
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Scheme Document, the Proposal or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Leyou Technologies Holdings Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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LE YOU

IMAGE FRAME INVESTMENT (HK) LIMITED LEYOU TECHNOLOGIES HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability) 樂遊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1089)

(1) PROPOSED TAKE PRIVATE OF LEYOU TECHNOLOGIES HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND (2) PROPOSED WITHDRAWAL OF LISTING OF LEYOU TECHNOLOGIES HOLDINGS LIMITED

Financial Adviser to the Offeror

BofA SECURITIES

Financial Adviser to the Company

MOELIS & COMPANY

Independent Financial Adviser to the Independent Board Committee



Optima Capital Limited

Unless the context requires otherwise, capitalized terms used in this Scheme Document are defined under Part I – Definitions of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Disinterested Shareholders and the Optionholders in connection with the Proposal is set out in Part V of this Scheme Document. A letter from the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in connection with the Proposal, is set out in Part VI of this Scheme Document. An Explanatory Memorandum regarding the Proposal is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders and the Optionholders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting to be held at 10 a.m. on Friday, 11 December 2020 and the EGM to be held at 11 a.m. on Friday, 11 December 2020 (or in the case of the EGM, immediately after the conclusion or the adjournment of the Court Meeting) are set out in Appendix VI and Appendix VII to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under Part II – Actions to be Taken of this Scheme Document. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is jointly issued by Image Frame Investment (HK) Limited and Leyou Technologies Holdings Limited.

The English language texts of this Scheme Document, the Option Offer Letter and the Forms of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

11 November 2020

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NOTICE TO U.S. HOLDERS OF SCHEME SHARES AND OPTIONS

The Proposal is being made to cancel the securities of a Cayman Islands company by means of a scheme of arrangement provided for under the Companies Law. The financial information included in this Scheme Document has been prepared in accordance with Hong Kong Financial Reporting Standards and thus may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the U.S..

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the U.S. Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the disclosure requirements and practices applicable in the Cayman Islands and Hong Kong to schemes of arrangement which differ from the disclosure requirements of the U.S. tender offer rules.

The receipt of cash pursuant to the Proposal by a U.S. holder of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme or by a U.S. Optionholder as consideration for the cancellation of its Options pursuant to the Option Offer may be a taxable transaction for U.S. federal income tax purposes and under applicable U.S. state and local, as well as foreign and other tax laws. Each holder of Scheme Shares or Options is urged to consult his/her/its independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him/her/it.

It may be difficult for U.S. holders of Scheme Shares and Options to enforce their rights and claims arising out of the U.S. federal securities laws, since the Offeror and the Company are located in a country other than the U.S., and some or all of their officers and directors may be residents of a country other than the U.S.. U.S. holders of Scheme Shares and Options may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, it may be difficult to compel a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgement.

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PRECAUTIONARY MEASURES FOR THE COURT MEETING AND THE EGM

In view of the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Court Meeting and the EGM to protect Shareholders from the risk of infection:

- (a) compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
- (b) every attending Shareholder or proxy is required to wear a surgical mask throughout the Court Meeting and the EGM; and
- (c) no refreshments will be served at the Court Meeting and/or the EGM.

Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to any Hong Kong Government prescribed quarantine in relation to COVID-19, that they may appoint any person or the Chairman of the Court Meeting and/or the EGM as a proxy to attend and vote on any of the resolutions, instead of attending the Court Meeting and/or the EGM in person. Physical attendance by a Shareholder is not necessary for the purpose of exercising their voting rights.

The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong Government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the Court Meeting and/or the EGM.

In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:

“acting in concert”	has the meaning given to it under the Takeovers Code and “concert party” or “concert parties” shall be construed accordingly
“Alpha Frontier”	Alpha Frontier Limited, an exempted company incorporated in the Cayman Islands with limited liability, which wholly-owns LaGuardia
“Alpha Frontier Irrevocable Undertaking”	the irrevocable undertaking given by LaGuardia (as the covenantor) and Alpha Frontier (as LaGuardia’s covenantor) dated 27 August 2020 in favour of the Offeror in connection with the Proposal, details of which are set out in the section headed “6. Irrevocable Undertakings – (b) Alpha Frontier Irrevocable Undertaking” in Part VII – Explanatory Memorandum of this Scheme Document
“Announcement”	the announcement jointly issued by the Offeror and the Company dated 27 August 2020 in relation to, among other things, the Proposal
“associates”	has the meaning given to it under the Takeovers Code
“Authorisations”	any license, permit, consent, authorization, permission, clearance or approval of any Governmental Authority or any other person
“Beneficial Owner(s)”	any beneficial owner(s) of the Shares
“Board”	the board of Directors from time to time
“BofA Securities”	Merrill Lynch (Asia Pacific) Limited, a licensed corporation under the SFO, registered to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO, financial adviser to the Offeror
“Business Day”	a day on which the Stock Exchange is open for the transaction of business

“Cancellation Price”	the cancellation price of HK\$3.3219 for every Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant, including an Investor Participant
“Certain Affinity”	Certain Affinity, Inc., a company incorporated under the laws of Delaware, U.S., in which the Company holds a 20% equity interest as at the Latest Practicable Date
“Committed Optionholders”	Mr. Li Yang, Mr. Xu Yiran and Mr. Gu Zhenghao
“Committed Options”	an aggregate of 71,243,600 Options held by the Committed Optionholders and in respect of which the Committed Optionholders have irrevocably undertaken, among other things, to accept the Option Offer pursuant to the Li Irrevocable Undertaking and the Director Irrevocable Undertaking
“Committed Shareholders”	Port New, Novel New, LaGuardia and Mr. Li Yang
“Committed Shares”	in respect of any of the Committed Shareholders, (a) the Shares it or any of its affiliates is interested in as at the date of the relevant Irrevocable Undertaking, (b) any other Shares which it or any of its affiliates may acquire on or after the date of the relevant Irrevocable Undertaking (having obtained the prior written consent of the Offeror for such acquisition), and (c) any other Shares attributable to or derived from the Shares referred to in (a) and (b)
“Companies Law”	the Cayman Islands Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised)
“Company”	Leyou Technologies Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1089)

“Condition(s)”	the condition(s) of the Proposal, details of which are set out in the section headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document
“Controlling Shareholder Irrevocable Undertaking”	the irrevocable undertaking given by each of Port New and Novel New (as the covenantors) and Mr. Yuk (as the covenantors’ guarantor) dated 27 August 2020 in favour of the Offeror in connection with the Proposal, details of which are set out in the section headed “6. Irrevocable Undertakings – (a) Controlling Shareholder Irrevocable Undertaking” in Part VII – Explanatory Memorandum of this Scheme Document
“Court Meeting”	a meeting of the Shareholders to be convened at the direction of the Grand Court at 10 a.m. on Friday, 11 December 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong, at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof. Only the Disinterested Shareholders can vote at the Court Meeting due to the restrictions under the Takeovers Code
“Court Orders”	the orders of the Grand Court sanctioning the Scheme and confirming the reduction of the issued share capital of the Company as required by the Companies Law
“Digital Extremes”	Digital Extremes Ltd., a company incorporated under the laws of Ontario, Canada with limited liability, which is principally engaged in development of video games and which is owned as to 97% by Multi Dynamic Games Group Inc., an indirect wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Director Irrevocable Undertakings”	the irrevocable undertaking given by each of Mr. Xu Yiran (an executive Director, the Chairman and Chief Executive Officer of the Company) and Mr. Gu Zhenghao (an executive Director) dated 27 August 2020 in favour of the Offeror in connection with the Proposal, details of which are set out in the section headed “6. Irrevocable Undertakings – (d) Director Irrevocable Undertakings” in Part VII – Explanatory Memorandum of this Scheme Document

“Disinterested Shareholder(s)”	the Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date other than the Offeror and persons acting in concert with it
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the court order of the Grand Court sanctioning the Scheme and confirming the reduction of issued share capital resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Monday, 21 December 2020 (Cayman Islands time)
“EGM”	the extraordinary general meeting of the Shareholders to be duly convened and held at 11 a.m. on Friday, 11 December 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong in accordance with the Company’s articles of association to consider and vote on, among other things, the necessary resolutions for the implementation of the Proposal
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate for the time being of the Executive Director
“Form(s) of Acceptance”	the form(s) of acceptance and cancellation in respect of the Option Offer accompanying this Scheme Document despatched to Optionholders in connection with the Option Offer
“Governmental Authority”	any government of any national or any federation, province or state or any other political subdivision thereof, any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of any country, or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organisation

“Governmental Order”	any applicable order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction or other similar determination or finding by, before or under the supervision of any Governmental Authority
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Implementation Undertaking”	the undertaking given by the Company in favour of the Offeror on 27 August 2020 pursuant to which, among other things, the Company irrevocably undertook to put forward the Scheme to the Scheme Shareholders on the terms set out therein
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Eric Todd, Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, being all of the non-executive Directors, formed for the purpose of advising the Disinterested Shareholders in respect of the Proposal
“Independent Financial Adviser”	Optima Capital Limited, a licensed corporation under the SFO, registered to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Irrevocable Undertakings”	the Controlling Shareholder Irrevocable Undertaking, the Alpha Frontier Irrevocable Undertaking, the Li Irrevocable Undertaking and the Director Irrevocable Undertakings
“Kingston”	Kingston Finance Limited

“Kingston Share Charge”	certain charge or security interest dated 27 December 2018 over all of the 1,539,894,522 Shares owned by Port New, representing approximately 49.91% of the issued share capital of the Company, by and between Port New and Kingston
“LaGuardia”	LaGuardia Venture Limited, a company incorporated in the British Virgin Islands, which directly and beneficially holds 518,700,000 Shares, representing approximately 16.81% of the issued share capital of the Company, and is wholly-owned by Alpha Frontier
“Last Trading Day”	25 August 2020, being the last trading day of the Shares prior to their suspension in trading on the Stock Exchange pending the publication of the Announcement
“Latest Option Exercise Date”	Thursday, 17 December 2020, being the latest time for Optionholders to lodge notices of exercise (accompanied by full payment of the exercise price) of their Options in order to qualify for entitlements under the Scheme
“Latest Practicable Date”	6 November 2020, being the latest practicable date for ascertaining certain information contained in this Scheme Document
“Law” or “Laws”	any and all provisions of any applicable constitution, treaty, statute, law, regulation, ordinance, code, rule or rule of common law, any governmental approval, concession, grant, franchise, license, agreement, directive, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, in each case as amended, and any and all applicable Governmental Orders
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

“Li Irrevocable Undertaking”	the irrevocable undertaking given by Mr. Li Yang dated 27 August 2020 in favour of the Offeror in connection with the Proposal, details of which are set out in the section headed “6. Irrevocable Undertakings – (c) Li Irrevocable Undertaking” in Part VII – Explanatory Memorandum of this Scheme Document
“Long Stop Date”	31 December 2020
“Meeting Record Date”	Friday, 11 December 2020, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of holders of Shares to attend and vote at the Court Meeting and the EGM
“Moelis”	Moelis & Company Asia Limited, a licensed corporation under the SFO, licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Company
“Mr. Yuk”	Mr. Yuk Kwok Cheung Charles, a controlling shareholder of the Company
“Novel New”	Novel New Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Yuk
“Offeror”	Image Frame Investment (HK) Limited, a private company limited by shares incorporated under the laws of Hong Kong and wholly-owned by Tencent Holdings
“Offer Period”	the period commencing on 20 September 2019, being the date of the Rule 3.7 Announcement, and ending on the Effective Date, which is expected to be Monday, 21 December 2020 (Cayman Islands time), or the date on which the Scheme is withdrawn or lapses in accordance with its terms and the Takeovers Code (whichever is earlier)
“Option(s)”	outstanding option(s) granted by the Company under the Share Option Scheme from time to time
“Optionholder(s)”	the holder(s) of the Options

“Option Offer”	the cash offer made by or on behalf of the Offeror to the Optionholders for the cancellation of all outstanding Options in accordance with the Takeovers Code
“Option Offer Letter”	the letter dated 11 November 2020 setting out the terms and conditions of the Option Offer sent separately to the Optionholders and substantially in the form set out in Appendix VIII to this Scheme Document
“Option Offer Price(s)”	the respective offer price(s) for cancellation of each outstanding Option as stated under the section headed “3. Terms of the Proposal – The Option Offer” in Part VII – Explanatory Memorandum of this Scheme Document
“Option Record Date”	Tuesday, 5 January 2021, or such other date as shall have been announced to the Optionholders, being the latest time for Optionholders to accept the Option Offer
“Port New”	Port New Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Yuk
“PRC”	the People’s Republic of China, which, for the purpose of this Scheme Document only, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposal”	the proposed taking private of the Company by the Offeror by way of the Scheme, the implementation of the Option Offer, the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares and the withdrawal of the listing of the Shares from the Stock Exchange, in each case, on the terms and subject to the Conditions set out in this Scheme Document
“Put Option”	the put option pursuant to which Alpha Frontier has the right to sell to Port New the 518,700,000 Shares owned by LaGuardia pursuant to the agreement between Port New and Alpha Frontier dated 8 November 2018 (as supplemented from time to time)

“Registered Owner”	any owner of Shares (including without limitation a nominee, trustee, depositary or any other authorized custodian or third party) entered in the register of members of the Company
“Registrar of Companies”	the Registrar of Companies in the Cayman Islands
“Relevant Period”	the period commencing 20 March 2019, being the date falling six months before 20 September 2019, being the date of the Rule 3.7 Announcement, up to and including the Latest Practicable Date
“Rule 3.7 Announcement”	the first announcement dated 20 September 2019 issued by the Company pursuant to, amongst others, Rule 3.7 of the Takeovers Code relating to a possible transaction involving the acquisition of interests in the Company
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law set out in Appendix V – Scheme of Arrangement to this Scheme Document, with or subject to any modification, addition or condition as may be approved or imposed by the Grand Court and agreed to by the Offeror, involving the cancellation of all the Scheme Shares and the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it as may be amended or supplemented from time to time
“Scheme Record Date”	Monday, 21 December 2020, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining entitlements of the Scheme Shareholders under the Scheme
“Scheme Share(s)”	Share(s) held by the Scheme Shareholders
“Scheme Shareholder(s)”	the Shareholder(s) as at the Scheme Record Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Share(s)
“Share Option Scheme”	the share option scheme adopted by the Company on 25 August 2017
“Southbound Investors”	investors who hold the shares of Hong Kong listed companies through China Securities Depository and Clearing Corporation Limited under the Shenzhen-Hong Kong Stock Connect platforms of the Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning given to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as revised from time to time)
“Tencent Holdings”	Tencent Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700)
“U.S.”	the United States of America
“US\$”	the lawful currency of the United States of America

“VIE Agreements”	collectively, (i) the exclusive management consulting and business cooperation agreement (獨家管理顧問及業務合作協議) dated 28 February 2020 entered into between and among the WFOE, the VIE Entity and the shareholders of the VIE Entity, being Ma Yifei and Chen Yao, (ii) the exclusive option agreement (獨家購買權協議) dated 28 February 2020 entered into between and among the WFOE, the VIE Entity and the shareholders of the VIE Entity, being Ma Yifei and Chen Yao, (iii) the loan agreement (借款協議) entered into between the WFOE and Ma Yifei, being a shareholder of the VIE Entity on 10 March 2018, (iv) the loan agreement (借款協議) entered into between the WFOE and Chen Yao, being a shareholder of the VIE Entity on 25 September 2019, (v) the equity pledge agreement (股權質押協議) dated 28 February 2020 entered into between and among the WFOE, the VIE Entity and the shareholders of the VIE Entity, being Ma Yifei and Chen Yao, (vi) the powers of attorney dated 28 February 2020 issued by Ma Yifei and Chen Yao, each a shareholder of the VIE Entity, respectively and (vii) the spousal consents dated 28 February 2020 issued by the spouses of Ma Yifei and Chen Yao, each a shareholder of the VIE Entity, respectively
“VIE Entity”	variable interest entity of which the Company controls a certain shareholding percentage through contractual arrangements, namely 卓藝工坊(北京)文化發展有限公司 (Zhuoyi Gongfang (Beijing) Cultural Development Co., Ltd.)*
“WFOE”	Zhuoyue Gongfang (Beijing) Technology Co., Ltd (卓越工坊(北京)科技有限公司), a limited liability company incorporated under the laws of PRC, an indirect wholly-owned subsidiary of the Company
“%”	per cent.

* for identification purposes only

In this Scheme Document, amounts denominated in US\$ have been translated into HK\$ at the rate of US\$1 = HK\$7.7502. Such conversion rates are for illustration purposes only and should not be construed as representations that the amounts in question have been, could have been or could be converted at any particular rate or at all.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of the Disinterested Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 7 December 2020 to Friday, 11 December 2020 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 4 December 2020.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Shares to be voted at the Court Meeting and the EGM will need to obtain a form of proxy from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, if you are a Disinterested Shareholder, we strongly urge you to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10 a.m. (Hong Kong time) on Wednesday, 9 December 2020 or be handed to the Chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it), and the white form of proxy for use at the EGM should be lodged not later than 11 a.m. (Hong Kong time) on Wednesday, 9 December 2020.** The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and the EGM if, among other things, the resolutions are passed by the requisite majorities at the Court Meeting and EGM. We therefore strongly urge you to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the EGM on Friday, 11 December 2020. If all of the resolutions are passed at those meetings, the Company and the Offeror will make further announcements in relation to, among other things, the outcome of the hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange, in accordance with the requirements of the Takeovers Code and the Listing Rules.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS THROUGH TRUST OR CCASS

The Company will not recognise any person as holding any Shares through any trust. If you are a Beneficial Owner whose Share(s) are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions and/or make arrangements with the Registered Owner in relation to the manner in which the Share(s) beneficially owned by you should be voted at the Court Meeting and/or the EGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the EGM and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Share(s) registered in the name of the Registered Owner to be transferred into your own name.

Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner. The appointment of a proxy by the Registered Owner at the Court Meeting shall be in accordance with the provisions set out in the **pink** form of proxy and the appointment of a proxy by the Registered Owner at the EGM shall be in accordance with all relevant provisions in the articles of association of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

If you are a Beneficial Owner whose Share(s) are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with another CCASS Participant, regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Share(s) beneficially owned by you should be voted at the Court Meeting and/or the EGM.

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the “General Rules of CCASS”). However, for the purpose of calculating the “majority in number” requirement at the Court Meeting, each such CCASS Participant who instructs HKSCC Nominees Limited to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees Limited to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees Limited itself, as opposed to instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a Disinterested Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Share(s) are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Share(s) into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Share(s) from CCASS and register them in your name.

China Securities Depository and Clearing Corporation Limited will collect voting instructions from Southbound Investors for the Court Meeting and the EGM, and then submit such voting instructions to HKSCC Nominees Limited on behalf of Southbound Investors.

