

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

RESPONSE TO ADDITIONAL 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 additional 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. How has the Board assessed and is satisfied with the credentials and track record of the valuer and the valuation team?**

Company's Response

The major valuation services performed by the valuation team includes: -The valuation team provided the one-off valuation for intangible assets in terms of goodwill for CJ CGV Co., Ltd. ("**CJ CGV**"), which is an entertainment giant and film distribution/content monopoly in South Korea. The experience of the valuation team spans across a number of valuation services for other different businesses as well.

Additionally, the valuation team also conducted goodwill valuation of the movies which were invested by Ein's M & M Co., Ltd., a listed company in Korea.

The Board and Management have assessed and are satisfied with the credentials and track record of the valuer and the valuation team.

- 2. The valuation method is based on discounted cashflow for 2 films to be released based on the historical average admissions on box office in Korea by similar genre and casting power. Please provide details of which are the films with similar genre and casting power and what were their respective average box office admissions vis-à-vis what was adopted for the valuation.**

Company's Response

According to the valuation report, adopting *JESTERS: THE GAME CHANGERS* as an example, the details of the films with similar genre and casting power with their respective average box office admissions vis-à-vis what was adopted for the valuation are as follows:

2. Box office in Korea sorted by similar genre(Historical drama, 2014~2018)

Movie Title	Release date	Main actor /actress	Audiences	Movie Title	Release date	Main actor /actress	Audiences
<i>ROARING CURRENTS</i>	Jul-14	Minsik Choi	17,613,682	<i>THE TIGER</i>	Dec-15	Minsik Choi	1,762,742
<i>THE THRONE</i>	Sep-15	Kangho Song, Ain Yu	6,246,849	<i>RAMPANT</i>	Oct-18	Bin Hyun, Donggeon Jang	1,599,290
<i>THE LAST PRINCESS</i>	Aug-16	Hyejin Son, Haeil Park	5,593,551	<i>THE TREACHEROUS</i>	May-15	Jihun Joo	1,110,246
<i>THE GREAT BATTLE</i>	Sep-18	Inseong Cho	5,440,186	<i>THE MAP AGAINST THE WORLD</i>	Sep-16	Seungwon Cha	971,194
<i>KUNDO : AGE OF THE RAMPANT</i>	Jul-14	Jeongu Ha, Dongwon Kang	4,774,895	<i>THE ROYAL TAILOR</i>	Dec-14	Seokgyu Han, Su Koh	790,158
<i>DETECTIVE K: SECRET OF THE LOST ISLAND</i>	Feb-15	Myeongmin Kim	3,872,015	<i>LOVE, LIES</i>	Apr-16	Hyoju Han	485,083
<i>THE FATAL ENCOUNTER</i>	Apr-14	Bin Hyun	3,849,433	<i>EMPIRE OF LUST</i>	Mar-15	Hagyun Shin	465,492
<i>THE FOTRESS</i>	Oct-17	Byeongheon Lee	3,829,891	<i>MEMORIES OF THE SWORD</i>	Aug-15	Byeongheon Lee	431,310
<i>DETECTIVE K: SECRET OF THE LIVING DEAD</i>	Feb-18	Myeongmin Kim	2,424,330	<i>HEUNG-BOO: THE REVOLUTIONIST</i>	Feb-18	Woo Chung	416,303
<i>FENG SHUI</i>	Sep-18	Seungu Cho	2,087,474	<i>THE SOUND OF A FLOWER</i>	Nov-15	Seungryong Ryu	317,505
<i>SEONDAL</i>	Jul-16	Seungho Yoo	2,044,564	(Source: KOFIC, Korean Film Council)			

Based on the number of audiences of Korean movies (Genre: historical drama) released from 2014 to 2018, the average is used for estimation. (The main actors/ actresses are additional data for estimation)

	Average revenue (KRW in millions)	Average audiences	Revenue per audience (KRW)
Estimated revenue from theater	37,791	4,786,515	7,895

Based on the data from the Korean Film Council ("**KOFIC**"), which is a government agent entrusted to the Ministry of Culture, Sports and Tourism of the Republic of Korea, the valuation team, in carrying out valuation on the Target Company, were able to extract the relevant data according to film genre as shown as the above extraction of the valuation report. The English website of KOFIC is as follows: <http://www.koreanfilm.or.kr/eng/main/main.jsp>.

Based on the data analysis derived from KOFIC, with the example of *JESTERS: THE GAME CHANGERS*, the valuation team found that actors, genres, time of release, and competitive movies released at the same time are the factors that influenced the number of audiences. In most cases of valuation works, actors and genres are considered as the main factors and the valuation on the Target Company was conducted by the same approach. According to the survey by Maxmovie, whose primary business is in the movie ticket reservation & sales and provides analysis on box office statistics, it was analyzed that "What is the story of the movie?" (47.9%), "Who is the cast?" (21.3%), "What kind of movie is it?" (14.0%) were the main factors that have an impact on the viewers. The website of Maxmovie is as follows: <http://www.maxmovie.com/Company/Intro>.

