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**LEYOU TECHNOLOGIES HOLDINGS LIMITED**  
**樂遊科技控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1089)**

**DISCLOSEABLE TRANSACTION**

**IN RELATION TO THE ACQUISITION OF 20% OF  
THE ISSUED SHARE  
CAPITAL OF CERTAIN AFFINITY AND THE ENTERING OF  
A GAME DEVELOPMENT AGREEMENT**

**THE TRANSACTIONS**

The Board is pleased to announce that on 15 October 2017, the Company and Certain Affinity have entered into: (i) the Sale and Purchase Agreement pursuant to which the Company has agreed to purchase, and Certain Affinity has agreed to sell, the Sale Shares at the total consideration of US\$10 million; and (ii) the Game Development Agreement pursuant to which Certain Affinity shall, under the direction of, and with input and cooperation from, the Company, develop and produce for the Company the Game based on certain intellectual property (namely, the TRANSFORMERS Property). Under the Game Development Agreement, the Company shall provide Certain Affinity with an interest-free loan facility of up to US\$15 million to pay for costs and expenses incurred in connection with the provision of the development services relating to the Game.

Certain Affinity is an independent video game development studio based on Austin, Texas of the United States of America known for creating innovative, high-quality action games.

## **LISTING RULE IMPLICATIONS**

Each of the acquisition of the Sale Shares and the provision of financial assistance (by way of grant of the Loan to Certain Affinity) constitutes a “transaction” of the Company for the purpose of Chapter 14 of the Listing Rules.

As one of the applicable percentage ratios in respect of these transactions, in aggregate, is more than 5% but less than 25%, the Transactions constitute a discloseable transaction of the Company under the Listing Rules and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## **THE TRANSACTIONS**

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## **THE SALE AND PURCHASE AGREEMENT**

**Date:** 15 October 2017

**Parties:** the Company, as the purchaser

Certain Affinity, as the issuer and seller

**Subject matter:**

Pursuant to the Sale and Purchase Agreement, the Company conditionally agreed to acquire, and Certain Affinity conditionally agreed to issue and sell, the Sale Shares (representing 20% of the issued share capital of Certain Affinity), subject to the terms and conditions set out therein.

The Sale Shares, being series A preferred stock of Certain Affinity, shall entitle the Company to have the same voting rights as common stock of Certain Affinity (on as converted basis) as well as preference on dividend payments, and payment out of capital in the event of liquidation, dissolution or winding up, of Certain Affinity.

**Consideration:**

The consideration for the Acquisition is US\$10,000,000, of which (i) US\$8,000,000 will be paid by the Company to Certain Affinity in cash prior to or upon Completion, and (ii) US\$2,000,000 will be paid by the Company to Certain Affinity through the conversion and cancellation of an agreement for future equity instrument issued to the Company by Certain Affinity on 18 August, 2017 under which the Company has paid a principal amount of US\$2,000,000 on 14 September 2017. The consideration shall be funded by general working capital of the Company, including net proceeds from the placing of Shares by the Company announced on 29 September 2017.

The total consideration for the Acquisition was determined on normal commercial terms and after arm's length negotiations between the Company and Certain Affinity with reference to (i) the historical financial performance of Certain Affinity; (ii) the product and content development capabilities and technical know-how of Certain Affinity in developing AAA video game content as well as its proven track record; (iii) the commercial potential and prospects of Certain Affinity; (iv) Certain Affinity's valuation in the prior round of equity financing; and (v) the reasons and benefits of the Transactions as stated under the section headed "Reasons for and benefits of the Transactions" in this announcement.

### **Conditions precedent:**

Completion is conditional upon the fulfilment or waiver of various conditions, including but not limited to:

- (i) all authorizations, approvals or permits of any governmental authority or regulatory body of the United States of America or of any state that are required in connection with the lawful issuance and sale, and the conversion and issuance, of the Sale Shares having been obtained;
- (ii) the entering into of a voting agreement (the “**Voting Agreement**”) among the Company, Certain Affinity and the stockholders of Certain Affinity;
- (iii) the entering into of the Game Development Agreement between the Company and Certain Affinity; and
- (iv) the representations and warranties given by the Company under the Sales and Purchase Agreement remaining true and accurate and not misleading.