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become Shareholders so that they can attend the Court Meeting in the capacity as members of the Company or to be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in their capacity as members of the Company;
- (b) provided the Beneficial Owners have become Shareholders, to enable the Company to properly classify members of the Company as Shareholders who are entitled to attend and vote at the Court Meeting for the purposes of the headcount test under Section 86 of the Companies Law; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

ACTIONS TO BE TAKEN BY OPTIONHOLDERS

The Option Offer Letter is being sent to each Optionholder, together with this Scheme Document and a Form of Acceptance. If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, care of Leyou Technologies Holdings Limited at Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong, for the attention of the Company Secretary of the Company and marked “Leyou Technologies Holdings Limited – Option Offer” by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 5 January 2021 (or such later date and time as may be notified to you by the Offeror, BofA Securities and the Company or by way of joint announcement by the Offeror and the Company on the website of the Stock Exchange). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Options or any other document will be given.

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter, substantially in the form set out in Appendix VIII to this Scheme Document.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND/OR AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, THE COMPANY AND THE OFFEROR URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, THE COMPANY AND THE OFFEROR ENCOURAGE YOU TO PROVIDE HKSCC NOMINEES LIMITED WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES LIMITED IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR AT THE EGM WITHOUT DELAY AND/OR WITHDRAWN FROM CCASS AND TRANSFERRED INTO YOUR NAME (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN – ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS THROUGH TRUST OR CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNER(S), THE COMPANY AND THE OFFEROR SHOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNER(S) ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

PART III

EXPECTED TIMETABLE

The expected timetable set out below is indicative only and is subject to change. Further announcement(s) will be made if there is any change to the expected timetable below.

**Hong Kong time
(unless otherwise stated)**

Date of despatch of this Scheme Document Wednesday,
11 November 2020

Date of despatch of the Option Offer Letter for the Option Offer Wednesday,
11 November 2020

Latest time for lodging transfers of Shares in order to become
entitled to attend and vote at the Court Meeting and the EGM 4:30 p.m. on Friday,
4 December 2020

Register of members of the Company closed for determination
of entitlements of the Disinterested Shareholders to attend
and vote at the Court Meeting and of Shareholders to attend
and vote at the EGM (*Note 1*) from Monday,
7 December 2020
to Friday, 11 December 2020
(both days inclusive)

Latest time for lodging forms of proxy in respect of the: (*Note 2*)

- Court Meeting 10 a.m. on Wednesday,
9 December 2020
- EGM 11 a.m. on Wednesday,
9 December 2020

Meeting Record Date Friday, 11 December 2020

Court Meeting (*Note 3*) 10 a.m. on Friday,
11 December 2020

EGM (*Note 3*) 11 a.m. on Friday,
11 December 2020
(or immediately after the conclusion
or adjournment of the Court Meeting)

Announcement of results of the Court Meeting
and the EGM not later than 7:00 p.m. on Friday,
11 December 2020

PART III

EXPECTED TIMETABLE

Hong Kong time
(unless otherwise stated)

Expected last day for trading in the Shares on the Stock Exchange	4:10 p.m. on Monday, 14 December 2020
Latest Option Exercise Date (<i>Note 4</i>)	2:30 p.m. on Thursday, 17 December 2020
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Thursday, 17 December 2020
Register of members of the Company closed for determining entitlements to qualify under the Scheme (<i>Note 5</i>)	from Friday, 18 December 2020 onwards
Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Friday, 18 December 2020 (Cayman Islands time)
Announcement of the results of the court hearing of the petition to sanction the Scheme and to confirm the capital reduction, the expected Effective Date and the expected date of withdrawal of listing of Shares on the Stock Exchange	Monday, 21 December 2020
Scheme Record Date	Monday, 21 December 2020
Effective Date (<i>Note 6</i>)	Monday, 21 December 2020 (Cayman Islands time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	before 8:30 a.m. on Tuesday, 22 December 2020
Expected withdrawal of the listing of Shares on the Stock Exchange becomes effective (<i>Note 7</i>)	9:00 a.m. on Wednesday, 23 December 2020
Latest time to despatch cheques for cash payment under the Scheme (<i>Note 8</i>)	Thursday, 31 December 2020
Option Record Date (<i>Note 9</i>)	Tuesday, 5 January 2021

**Hong Kong time
(unless otherwise stated)**

Announcement of results of
the Option Offer not later than 7:00 p.m. on
Tuesday, 5 January 2021

Latest time to despatch cheque for cash payment
under the Option Offer (*Note 10*) Thursday, 14 January 2021

Lapse of all Options (*Note 11*) Thursday, 21 January 2021

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Disinterested Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM. This book closure period is not for determining entitlements under the Scheme.
- (2) Forms of proxy should be lodged with the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than the times and date(s) stated above. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and date(s) stated above. Each Disinterested Shareholder is only entitled to submit one form of proxy for the Court Meeting. If more than one form of proxy for the Court Meeting is submitted by a Disinterested Shareholder and the voting instructions require the proxies to vote both FOR and AGAINST the Scheme, the forms of proxy will not be accepted. If more than one form of proxy for the Court Meeting is submitted by a Disinterested Shareholder other than HKSCC Nominees Limited and the voting instructions require the proxies to vote either FOR or AGAINST the Scheme but not both FOR and AGAINST the Scheme, the Chairman of the Court Meeting shall have absolute discretion as to whether or not to accept those forms of proxy. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Disinterested Shareholder and a Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.
- (3) The Court Meeting and the EGM will be held at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at the times and date specified above. Please see the notice of Court Meeting set out in Appendix VI to this Scheme Document and the notice of EGM set out in Appendix VII to this Scheme Document for details.
- (4) If Optionholders wish to qualify for entitlements under the Scheme, they must exercise their Options and lodge their notices of exercise before the time specified above on the Latest Option Exercise Date and, subject to the customary process for allotment and issue of Shares by the Company, become registered holders of Shares by the time of the Scheme Record Date.
- (5) The register of members of the Company will be closed as from such time and on such date for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.

- (6) The Scheme shall become effective upon all the Conditions set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document having been fulfilled or (to the extent permitted) waived (as the case may be).
- (7) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn at or before 9:00 a.m. on Wednesday, 23 December 2020.
- (8) Cheques for cash payment under the Scheme will be despatched by post within seven (7) Business Days from the Effective Date.
- (9) Forms of Acceptance, duly completed in accordance with the instructions on them, must be lodged with the Offeror, care of Leyou Technologies Holdings Limited at Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong, for the attention of the Company Secretary of the Company and marked “Leyou Technologies Holdings Limited – Option Offer” by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 5 January 2021 (or such later date and time as may be notified to the Optionholders by the Offeror, BofA Securities and the Company or by way of joint announcement by the Offeror and the Company on the website of the Stock Exchange).
- (10) Cheque for cash payment under the Option Offer in respect of validly completed Forms of Acceptance received before 4:30 p.m. on Tuesday, 5 January 2021 will be despatched by post within seven (7) Business Days following the Effective Date or receipt of such validly completed Forms of Acceptance, whichever is the later.
- (11) Pursuant to the terms of the Share Option Scheme, all Options shall lapse automatically and not be exercisable at the expiry of one calendar month after the Effective Date.

All references to times and dates in this document are references to Hong Kong times and dates, unless otherwise stated.



LE YOU

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)

Executive Directors:

Mr. Xu Yiran (*Chairman and Chief Executive Officer*)
Mr. Li Yang (*Deputy Chairman*)
Dr. Alan Chen (*Chief Operating Officer*)
Mr. Gu Zhenghao
Mr. Cao Bo

Non-executive Director:

Mr. Eric Todd

Independent non-executive Directors:

Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Place of Business in Hong Kong:

Suite 3201, Tower Two
Lippo Centre
89 Queensway
Admiralty
Hong Kong

11 November 2020

To: The Shareholders and Optionholders

Dear Sir or Madam,

**(1) PROPOSED TAKE PRIVATE OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED**

INTRODUCTION

On 27 August 2020, in response to the Offeror's Proposal put forward to the Board, the Company provided the Implementation Undertaking in favour of the Offeror, pursuant to which the Company irrevocably undertook to the Offeror to put forward to the Scheme Shareholders the Scheme which, if approved and implemented, will result in the Company being taken private by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange.

If the Scheme becomes effective:

- (a) all of the Scheme Shares held by the Scheme Shareholders will be cancelled in exchange for the payment of the Cancellation Price to each Scheme Shareholder by the Offeror;
- (b) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling the Scheme Shares;
- (c) immediately upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled;
- (d) the reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror;
- (e) the Company will become wholly-owned by the Offeror; and
- (f) the Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15(2) of the Listing Rules, with effect immediately following the Effective Date.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Scheme, the Option Offer and to give you notice of the Court Meeting and of the EGM (together with forms of proxy in relation thereto). Your attention is also drawn to (i) the letter from the Independent Board Committee set out in Part V of this Scheme Document; (ii) the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document; (iii) the Explanatory Memorandum set out in Part VII of this Scheme Document; and (iv) the terms of the Scheme set out in Appendix V to this Scheme Document.

THE PROPOSAL

The Scheme

Under the Proposal, if the Scheme becomes effective, all of the Scheme Shares will be cancelled in exchange for the Cancellation Price of HK\$3.3219 per Scheme Share to be paid by the Offeror.

Comparisons of value

The Cancellation Price of HK\$3.3219 represents:

- a premium of approximately 1.59% over the closing price of HK\$3.2700 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 30.27% over the closing price of HK\$2.5500 per Share on 19 September 2019, which was the last trading day prior to the Rule 3.7 Announcement;
- a premium of approximately 4.46% over the closing price of HK\$3.1800 per Share on the Last Trading Day;
- a premium of approximately 5.86% over the average closing price of approximately HK\$3.1380 per Share based on the daily closing prices as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- a premium of approximately 5.66% over the average closing price of approximately HK\$3.1440 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 8.32% over the average closing price of approximately HK\$3.0667 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 17.44% over the average closing price of approximately HK\$2.8287 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 25.03% over the average closing price of approximately HK\$2.6569 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 29.17% over the average closing price of approximately HK\$2.5718 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 435.78% over the audited consolidated net asset value per Share of approximately US\$0.08 (equal to approximately HK\$0.6200, using an exchange rate of US\$1 = HK\$7.7502) per Share as at 31 December 2019; and
- a premium of approximately 435.78% over the unaudited consolidated net asset value per Share of approximately US\$0.08 (equal to approximately HK\$0.6200, using an exchange rate of US\$1 = HK\$7.7502) per Share as at 30 June 2020.

The Cancellation Price had been determined on an arm's length commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange, the financial information of the Group including the financial position of the Group as at 31 December 2019, the Offeror's review of the Group's principal businesses carried out by two major operating subsidiaries, namely Digital Extremes and Splash Damage Limited and its future prospects and with reference to, without placing particular weight on any particular privatization transaction, the range of implied premiums over the trading price of a large database of delisting and privatization transactions for Hong Kong companies across a variety of industries, a range of different market capitalisations and a range of different transaction parameters in recent years.

The Option Offer

As at the Latest Practicable Date, there were an aggregate of 407,905,860 outstanding Options granted under the Share Option Scheme, each relating to one Share, of which a total of 279,449,817 Options were exercisable at the Latest Practicable Date.

The full exercise of all outstanding Options granted under the Share Option Scheme would result in the issue of 407,905,860 new Shares, representing approximately 13.22% of the issued share capital of the Company as at the Latest Practicable Date and approximately 11.68% of the issued share capital of the Company as enlarged by the issue of such new Shares.

To the extent that the outstanding Options have not otherwise lapsed, been cancelled or been exercised, the Offeror is making (or procuring to be made on its behalf) the Option Offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel every vested and unvested outstanding Option (regardless of whether they are exercisable on, before or after the Scheme Record Date), subject to the Scheme becoming effective.

Under the Option Offer, the Offeror is offering Optionholders the "see-through" Option Offer Price (being the Cancellation Price minus the relevant exercise price) for each outstanding Option held in exchange for the cancellation of every vested and unvested Option. The number of outstanding Options to which each Option exercise price applies as at the Latest Practicable Date and the corresponding Option Offer Price is set out in the table below:

Option exercise price	Option Offer Price	Number of outstanding Options as at the Latest Practicable Date
<i>(HK\$)</i>	<i>(HK\$)</i>	
1.91	1.4119	262,071,200
2.50	0.8219	47,878,617
2.80	0.5219	48,978,005
3.10	0.2219	48,978,038

The Company has not granted any further Options between the date of the Announcement and the Latest Practicable Date and does not intend to grant any further Options between the Latest Practicable Date and the Effective Date.

Further information on the Option Offer is set out in “3. Terms of the Proposal – The Option Offer” in Part VII – Explanatory Memorandum of this Scheme Document and the form of Option Offer Letter which is set out in Appendix VIII to this Scheme Document.

The Company has not declared, made or paid any dividend or other distribution (whether in cash or in kind) to the Shareholders between the date of the Announcement and the Latest Practicable Date and does not intend to declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders between the Latest Practicable Date and the Effective Date. If, after the Latest Practicable Date, any dividend or other distribution (whether of profit or capital) is made or paid in respect of the Scheme Shares, the Offeror reserves the right to reduce the Cancellation Price and the Option Offer Prices by an amount equal to the amount of such dividend or other distribution made or paid on each Scheme Share.

The Offeror will not increase the Cancellation Price or the Option Offer Prices and does not reserve the right to increase the Cancellation Price or the Option Offer Prices. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price or the Option Offer Prices.

Conditions of the Proposal and the Scheme

Your attention is drawn to the section headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document.

FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$3.3219 per Scheme Share and 3,085,319,017 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$10,249 million. On the assumption that:

- (a) (i) no outstanding Options are exercised, cancelled or have lapsed, and (ii) no further Shares are issued, on or before the Scheme Record Date, the amount of cash required to implement the Proposal (taking into account the Option Offer) is approximately HK\$10,695 million; and
- (b) (i) all outstanding Options are fully exercised and none of such Options are cancelled or have lapsed, and (ii) no further Shares (other than the Shares to be issued pursuant to the exercise of all outstanding Options) are issued, on or before the Scheme Record Date, the amount of cash required to implement the Proposal (taking into account the Option Offer) is approximately HK\$11,604 million.

The maximum cash consideration payable for the Proposal (including the Option Offer) is therefore approximately HK\$11,604 million.

The Offeror intends to finance the entire cash amount required to implement the Proposal from its internal cash resources.

BofA Securities, the financial adviser to the Offeror in connection with the Proposal, is satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal (including the Option Offer) in accordance with its terms.

IRREVOCABLE UNDERTAKINGS

Controlling Shareholder Irrevocable Undertaking

As at the Latest Practicable Date, the aggregate number of Committed Shares owned by Port New and Novel New that are subject to the Controlling Shareholder Irrevocable Undertaking was 1,613,994,522 Shares, representing approximately 52.31% of the issued share capital of the Company.

On 27 August 2020, Port New and Novel New (each as a covenantor), Mr. Yuk (as the covenantors' guarantor) and the Offeror entered into the Controlling Shareholder Irrevocable Undertaking in favour of the Offeror, pursuant to which each of Port New and Novel New and Mr. Yuk irrevocably and unconditionally undertook to the Offeror that it or he will, and will procure and ensure that each of its or his affiliates or the legal holder(s) of its Shares (where appropriate) will, amongst other things, vote all of the Committed Shares owned by it at the Court Meeting and the EGM (a) in favour of (i) the Scheme, (ii) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (iii) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (b) against any resolution which (i) might prevent or delay implementation of the Proposal, or (ii) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares.

The Controlling Shareholder Irrevocable Undertaking also includes other undertakings described in the section headed "6. Irrevocable Undertakings – (a) Controlling Shareholder Irrevocable Undertaking" in Part VII – Explanatory Memorandum of this Scheme Document.

The Controlling Shareholder Irrevocable Undertaking will be terminated and cease to be binding (a) upon the delivery of a termination notice by one party thereof to the other party in the event one or more of the Conditions are not satisfied or waived by the Offeror on or prior to the Long Stop Date, provided that the non-satisfaction of such Condition identified in the termination notice shall not have been caused by or as a result of such party's breach of the relevant obligations thereunder, (b) if the Scheme and the Option Offer are withdrawn in circumstances permitted under the Takeovers Code, or (c) by the mutual written consent of the parties.

Alpha Frontier Irrevocable Undertaking

As at the Latest Practicable Date, the number of Committed Shares owned by Alpha Frontier (through LaGuardia) that are subject to the Alpha Frontier Irrevocable Undertaking was 518,700,000 Shares, representing approximately 16.81% of the issued share capital of the Company.

On 27 August 2020, LaGuardia (as the covenantor), Alpha Frontier (as LaGuardia's guarantor) and the Offeror entered into the Alpha Frontier Irrevocable Undertaking in favour of the Offeror, pursuant to which LaGuardia irrevocably and unconditionally undertook to the Offeror that during the period from the date of the Alpha Frontier Irrevocable Undertaking to its termination pursuant to the terms thereof, it will, and will procure and ensure that each of its affiliates or the legal holder(s) of its Shares (where appropriate) will, amongst other things, vote all of the Committed Shares owned by it at the Court Meeting and the EGM (a) in favour of (i) the Scheme, (ii) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (iii) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (b) against any resolution which (i) might prevent or delay implementation of the Proposal, or (ii) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares.

The Alpha Frontier Irrevocable Undertaking also includes other undertakings described in the section headed "6. Irrevocable Undertakings – (b) Alpha Frontier Irrevocable Undertaking" in Part VII – Explanatory Memorandum of this Scheme Document.

The Alpha Frontier Irrevocable Undertaking will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer are withdrawn in circumstances permitted under the Takeovers Code.

Li Irrevocable Undertaking

As at the Latest Practicable Date, Mr. Li Yang (an executive Director and the Deputy Chairman of the Company) held, directly and indirectly (through his wholly-owned company DC Capital Management Inc.), an aggregate of 2,895,000 Shares, representing approximately 0.09% of the issued share capital of the Company. Mr. Li Yang also directly held a total of 12,750,000 Options (of which 4,250,000 Options have an exercise price of HK\$2.50 per Option, 4,250,000 Options have an exercise price of HK\$2.80 per Option and 4,250,000 Options have an exercise price of HK\$3.10 per Option).

On 27 August 2020, Mr. Li Yang and the Offeror entered into the Li Irrevocable Undertaking in favour of the Offeror, pursuant to which Mr. Li Yang irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates or the legal holder(s) of its Shares (where appropriate) will, amongst other things, (a) vote all of the Committed Shares owned by him at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares; and (b) refrain from exercising any Committed Option held by him in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him.

The Li Irrevocable Undertaking also includes other undertakings described in the section headed “6. Irrevocable Undertakings – (c) Li Irrevocable Undertaking” in Part VII – Explanatory Memorandum of this Scheme Document.

The Li Irrevocable Undertaking will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer lapse or are withdrawn in circumstances permitted under the Takeovers Code, or if by the mutual written consent of the parties.

