the “**Board**”) of Spackman Entertainment Group Limited (the “**Company**” or “**SEGL**”, and together with its subsidiaries and associates, the “**Group**”) refers to the announcements made on 23 December 2021 and 30 December 2021 in relation to disposal by the Company of 10,000 common voting shares in Frame Pictures Co., Ltd. (“**Frame Pictures**”), the announcement made on 15 November 2022 in relation to the Group’s third quarter results for the period ended 30 September 2022 and the announcements made on 28 February 2022 and 14 April 2022 in relation to the Group’s full year 2021 financial statements and the 2021 annual report (collectively, “**Announcements**”).
- 1.2. Unless otherwise defined, all capitalised terms used herein shall bear the same meaning as defined in the Announcements.

2. TRANSACTIONS BY FRAME PICTURES AND ITS CEO PRIOR TO THE PROPOSED DISPOSAL

- 2.1. As disclosed in the Announcements, the Proposed Disposal to the Purchaser was completed on 30 December 2021 in accordance with the terms and conditions of the SPA. Following the completion of the Proposed Disposal, Frame Pictures ceased to be a subsidiary of the Company.
- 2.2. The Board wishes to disclose to shareholders that prior to the completion of the Proposed Disposal, Frame Pictures acquired a property located at 218, Yeoksam-ro, Gangnam-gu, Seoul, Republic of Korea (the “**Property**”) for a consideration amount of KRW 21,992,038,696 (USD 18,560,249)* including the acquisition tax of KRW 992,038,696 (USD 837,234)*. The acquisition of the Property was funded by a bank loan obtained by Frame Pictures from Wooribank in the amount of KRW 17 billion (USD 14,347,202)* (“**Bank Loan**”), secured by a mortgage over the Property, and a personal loan in the amount of KRW 5,100,000,000 (USD 4,304,161)* extended by the Purchaser to Kim Jun-young, the Chief Executive Officer of Frame Pictures, who extended a loan for the same amount to Frame Pictures (“**Personal Loans**”). Based on a confirmation provided by Wooribank, the Company understands that the Property was valued at approximately KRW 20.4 billion.
- 2.3. The acquisition of the Property, the Bank Loan and the Personal Loans (collectively, the “**Transactions**”) were not reported by the Chief Executive Officer (“**CEO**”) of the Company, John Ko, to the Board and the Board remained unaware of the same until sometime in April 2022, after the Proposed Disposal was completed on 30 December 2021. Based on the Board’s inquiries, the Board understands from the Company’s CEO that he did not report the Transactions to the Board as he was of the view that there was no financial risk on the part of Frame Pictures and/or SEGL because the Purchaser assumed all financial risks and provided guarantee against any damages arising out of the acquisition of the Transactions.

3. CHRONOLOGY OF EVENTS SURROUNDING THE TRANSACTIONS

- 3.1. Based on inquiries carried out by the Board after the Board learnt of the Transactions in April 2022, the Board understands that Frame Pictures acquired the Property in connection with the disposal of Frame Pictures at the request of the Purchaser made during the negotiations for the disposal of Frame

* Exchange rate of USD/KRW: 1,184.90

Pictures. Negotiations in relation to the disposal of Frame Pictures and acquisition of the Property were led by the Company's CEO.

- 3.2. On behalf of the Company, the CEO of the Company entered into an agreement on 12 July 2021 with the Purchaser for the acquisition of the Property ("**Property Transaction Agreement**"). The Property Transaction Agreement provided, among other things, that the Purchaser assumed all responsibility for financing the acquisition of the Property, provided a guarantee in favour of Frame Pictures and the Company to pay for any damages arising out of the acquisition of the Property, and to acquire the Property at the acquisition price plus any direct or indirect costs incurred by Frame Pictures in connection with the acquisition of the Property in the event that the Company's disposal of Frame Pictures was unsuccessful.
- 3.3. On 16 July 2021, Frame Pictures entered into a sale and purchase agreement with Jaisung Republishing Co. Ltd for the purchase of the Property ("**Property SPA**"). On 16 July 2021, a separate loan agreement also was entered into between the Purchaser and Kim Jun-young ("**Mr. Kim**"), the CEO of Frame Pictures, for the Purchaser to loan Mr. Kim a sum of KRW5.1 billion. Mr. Kim then lent KRW5.1 billion to Frame Pictures. On 6 August 2021, Frame Pictures obtained the Bank Loan from Wooribank.