In the case for *JESTERS: THE GAME CHANGERS*, the main actor of the Target Company's film *JESTERS: THE GAME CHANGERS*, Cho Jin-woong, has high reputation in the movies that he starred in, especially the movie called "*ROARING CURRENTS*" (which accumulated 17.6 million viewers in Korea). Other sub-main actors *JESTERS: THE GAME CHANGERS*, Son Hyun-joo and Park Hee-sun are high-rated actors in drama and film. Both Son Hyun-joo and Park Hee-sun have won the following accolades:

- Son Hyun-joo – Award of main actor at 2017 Moscow International Film Festival, an annual international film festival held in Moscow.
- Park Hee-sun – Award of sub-main actor – Movie at 2018 54th Baksang Art awards, a prestigious award ceremony which honors outstanding achievements in the South Korean entertainment industry and to garner public attention upon the best Korean films, TV and theatre.

3. Did BKR Seonjin Accounting Corp perform any valuation for the Company/Group previously?

Company's Response

No, it is the first time BKR performed valuation for the Company and/or the Group. The Board and Management assessed the cost, proposal and track record of the team which had the experience of goodwill valuation for a subsidiary of a listed entertainment giant in South Korea. After reviewing the proposals and cost from Crowe, BKR Seonjin and Grant Thornton, the Board and Management are of the opinion that BKR Seonjin is the most suitable and cost-effective in carrying out the valuation of the Target Company.

4. With regard to the negative NTA and the borrowings taken by the Target, this borrowing will then be borne by the Group/Company if the acquisition is completed? How much is the borrowings?

Company's Response

The total borrowings of KRW605 million comprises borrowing from the CEO Ms Lim Ji Young of KRW155 million and KRW450 million from third parties. In terms of priority of payment, bank will be first as it is secured borrowings with *JESTERS: THE GAME CHANGERS* as collateral, while the terms of borrowings from CEO are flexible and negotiable under unsecured borrowings.

For the KRW450 million borrowings, please refer to the details below:

Parties	Interest Per Annum	Details of Collateral	Amount (KRW)	Repayment Terms
IBK Bank	3.50%	Secured over the film <i>JESTERS: THE GAME CHANGERS</i> By Seoul Guarantee Insurance Co., Ltd.	450,000,000	The Management views that Simplex can extend the due date. Simplex plans to settle most of the borrowings after the film is released. 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.

The reason for the favourable chance for Simplex to extend its loan is as follows:

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 small- and medium-sized enterprises (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 shown by 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

5. The valuation of the 2 movies has adopted average audiences as 4,786,515 and revenue per audience as 7,896 KRW for the 2 movies being valued? Noted that this will place the movies as 5th out of the 21 similar genre films in the 'number of audiences' ranking. The average number was also significantly inflated by the audience number for one movie (17,613,682 audiences). Is it then appropriate and justifiable to use this average number for the valuation? Please provide the Board's assessment on the assumptions used for the valuation of the Target, including but not limited to the above-mentioned assumptions.

Company's Response

The valuation approach is consistent for valuations of the entertainment-related firms performed by the valuation team. Other than film genre, the valuation is also based on casting power; with actor Cho Jin-woong, starred in *ROARING CURRENTS*, *INTIMATE STRANGER*, *THE SPY GONE NORTH* and *BELIEVER* which has scored high viewership. The Group believes that with stronger casting power, there will be higher expectations and viewership from audiences.

In addition, the valuation also takes into consideration that the movie *JESTERS: THE GAME CHANGERS* is going to be released during the period of the Mid-Autumn Festival, one the biggest holiday seasons in South Korea.

The Board and Management is of the view that the estimation and assumptions is reasonable.

6. *A BOLT FROM THE BLUE*, is set to commence production this year. If production has not started, is it appropriate to include this in the valuation of the Target? Please provide the Board's assessment.

Company's Response

Even though *A BOLT FROM THE BLUE* has not started production, it is an upcoming significant project for the Target Company given that three of the key elements for crank- in (term used when filmmakers in Korea start to shoot a movie) have already been fulfilled & confirmed namely Script, Director and Main Casting. Therefore, the Board and the Management assessed that it is appropriate to include it in the valuation of the Target Company as a confirmed production project.

BY ORDER OF THE BOARD

John Ko

Chief Executive Officer

20 August 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.

The contact person for the Sponsor is:-

Name: Mr Mah How Soon, Registered Professional, RHT Capital Pte. Ltd.

Address: 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619

Tel: 6381 6757