Director Irrevocable Undertakings

As at the Latest Practicable Date, the aggregate number of Committed Options held by Mr. Xu Yiran (an executive Director, the Chairman and Chief Executive Officer of the Company) and Mr. Gu Zhenghao (an executive Director) that are subject to the Director Irrevocable Undertaking was 58,493,600 Options which have an exercise price of HK\$1.91.

On 27 August 2020, each of Mr. Xu Yiran, Mr. Gu Zhenghao and the Offeror entered into the Director Irrevocable Undertakings in favour of the Offeror, pursuant to which each of Mr. Xu Yiran and Mr. Gu Zhenghao irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates will, amongst other things, (a) vote all of the Committed Shares owned by him at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares; and (b) refrain from exercising any Committed Option held by him in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him.

The Director Irrevocable Undertakings also includes other undertakings described in the section headed “6. Irrevocable Undertakings – (d) Director Irrevocable Undertakings” in Part VII – Explanatory Memorandum of this Scheme Document.

The Director Irrevocable Undertakings will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer lapse or are withdrawn in circumstances permitted under the Takeovers Code, or if by the mutual written consent of the parties.

Your attention is drawn to the section headed “6. Irrevocable Undertakings” in Part VII – Explanatory Memorandum of this Scheme Document for further details on the Irrevocable Undertakings.

REASONS FOR AND BENEFITS OF THE PROPOSAL

You are urged to read carefully the section headed “8. Reasons for and Benefits of the Proposal” in Part VII – Explanatory Memorandum of this Scheme Document.

OFFEROR’S INTENTION IN RELATION TO THE GROUP

It is the intention of the Offeror for the Group to maintain its existing business following the implementation of the Proposal. The Offeror has no immediate plans, in the event the Scheme becomes effective, (i) to make any material changes to the business and/or disposal or redeployment of assets of the Group, other than the possible exercise within three calendar months of Certain Affinity’s delivery of its financial statements for the year ending 31 December 2020 to the Company in 2021 of the buyout option in respect of the remaining 80% interest in Certain Affinity which the Company has an existing right to exercise at a price calculated based on an agreed formula to determine Certain Affinity’s valuation, which shall, in any case, not exceed US\$150 million; and upon exercise of such buyout option, Certain Affinity shall become a wholly-owned subsidiary of the Company and its financial results will be consolidated into that of the Company; (ii) to discontinue the employment of employees of the Group; or (iii) to develop new business that is outside the existing business of the Group upon the Scheme becoming effective. For further details of the buyout option granted to the Company to acquire the remaining interest in Certain Affinity, please refer to the announcement of the Company dated 16 October 2017 regarding the 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 Board welcomes the intentions of the Offeror in respect of the Company and its employees and will co-operate with and provide full support to the Offeror to facilitate the continued smooth business operation and management of the Group.

INFORMATION ON THE GROUP AND THE OFFEROR

Your attention is drawn to the section headed “10. Information on the Group and the Offeror” in Part VII – Explanatory Memorandum of this Scheme Document.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, which comprises Mr. Eric Todd, Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, being all of the non-executive Directors, has been established by the Board to make a recommendation (i) to the Disinterested Shareholders as to whether the Proposal is, or is not, fair and reasonable and as to voting in respect of the Scheme at the Court Meeting and the Proposal at the EGM; and (ii) to the Optionholders as to whether the Option Offer is, or is not, fair and reasonable and whether to accept the Option Offer.

The full text of the letter from the Independent Board Committee in relation to its recommendations with respect to the Proposal, the Scheme and the Option Offer is set out in Part V of this Scheme Document.

The Board, with the approval of the Independent Board Committee, has appointed Optima Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal pursuant to Rule 2.1 of the Takeovers Code.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document

RECOMMENDATION

The Independent Financial Adviser has advised the Independent Board Committee that it considers that the terms of the Proposal and the Scheme are fair and reasonable as far as the Disinterested Shareholders are concerned, and that the terms of the Option Offer are fair and reasonable as far as the Optionholders are concerned, and accordingly, it advises the Independent Board Committee (a) to recommend to the Disinterested Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme, and (b) to recommend the Optionholders to accept the Option Offer.

The Independent Board Committee, having been so advised, considers that the terms of the Proposal and the Scheme are fair and reasonable as far as the Disinterested Shareholders are concerned, and that the terms of the Option Offer are fair and reasonable as far as the Optionholders are concerned. Accordingly, the Independent Board Committee (a) recommends the Disinterested Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme, and (b) recommends the Optionholders to accept the Option Offer.

Your attention is drawn to Part V – Letter from the Independent Board Committee of this Scheme Document which sets out in further detail the advice from the Independent Board Committee to the Disinterested Shareholders and the Optionholders in connection with the Proposal, and Part VI – Letter from the Independent Financial Adviser of this Scheme Document which sets out the detailed advice from the Independent Financial Adviser to the Independent Board Committee in connection with the Proposal, and the principal factors taken into consideration in arriving at its recommendations.

WITHDRAWAL OF LISTING OF THE SHARES

The Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on Wednesday, 23 December 2020. The Shareholders will be notified by way of a public announcement of the exact dates of the last day of dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares will become effective. The expected timetable has been included in Part III of this Scheme Document.

You are urged to read carefully the section headed “11. Withdrawal of listing of the Shares” in Part VII – Explanatory Memorandum of this Scheme Document.

COSTS OF THE SCHEME

Since the Proposal is recommended by the Independent Board Committee, and is recommended as fair and reasonable by the Independent Financial Adviser, the Company and the Offeror have agreed that each party will bear their own costs, charges and expenses.

COURT MEETING AND EGM

Court Meeting

In accordance with the directions of the Grand Court, the Court Meeting will be held at 10 a.m. (Hong Kong time) on Friday, 11 December 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). The notice of Court Meeting is set out in Appendix VI to this Scheme Document.

The Disinterested Shareholders shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, the Disinterested Shareholders (other than HKSCC Nominee Limited), present and voting either in person or by proxy, will be entitled to vote all of their respective Shares in favour of the Scheme or against it. HKSCC Nominees Limited may vote for and against the Scheme in accordance with the instructions received from CCASS Participants (as defined under the “**General Rules of CCASS**”).

The Scheme is conditional upon, among other things, the approval of the Scheme (by way of poll) by a majority in number of the Shareholders representing not less than 75% in value of the Shares held by the Shareholders, present and voting, either in person or by proxy, at the Court Meeting, provided that: (i) the Scheme is approved (by way of poll) by the Disinterested Shareholders holding at least 75% of the votes attaching to the Shares held by the Disinterested Shareholders that are voted, either in person or by proxy, at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting, either in person or by proxy, at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Shares held by all the Disinterested Shareholders.

Each of Port New, Novel New and Mr. Yuk, Alpha Frontier and Mr. Li Yang (an executive Director and the Deputy Chairman of the Company) has given the Irrevocable Undertakings to the Offeror that, among other things, it or he will vote in favour of the Scheme at the Court Meeting.

The Offeror has undertaken to the Grand Court to be bound by the Scheme.

EGM

The EGM will be held at the same place and on the same date at 11 a.m. (or as soon thereafter as the Court Meeting shall have concluded or been adjourned). The notice of EGM is set out in Appendix VII to this Scheme Document.

All Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend the EGM and vote, in person or by proxy, on among other things, (i) the special resolution by Shareholders to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the ordinary resolution by Shareholders to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror.

The special resolution described under (i) in the paragraph above will be passed if not less than 75% of the votes cast by the Shareholders, present and voting, in person or by proxy, at the EGM, are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Shareholders, present and voting, either in person or by proxy, at the EGM.

Each of Port New, Novel New and Mr. Yuk, Alpha Frontier and Mr. Li Yang (an executive Director and the Deputy Chairman of the Company) has given the Irrevocable Undertakings to the Offeror that, among other things, it or he will vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the issued share capital of the Company, the immediate increase in the issued share capital of the Company thereafter and any resolutions proposed at the EGM which would assist the implementation of the Scheme or are necessary for the Scheme to become effective.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Monday, 21 December 2020 (Cayman Islands time). Further announcements will be made in relation to, among other things, the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings, the outcome of the hearing of the petition to sanction the Scheme by the Grand Court and the confirmation of the reduction of capital as a result of the cancellation of the Shares by the Grand Court and if the Scheme is sanctioned, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of the Shares on the Stock Exchange, in accordance with the requirements of the Takeovers Code and the Listing Rules.

Your attention is drawn to the section headed “17. Court Meeting and EGM” in Part VII – Explanatory Memorandum of this Scheme Document.

ACTIONS TO BE TAKEN

Your attention is drawn to Part II – Actions to be taken of this Scheme Document and the section headed “18. Summary of Actions to be Taken” in Part VII – Explanatory Memorandum of this Scheme Document.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “19. Registration and Payment” in Part VII – Explanatory Memorandum of this Scheme Document.

OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

If you are an overseas Scheme Shareholder or Optionholder, your attention is drawn to the section headed “20. Overseas Shareholders and Optionholders” in Part VII – Explanatory Memorandum of this Scheme Document.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “21. Taxation and Independent Advice” in Part VII – Explanatory Memorandum of this Scheme Document.

It is emphasised that none of the Offeror, the Company, BofA Securities, Moelis or any of their respective directors, officers or associates or any other person involved in the Proposal accepts responsibility or has any liability for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal. All Scheme Shareholders and Optionholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Memorandum as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the Scheme as set out in Appendix V to this Scheme Document, the notice of Court Meeting as set out in Appendix VI to this Scheme Document and the notice of EGM as set out in Appendix VII to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to the Registered Owners. The Optionholders are urged to read carefully the Option Offer Letter, which is sent separately to the Optionholders on the date of this Scheme Document substantially in the form set out in Appendix VIII – Form of Option Offer Letter to this Scheme Document, and the Form of Acceptance in respect of the Option Offer Letter.

Yours faithfully,

By order of the Board

Leyou Technologies Holdings Limited

Xu Yiran

Chairman and Chief Executive Officer



LE YOU

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)

Members of the Independent Board Committee:

Mr. Eric Todd

Mr. Hu Chung Ming

Mr. Chan Chi Yuen

Mr. Kwan Ngai Kit

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

11 November 2020

To: The Disinterested Shareholders and Optionholders

Dear Sir or Madam,

**(1) PROPOSED TAKE PRIVATE OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED**

We refer to the announcement dated 27 August 2020 jointly issued by the Offeror and the Company in relation to the Proposal and the scheme document dated 11 November 2020 jointly issued by the Offeror and the Company in relation to the Proposal (the “**Scheme Document**”), the latter of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Disinterested Shareholders and the Optionholders in respect of the Proposal, the Scheme and the Option Offer, details of which are set out in Part IV – Letter from the Board and Part VII – Explanatory Memorandum of the Scheme Document.

Optima Capital Limited, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal, the Scheme and the Option Offer. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in Part VI – Letter from the Independent Financial Adviser of the Scheme Document.

In the letter from the Independent Financial Adviser set out in Part VI of the Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal and the Scheme are fair and reasonable as far as the Disinterested Shareholders are concerned and the terms of the Option Offer are fair and reasonable as far as the Optionholders are concerned, and advises the Independent Board Committee (a) to recommend the Disinterested Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Scheme; and (b) to recommend the Optionholders to accept the Option Offer.

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Option Offer, and having taken into account the advice of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal and the Scheme are fair and reasonable as far as the Disinterested Shareholders are concerned and that the terms of the Option Offer are fair and reasonable as far as the Optionholders are concerned.

Accordingly, the Independent Board Committee recommends:

- (a) the Disinterested Shareholders to vote in favour of the Scheme at the Court Meeting;
- (b) the Shareholders to vote in favour of the following resolutions at the EGM:
 - (i) the special resolution to approve the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and
 - (ii) the ordinary resolution to immediately after the reduction of the issued share capital of the Company, increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and
- (c) the Optionholders to accept the Option Offer.

The Independent Board Committee draws the attention of the Disinterested Shareholders and the Optionholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendations to the Independent Board Committee, set out in Part VI of the Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of the Scheme Document.

Yours faithfully,

The Independent Board Committee

Mr. Eric Todd

*Non-executive
Director*

Mr. Hu Chung Ming

*Independent non-
executive Director*

Mr. Chan Chi Yuen

*Independent non-
executive Director*

Mr. Kwan Ngai Kit

*Independent non-
executive Director*

The following is the letter of advice from the Independent Financial Adviser to the Independent Board Committee which has been prepared for the purpose of inclusion in the Scheme Document.



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

11 November 2020

To: the Independent Board Committee

Dear Sirs,

**PROPOSED TAKE PRIVATE OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal and the Scheme, details of which are contained in the document to the Shareholders dated 11 November 2020 (the “**Scheme Document**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 27 August 2020, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the taking private of the Company by way of the Scheme under Section 86 of the Companies Law (i.e. the Proposal). The Proposal will involve cancellation of the Scheme Shares where each Scheme Shareholder will be entitled to receive HK\$3.3219 in cash for each Scheme Share, and cancellation of every vested and unvested Option based on the respective “see-through” Option Offer Price. Upon the Scheme having become effective, the Company being taken private by the Offeror, and the withdrawal of the listing of the Shares on the Stock Exchange having taken place, the Offeror and persons acting in concert with it will hold the entire issued share capital of the Company.

The Independent Board Committee, which comprises Mr. Eric Todd, Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, being all of the non-executive Directors, has been established by the Board to make recommendations (i) to the Disinterested Shareholders as to whether or not the Proposal is fair and reasonable and as to the voting of the Scheme at the Court Meeting and the Proposal at the EGM; and (ii) to the Optionholders as to whether the Option Offer is, or is not, fair and reasonable and whether to accept the Option Offer. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in this regard.

PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal. Apart from normal professional fees paid or payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. As at the Latest Practicable Date, we did not have any relationships or interests with the Company that could reasonably be regarded as relevant to our independence. In the last two years, there has been no other engagement between the Company and us. Accordingly, we do not consider any conflict of interest arises for us in acting as the independent financial adviser on the Proposal.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, which we have assumed to be true, accurate and complete. We have reviewed, among others, the announcement published under Rule 3.7 of the Takeovers Code regarding a possible transaction involving the acquisition of interests in the Company on 20 September 2019 (the “**Rule 3.7 Announcement**”), the announcement jointly published by the Offeror and the Company dated 27 August 2020 in relation to, among others, the Proposal and the Scheme, the annual reports of the Company for the three years ended 31 December 2017 (the “**2017 Annual Report**”), 31 December 2018 (the “**2018 Annual Report**”), and 31 December 2019 (the “**2019 Annual Report**”), the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”), the historical trading performance of the Shares on the Stock Exchange and Bloomberg, and information set out in the Scheme Document. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us.

We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied. We have assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and continue to be true up to the Latest Practicable Date, and the Disinterested Shareholders will be informed of any material change as soon as possible up to the Effective Date.

We have not considered the tax and regulatory implications of the Proposal on the Disinterested Shareholders, since these are specific to the individual circumstances. In particular, the Disinterested Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL AND THE SCHEME

Set out below is a summary of the terms of the Proposal and the Scheme which are set out in detail in the “Letter from the Board”, the “Explanatory Memorandum” and Appendix V contained in the Scheme Document. Disinterested Shareholders are encouraged to read the Scheme Document and the appendices in full.

1. The Scheme

On 27 August 2020, in response to the Offeror’s Proposal put forward to the Board, the Company provided the Implementation Undertaking in favour of the Offeror, pursuant to which the Company irrevocably undertook to the Offeror to put forward to the Scheme Shareholders the Scheme which, if approved and implemented, will result in the Company being taken private by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange.

If the Scheme becomes effective:

- (i) all of the Scheme Shares held by the Scheme Shareholders will be cancelled in exchange for the payment of the Cancellation Price to each Scheme Shareholder by the Offeror;
- (ii) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling the Scheme Shares;
- (iii) immediately upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled;
- (iv) the reserve created in the Company’s books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror;
- (v) the Company will become wholly-owned by the Offeror; and
- (vi) the Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules, with effect immediately following the Effective Date.

2. Cancellation Price

Under the Proposal, if the Scheme becomes effective, all of the Scheme Shares will be cancelled in exchange for the Cancellation Price of HK\$3.3219 per Scheme Share to be paid by the Offeror.

As disclosed in the Explanatory Memorandum of the Scheme Document, the Company did not declare any dividend for the six months ended 30 June 2020 and the financial year ended 31 December 2019, and as at the Latest Practicable Date, the Company did not intend to declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders between the Latest Practicable Date and the Effective Date. If, after the Latest Practicable Date, any dividend or other distribution (whether of profit or capital) is made or paid in respect of the Scheme Shares, the Offeror reserves the right to reduce the Cancellation Price and the Option Offer Prices by an amount equal to the amount of such dividend or other distribution made or paid on each Scheme Share.

As disclosed in the Explanatory Memorandum of the Scheme Document, the Offeror will not increase the Cancellation Price or the Option Offer Prices and does not reserve the right to increase the Cancellation Price or the Option Offer Prices. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price or the Option Offer Prices.

The Cancellation Price has been determined on an arm's length commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange, the financial information of the Group including the financial position of the Group as at 31 December 2019, the Offeror's review of the Group's principal businesses carried out by two major operating subsidiaries, namely Digital Extremes and Splash Damage Limited ("**Splash Damage**") and its future prospects and with reference to, without placing particular weight on any particular privatization transaction, the range of implied premiums over the trading price of a large database of delisting and privatisation transactions for Hong Kong companies across a variety of industries, a range of different market capitalisations and a range of different transaction parameters in recent years.

During the six-month period ending on the Last Trading Day, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$3.2000 per Share on 24 August 2020, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$1.5700 per Share on 19 March 2020.

3. The Option Offer

As at the Latest Practicable Date, there were an aggregate of 407,905,860 outstanding Options granted under the Share Option Scheme, each relating to one Share, of which a total of 279,449,817 Options are exercisable at the Latest Practicable Date.

The full exercise of all outstanding Options granted under the Share Option Scheme would result in the issue of 407,905,860 new Shares, representing approximately 13.22% of the issued share capital of the Company as at the Latest Practicable Date and approximately 11.68% of the issued share capital of the Company as enlarged by the issue of such new Shares.

In accordance with the terms of the Share Option Scheme, if a general offer (whether by takeover offer or scheme of arrangement or otherwise in like manner) is made to all Shareholders and such offer becomes or is declared unconditional prior to the expiry of the Options, the Optionholders are entitled to exercise the Options in full (to the extent such Options have become exercisable but have not already been exercised) at any time within one calendar month after the later of: (a) the despatch of the offer document; and (b) the date on which the offer becomes or is declared unconditional (the “**Exercise Period**”).