On 9 December 2021, Frame Pictures sent its financial statements as at 30 November 2021 ("**Nov 2021 FS**") to SEGL's accounting team on 9 December 2021.

The Nov 2021 FS was the first time that the Transactions were reported in Frame's financial statements. The Transactions were reported as follows:

(a) the value of the Property was recorded in the 'Property, plant and equipment' ("**PPE**"), which resulted in Frame's PPE increasing from US\$527,902 in the Q3FY2021 FS to US\$18,846,830 in the Nov 2021 FS;

(b) the KRW17 billion Loan from Wooribank in 'Borrowings' under 'Non-current liabilities', which resulted in Frame's 'Borrowings' increasing from US\$199,573 in the Q3FY2021 FS to US\$14,347,699 in the Nov 2021 FS; and

(c) the KRW5.1 billion Loan from Frame Pictures' CEO in 'Trade and other payables' under 'Current liabilities', which resulted in Frame's 'Trade and other payables' increasing from US\$1,086,362 in the Q3FY2021 FS to US\$6,164,913 in the Nov 2021 FS.

Notwithstanding the above, there was no material change to Frame Pictures' overall financial position, given that it remained in a net liability position of about US\$1.7 million before and after the Transactions.

The Group Financial Controller, Lae Min Ryu ("**Mr. Ryu**"), reviews the Group's management accounts and reports to the Executive Director, Chief Operating Officer & President, Na Kyoungwon ("**Mr. Na**").

Mr. Ryu became aware of the Transactions reflected in Nov 2021 FS and reported them to Mr. Na on 9 December 2021.

The Group's audited FY2021 financials reflected all PPE Transactions of the Property.

Disclosure in the Group's audited FY2021 financials:

The Group's audited FY2021 financials recorded the property loan value under PPE and loans related to the PPE in reference to Note 16 (c) Disposal of Subsidiaries Page 124 of Notes to The Financial Statements of the Annual Report FY2021. It was also recognized in the Group's balance sheet and cash flow when Frame Pictures was disposed under Page 83 and Page 86. Please refer to the Group's audited FY2021 financials in the Group's Annual Report FY2021.

Disclosure in the Group's unaudited FY2021 financials:

The Group's unaudited FY2021 financials disclosed the balance sheet of Zip Cinema Co., Ltd ("**Zip Cinema**") and Frame Pictures under section 7. Discontinued operations where a PPE of USD 18.9 million was recorded as at 31 December 2021. Please refer to Page 20 under the link to the announced unaudited FY2021 financials for the details on the balance sheet disclosure for the disposal of Zip Cinema and Frame Pictures on page 20.

- 3.4. The Property Transaction Agreement, Property SPA and the Transactions were not reported to the Board and the Board remained unaware of the same at the material time. The Board was only informed of this matter in or around April 2022.
- 3.5. Based on subsequent inquiries carried out by the Board and the Sponsor, the Board understands that the Company's CEO was of the view that the acquisition of the Property did not change the Company's risk profile at the time of the acquisition of the Property because there was no financial risk on the part of Frame Pictures and/or the Company for the reasons set out at paragraph 3.2 above.
- 3.6. When the Company's disposal of Frame Pictures was completed on 30 December 2021, the Property, the Bank Loan and the Personal Loans were de-recognised from the Group's accounts.