### **Completion:**

Unless otherwise agreed between the Company and Certain Affinity, completion of Acquisition shall take place on 30 October 2017 (or at such later time as the Company and Certain Affinity may mutually agree in writing), at which time all the conditions precedent set forth in the Sale and Purchase Agreement must have been fulfilled or waived.

### **Option to acquire Certain Affinity**

Pursuant to the Voting Agreement, the stockholders of Certain Affinity (other than the Company) shall grant the Company an option (“**Option**”) to acquire all of the remaining stock of Certain Affinity not held by the Company based on agreed formula to determine Certain Affinity’s valuation, in any case not exceeding US\$150 million. Commencing on the date of Certain Affinity’s delivery of its financial statements for the year ending 31 December 2020 to the Company, and continuing for three calendar months thereafter, the Company shall have the right, but not the obligation, to exercise the Option by providing notice to Certain Affinity.

# THE GAME DEVELOPMENT AGREEMENT

**Date:** 15 October 2017

**Parties:** the Company

Certain Affinity

**Subject matter:**

Pursuant to the Game Development Agreement, Certain Affinity shall, under the direction of, and with input and cooperation from, the Company, *inter alia*, develop and produce for the Company the Game based on certain intellectual property (namely, the TRANSFORMERS Property) as well as provide related services to operate and maintain the game.

**Key terms:**

The principal terms of the Game Development Agreement are set forth below:

- (i) Certain Affinity shall, *inter alia*, provide designated personnel and contract sub-contractors, as necessary, to carry out development tasks relating to the Game. In developing the Game, Certain Affinity must comply with contents and rating requirements and development standards pursuant to the terms of the agreement. The Company shall have all creative approval rights with respect all aspects of the Game, including all versions and updates;
- (ii) the Company shall own all right, title and interest in and to the Game as well as results and proceeds of the game development services;
- (iii) the Company shall pay to Certain Affinity a portion of the net revenue from the exploitation of the Game; and

- (iv) the Company shall provide Certain Affinity with the Loan to pay for costs and expenses incurred in connection with the provision of game development services in accordance with prescribed schedule and as needed; such loan facility will be on a non-recourse basis which is solely recoupable from the share of the Company in revenues derived from exploitation of the Game.

The Company has paid Certain Affinity a consulting fee in the amount of US\$500,000 pursuant to a consulting agreement dated 18 August 2017.

## **INFORMATION ABOUT CERTAIN AFFINITY**

Certain Affinity was founded in 2006 and is an independent video game development studio based on Austin, Texas of the United States of America known for creating innovative, high-quality action games. Certain Affinity employs over 120 full-time employees and has worked on a number of notable products and games to the video gaming market (including development of original games, co-development of multiple Call of Duty and Halo games, co-development of DOOM, and development of extensive downloadable competitive and cooperative content for the Call of Duty and Halo franchises).

According to the financial statements of Certain Affinity prepared under accounting standards generally accepted in the United States of America, the following is a summary of the unaudited financial results and audited financial results of Certain Affinity for the two financial years ended 31 December 2015 and 2016, respectively:

	<b>For the financial year ended 31 December 2015</b>	<b>For the financial year ended 31 December 2016</b>
	(unaudited)	(audited)
	<i>(US\$)</i>	<i>(US\$)</i>
Profit before taxation	1,711,541	754,847
Profit after taxation	1,686,083	732,085
Net assets	8,342,804	8,182,214

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, each of Certain Affinity and its ultimate beneficial owner(s) and their respective associates is an Independent Third Party.