Under the Option Offer, the Offeror is offering Optionholders the “see-through” Option Offer Price (being the Cancellation Price minus the relevant exercise price) for each outstanding Option held in exchange for the cancellation of every vested and unvested Option. The number of outstanding Options to which each Option exercise price applies as at the Latest Practicable Date and the corresponding Option Offer Price is set out in the table below:

Option exercise price <i>(HK\$)</i>	Option Offer Price <i>(HK\$)</i>	Number of outstanding Options as at the Latest Practicable Date
1.91	1.4119	262,071,200
2.50	0.8219	47,878,617
2.80	0.5219	48,978,005
3.10	0.2219	48,978,038

The Company did not intend to grant any further Options between the Latest Practicable Date and the Effective Date.

4. Total consideration and financial resources

On the basis of the Cancellation Price of HK\$3.3219 per Scheme Share and 3,085,319,017 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$10,249 million. On the assumption that:

- (i) (a) no outstanding Options are exercised, cancelled or have lapsed, and (b) no further Shares are issued, on or before the Scheme Record Date, the amount of cash required to implement the Proposal (taking into account the Option Offer) is approximately HK\$10,695 million; and

- (ii) (a) all outstanding Options are fully exercised and none of such Options are cancelled or have lapsed, and (b) no further Shares (other than the Shares to be issued pursuant to the exercise of all outstanding Options) are issued, on or before the Scheme Record Date, the amount of cash required to implement the Proposal (taking into account the Option Offer) is approximately HK\$11,604 million.

The maximum cash consideration payable for the Proposal (including the Option Offer) is therefore approximately HK\$11,604 million.

The Offeror intends to finance the entire cash amount required to implement the Proposal from its internal cash resources.

BofA Securities, the financial adviser to the Offeror in connection with the Proposal, is satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal (including the Option Offer) in accordance with its terms.

5. Conditions of the Proposal

The Proposal and the Scheme are conditional upon the satisfaction or valid waiver (as applicable) of the conditions described in the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum in the Scheme Document. All Conditions will have to be satisfied or validly waived (as applicable) on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse. When all the Conditions are satisfied or validly waived (as applicable), the Scheme will become effective and binding on the Company and all Scheme Shareholders.

6. Irrevocable undertakings

Controlling Shareholder Irrevocable Undertaking

As at the Latest Practicable Date, the aggregate number of Committed Shares owned by Port New and Novel New that are subject to the Controlling Shareholder Irrevocable Undertaking was 1,613,994,522 Shares, representing approximately 52.31% of the issued share capital of the Company.

On 27 August 2020, Port New and Novel New (each as a covenantor), Mr. Yuk (as the covenantors’ guarantor) and the Offeror entered into the Controlling Shareholder Irrevocable Undertaking in favour of the Offeror, pursuant to which each of Port New and Novel New irrevocably and unconditionally undertook to the Offeror that it or he will, and will procure and ensure that each of its or his affiliates or the legal holder(s) of its Shares (where appropriate) will, amongst other things, vote all of

the Committed Shares owned by it at the Court Meeting and the EGM (a) in favour of (i) the Scheme, (ii) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (iii) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (b) against any resolution which (i) might prevent or delay implementation of the Proposal, or (ii) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares. The Controlling Shareholder Irrevocable Undertaking also includes other undertakings described in the section headed “6. Irrevocable Undertakings – (a) Controlling Shareholder Irrevocable Undertaking” in the Explanatory Memorandum in the Scheme Document.

The Controlling Shareholder Irrevocable Undertaking will be terminated and will cease to be binding (a) upon the delivery of a termination notice by one party thereof to the other party in the event one or more of the Conditions are not satisfied or waived by the Offeror on or prior to the Long Stop Date, provided that the non-satisfaction of such Condition identified in the termination notice shall not have been caused by or as a result of such party’s breach of the relevant obligations thereunder, (b) if the Scheme and the Option Offer are withdrawn in circumstances permitted under the Takeovers Code, or (c) by the mutual written consent of the parties.

Alpha Frontier Irrevocable Undertaking

As at the Latest Practicable Date, the number of Committed Shares owned by Alpha Frontier (through LaGuardia) that were subject to the Alpha Frontier Irrevocable Undertaking was 518,700,000 Shares, representing approximately 16.81% of the issued share capital of the Company.

On 27 August 2020, LaGuardia (as the covenantor), Alpha Frontier (as LaGuardia’s guarantor) and the Offeror entered into the Alpha Frontier Irrevocable Undertaking in favour of the Offeror, pursuant to which LaGuardia irrevocably and unconditionally undertook to the Offeror that during the period from the date of the Alpha Frontier Irrevocable Undertaking to its termination pursuant to the terms thereof, it will, and will procure and ensure that each of its affiliates or the legal holder(s) of its Shares (where appropriate) will, amongst other things, vote all of the Committed Shares owned by it at the Court Meeting and the EGM (a) in favour of (i) the Scheme, (ii) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (iii) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (b) against any resolution which (i) might prevent or delay implementation of the Proposal, or (ii) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares.

The Alpha Frontier Irrevocable Undertaking also includes other undertakings described in the section headed “6. Irrevocable Undertakings – (b) Alpha Frontier Irrevocable Undertaking” in Part VII – Explanatory Memorandum of the Scheme Document.

The Alpha Frontier Irrevocable Undertaking will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer are withdrawn in circumstances permitted under the Takeovers Code.

Li Irrevocable Undertaking

As at the Latest Practicable Date, Mr. Li Yang (an executive Director and the Deputy Chairman of the Company) held, directly and indirectly (through his wholly-owned company DC Capital Management Inc.), an aggregate of 2,895,000 Shares, representing approximately 0.09% of the issued share capital of the Company. Mr. Li Yang also directly held a total of 12,750,000 Options (of which 4,250,000 Options had an exercise price of HK\$2.50 per Option, 4,250,000 Options had an exercise price of HK\$2.80 per Option and 4,250,000 Options had an exercise price of HK\$3.10 per Option).

On 27 August 2020, Mr. Li Yang and the Offeror entered into the Li Irrevocable Undertaking in favour of the Offeror, pursuant to which Mr. Li Yang irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates or the legal holder(s) of its Shares (where appropriate) will, amongst other things, (a) vote all of the Committed Shares owned by him at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares; and (b) refrain from exercising any Committed Option held by him in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him.

The Li Irrevocable Undertaking also includes other undertakings described in the section headed “6. Irrevocable Undertakings – (c) Li Irrevocable Undertaking” in Part VII – Explanatory Memorandum of this Scheme Document.

The Li Irrevocable Undertaking will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer lapse or are withdrawn in circumstances permitted under the Takeovers Code, or if by the mutual written consent of the parties.

Director Irrevocable Undertakings

As at the Latest Practicable Date, the aggregate number of Committed Options held by Mr. Xu Yiran (an executive Director, the Chairman and Chief Executive Officer of the Company) and Mr. Gu Zhenghao (an executive Director) that were subject to the Director Irrevocable Undertakings was 58,493,600 Options which have an exercise price of HK\$1.91.

On 27 August 2020, each of Mr. Xu Yiran, Mr. Gu Zhenghao and the Offeror entered into the Director Irrevocable Undertakings in favour of the Offeror, pursuant to which each of Mr. Xu Yiran and Mr. Gu Zhenghao irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates will, amongst other things, (a) vote all of the Committed Shares owned by him at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares; and (b) refrain from exercising any Committed Option held by him in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him.

The Director Irrevocable Undertakings also includes other undertakings described in the section headed “6. Irrevocable Undertakings – (d) Director Irrevocable Undertakings” in Part VII – Explanatory Memorandum of the Scheme Document.

The Director Irrevocable Undertakings will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer lapse or are withdrawn in circumstances permitted under the Takeovers Code, or if by the mutual written consent of the parties.

Your attention is drawn to the section headed “6. Irrevocable Undertakings” in Part VII – Explanatory Memorandum of the Scheme Document for further details on the Irrevocable Undertakings.

7. The Scheme and the Court Meeting

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be held in such manner as the Grand Court directs.

It is expressly provided in Section 86(2) of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company.

The Grand Court has convened a meeting of the Shareholders at which, on account of the Takeovers Code, only the Disinterested Shareholders will vote and the Offeror has undertaken to the Grand Court to be bound by the Scheme.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal and the Scheme, we have taken into account the following principal factors and reasons:

I. INFORMATION ON THE GROUP

1. Background information of the Group

The Company was incorporated in the Cayman Islands with limited liabilities on 22 February 2010, the shares of which are listed on the Main Board of the Stock Exchange since 2011. Prior to 2015, the Group was principally engaged in trading and manufacturing of chicken meat products, animal feeds and chicken breeds. Due to the consecutive loss making years, in 2015, the Group started a new chapter by firstly acquiring 58% equity interest (and further 39% equity interest in 2016 leading to a total stake of 97%) in a leading Canadian-based video game developer – Digital Extremes, which is principally engaged in development and publication of video games for both PC and home-gaming console hardware terminals (the “**Game Business**”), as well as sale of merchandise goods such as *Warframe*-related apparel, figurines, etc. (the “**Sale of Merchandise Goods**”).

One of the most popular games launched by Digital Extremes is “*Warframe*”, which is a free-to-play (“**F2P**”) science fiction-themed multiplayer third-person action game available on PC and consoles (including PlayStation 4, Xbox One and Switch). It was first launched in March 2013. Since its initial launch, *Warframe* has been one of the most popular F2P properties worldwide, and steadily sits amongst the top 10 of all game genres in terms of the number of players and playtime on a game platform called “Steam”. *Warframe* is also one of the top F2P games on PlayStation 4 and Xbox One in terms of revenue. Along the years, the Group has been providing frequent updates of premium game content for all platforms across the world, offering efficient and timely customer services, helping to build a cohesive, passionate gamer community and facilitating communications between gamers and the development team through online and offline interactions. *Warframe* remains one of the major revenue generators of the Group as of today.

In March 2017, the Group further acquired Splash Damage, Fireteam Limited (“**Fireteam**”) and Warchest Limited (“**Warchest**”, together with Splash Damage and Fireteam, the “**Splash Damage Group**”) (the “**Splash Acquisition**”) with a view to setting its foothold in the UK’s market. The Splash Damage Group is principally engaged in the development of computer games for different hardware platforms, including consoles, personal computers and mobile devices, and one of the major games developed and published by it was “*Dirty Bomb*”, which is a fast-paced first-person shooter game. The Splash Damage Group is also engaged in work-for-hire projects whereby its game developers are engaged by the third-party game publishers for game development or related in-game designs such as in-game map construction and multiplayer components of popular video games (the “**Work-for-Hire Business**”). After ceasing the game development segment in 2018, the Splash Damage Group became the major work-for-hire studio of the Group, solely focusing on work-for-hire projects with reputable companies.

In the same year, the Group also strengthened its Game Business via the acquisition of 51% of the entire issued share capital of Guangzhou Radiance Software Technology Co. Ltd (“**Guangzhou Radiance**”) which is an online game developer in the PRC with exclusive license to develop a Massively Multiplayer Online (“**MMO**”) game called “*Civilization Online*” (the “**Radiance Acquisition**”).

Since completion of the abovementioned acquisitions, the Group has been principally engaged in (i) the Game Business; (ii) Work-for-Hire Business; and (iii) Sale of Merchandise Goods.

2. Analysis of the financial information of the Group

(i) Financial performance

Set out below is a summary of the audited consolidated financial information of the Group for the financial year ended 31 December 2017 (“**FY2017**”), 2018 (“**FY2018**”) and 2019 (“**FY2019**”) respectively and the unaudited consolidated financial information of the Group for the six months ended 30 June 2019 (“**1H2019**”) and 30 June 2020 (“**1H2020**”) as extracted from the annual reports and the interim reports of the Company for respective financial years.

<i>(US\$'000)</i>	FY2017	FY2018	FY2019	1H2019	1H2020
Revenue	166,736	227,720	214,235	105,671	90,692
Cost of sales	(55,962)	(86,233)	(92,454)	(41,763)	(47,888)
Gross profit	110,774	141,487	121,781	63,908	42,804
Other revenue and gains	611	8,192	1,221	873	6,251
Net loss on financial assets at fair value through profit or loss	(5,955)	(23,743)	(1,059)	(821)	(1,200)
Loss on disposal of available-for-sale financial assets	(2)	–	–	–	–
Fair value change of contingent consideration payable	2,716	37,424	–	–	–
Amortisation of intangible assets	(20,364)	(18,467)	(17,366)	(8,707)	(8,386)
Impairment of intangible assets	(4,872)	(4,896)	(2,540)	–	–
Impairment of goodwill	–	(42,944)	–	–	–
Impairment of property, plant and equipment	–	–	(3,315)	–	(4,594)
Selling and marketing expenses	(11,958)	(13,470)	(22,126)	(6,222)	(5,315)
Administrative expenses	(28,914)	(34,553)	(49,795)	(19,831)	(20,095)
Finance costs	(3,371)	(790)	(2,678)	(1,312)	(1,020)
Other operating expenses	(1,042)	(13)	(5,385)	(4,390)	–
Equity-settled share-based payment expenses	(12,528)	(4,377)	(6,085)	(2,524)	(3,894)
Profit before taxation	25,095	43,850	12,653	20,974	4,551
Taxation	(13,823)	(23,483)	(19,142)	(10,744)	(9,246)
Profit/(loss) for the year/period	11,272	20,367	(6,489)	10,230	(4,695)
Profit/(loss) for the year/period attributable to:					
Owners of the Company	9,834	20,413	(8,379)	9,288	(5,788)
Non-controlling interest	1,438	(46)	1,890	942	1,093

PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) Revenue

The Game Business, the Work-for-Hire Business and the Sale of Merchandise Goods constituted the principal business of the Group since 2016. The profitability of the Group was mainly driven by the Game Business carried out by Digital Extremes and the Work-for-Hire Business carried out by Splash Damage, while the Group's PRC subsidiaries are in the investment phases and are considered as the cost centre of the Group which did not bring profit to the Group in the past few years. Set out below is the revenue contribution by each business segment in FY2017, FY2018, FY2019, 1H2019 and 1H2020.

US\$'000	FY2017	%	FY2018	%	FY2019	%	1H2019	%	1H2020	%
Game Business	146,162	87.7	201,909	88.7	182,207	85.1	91,357	86.5	74,084	81.7
Work-for-Hire Business	19,470	11.7	25,488	11.2	31,160	14.5	14,140	13.4	16,555	18.2
Sales of Merchandise Goods	317	0.1	323	0.1	868	0.4	174	0.1	53	0.1
Game-hosting and support service	787	0.5	—	0.0	—	0.0	—	0.0	—	0.0
Total	<u>166,736</u>	<u>100.0</u>	<u>227,720</u>	<u>100.0</u>	<u>214,235</u>	<u>100.0</u>	<u>105,671</u>	<u>100.0</u>	<u>90,692</u>	<u>100.0</u>

The Game Business

The Game Business is the largest revenue generator of the Group since 2016, contributing over 85% of the total revenue in FY2017, FY2018 and FY2019. Revenue in this segment was mainly contributed by the flagship F2P game, *Warframe*, and its continuous content updates developed and published by the Group's game development studio, Digital Extremes, in Toronto, Canada. As all games developed or published by the Group are F2P in nature, all revenue generated by the Game Business represented the in-game revenue depending on the content and market response to the relevant updates. In FY2017, FY2018 and FY2019, Digital Extremes launched content updates for *Warframe*, namely *Plains of Eidolon*, *Fortuna*, and *Empyrean*, respectively. *Fortuna* was the most successful content update among all, driving up the Game Business's revenue by approximately 38.1% to US\$201.9 million in FY2018. The registered users, as a result, rose approximately 29.3% year on year in FY2018 as shown below.

(in million)	FY2017	FY2018	FY2019	1H2020
Registered users	37.2	48.1	57.5	61.3

However, the Game Business's revenue fell 9.8% in FY2019 because of the 10.1% year-on-year decline in *Warframe*'s revenue for the following reasons. As large-scale AAA games with similar themes and gameplay as *Warframe* were launched and endorsed by reputable game studios and publishing companies in FY2019, the strong market promotion of these highly competitive new products had diverted market attention from *Warframe* to a certain extent. Further, with the next-generation consoles to be released by the end of 2020, the sales of current models have been declining, which had reduced the number of new console players for the game. Due to the considerable size and scale of development work related to *Empyrean*, a milestone content update for *Warframe*, the update cadence was temporarily affected and less new game content was released in FY2019. *Empyrean* was finally released in December 2019 but it fell slightly short of the players' expectation, further driving down the revenue of the Game Business by 18.9% in 1H2020, let alone the adverse impact of COVID-19 pandemic on the operation of the game development studio in Toronto due to the social distancing measures.

Apart from the flagship game, the Group's publishing subsidiary, Athlon Games, Inc., also took part as a publishing partner for the launch of *Batman: Shadows Edition* in late 2019. *Endless World*, a F2P idle role-playing game ("RPG") launched in the PRC, also forms part of the game portfolio of the Group.

Concurrent with the persistent quality updates and optimisation of the Group's existing games, the Group also attaches great importance to the development of new products. In FY2019, the Group and Amazon Game Studios entered into an agreement to co-develop and co-publish a F2P massively multiplayer online game based on *The Lord of the Rings*. As at 31 December 2019, the Group had *TRANSFORMERS*, *Civilization Online* and multiple unannounced new products in various development stages. Details of the on-going projects of the Group are set out in the paragraph headed "Development expenditure" below.

The Work-for-Hire Business

The Work-for-Hire Business is the second largest business segment of the Group, which is mainly operated by the Group's major work-for-hire studio, the Splash Damage Group, located in the UK. The Splash Damage Group was initially engaged in both game development and the Work-for-Hire Business upon completion of the Splash Acquisition in March 2017. Due to the unsatisfactory market response to *Dirty Bomb*, a shooter game developed and published by Splash Damage, the Splash Damage Group has started to focus on the Work-for-Hire Business since then.

The Work-for-Hire Business's revenue rose 30.9% in FY2018, and another 22.3% in FY2019, after changes in the senior management team at the end of 2018 and early 2019. Two high quality releases were launched in FY2019: (i) *Gears 5*, co-developed by Splash Damage for Xbox Game Studios; and (ii) *Halo: Reach* for Xbox Game Studios' *Halo: The Master Chief Collection*. The highly anticipated *Gears Tactics*, as developed by Splash Damage for Xbox Game Studios, was also launched in April 2020.

Sale of Merchandise Goods

The Sale of Merchandise Goods is an ancillary business segment to the Game Business as the merchandise goods mainly included *Warframe*-related products such as apparel and figurines, etc. This segment generated revenue of US\$0.9 million and US\$0.3 million in FY2019 and FY2018 respectively, which further shrank to US\$53,000 in 1H2020.

Overall

The Group's overall revenue surged in FY2018 mainly due to the successful launch of *Warframe*'s update, *Fortuna*. Yet it fell in FY2019 as large-scale AAA games with themes and gameplay similar to *Warframe* were launched by reputable game studios and publishing companies, further hit by the late launch of the sizeable content update *Empyrean* in December 2019. In 1H2020, the ambitious update *Empyrean* fell slightly short of players' expectation due to certain technical issues, and the outbreak of COVID-19 delayed the game development progress. The Group's revenue therefore further shrank by approximately 14.2% as compared to 1H2019. Details of the impact of the COVID-19 pandemic on the Group's operation are set out in the section headed "Impact of the COVID-19 pandemic and challenges ahead" below.