4. NO MATERIAL IMPACT ON THE GROUP

- 4.1. Based on information and documents made available to the Board, the Board is of the view that the Transactions have no material impact on the Company's consolidated financial statements in the financial year ended 31 December 2021 ("**FY2021**") and the Company's interim consolidated financial statements for the nine-months ended 30 September 2022, given that the financial impact arising from the Transactions attributed to the discontinued operations of Frame Pictures have been de-recognised from the Company's consolidated financial statements following the completion of the disposal of Frame Pictures on 30 December 2021. The Board is therefore of the view that no changes to the reported financial statements are required.
- 4.2. Based on the Board's investigations, the Board is also of the view that there are no material changes to the contents of the Company's announcements made on 23 December 2021 and 30 December 2021 in relation to the Company's disposal of Frame Pictures because the Transactions had no material impact on the results of Frame Pictures for the nine-months ended 30 September 2021 and FY2021.
- 4.3. The Company's external auditors, Baker Tilly TFW LLP, have also confirmed that the Transactions have no further impact on their audit opinion for the audit of the consolidated financial statements for FY2021.
- 4.4. The Company has also obtained confirmation from Korean lawyers, Law Firm Seopyeong, that the Transactions did not cause the Company to take on any legal or financial risks, and the Company did not appear to have suffered any loss arising out of the Transactions. According to the Korean lawyers, the Company was not a party to the agreements in connection with the acquisition of the Property and had no obligations or risks in respect of the said acquisition. Further, and pursuant to the agreements in connection with the acquisition of the Property, the Purchaser agreed to assume responsibility for all financing for the acquisition of the Property, and the Purchaser was also under an obligation to acquire the Property from Frame Pictures at the acquisition price plus any direct or indirect costs incurred by Frame Pictures in connection with the acquisition of the Property in the event that the Company's disposal of Frame Pictures was unsuccessful. The Korean lawyers also noted that the Purchaser and its CEO jointly guaranteed and are liable for financial damages incurred by the Company and Frame Pictures as a result of the acquisition of the Property. Accordingly, the Group did not appear to have suffered any loss arising out of the Transactions.

- 4.5. Further, there appears to be no material prejudice to the shareholders, given that (i) the Company's disposal of Frame Pictures had no material impact on the net tangible asset of the Company's shares (see the Company's announcement dated 23 December 2021); and (ii) the acquisition of the Property had no material impact on Frame Pictures' balance sheet or financial position (see the Company's announcement dated 23 December 2021).
- 4.6. The Board and the key management personnel of the Company (including the Company's CEO) have each further provided written confirmation to the Company that they had not received any direct or indirect benefits from acquisition of the Property. The Board is also not aware of any interested person transactions arising out of the Transactions.
- 4.7. The Board is of the opinion that the Group did not comply with rule 1015 of the Rules of Catalist, as the acquisition of the Property by Frame Pictures ought to be announced and approved by the Group's shareholders. However, the Company will not be seeking shareholders' ratification as such ratification would serve no practical purpose given that the Proposed Disposal was completed on 30 December 2021 and Frame Pictures is no longer a subsidiary of the Company. In any event and for the reasons set out above, the Transactions have no material impact on the Company's financial position and there appears to be no material prejudice to the Company's shareholders.

5. CORRECTIVE MEASURES TAKEN BY THE COMPANY

- 5.1. Based on the Board's investigations, the Transactions occurred without the requisite Board approvals primarily due to management override and disregard for internal controls and processes.
- 5.2. The Board has since taken disciplinary and corrective actions. This includes the issuance of a formal warning to the Company's CEO to ensure compliance with the Group's internal controls and the Company's CEO to be put under probation to seek Board approval for all corporate actions (including signing of cheques and approval of any payments) for a period of 1 year from 30 December 2021 (i.e. the date of completion of the Company's disposal of Frame Pictures). The Nominating Committee will, however, continue to monitor the Company's CEO's performance and assess his suitability to remain as CEO during the probationary period. The Board may vary the probationary period after the completion of the Nominating Committee's assessment of the CEO's performance at end-December 2022.
- 5.3. The Board and the Nominating Committee have decided to retain the Company's CEO as he continues to play a crucial role in the Group's upcoming development in the Korean film and drama sectors in light of his extensive industry network and expertise. Some of the film and drama projects which the Company's CEO has been working on have received international recognition and awards.
- 5.4. The Board has appointed two new independent directors as part of its endeavour to, among other things, refresh and enhance the independence of the Board and to improve the Board's capabilities and diversity. The Board will also be working closely with the Sponsor and the SGX-ST on strengthening the Group's internal controls.
- 5.5. In addition, the audit and risk management committee has recommended, and the Board has adopted the recommendation, to appoint new internal auditors of the Company. The Company is in the process of identifying new internal auditors and will work closely with the new internal auditors to review the Group's internal controls and processes to minimise the risk of management override in future and implement the recommendations, if any. The Company will update shareholders when the new internal auditors are appointed.
- 5.6. As for Mr. Kim, the Company is unable to take any disciplinary action against him as he is no longer part of the Group.
- 5.7. The Company will make further announcement(s) as may be necessary and appropriate.

Shareholders and potential investors of the Company are advised to read this announcement and any further announcement made by the Company carefully. Shareholders and potential investors of the Company are advised to refrain from taking any action with respect to their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. Shareholders and potential investors of the Company should consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

Na Kyoungwon
Chief Operating Officer, President and Executive Director

18 November 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.

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