## **REASONS FOR AND BENEFIT OF THE TRANSACTIONS**

The Transactions are consistent with the growth strategy of the Company as it continues to look for potential opportunities to invest and increase its market share in the video gaming industry.

The Directors believe that, as a video game development studio with a proven track record in producing high-quality video games, Certain Affinity possesses the technical experience and capability to develop the Game successfully, which will in turn assist the Group to further diversify its video gaming portfolio and enhance its revenue streams.

The Directors believe that the Group will benefit from returns from equity investments in, as well as cooperation with, Certain Affinity as it is expected to not only continue their traditional “work for hire” business, but also to develop other high-end video games in addition to the Game. Further, equity investments into the Company will entitle the Company to various rights which will enable it to oversee the development work of the Game and determine whether to exercise the Option as well as help it gain more experience in the development of high-end online video games. The Acquisition will therefore generate synergy for the Group as it continues to grow its portfolio of profitable video gaming studios.

On the basis of the above, the Directors (including the independent non-executive Directors) are of the view that (i) the terms of the Sale and Purchase Agreement and the Game Development Agreement are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are in the interest of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Each of the acquisition of the Sale Shares and the provision of financial assistance (by way of grant of the Loan to Certain Affinity) constitutes a “transaction” of the Company for the purpose of Chapter 14 of the Listing Rules.

As one of the applicable percentage ratios in respect of these transactions, in aggregate, is more than 5% but less than 25%, the Transactions constitute a discloseable transaction of the Company under the Listing Rules and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## DEFINITIONS

The following terms have the following meanings when used in this announcement, unless the context requires otherwise:

“Acquisition”	the acquisition of the Sale Shares by the Company pursuant to the Sale and Purchase Agreement
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Certain Affinity”	Certain Affinity, LLC, a limited liability company organized under the laws of the State of Texas, the United States of America, and a developer of licensed games (including associated computer software product and add-ons)
“Company”	Leyou Technologies Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 1089)
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Game”	a third person shooting game based on certain intellectual property, including the TRANSFORMERS Property
“Game Development”	the development and production of the Game

“Game Development Agreement”	the game development agreement dated 15 October 2017 entered into between the Company and Certain Affinity in relation to the Game Development
“Group”	collectively the Company and its subsidiaries
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Loan”	an interest-free loan facility of up to US\$15,000,000 to be provided by the Company to Certain Affinity pursuant to the terms of the Game Development Agreement
“percentage ratios”	has the meaning ascribed to it under Chapter 14 of the Listing Rules
“Sale and Purchase Agreement”	the series A preferred stock purchase agreement dated 15 October 2017 entered into between the Company and Certain Affinity in relation to the Acquisition
“Sale Shares”	the aggregate of 892,485 Target Shares of Certain Affinity, representing 20% of the issued share capital of Certain Affinity as at Completion
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Share(s)”	series A preferred stock of par value US\$0.00001 each in the share capital of Certain Affinity
“Transactions”	collectively the Acquisition and the Game Development Agreement

“TRANSFORMERS Property”	the TRANSFORMERS property, including associated logos, copyrights, and characters and their respective likenesses (as portrayed in products sold during the period beginning 1984 and ending 1995 sometimes referred to as “TRANSFORMERS GENERATION I” and which may also include iconography and various stylized iterations of the same created such as TRANSFORMERS GENERATIONS launched in 2010 and relaunched in 2012
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

By order of the Board of  
**Leyou Technologies Holdings Limited**  
**Xu Yiran**  
*Chairman and Chief Executive Director*

Hong Kong, 16 October 2017

*As at the date of this announcement, the Board comprises Mr. Xu Yiran (Chairman and Chief Executive Officer), Mr. Gu Zhenghao and Mr. Cao Bo as executive Directors, Mr. Eric Todd, Mr. Li Zhigang and Mr. Cheng Chi Ming Brian as non-executive Directors, and Mr. Hu Chung Ming; Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit as independent non-executive Directors.*