(b) *Gross profit margin*

Set out below is the summary of the gross profit margin for FY2017, FY2018, FY2019, 1H2019 and 1H2020:–

	FY2017	FY2018	FY2019	1H2019	1H2020
Gross profit margin (%)	66.4	62.1	56.8	60.5	47.2

The gross profit margin of the Group slightly decreased in FY2018 primarily due to the increase in labour costs for game development after additional hiring of 167 employees. The gross profit margin was seriously hurt in FY2019, down to approximately 56.8% as a result of the impairment of development expenditure (which was recognised as cost of sale) due to underperformance of two original F2P games, namely *Blood Ties* and *The Evil Never Dies*. It further deteriorated in 1H2020 due to the outbreak of the COVID-19 as the progress of the game development and content updates was inevitably affected by the home quarantine measures. Certain capitalised development costs were further impaired due to the suspended development of an original F2P online game during the period.

(c) *Other revenue and gains*

In FY2018, the Group recorded other revenue and gains of approximately US\$8.2 million, which was mainly attributable to the net exchange gain of US\$6.3 million. In FY2019, the Group recorded an exchange loss of US\$5.4 million instead, which was recognised as other operating expenses. In 1H2020, the Group recorded other revenue and gains consisting of a net exchange gain of US\$6.0 million.

(d) *Net loss on financial assets at fair value through profit or loss (the “financial assets at FVTPL”)*

The Group maintained a portfolio of financial assets mainly comprising Hong Kong listed securities and the net loss on the financial assets at FVTPL recorded along the years was primarily due to the realised loss and/or the unrealised loss on the financial assets at FVTPL. The net loss on financial assets at FVTPL increased significantly from approximately US\$6.0 million for FY2017 to US\$23.7 million in FY2018, while in FY2019 and 1H2020, the net loss on financial assets at FVTPL dropped to approximately US\$1.1 million and approximately US\$1.2 million, respectively.

(e) Amortisation and impairment of intangible assets

The intangible assets of the Group mainly consisted of brand name, completed game, game engine, game under development and trademark. Details of the intangible assets are set out in the paragraph headed “Intangible assets” below. The useful economic life of brand name and trademark are ten years whereas that of the rest is three to five years. The amortisation cost of intangible assets of the Group had been decreasing from approximately US\$20.4 million in FY2017 to approximately US\$18.5 million for FY2018 and further decreased to approximately US\$17.4 million for FY2019. The amortisation of intangible assets for 1H2020 of approximately US\$8.4 million, which was similar as that for 1H2019.

The impairment of intangible assets amounted to approximately US\$4.9 million for both FY2017 and FY2018, and approximately US\$2.5 million for FY2019. The impairment in FY2019 was mainly due to the under-performance of a developed game of the Group. During 1H2020, the Group did not notice any impairment indicator relating to the intangible assets.

(f) Impairment of goodwill

The Group completed the Splash Acquisition on 31 March 2017 and recognised a goodwill of approximately US\$91.3 million (the “**Splash Goodwill**”), consideration payable of approximately US\$0.9 million and contingent consideration payable of approximately US\$54.6 million.

For FY2018, the Group recognised an impairment of the Splash Goodwill of approximately US\$42.9 million mainly due to the repositioning of business model of the Splash Damage Group by ceasing the development of own IP games, and merely focusing on the Work-for-Hire Business. The management of the Group advised that the repositioning strategy was prompted by the underperformance of a game developed by Splash Damage, namely *Dirty Bomb*. The financial performance of Splash Damage Group became more stable since then and therefore no impairment of goodwill was recognised in FY2019.

During 1H2020, the Group did not notice any impairment indicator relating to the goodwill.

(g) Fair value change of contingent consideration payable

The purchase consideration of US\$109.1 million for the Splash Acquisition comprised (i) an advance payment and a deferred payment in a total amount of US\$45.0 million; (ii) an adjustment payment of US\$9.5 million; and (iii) an earn-out consideration of US\$54.6 million (the “**Earn-out Consideration**”). The Earn-out Consideration consisted of payments to have been made according to the profit targets for FY2017, FY2018 and FY2019. In FY2017, Splash Damage met the profit target.

Yet in FY2018 and FY2019, the Splash Damage Group failed to meet the profit targets for the Earn-out Consideration, and therefore the contingent consideration payable were released at 31 December 2018 and 2019, resulting in a gain on change in fair value of contingent consideration payable amounting to approximately US\$37.4 million in FY2018 in the consolidated statement of profit or loss. A total of US\$53.6 million has been paid by the Group as purchase consideration for the Splash Acquisition. Details of the consideration payable are set out in the paragraph headed “Consideration payable” below.

(h) Impairment of property, plant and equipment

The Group recognised impairment of property, plant and equipment of approximately US\$3.3 million and US\$4.6 million for FY2019 and 1H2020 due to the significant decrease in comparable selling price of properties under the leasehold land and buildings of the Group. No impairment of property, plant and equipment was recognised in FY2017 and FY2018.

(i) Selling and marketing expenses

The selling and marketing expenses steadily increased from approximately US\$12.0 million for FY2017 to approximately US\$13.5 million for FY2018. The increase was mainly driven by the increased marketing and promotion activities to promote new content updates for *Warframe* and *Dirty Bomb*.

In FY2019, the selling and marketing expenses increased significantly by approximately 64.3%, which was mainly driven by the increased marketing activities for another new content update of *Warframe* and for the newly launched game named “*Endless World*” in the PRC.

The selling and marketing expenses decreased by approximately 14.6% to approximately US\$5.3 million for 1H2020. It was because the social distancing measures during COVID-19 pandemic had postponed most of the marketing activities. The Group's large-scale physical annual promotional convention "TennoCon" for fans gathering was held as a live online broadcast instead.

(j) Administrative expenses

Administrative expenses primarily consisted of rental expense, staff costs and other professional fees. The administrative expenses increased by approximately 19.5% in FY2018 as a result of the increase in the staff costs of approximately US\$7.3 million after an additional hiring of 167 employees in FY2018.

In FY2019, the administrative expenses further increased by approximately 44.1% due to (i) an additional hiring of 157 employees driving the staff cost to approximately US\$31.9 million for the business expansion of development team of the Group; and (ii) an increase in allowance for credit loss recognised in respect of trade receivables, deposits and other receivables of approximately US\$9.3 million.

The administrative expenses slightly increased by approximately 1.3% for 1H2020, which was primarily driven by increased staff costs and legal expenses for different ongoing projects.

(k) Finance cost

The Group's finance costs in FY2018 decreased by approximately 76.6% to approximately US\$0.8 million, mainly due to the full repayment of the fixed coupon redeemable bond in FY2017. The finance costs increased to approximately US\$2.7 million for FY2019 as a result of the term loan, mortgage loans and revolving loan drawdown during FY2018. The effective interest rate of the bank borrowings ranged from approximately 2.4% to 6.0% per annum and 1.92% to 6.4% per annum as at 31 December 2018 and 2019 respectively.

The Group's finance costs for 1H2020 amounted to approximately US\$1.0 million primarily due to a reduction in average bank borrowings as compared to 1H2019.

(l) Other operating expenses

The other operating expenses increased significantly for FY2019 to approximately US\$5.4 million, which was mainly attributable to the exchange loss of approximately US\$5.4 million whereas the Group recognised an exchange gain of approximately US\$6.3 million as other revenue and gains for FY2018.

For 1H2020, there was no other operating expense.

(m) Equity-settled share-based payment expenses

The Group adopted a share option scheme on 25 August 2017 in order to recognise the contribution of and motivate its employees and consultants. It also helps the Company in retaining its existing employees and recruiting additional employees by involving them in the direct economic interest in the long-term business objectives of the Company.

The equity-settled share-based payment expenses decreased by approximately 65.1% to approximately US\$4.4 million for FY2018, and increased to approximately US\$6.1 million for FY2019 as more share options were granted during the respective financial year.

The equity-settled share-based payment expenses increased significantly by approximately 54.3% to approximately US\$3.9 million for 1H2020, primarily due to the grant of share options by the Company under its share option scheme in May and June 2019 which resulted in less amortisation charges in 1H2019 as compared to that in 1H2020.

(n) Loss/profit attributable to the owners of the Company

The profit attributable to the owners of the Company surged in FY2018, mainly driven by publication of content updates of “Warframe”, namely “Fortuna”.

However, the growth momentum failed to sustain in FY2019, leading to approximately 71.1% slump in the profit before taxation of the Group to US\$12.7 million, which was mainly driven by a 5.9% year-on-year decrease in revenue and deterioration in gross profit margin amid keen competition in the console game market as discussed above. Worse still, the tax effects adjusted in accordance with the Canada and UK tax regimes further hindered the financial results of the Group, resulting in loss attributable to the owners of the Company after taxation of approximately US\$8.4 million in FY2019, as compared to a profit after taxation of approximately US\$20.4 million in FY2018.

The outbreak of COVID-19 pandemic further deteriorated the profit before taxation of the Group in 1H2020, resulting in approximately 78.3% decline in the Group's profit before taxation as compared to 1H2019, and loss attributable to the owners of the Company after taxation of approximately US\$4.7 million as compared to a profit of approximately US\$10.2 million for 1H2019.

(ii) Financial position

Set out below is a summary of the audited consolidated statement of financial position of the Group as at 31 December 2017, 2018 and 2019, and the unaudited consolidated statement of financial position as at 30 June 2020 extracted from the annual reports of the Company for respective financial years and the 1H2020 Interim Report.

<i>US\$'000</i>	As at 31 December			As at 30 June
	2017	2018	2019	2020
Non-current assets	212,139	205,277	242,206	222,720
Property, plant and equipment ("PPE")	6,121	39,945	36,194	31,683
Goodwill	127,641	76,419	79,250	74,901
Intangible assets	57,913	31,516	14,086	4,985
Development expenditure	12,364	48,297	84,667	86,444
Available-for-sales financial assets	8,100	—	—	—
Right-of-use assets	—	—	17,349	14,682
Financial assets at fair value through other comprehensive income ("financial assets at FVTOCI")	—	9,100	10,100	9,500
Deferred tax assets	—	—	560	525

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<i>US\$'000</i>	As at 31 December			As at 30 June 2020
	2017	2018	2019	
<i>Current assets</i>	101,292	105,426	80,642	88,410
Inventories	285	174	147	153
Trade receivables	31,538	44,297	22,575	19,198
Deposits paid, prepayments and other receivables	19,450	17,113	20,704	20,752
Financial assets at FVTPL	1,900	8,522	2,723	1,522
Tax recoverable	2,221	2,662	12,388	6,197
Cash and bank balance	45,898	32,658	22,105	40,588
<i>Current liabilities</i>	25,376	70,305	51,366	56,990
Trade payables	1,977	2,109	3,498	3,440
Accruals and other payables	8,094	11,146	10,646	13,188
Consideration payable	6,407	–	–	–
Bank borrowings	–	42,280	25,157	27,548
Lease liabilities	–	–	5,314	5,066
Deferred revenue	8,898	–	–	–
Contract liabilities	–	14,770	6,751	7,748
<i>Non-current liabilities</i>	62,061	9,656	19,676	15,696
Deferred tax liabilities	13,495	9,068	4,814	3,174
Deferred revenue	1,640	–	–	–
Consideration payable	46,358	–	–	–
Lease liabilities	–	–	14,247	11,891
Debenture	568	588	615	631
Net asset value (“NAV”) attributable to the owners of the Company	221,553	227,175	246,542	232,263
Non-controlling interest	4,441	3,567	5,264	6,181

(a) Major assets of the Group

From the latest position of the Group’s assets as at 30 June 2020, the major assets of the Group were (i) development expenditure; (ii) goodwill; (iii) cash and bank balances; (iv) PPE; (v) deposits paid, prepayments and other receivables; and (vi) trade receivables, representing approximately 27.8%, 24.1%, 13.0%, 10.2%, 6.7% and 6.2% of the Group’s total assets, respectively. Despite the size, our discussion and analysis below also covers certain assets such as intangible assets, right-of-use assets, the financial assets at FVTOCI because of its nature.

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Set out below is a brief description of each asset component mentioned above with our discussion with management as and when appropriate.

PPE

(US\$'000)	As at 31 December			As at
	2017	2018	2019	30 June 2020
PPE	6,121	39,945	36,194	31,683

The Group's PPE mainly comprised the leasehold land and buildings, office equipment and motor vehicles. As at 31 December 2018, the Group's PPE increased significantly to approximately US\$39.9 million, representing a 5.5 times year-on-year increase as compared to 31 December 2017. The increase was mainly due to the acquisition of leasehold land and buildings which principal assets were the office buildings in Lippo Centre, Hong Kong, used as the head office of the Company.

As at 31 December 2019, the Group's PPE decreased slightly by approximately 9.4% to approximately US\$36.2 million as a result of (i) the annual depreciation of approximately US\$2.2 million; and (ii) an impairment loss on the leasehold land and buildings of approximately US\$3.3 million, which was offset by the general addition of the office equipment of approximately US\$1.7 million. The PPE of the Group further decreased to approximately US\$31.7 million as at 30 June 2020 after the depreciation of approximately US\$1.1 million and an impairment loss of approximately US\$4.6 million.

Goodwill

(US\$'000)	As at 31 December			As at
	2017	2018	2019	30 June 2020
Goodwill	127,641	76,419	79,250	74,901

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The Group's goodwill mainly arose from acquisition of Digital Extremes (the “**Digital Acquisition**”) in FY2015, the Splash Acquisition and the Radiance Acquisition, both completed in FY2017. The Group's goodwill has been allocated for impairment testing purposes to the computer and video games cash-generating units (“**CGU**”) of Splash Damage, Digital Extremes and Guangzhou Radiance as at 31 December 2017, 2018 and 2019 as follows:–

CGU	Place of CGU	As at 31 December			As at
		2017	2018	2019	30 June
		US\$'000	US\$'000	US\$'000	2020 US\$'000
Digital Extremes	Canada	29,352	27,041	28,221	26,978
Splash Damage Group	UK	97,924	49,008	50,665	47,563
Guangzhou Radiance	PRC	<u>365</u>	<u>370</u>	<u>364</u>	<u>360</u>
		<u>127,641</u>	<u>76,419</u>	<u>79,250</u>	<u>74,901</u>

The recoverable amounts of the CGUs were determined on the basis of value in use calculation, which adopted cash flow projection based on financial budgets covering a five-year period. It is noted from the above table that there is no significant impairment made to the goodwill save for the one made on Splash Damage Group's CGUs of US\$42.9 million in FY2018. As discussed in the paragraph headed “Impairment on goodwill” above, the impairment loss on the Splash Goodwill was mainly attributable to the cessation of the game development arm of Splash Damage Group in FY2018.

The changes in goodwill as at 31 December 2019 and 30 June 2020 were mainly due to the exchange alignments.

Intangible assets

(US\$'000)	As at 31 December			At
	2017	2018	2019	30 June 2020
Intangible assets	57,913	31,516	14,086	4,985

The Group's intangible assets comprised brand name, completed game, game engine, game under development and trademark, which was mainly acquired from the Digital Acquisition and the Splash Acquisition. Under the accounting policy of the Group, the brand name and the trademark would have 10 years of useful economic life while the completed game, game engine and game under development three to five years.

As at 31 December 2018, the carrying amount of the intangible assets significantly decreased by approximately 45.6%, to approximately US\$31.5 million, which was mainly due to (i) the amortisation of intangible assets of approximately US\$18.5 million; and (ii) the impairment loss of approximately US\$4.9 million because of the under-performance of a developed game.

As at 31 December 2019, the carrying amount of the intangible assets further decreased by approximately 55.3% to approximately US\$14.1 million, which was mainly due to (i) the amortisation of intangible assets of approximately US\$17.4 million; and (ii) the impairment loss of approximately US\$2.5 million as a result of the under-performance of a developed game.

As at 30 June 2020, the carrying amount of the intangible assets decreased by approximately 64.6% to approximately US\$5.0 million, which was primarily due to the amortisation expenses of approximately US\$8.4 million incurred for 1H2020. The management of the Company advised that all intangible assets arising from the Digital Acquisition would have been fully amortised as at 31 July 2020.

Development expenditure

(US\$'000)	As at 31 December			As at
	2017	2018	2019	30 June 2020
Development expenditure	12,364	48,297	84,667	86,444

Development expenditure constituted the largest element of the Group's assets, representing approximately 27.8% of the total assets of the Group. As advised by the management of the Company, it is part of the Group's business model to engage external video game developers for game development and production services. Under the development agreements entered into with the external video game developers, the Group would be entitled to the exclusive publishing and distribution rights to the finished game title and would have to make advance payments to the game developers. Once the technological feasibility of the product has been established, the Group would capitalise all these development and production service payments as well as the costs of direct labour and an appropriate portion of overheads as development expenditures, which could be recovered by subsequent retail sales of the completed games. After the Group fully recovered the development expenditures, the Group and the developers would share the revenue at an agreed rate.

The development expenditure increased from US\$12.4 million as at 31 December 2017 to approximately US\$48.3 million as at 31 December 2018 and further increased to approximately US\$84.7 million and US\$86.4 million as at 31 December 2019 and 30 June 2020 respectively. The significant increase was mainly due to the continuous and increased involvement in several game development projects such as *TRANSFORMERS* and *Civilization Online* during the years. Certain development costs which have been recognized as prepayments during 1H2020 have been reclassified to development expenditure after 1H2020 as certain development projects reached another phase.

As mentioned in paragraph headed "Gross profit" above, due to the suspended development of two games in FY2019 and another game in 1H2020, the Group incurred impairment loss on the development expenditure of approximately US\$7.7 million and US\$10.9 million respectively, which was recognised as cost of sale in the respective period. The Group decided to suspend the development of these games because they expected that the advance payments made by it to the external game developers for the new game development were unlikely to be recovered from in-game revenue of the games and it was better for the Group to deploy resources to other well-known IP projects.

As at 30 June 2020, the Group's capitalised development expenditures of approximately US\$86.4 million mainly comprised:–

- (i) as to US\$11.68 million arising from 8 completed games development and system upgrade, which are to be amortised according to the use of life;
- (ii) as to US\$72.19 million in respect of 5 ongoing game development projects including but not limited to *TRANSFORMERS*, *Civilization Online* and *The Lord of the Rings* which are expected to be launched from Q4 2021 to Q1 2023; and
- (iii) as to US\$2.57 million for the software and platform upgrades.

As advised by the management of the Group, the ongoing projects were on track and there was no indication of delay as at the Latest Practicable Date.

Trade receivables

	As at 31 December			As at
(US\$'000)	2017	2018	2019	30 June 2020
Trade receivables	31,538	44,297	22,575	19,198

As at 31 December 2018, the Group's trade receivables amounted to approximately US\$44.3 million, representing a 40.5% year-on-year increase as compared to FY2017. The increase was in line with the increased revenue of approximately 36.6% in FY2018. As at 31 December 2019, the Group's trade receivables dropped to approximately US\$22.6 million alongside the decline of business performance in FY2019. The trade receivables further decreased by approximately 15.0% to approximately US\$19.2 million as at 30 June 2020.

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Set out below is the aging analysis of the trade receivables of the Group as at 31 December 2017, 2018 and 2019 and as at 30 June 2020:

	As at 31 December			As at
<i>US\$'000</i>	2017	2018	2019	30 June 2020
Within 30 days	29,786	32,022	18,668	17,775
31 days to 60 days	374	3,706	1,988	–
61 days to 180 days	110	8,563	1,553	1,423
Over 180 days	1,268	6	366	–

The Group normally grants credit period ranging from 7 to 60 days to its customers.

Deposits paid, prepayments and other receivables

	As at 31 December			As at
<i>(US\$'000)</i>	2017	2018	2019	30 June 2020
Deposits paid, prepayments and other receivables	19,450	17,113	20,704	20,752

The Group's deposits paid, prepayments and other receivables mainly representing the loan receivables to independent third parties and advance to employees amounted to approximately US\$17.1 million as at 31 December 2018 and approximately US\$20.8 million as at 30 June 2020.

Cash and bank balance

	As at 31 December			As at
<i>(US\$'000)</i>	2017	2018	2019	30 June 2020
Cash and bank balance	45,898	32,658	22,105	40,588

The Group's cash and bank balance decreased since FY2017 from US\$45.9 million to US\$22.1 million as at 31 December 2019, which was mainly attributable to (i) the acquisition of assets such as property, plant and equipment and financial assets; and (ii) advance payments made for game development. As at 30 June 2020, the cash and bank balance of the Group significantly increased to US\$40.6 million, which was mainly due to the receipt of tax refund from local tax bureau and increased bank borrowings.

Right-of-use assets

The Group's right-of-use assets represented the leasehold land and buildings, office equipment and motor vehicles accounted for under the HKFRS 16.

(US\$'000)	As at 31 December			As at
	2017	2018	2019	30 June 2020
Right-of-use assets	–	–	17,349	14,682

The Group's right-of-use assets related to the properties leased by the Group and the office equipment. Since the initial recognition of the lease liabilities of the Group under HKFRS 16, the right-of-use assets were recognised in FY2019 after deducting the accrual lease liabilities.

Financial assets at FVTOCI

(US\$'000)	As at 31 December			As at
	2017	2018	2019	30 June 2020
Financial assets at FVTOCI	–	9,100	10,100	9,500

The financial assets at FVTOCI represented the Group's strategic investment in 20% equity interest in Certain Affinity, which is principally engaged in video game development. As the strategic investment is not held for trading, the Group irrevocably elected to recognise it as financial assets at FVTOCI since initial recognition.

(b) Major liabilities of the Group

As at 30 June 2020, the Group's major liabilities included (i) bank borrowings; (ii) lease liabilities (current and non-current); (iii) accruals and other payables; and (iv) contract liabilities (which formerly accounted for as deferred revenue in FY2017), which accounted for approximately 37.9%, 23.3%, 18.1% and 10.7% of the total liabilities, respectively. In FY2017 in particular, the Group recognised consideration payable arising from the Splash Acquisition, which is covered in our discussion set out below.

Set out below is the brief description and discussion on each major liability of the Group as mentioned above.

Bank borrowings

<i>(US\$'000)</i>	As at 31 December			As at
	2017	2018	2019	30 June 2020
Bank borrowings	–	42,280	25,157	27,548

The Group's bank borrowings included (i) a term loan of approximately US\$20.8 million and US\$12.5 million as at 31 December 2018 and 2019 to be repaid in June 2021 carrying interest rate at Hong Kong Interbank Offer Rate (“**HIBOR**”) plus 3.9% per annum; (ii) mortgage loans of approximately US\$13.2 million and US\$12.6 million as at 31 December 2018 and 2019, which carried interest at HIBOR plus 1.2% per annum; and (iii) a revolving loan of approximately US\$8.3 million as at 31 December 2018, which carried interest at HIBOR plus 0.9% per annum, which was fully repaid in FY2019. The significant decrease in bank borrowings in FY2019 was due to the repayment of bank borrowings made by the Group during the year.

As at 30 June 2020, the bank borrowings slightly increased by approximately US\$2.4 million, which was a combined effect of (i) the drawdown of a revolving loan of approximately US\$6.8 million during 1H2020 for general corporate funding purposes; and (ii) the partial repayment of a term loan of approximately US\$4.1 million.

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As at 30 June 2020 and 31 December 2019 and 2018, none of the covenants relating to the drawdown of facilities had been breached.

Lease liabilities

	As at 31 December			As at
(US\$'000)	2017	2018	2019	30 June 2020
Lease liabilities (non-current)	–	–	14,247	11,891
Lease liabilities (current)	–	–	5,314	5,066
Total	–	–	19,561	16,957

Upon the initial recognition of lease liabilities under HKFRS 16, the Group recognised approximately US\$19.6 million lease liabilities on 31 December 2019, which decreased by approximately 13.3%, to approximately US\$17.0 million as at 30 June 2020 mainly because of the repayment of lease liabilities of US\$3.1 million during 1H2020.

Accrual and other payables

	As at 31 December			As at
(US\$'000)	2017	2018	2019	30 June 2020
Accrual and other payables	8,094	11,146	10,646	13,188

The Group's accrual and other payables mainly included accrued payroll and other tax payables.

Contract liabilities/deferred revenue

	As at 31 December			As at
(US\$'000)	2017	2018	2019	30 June 2020
Contract liabilities	–	14,770	6,751	7,748
Deferred revenue (non-current)	1,640	–	–	–
Deferred revenue (current)	8,898	–	–	–

The proceeds from the sale of virtual goods, such as virtual currency used in games of the Group, were accounted for as deferred revenue in FY2017 and contract liabilities since FY2018 due to the change in accounting classification upon the adoption of HKFRS 15. The contract liabilities would be recognised as revenue according to the typical usage pattern of the paying players of the games.

It was noted that the contract liabilities increased in FY2018 given the publication of multiple popular content updates. It then dropped to approximately US\$6.8 million as at 31 December 2019 alongside the decrease in the Group's revenue due to lack of content updates or utilisation of the virtual goods by its users. As at 30 June 2020, the contract liabilities improved by 14.8% to approximately US\$7.7 million.

Consideration payable

	As at 31 December			As at
(US\$'000)	2017	2018	2019	30 June 2020
Consideration payable (non-current)	46,358	–	–	–
Consideration payable (current)	<u>6,407</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u><u>52,765</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

The consideration payable arose from the Earn-out Consideration of approximately US\$54.6 million for the Splash Acquisition. The Earn-out Consideration is payable if the Splash Damage Group achieves the respective base year profit targets.

As at 31 December 2017, the consideration payable amounted to US\$52.8 million.

As the Splash Damage Group failed to meet the profit targets for the Earn-out Consideration, the contingent liabilities were released at 31 December 2018 and 2019, resulting in a gain on change in fair value of contingent consideration payable amounting to approximately US\$37.4 million in FY2018 in the consolidated statement of profit or loss. The fair value of contingent consideration payable as at 31 December 2018 is based on the valuation performed by an independent professional valuer.

The Group also settled the remaining balance of the consideration payable of approximately US\$15.5 million during FY2018 and hence, there was no more consideration payable as at 31 December 2018 and 2019 and as at 30 June 2020.

(c) Capital commitments and contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2019 and 30 June 2020. The capital commitments of the Group are mainly commitments on development expenditure of approximately US\$97.0 million and US\$93.5 million as at 31 December 2019 and 30 June 2020.

(d) NAV

	As at 31 December			As at
(US\$'000)	2017	2018	2019	30 June 2020
NAV attributable to				
owners of the Company	221,553	227,175	246,542	232,263
Non-controlling interest	4,441	3,567	5,264	6,181

The NAV attributable to the equity owners of the Company moved in line with the financial results of the Group in each financial year, save for the increase amid the loss making year in FY2019 due to net proceeds of approximately HK\$71.7 million (equivalent to approximately US\$9.1 million) from the issue of 30,500,000 new shares to an independent investor in May 2019, and the total comprehensive income of approximately US\$2.5 million.

The NAV attributable to the equity owners of the Company dropped to approximately US\$232.3 million which was mainly due to the loss for attributable to the owners of the Company for 1H2020 of US\$5.8 million and the exchange loss of US\$12.1 million, which was partly offset by the recognition of equity-settled share-based payment expenses of approximately US\$3.9 million.

The audited NAV attributable to the equity owners of the Company as at 31 December 2019 and the unaudited one as at 30 June 2020 both amounted to approximately US\$0.08 per Share (equal to approximately HK\$0.6200 per Share, using an exchange rate of US\$1 = HK\$7.7502).

(iii) Prospects

The Group mentioned in the 2020 Interim Report that concurrent with the quality updates and optimisation of its live games, it has also attached great importance to the development of new products, by either creating original intellectual property (“IP”) or working with globally renowned ones. Games such as *TRANSFORMERS*, *Civilization Online*, and *The Lord of the Rings* are being developed by the Group on its own or with other co-developers since 2017 or 2018 and are currently under development. The management of the Company advised that the development cycle of a new game normally takes 3 to 5 years to complete taking into account the substantial and complicated development procedures involved. Given all of the games developed or published by the Group are F2P, whether a game can bring in revenue (i.e. monetisation) would largely depend on (i) the conversion rate of the game, which is the rate of monetisation indicating how many percentages of players are willing to pay for the in-game experience; and (ii) the average revenue per paying user (“ARPPU”). Without frequent updates to enrich the content, the game may fail to retain the players, let alone increase the conversion rate and ARPPU.

The management of the Company considers that the COVID-19 pandemic has not materially disrupted the normal working schedule, but inevitably affected the operation efficiency of the game development studios. As a result, the content updates may become less frequent to live up for the players’ expectation. The rate of monetisation of the existing games and the new games may be affected by the same cause.

(iv) Our view

The Company’s financial performance fluctuated significantly between FY2018 and FY2019, which was mainly attributable to its heavy reliance on its flagship game, *Warframe*. The content update of *Warframe* in FY2018 was of huge success, therefore driving up the profit before taxation by 74.7%, while in FY2019, the profit before taxation shrank by 71.1% as the Group failed to release its ambitious update *Empyrean* in time amid fierce competition from other similar games launched by reputable publishing companies with strong marketing efforts. The heavy reliance on its flagship game stirred concerns over the Group’s adaptability to the future challenges imposed by other video game competitors despite continuing efforts of the Group in new game development such as *TRANSFORMERS*, *Civilization Online* and *The Lord of the Rings*. The schedule for publication of new games may also be affected by the COVID-19 pandemic.

The financial position of the Group remained generally healthy. Yet the capitalised development expenditure being the largest asset type of the Group mainly comprising the advanced payment made to external game developers before games are published may not guarantee proportional satisfactory financial results given that the players' acceptance of the new games was uncertain. If the new games fail to meet the players' expectation during the testing stage, the capitalised development expenditures would be impaired. The impairment loss which was accounted for as cost of sale will adversely impact the gross profit margin of the Group as well as the quality of the Group's assets. Accordingly, it is worth noting that the value of the development expenditure, unlike the tangible or the contractual kinds, was largely dependent on the performance of the new games. As discussed with the management of the Company, despite certain new games are currently being developed by the Group, it is expected that *Warframe* would remain the key revenue generator in near term. Hence, the Group's heavy reliance on one single game, despite its continuous content updates, would stir concerns over the risks ahead, in particular amid the fierce competition of the gaming industry and the COVID-19 recession.

II. INDUSTRY OVERVIEW

The global gaming industry can be divided into three main segments comprising (i) the console games, played through a console such as Xbox, PlayStation and Nintendo Switch (the “**Console Games**”); (ii) the mobile games played on smartphones or tablets (the “**Mobile Games**”); and the PC games such as downloaded/boxed PC games and browser games played on websites or through social media platforms (the “**PC Games**”). The Group mainly focuses on the development and publication of the Console Games and the PC Games (excluding the browser games) and intends to step into the mobile version of its existing games.

The Consoles Games and PC Games (excluding browser games) (collectively, the “**Video Games**”) are either sold at a fixed retail price as pay-to-play games or free of charge as F2P games such as the Group's flagship game, *Warframe*. The F2P Video Games and Mobile Games would therefore rely on the chargeable content (i.e. in-game revenue). The downloaded contents or updates have to be launched frequently enough to cater for players' expectation as well as extend the product life cycle. Although the Video Games are more complex and sophisticated in its theme, contents design and graphics as compared with the Mobile Games and require more time and capital for the development, leading to longer development cycle, they share similar business model by generating revenue mainly from the in-game purchases and updates. Certain popular console games has been released in its mobile form, extending the growth momentum of that particular game.

According to the 2020 Global Games Market Report published in 2020 by Newzoo International B.V. (<http://resources.newzoo.com>), which is a market research company specialised in the gaming industry (the “**Games Market Report**”), the total global game market expects to generate revenues of approximately US\$159.3 billion in 2020, with approximately 9.3% year-on-year increase as compared to 2019. The number of players is expected to reach 2.69 billion in 2020 globally and is expected to have a growth of approximately 4% growth each year until 2023. Mobile Games remains as the largest contributor to the global game market with an expected year-on-year growth of approximately 13.3%, while the Console Games came second with expected year-on-year growth at approximately 6.8%, the PC Games approximately 4.8%.

The Games Market Report stated that Mobile Games will continue to grow rapidly due to the large population owning a smartphone and the less complex game development process, while the growth momentum of the Video Games is expected to slow down in 2020. Due to the technology barrier and tremendous capital required for Video Games’ development, it is not easy for Video Games’ companies to diversify its game portfolio for mitigating their heavy reliance on particular game. Companies may invest a lot for developing a particular game while the final results in terms of market acceptance can never be guaranteed. So only Video Games with excellent content, elaborate production, stable programme, and smooth running experience can draw players’ attention and royalty.

Besides, the current generation of consoles such as Xbox One and PlayStation 4 is going to be replaced by the new Xbox Series X and PlayStation 5, meaning that the gaming population using the current version has reached its limits. If the current generation fades out in coming years, developers will have to incur extra development expenditure to calibrate the existing Console Games for the new generation of consoles, but it remains as a tough question to the gaming companies as to how to deploy the resources between the existing version of consoles and the new one in near term.

III. IMPACT OF THE COVID-19 PANDEMIC AND CHALLENGES AHEAD

Having discussed with the management of the Company, we note that because of the home quarantine measures, more people are turning to games for their at-home entertainment, resulting in a short-term boom in the user activity and game revenues in general. However, another side of the coin showed that the progress of game development and content updates was delayed as a result of the shutdown of the gaming studios during the quarantine period. In 1H2020, the gaming studios of the Group in Canada and the UK has temporarily shut down, leading to delays in publication of content updates.

Although the Group remained positive and stated in the 2020 Interim Report that the unforeseen pandemic had not materially disrupted the Group's normal working schedule, the financials of the Group for 1H2020 were more reflective of the magnitude of the impact of COVID-19 pandemic. For 1H2020, the Group's revenue dropped by approximately 14.2% as compared to that in 1H2019, with a year-on-year 18.9% decrease in revenue of Game Business in particular. It is believed that the boom in user activity during the quarantine period is temporary, while delays in the game development or content update are not. We consider that the aftermath of worldwide quarantine measures may impose big pressure on the update cadence of gaming companies, which may affect the Game Business of the Group in a medium term.

The traditional physical marketing events such as the annual fans convention are also affected by COVID-19. For instance, in 2019, the Group's annual promotional convention "TennoCon", for the purpose of allowing the game players to gather and exchange information face-to-face on venue, was held via online broadcast of a much lower marketing impact as compared with physical events in the past. This shift of marketing paradigm in the gaming industry imposes another realm of challenge to the Group.

Worse still, competition among the Video Games' companies is never mild, especially in a battlefield where reputable companies of substantial financial, technical, and marketing resources; longer operating histories may appear. The Group's flagship game, *Warframe*, despite its popularity since publication, may be from time to time overshadowed by new shooting games developed by the competitors with more development and marketing resources. This was once manifested in FY2019 when certain reputable publishing companies launched their large-scale AAA games with themes and gameplay similar to *Warframe* and severely diverted market attention from *Warframe*, hurt the Group's overall revenue.

In view of the above, we consider that the outbreak of the COVID-19 pandemic amid fierce competition in the industry may impose extra uncertainties and challenges to the Group's operation in near future, and the Group will remain relatively vulnerable to the impact due to its heavy reliance on its flagship game.

IV. REASONS FOR AND BENEFITS OF THE PROPOSAL AND THE INTENTION OF THE OFFEROR

As set out in the Explanatory Memorandum of the Scheme Document, the reasons for and benefits of the Proposal to both the Scheme Shareholders and the Company are as follows:

An opportunity for Scheme Shareholders to monetise Shares

The average daily trading volume of Shares for the six-month period, 12-month period and for the 24-month period up to and including the Last Trading Day were approximately 7.65 million Shares, 7.01 million Shares and 5.10 million Shares per day, representing only approximately 0.25%, 0.23% and 0.17% respectively of the total number of issued Shares and approximately 0.81%, 0.74% and 0.54% of the public float of the Company respectively as at the Latest Practicable Date.

The low trading liquidity of the Shares could make it difficult for Scheme Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Scheme Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the price of the Shares occurs.

As such, the Scheme presents an immediate opportunity for Scheme Shareholders to monetise their investments for cash and redeploy the proceeds from accepting the Scheme into other investment opportunities.

Cancellation Price represents an attractive exit premium

The Proposal allows an exit for the Scheme Shareholders at a compelling premium to the current market price. As set out in the section headed “The Proposal – Comparisons of value” of the Letter from the Board in the Scheme Document, the Cancellation Price represents a significant premium of approximately 5.66% and 25.03% over the average closing price of approximately HK\$3.1440 and HK\$2.6569 per Share for the 10 and 90 trading days up to and including the Last Trading Day, respectively, and a premium of 3.81% over the highest closing price of HK\$3.2000 per Share during the six-month period ending on the Last Trading Day. The Cancellation Price also represents a premium of approximately 435.78% to the unaudited consolidated NAV per Share of approximately HK\$0.6200 as at 30 June 2020.

Benefits of the Proposal to the Company

The taking private of the Company will permit the Offeror and the Company to make strategic decisions focused on long-term growth and benefits, free from regulatory constraints, the pressure of market expectations and share price fluctuations which arise from being a publicly listed company.

The Proposal, which entails the delisting of the Company, is also expected to reduce the administrative costs and management resources associated with maintaining the Company's listing status and compliance with regulatory requirements and, in turn, allow greater flexibility for the Offeror and the Company to manage the Group's business.

V. THE CANCELLATION PRICE

The Cancellation Price represents:

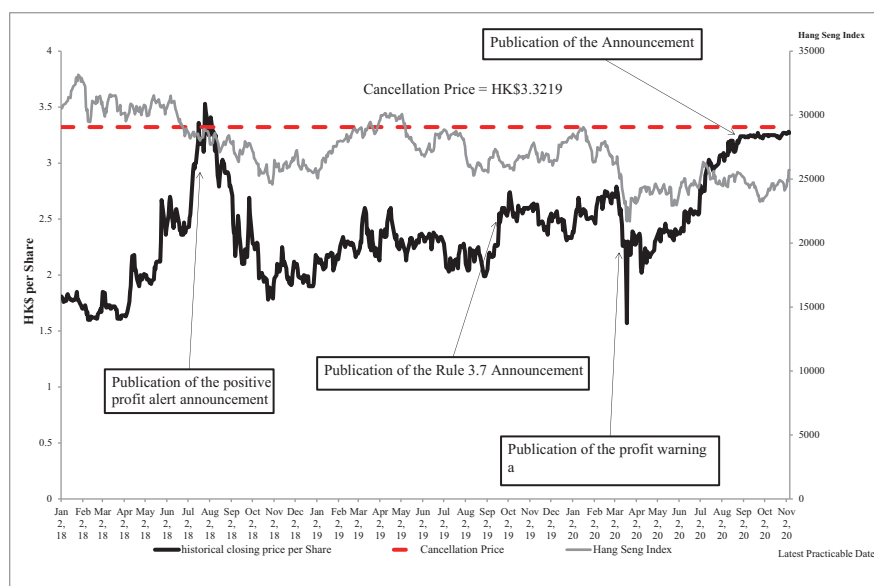
- (i) a premium of approximately 1.59% over the closing price of HK\$3.2700 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 30.27% over the closing price of HK\$2.5500 per Share on 19 September 2019, which was the last trading day prior to the first announcement issued by the Company pursuant to Rule 3.7 of the Takeovers Code regarding a possible transaction involving the acquisition of interests in the Company on 20 September 2019 (i.e. the Rule 3.7 Announcement);
- (iii) a premium of approximately 4.46% over the closing price of HK\$3.1800 per Share on the Last Trading Day;
- (iv) a premium of approximately 5.86% over the average closing price of approximately HK\$3.1380 per Share based on the daily closing prices as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- (v) a premium of approximately 5.66% over the average closing price of approximately HK\$3.1440 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

- (vi) a premium of approximately 8.32% over the average closing price of approximately HK\$3.0667 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 17.44% over the average closing price of approximately HK\$2.8287 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 25.03% over the average closing price of approximately HK\$2.6569 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (ix) a premium of approximately 29.17% over the average closing price of approximately HK\$2.5718 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- (x) a premium of approximately 435.78% over the audited consolidated NAV per Share of approximately US\$0.08 (equivalent to approximately HK\$0.6200, using an exchange rate of US\$1 = HK\$7.7502) per Share as at 31 December 2019; and
- (xi) a premium of approximately 435.78% over the unaudited consolidated NAV per Share of approximately US\$0.08 (equivalent to approximately HK\$0.6200, using an exchange rate of US\$1 = HK\$7.7502) per Share as at 30 June 2020.

VI. HISTORICAL SHARE PERFORMANCE

1. Historical Share price performance

The chart below illustrates the movements of the closing prices of the Shares as quoted on the Stock Exchange for the period from 1 January 2018 up to and including the Latest Practicable Date (the “**Review Period**”) and a comparison of the Share price performance with Hang Seng Index and the Cancellation Price. In order to provide the Scheme Shareholders with an analysis on the Share prices on a longer term, we consider that the Review Period, which covers at least two full financial years of the Company, is a reasonable period of time within which the prevailing market price of the Shares would be useful for the Scheme Shareholders in considering the Proposal and the Scheme.



Source: the websites of Bloomberg

As illustrated in the chart above, the Share price has shown a significant upward trend and has outperformed the Hang Seng Index from January 2018 to August 2018 especially after the release of a positive profit alert announcement on 26 July 2018. The Share price then showed a downward trend from August 2018 to November 2018. We have discussed with the management of the Group regarding the possible reasons for such fall in price and they were not aware of any specific reasons which may lead to it. The Share price fluctuated from November 2018 onwards, following a similar pattern as that of the Hang Seng Index until September 2019, where the Share prices started to move upward, especially after the publication of the Rule 3.7 Announcement on 20 September 2019. The Share price further rose to reach the peak of HK\$2.74 on 4 October 2019 and then fluctuated with Hang Seng Index again until the release of a profit warning announcement on 17 March 2020. Two days after the release of the profit warning announcement, the Share price slumped to the lowest point of the Review Period, HK\$1.57 per Share on 19 March 2020 then kept edging up until the publication of the Announcement on 27 August 2020. During the period from 1 January 2018 to the last trading day prior to Rule 3.7 Announcement (the “**Pre-Announcement Period**”), the closing price ranged from HK\$1.60 and HK\$3.53 per Share, with an average and a median of approximately HK\$2.21 and approximately HK\$2.18 per Share respectively. The Shares closed on the Last Trading Day (25 August 2020) at HK\$3.18 per Share and its trading was suspended from 26 August 2020 to 27 August 2020. On 27 August 2020, the Company published the Announcement and trading in the Shares resumed on 28 August 2020. The closing Share price surged to HK\$3.24 per Share on 28 August 2020, representing an increase of approximately 1.89% as compared to the Last Trading Day. Since then, the closing Share prices fluctuated between HK\$3.22 and HK\$3.28 and closed at HK\$3.27 as at the Latest Practicable Date.

The closing price of the Share on the last trading day immediately prior to Rule 3.7 Announcement was HK\$2.55, representing a considerable increase of approximately 40.88% as compared to the closing price of the Share on 2 January 2018 (being the first trading day of the Review Period) of HK\$1.81, whereas the Hang Seng Index decreased by around 13.26% during the same period.

The Cancellation Price represented (i) a discount of approximately 5.90% to the highest closing price HK\$3.53 on 26 July 2018; (ii) a premium of approximately 111.59% over the lowest closing price of HK\$1.57 on 19 March 2020; and (iii) a premium over the Share closing price over 99.3% of the trading days during the Review Period. The weighted average price of the Share during the Review Period is approximately HK\$2.64, representing 20.53% discount to the Cancellation Price.

From the Scheme Shareholders' perspective, the Cancellation Price represents an immediate uplift in Shareholder's value as compared to the recent Share prices. However, the Scheme Shareholders should note that the Cancellation Price is substantially higher than the Share closing prices on most of the trading days during the Pre-Announcement Period, and the recent surge might be primarily driven by the Proposal, in particular, the Cancellation Price of HK\$3.3219 per Scheme Share. It is uncertain as to whether the prevailing Share prices can be sustained or even grow higher than the Cancellation Price in the future.

2. Trading liquidity

Set out in the table below are the average daily trading volumes, the comparison of such trading volumes to the total issued share capital of the Company and the comparison of such trading volumes to the public float of the Company during the Review Period:

	Average daily trading volume of the Shares	Percentage of the average daily trading volume of the Shares to the total number of issued Shares (Note 1)	Percentage of the average daily trading volume of the Shares to the public float of the Company (Note 2)
<i>2018</i>			
January	2,588,309	0.08%	0.20%
February	2,393,889	0.08%	0.19%
March	3,981,582	0.13%	0.31%
April	8,381,842	0.27%	0.65%
May	9,035,638	0.29%	0.70%
June	7,342,695	0.24%	0.57%
July	10,819,029	0.35%	0.84%
August	7,364,492	0.24%	0.57%
September	9,623,541	0.31%	0.75%
October	5,313,667	0.17%	0.41%
November	2,241,232	0.07%	0.18%
December	2,367,853	0.08%	0.24%

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	Average daily trading volume of the Shares	Percentage of the average daily trading volume of the Shares to the total number of issued Shares (Note 1)	Percentage of the average daily trading volume of the Shares to the public float of the Company (Note 2)
<i>2019</i>			
January	3,755,873	0.12%	0.39%
February	1,999,082	0.07%	0.22%
March	3,036,986	0.10%	0.33%
April	3,255,832	0.11%	0.36%
May	1,629,229	0.05%	0.17%
June	1,830,289	0.06%	0.19%
July	1,565,650	0.05%	0.17%
August	1,953,936	0.06%	0.21%
September	8,157,638	0.26%	0.86%
September (prior to the date of the publication of the Rule 3.7 Announcement)	3,922,250	0.13%	0.41%
September (on and after the date of the publication of the Rule 3.7 Announcement)	16,628,414	0.54%	1.76%
October	4,933,048	0.16%	0.52%
November	3,837,467	0.12%	0.41%
December	7,364,989	0.24%	0.78%
<i>2020</i>			
January	9,044,030	0.29%	0.96%
February	6,242,890	0.20%	0.66%
March	9,307,300	0.30%	0.98%
April	5,206,463	0.17%	0.55%
May	3,598,716	0.12%	0.38%
June	3,235,357	0.10%	0.34%
July	14,317,686	0.46%	1.51%
August	29,159,537	0.95%	3.07%
August (prior to the date of the publication of the Announcement)	9,930,518	0.32%	1.05%
August (on and after the date of the publication of the Announcement)	192,606,200	6.24%	20.28%
September	15,775,260	0.51%	1.66%
October	6,340,410	0.21%	0.67%
November (up to the Latest Practicable Date)	9,657,382	0.31%	1.02%

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date, as applicable.
2. The total number of Shares held by the public represents the number of issued Shares not held by the core connected persons (as defined under the Listing Rules) of the Company at the end of each month or as at the Latest Practicable Date, as applicable.

As illustrated in the above table, the average daily trading volume of the Shares during the Review Period represented approximately 0.05% to 6.24% of the total number of issued Shares, and approximately 0.17% and 20.28% of the public float of the Company. During the Pre-Announcement Period, the trading liquidity of the Shares was generally thin, ranging from approximately 0.05% to 0.35% of the total issued Shares. After publication of the Rule 3.7 Announcement on 20 September 2019, the average trading volume for September spiked to 16,628,414 Shares representing approximately 0.54% of the total number of issued Shares and approximately 1.76% of the public float of the Company. We considered that the surge was mainly attributable to the investors' reaction to the possible transactions set out in the Rule 3.7 Announcement.

Since then, the average daily trading volume of the Shares has been maintained at a level generally higher than that in the Pre-Announcement Period. In August 2020, the average daily trading volume of the Shares spiked to 0.95% of the total issued Shares and 3.07% of the public float of the Company as a result of the publication of the Announcement on 25 August 2020. It then receded to approximately 0.31% of the total number of issued Shares and approximately 1.02% of the public float in November 2020 up to the Latest Practical Date. We consider that the increase in trading volume in August 2020 and September 2020 was mainly attributable to the potential privatisation proposal set out in the Announcement. It is uncertain as to whether there would be sufficient liquidity in the Shares for the Scheme Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares. The market trading price of the Shares therefore may not necessarily reflect the proceeds that the Scheme Shareholders can receive by the disposal of their Shares in the open market. The Scheme Shareholders are reminded that the increase in daily trading volume subsequent to the publication of the Announcement may not be sustainable if the Proposal and the Scheme lapse.

We consider the Proposal provides the Scheme Shareholders, especially those holding a large block of the Shares, a cash exit to realise their holdings at the Cancellation Price without creating a significant downside pressure on the trading price of the Shares.

VII. COMPARISON ANALYSIS

1. Peer Comparison

For comparison purpose, we have sought to identify comparable companies (the “**Direct Comparable Companies**”) exhaustively on Bloomberg and the Stock Exchange based on the criteria that (i) the shares of the company are listed on the Main Board of the Stock Exchange with closing market capitalisation as at the Last Trading Day between HK\$4,500 million and HK\$11,000 million (which represents the approximate lowest and highest market capitalisation of the Company during the Review Period); (ii) over 70% of the total revenue of the company was generated from the same business as the Game Business or Work-for-Hire Business (i.e. which mainly focuses on the development and publishing of the PC/console games) in their most recent financial year. However, no Direct Comparable Companies can be identified.

In this circumstance, we have sought to identify companies exhaustively on Bloomberg and the Stock Exchange based on less stringent criteria (the “**Reference Companies**”) that (i) the closing market capitalisation as at the Last Trading Day fell between HK\$1,000 million and HK\$20,000 million; and (ii) over 70% of the total revenue of the company generated from publishing, development and operation of online games, which are classified in the same global gaming industry as the Game Business of the Group, and share similar business model as game developer and/or publisher of online games generating revenue mainly from the players’ spending on the games. On this basis, we have identified eight Reference Companies.

In assessing the relevance of the business of the Reference Companies, we have discussed with the management of the Group and they concurred that each of the Reference Companies is carrying out comparable business as the Group’s. The Scheme Shareholders should be reminded that the Reference Companies identified based on the less stringent criteria are not direct and perfect comparable companies but it is believed that they give a meaningful comparison analysis based on information available in the public domain.

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We have adopted the industry-specific valuation multiples including enterprise value-to-EBITDA ratio (the “**EV/EBITDA Ratio**”) and price-to-sale ratio (the “**PS Ratio**”) rather than the price-to-earning ratio given that the Group recorded net loss after taxation in the latest financial year, FY2019, and was subject to Canada and the UK tax zones of higher corporate tax rates than the Hong Kong or PRC tax rates applicable to the Reference Companies. We consider that EV/EBITDA Ratio and PS Ratio are valuation multiples commonly adopted in evaluation of business takeover transactions and specific to the gaming industry as they eliminate the deviations in the non-operative factors such as the financial leverage, depreciation policy, and taxation rate, which may vary significantly in gaming companies. Despite the fact that the price-to-book value ratio (the “**PB Ratio**”) may not be an industry-specific multiple for gaming companies, we also included it in our comparison analysis for Shareholders’ reference as it remains a conventional and widely used multiple for evaluation of business takeover transactions in the market. Set out below are the comparison between the Company and the Reference Companies based on the PS Ratio, the EV/EBITDA Ratio and the PB Ratio:

Reference Companies	Stock code	Principal activities	Market capitalisation as at the Last Trading Day	EV/EBITDA Ratio	PS Ratio	PB Ratio
			HK\$ (million)	(Note 1)	(Note 2)	(Note 3)
XD Inc.	2400	Development, operation, publishing and distribution of mobile and web games and provision of information services	17,506	21.56	5.56	7.48
IGG INC	799	development and operation of online games	11,634	5.87	2.25	3.24
FriendTimes Inc	6820	Provision of mobile game development and publishing services	8,007	14.45	4.27	5.71
CMGE Technology Group Limited	302	Provision of mobile game publishing and game development services	10,206	21.75	3.03	2.38
7Road Holdings Limited (“7Road”)	797	Development and distribution of web games and mobile games	7,073	194.69	19.11	5.63
iDreamSky Technology Holdings Limited	1119	Provision of licensing and operating of single player mobile games and mobile online games	6,145	11.35	1.98	1.49
BAIOO Family Interactive Limited	2100	Development and operation of an online virtual world for children	3,268	9.33	4.33	1.83
Fire Rock Holdings Limited	1909	Provision of software, browser and mobile games development and licensing of its software to business partners	3,168	9.29	9.39	5.17
Average (Note 4)				13.37	4.40	3.90
Median (Note 4)				11.35	4.47	3.24
Maximum (Note 4)				21.75	9.39	7.48
Minimum (Note 4)				5.87	1.98	1.49
Cancellation Price (Note 5)				26.41	6.17	5.69

Notes:

1. The EV/EBITDA Ratios were calculated based on the enterprise value derived by (i) the market capitalisation of the Reference Companies as at the Last Trading Day deducted by the net debt; and (ii) divided by the respective earnings before interest, taxes, depreciation, and amortisation of the Reference Companies as at the latest financial reporting date as shown on or derived from its latest annual report. The net debt represented free cash of the Company deducting the bank borrowings and debentures of the Reference Companies.
2. The PS Ratios were calculated based on the market capitalisation of the Reference Companies as at the Last Trading Day divided by the respective revenue of the Reference Companies as at the latest financial reporting date as shown on its latest annual report.
3. The PB Ratios were calculated based on the market capitalisation of the Reference Companies as at the Last Trading Day divided by the respective NAV attributable to shareholders of the Reference Companies as at the latest financial reporting date shown on its latest annual or interim report.
4. As the EV/EBITDA Ratio and the PS Ratio of 7Road represented significant deviations from other Reference Companies, we considered it an outlier and therefore excluded it from the comparison analysis.
5. The EV/EBITDA Ratio represented by the Cancellation Price of approximately 26.41 times was calculated based on the EV (which was (i) derived by the theoretical market capitalisation of the Cancellation Price for the Shares of HK\$10,248.6 million deducted by the net debt as at the end of 1H2020 of approximately US\$12.4 million (equivalent to approximately HK\$96.1 million); and then (ii) divided by the EBITDA for FY2019 of approximately US\$49.6 million (equivalent to approximately HK\$384.4 million). The PS Ratio represented by the Cancellation Price of approximately 6.17 times was calculated based on the Cancellation Price divided by the revenue generated by the Company for FY2019.

EV/EBITDA Ratio

As set out in the table above, the EV/EBITDA Ratios of the Reference Companies (excluding the outlier mentioned in note 3 to the table) ranged from 5.87 to 21.75, with an average of 13.37 and a median of approximately 11.35. The EV/EBITDA Ratio of the Company represented by the Cancellation Price of 26.41 is far above the range of the EV/EBITDA Ratios of the Reference Companies.

PS Ratio

As set out in the table above, the PS Ratios of the Reference Companies ranged from 1.98 to 9.39, with an average of 4.40 and a median of approximately 4.47. The PS ratio of the Company at the Cancellation Price of 6.17 is within the range of the PS Ratios of the Reference Companies, and is higher than the average and the median of those of the Reference Companies.

PB Ratio

As set out in the table above, the PB Ratios of the Reference Companies ranged from 1.49 to 7.48, with an average of 3.90 and a median of approximately 3.24. The PB ratio of the Company at the Cancellation Price of 5.69 falls within the range of the PB Ratios of the Reference Companies, and is higher than the average and the median of those of the Reference Companies.

2. Privatisation Precedents

For comparison purpose, we have identified the privatisation proposals of companies listed on the Main Board announced and completed/approved (the “**Privatisation Precedents**”) during the period from the 1 January 2018 to the Last Trading Day (the “**Precedent Review Period**”). However, taking into account the unprecedented outbreak of the COVID-19 pandemic and its impact on the financial market, we consider that the Privatisation Precedents announced and became effective or approved at the respective shareholder meeting and court meeting during the period from 1 January 2020 up to and including the Last Trading Day (the “**Pandemic Period**”) is more reflective. The Privatisation Precedents represent an exhaustive list of privatisation proposals that can be identified on the Stock Exchange’s website and Bloomberg.

As the Company made the Rule 3.7 Announcement on 20 September 2019, which was far before the Last Trading Day (i.e. 25 August 2020), we consider that the premiums comparison should be based on the Share price immediately prior to the publication of the initial announcement (either under Rule 3.5 or Rule 3.7 of the Takeovers Code) (the “**Initial Announcement**”) as it is more reflective and sensible than the conventional comparison based on the Last Trading Day. Accordingly, the table below illustrates the premium represented by the cancellation consideration/offer price over the respective last trading day and respective last 10 days, 30 days, 60 days, 90 days, 120 days and 180 days average share prices prior to the publication of the Initial Announcement of the respective privatisation proposals.

Although the business nature, financial performance and position and scale of each company vary, and the pricing may be industry-specific, we consider that the comparison with the Privatisation Precedents illustrate the pricing of recent privatisation proposals on the Main Board and the range of reasonable cancellation prices/offer prices required for successful privatisation proposals in the market. Accordingly, we consider the comparison with Privatisation Precedents, in particular those in the Pandemic Period (the “**Pandemic Precedents**”), an appropriate basis in assessing the fairness and reasonableness of the Cancellation Price.

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Date of the Initial Announcement	Company name and stock code	Cancellation consideration/offer price HK\$	Premium of the cancellation consideration/offer price over						
			closing price per share on the last trading day immediately prior to the Initial Announcement	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day	average closing price per share for the last 120 trading days up to and including the last trading day	average closing price per share for the last 180 trading days up to and including the last trading day
			%	%	%	%	%	%	%
21-Jun-20	China Baofeng (International) Limited (stock code: 3966)	2.60	27.45	61.49	52.05	42.86	39.04	36.84	30.65
20-Apr-20	Allied Properties (H.K.) Limited (stock code: 0056)	1.92	34.27	40.15	39.13	33.33	29.73	28.00	23.08
3-Apr-20	Elec & Eltek International Company Limited (stock code: 1151 & E16.SI)	18.07	70.47	46.79	41.50	41.17	45.02	47.39	54.44
20-Mar-20	Li & Fung Limited (stock code: 0494)	1.25	150.00	133.90	95.20	72.70	62.10	57.00	43.80
27-Feb-20	Wheelock and Company Limited (stock code: 0020)	71.90	52.17	49.22	45.20	43.90	45.90	48.13	45.20
20-Jan-20	BBI Life Sciences Corporation (stock code: 1035)	3.50	16.28	31.43	42.45	46.10	47.92	55.65	56.68
12-Dec-19	Joyce Boutique Group Limited (stock code: 0647)	0.28	91.78	95.80	82.17	62.70	50.54	39.79	32.20
27-Nov-19	China Agri-Industries Holdings Limited (stock code: 0606)	4.25	34.07	40.92	53.17	64.73	72.39	72.62	69.96
1-Nov-19	Springland International Holdings Limited (stock code: 1700)	2.30	63.10	64.40	56.80	55.40	53.20	51.30	48.60
20-Oct-19	Dah Chong Hong Holdings Limited (stock code: 1828)	3.70	37.55	42.31	54.81	56.12	54.17	49.80	41.22
2-Oct-19	AVIC International Holdings Limited (stock code: 0161)	9.00	29.12	58.09	81.31	88.63	100.00	96.08	92.08
2-Sept-19	Huaneng Renewables Corporation Limited (stock code: 0958)	3.17	46.08	56.16	55.39	50.95	50.95	47.44	45.41
12-Aug-19	TPV Technology Limited (stock code: 0903)	3.86	41.39	50.78	54.50	76.30	88.30	104.00	138.79
27-Jun-19	Asia Satellite Telecommunications Holdings Limited (stock code: 1135)	10.22	23.43	33.42	44.44	50.44	56.52	63.52	70.96
18-Jun-19	C.P. Lotus Corporation (stock code: 0121)	0.11	10.00	12.00	29.40	30.30	26.50	28.10	21.90
3-May-19	China Automation Group Limited (stock code: 0569)	1.50	23.97	36.86	47.78	47.49	46.63	45.49	42.45
4-Apr-19	China Hengshi Foundation Company Limited (stock code: 1197)	2.50	10.62	16.82	17.37	19.05	24.38	25.63	27.55
28-Mar-19	China Power Clean Energy Development Company Limited (stock code: 0735) (Note 2)	5.45	41.90	60.80	78.10	94.00	101.90	105.70	88.58
5-Dec-18	Hopewell Holdings Limited (stock code: 0054)	38.80	46.70	51.60	55.50	54.10	49.60	48.20	45.10

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Date of the Initial Announcement	Company name and stock code	Cancellation consideration/offer price HK\$	Premium of the cancellation consideration/offer price over						
			closing price per share on the last trading day immediately prior to the Initial Announcement	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day	average closing price per share for the last 120 trading days up to and including the last trading day	average closing price per share for the last 180 trading days up to and including the last trading day
			%	%	%	%	%	%	%
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (stock code: 3355)	1.50	66.67	97.37	99.29	93.38	90.19	87.50	84.28
27-Sep-18	Sinotrans Shipping Limited (stock code: 0368)	2.70	50.00	54.60	42.90	37.80	32.40	32.50	28.00
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (stock code: 0044)	71.81	63.20	65.10	62.40	60.30	57.00	54.20	50.00
7-Jun-18	Portico International Holdings Limited (stock code: 0589)	4.10	50.20	53.20	49.20	45.20	45.80	48.10	49.90
Precedent Review Period (Note 1)			Maximum	91.78	97.37	99.29	94.00	101.90	138.79
			Minimum	10.00	12.00	17.37	19.05	24.38	21.90
			Mean	42.29	50.88	53.86	54.28	54.91	53.96
			Median	41.65	51.19	52.61	50.70	50.07	47.01
Pandemic Period (Note 1)			Maximum	70.47	61.49	52.05	46.10	47.92	56.68
			Minimum	16.28	31.43	39.13	33.33	29.73	23.08
			Mean	40.13	45.82	44.07	41.47	41.52	42.01
			Median	34.27	46.79	42.45	42.86	45.02	45.20
20-Sept-19	The Company	3.3219	30.27	46.34	52.38	53.08	49.64	48.30	48.30

Source: Bloomberg and website of the Stock Exchange

Notes:

- As the premiums implied by the cancellation consideration in the privatisation proposal of Li & Fung Limited (stock code: 494) significantly deviated from other Privatisation Precedents, they were excluded as outlier from the analysis.
- The cash alternative of HK\$5.45 for each ordinary scheme share had been used for the purpose of this comparison. The reference value for the share alternative implies a consideration of each ordinary scheme share of approximately HK\$3.77 to HK\$5.39 as disclosed in the scheme document.
- The premium of the cancellation consideration/offer price over the share price averages for the respective periods were calculated based on (i) the cancellation consideration/offer price as disclosed in the announcement/composite document/scheme document in relation to the privatisation proposal; and (ii) the historical share prices of the companies extracted from Bloomberg.

As set out in the table above, all the Privatisation Precedents offered cancellation consideration or offer price at premiums, with (i) average premiums ranging from approximately 42.29% to 55.27%, and median premiums from 41.65% to 52.61% during the Precedent Review Period; and (ii) average premiums ranging from approximately 40.13% to 45.82%, and median premiums from 34.27% to 47.39% during the Pandemic Period.

In comparison, it is noted that the premiums represented by the Cancellation Price fall squarely within all the premium ranges of the Privatisation Precedents, yet below the average and median premiums over all reference periods (except for the median premium over the share price on the last 120 trading days).

However, in view of the outbreak of the COVID-19 pandemic, we consider that it is more appropriate to take into account the comparison with the Pandemic Precedents rather than the Privatisation Precedents. On this basis, it is worth noting that the premiums represented by the Cancellation Price fall squarely within the premium ranges of the Pandemic Precedents, and are higher than the average and median premiums of the Pandemic Precedents in respect of all reference periods (except for the one compared with the share price on the last trading day of the Pandemic Precedents).

Overall, we consider that the premium represented by the Cancellation Price is in line with the market.

3. The Option Offer

As disclosed in the section headed “The Option Offer” above, under the Option Offer, the Offeror will offer Optionholders the “see-through” Option Offer Price (being the Cancellation Price minus the relevant exercise price) for each outstanding Option held in exchange for the cancellation of every vested and unvested Option. We note that it is common market practice and in accordance with Rule 13 and Practice Note 6 of the Takeovers Code to adopt a “see-through” price (representing the difference between the share offer price and the relevant given exercise price). As the exercise prices of all the Share Options are below the Cancellation Price, we consider the “see-through” price offered to the Optionholders to be in line with market practice and in accordance with Rule 13 and Practice Note 6 of the Takeovers Code.

DISCUSSION

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed “Principal factors and reasons considered” above, none of which can be considered in isolation. We would like to draw the attention of the Scheme Shareholders in particular to the points summarised below:

- I. Company’s financial performance/position:** The Company’s financial performance fluctuated significantly between FY2018 and FY2019, which was mainly attributable to its heavy reliance on its flagship game, *Warframe*. The content update of *Warframe* in FY2018 was of huge success, therefore driving up the profit before taxation by 74.7%, while in FY2019, the Group failed to release its ambitious update in time amid fierce competition from other similar games launched by reputable publishing company with strong marketing efforts. Hence, the profit before taxation shrank by 71.1% in FY2019. The heavy reliance on its flagship game stirred concerns over the Group’s adaptability to the future challenges imposed by other video game competitors despite continuing efforts of the Group in new game development. The schedule for publication amid COVID-19 pandemic was uncertain. The financial position remained generally healthy. Yet the capitalised development expenditure being the largest asset type of the Group mainly comprising the advanced payment made to the external game developers before the game published, may not guarantee proportional satisfactory financial results given the players’ expectation of the new games was uncertain. Hence, it also posed uncertainties to the Group.
- II. Industry overview:** The market landscape of video games is vibrant and very competitive, continues to evolve with newly developed games or content updates squeezing the weak out of the battlefield. The Games Market Report endorsed the promising future of the gaming industry as a whole, optimistic about that of the Mobile Games in particular, while projected a slowdown of revenue growth for the Video Games, which is the main focus of the Group’s game portfolios.
- III. Impact of COVID-19 pandemic and challenges ahead:** The impact of COVID-19 pandemic on the Group’s operation is threefold. Firstly, the Group’s gaming studios in Canada and the UK were shut down during the quarantine period, leading to delays in progress of the content updates. Secondly, the long-established physical fans annual gathering for marketing and promotion purpose was replaced by an online broadcast, weakening the Group’s marketing efforts. Thirdly, the heavy reliance on single flagship game may make the Group more vulnerable than its competitors in tackling the impact of COVID-19. All it means that the Company has to stay cautious about its deployment of development and marketing efforts for the challenges ahead.

- IV. Reasons for the Proposal:** It provides a prime opportunity for the Shareholders to exit at premium to the market regardless of the trading liquidity curb of the Shares. The premium over the average closing price of the Shares for the 10 and 90 trading days up to and including the Last Trading Day, amounted to approximately 5.66% and 25.03% respectively.
- V. Cancellation Price:** The Cancellation Price represented premiums over the Share prices in all selected benchmark periods, and a premium of approximately 435.78% over the audited consolidated NAV per Share as at 31 December 2019 and the unaudited one as at 30 June 2020.
- VI. Historical Share Price performance/trading liquidity:** The Cancellation Price is higher than the Shares prices for over 99.3% of the trading days during the Review Period, and represents a discount of approximately 5.90% to the highest closing price HK\$3.53 on 26 July 2018 and a premium of approximately 111.59% over the lowest closing price of HK\$1.57 on 19 March 2020, respectively. During the Review Period, the average daily trading volume of the Shares represented approximately 0.05% to 6.24% of the total number of issued Shares, and approximately 0.17% and 20.28% of the public float of the Company.

VII. Comparison Analysis

- 1. Peer comparison:** The EV/EBITDA Ratio represented by the Cancellation Price of 26.41 is far above the range of the EV/EBITDA Ratios of the Reference Companies between 5.87 and 21.75, let alone the average and medium EV/EBITDA Ratios of the Reference Companies. The PS Ratio represented by the Cancellation Price of 6.17 is also higher than the average and the median PS Ratios of the Reference Companies of 4.40 and 4.47 respectively. The PB Ratio represented by the Cancellation Price of 5.69 is also higher than the average PB Ratio of 3.90 and the median PB Ratio of 3.24 of the Reference Companies.
- 2. Privatisation precedents:** the premiums represented by the Cancellation Price fall squarely within the premium ranges of the Privatisation Precedents and the Pandemic Precedents, and are higher than the average and median premiums of the Pandemic Precedents in respect of all reference periods (except for the one compared with the share price on the last trading day of the Pandemic Precedents).

VIII. Option Offer: The Option Offer adopts the “see-through” price, which is a common market practice and in accordance with Rule 13 and Practice Note 6 of the Takeovers Code.

OPINION AND RECOMMENDATIONS

Based on the above analysis, we consider the terms of the Proposal and the Scheme are fair and reasonable as far as the Disinterested Shareholders are concerned, and that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Accordingly, we advise the Independent Board Committee (a) to recommend the Disinterested Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme; and (b) to recommend the Optionholders to accept the Option Offer.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Mei H. Leung
Chairman

Ms. Leung is licensed person and responsible officer of Optima Capital Limited registered with the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed in Hong Kong.

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20 (4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT TO CANCEL ALL OF THE SCHEME SHARES
IN CONSIDERATION OF THE OFFEROR
AGREEING TO PAY THE CANCELLATION PRICE
AND OPTION OFFER**

1. INTRODUCTION

On 27 August 2020, the Offeror and the Company jointly announced that on the same date, in response to the Offeror's Proposal put forward to the Board, the Company provided the Implementation Undertaking in favour of the Offeror pursuant to which the Company irrevocably undertook to the Offeror to put forward to the Scheme Shareholders the Scheme which, if approved and implemented, will result in the Company being taken private by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange.

The Scheme involves the cancellation of all the Scheme Shares in exchange for HK\$3.3219 in cash for each Scheme Share, and the subsequent issue of new Shares to the Offeror, as a result of which it is intended that the Company will be wholly owned by the Offeror.

The Offeror is making the Option Offer to the Optionholders to cancel all of the outstanding Options. The Option Offer is conditional on the Scheme becoming effective.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal (including the Option Offer) and to provide the Shareholders and the Optionholders with other relevant information in relation to the Proposal.

The particular attention of the Shareholders and the Optionholders is drawn to the following sections of this Scheme Document: (a) a letter from the Board set out in Part IV of this Scheme Document; (b) a letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) a letter from the Independent Financial Adviser set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix V to this Scheme Document.

2. IMPLEMENTATION UNDERTAKING

On 27 August 2020, in response to the Offeror's Proposal put forward to the Board, the Company provided the Implementation Undertaking in favour of the Offeror, pursuant to which the Company irrevocably undertook to the Offeror to put forward to the Scheme Shareholders the Scheme which, if approved and implemented, will result in the Company being taken private by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange.

3. TERMS OF THE PROPOSAL**The Scheme**

The Proposal is to be implemented by way of a scheme of arrangement under Section 86 of the Companies Law.

Under the Proposal, if the Scheme becomes effective, all of the Scheme Shares will be cancelled in exchange for the Cancellation Price of HK\$3.3219 per Scheme Share to be paid by the Offeror.

As at the Latest Practicable Date, there are 3,085,319,017 Scheme Shares, representing 100.00% of the issued share capital of the Company.

The Cancellation Price of HK\$3.3219 represents:

- a premium of approximately 1.59% over the closing price of HK\$3.2700 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 30.27% over the closing price of HK\$2.5500 per Share on 19 September 2019, which was the last trading day prior to the Rule 3.7 Announcement;
- a premium of approximately 4.46% over the closing price of HK\$3.1800 per Share on the Last Trading Day;
- a premium of approximately 5.86% over the average closing price of approximately HK\$3.1380 per Share based on the daily closing prices as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- a premium of approximately 5.66% over the average closing price of approximately HK\$3.1440 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 8.32% over the average closing price of approximately HK\$3.0667 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 17.44% over the average closing price of approximately HK\$2.8287 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

- a premium of approximately 25.03% over the average closing price of approximately HK\$2.6569 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 29.17% over the average closing price of approximately HK\$2.5718 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 435.78% over the audited consolidated net asset value per Share of approximately US\$0.08 (equal to approximately HK\$0.6200, using an exchange rate of US\$1 = HK\$7.7502) per Share as at 31 December 2019; and
- a premium of approximately 435.78% over the unaudited consolidated net asset value per Share of approximately US\$0.08 (equal to approximately HK\$0.6200, using an exchange rate of US\$1 = HK\$7.7502) per Share as at 30 June 2020.

During the six-month period ending on the Last Trading Day, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$3.2000 per Share on 24 August 2020, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$1.5700 per Share on 19 March 2020.

The Cancellation Price had been determined on an arm's length commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange, the financial information of the Group including the financial position of the Group as at 31 December 2019, the Offeror's review of the Group's principal businesses carried out by two major operating subsidiaries, namely Digital Extremes and Splash Damage Limited and its future prospects and with reference to, without placing particular weight on any particular privatization transaction, the range of implied premiums over the trading price of a large database of delisting and privatization transactions for companies whose shares are listed on the Stock Exchange across a variety of industries, a range of different market capitalisations and a range of different transaction parameters in recent years.

The Option Offer

As at the Latest Practicable Date, there were an aggregate of 407,905,860 outstanding Options granted under the Share Option Scheme, each relating to one Share, of which a total of 279,449,817 Options were exercisable at the Latest Practicable Date.

The full exercise of all outstanding Options granted under the Share Option Scheme would result in the issue of 407,905,860 new Shares, representing approximately 13.22% of the issued share capital of the Company as at the Latest Practicable Date and approximately 11.68% of the issued share capital of the Company as enlarged by the issue of such new Shares.

In accordance with the terms of the Share Option Scheme, if a general offer (whether by takeover offer or scheme of arrangement or otherwise in like manner) is made to all Shareholders and such offer becomes or is declared unconditional prior to the expiry of the Options, the Optionholders are entitled to exercise the Options in full (to the extent such Options have become exercisable but have not already been exercised) at any time within one calendar month after the later of: (a) the despatch of the offer document; and (b) the date on which the offer becomes or is declared unconditional (the “**Exercise Period**”).

Any Options granted under the Share Option Scheme that are not exercised pursuant to the Share Option Scheme or tendered for acceptance pursuant to the Option Offer will lapse automatically upon the expiry of such Exercise Period.

To the extent that the outstanding Options have not otherwise lapsed, been cancelled or been exercised, the Offeror is making (or procuring to be made on its behalf) the Option Offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel every vested and unvested outstanding Option (regardless of whether they are exercisable on, before or after the Scheme Record Date), subject to the Scheme becoming effective.

An Optionholder may, therefore, (a) exercise the outstanding (and exercisable) Options on or before the Latest Option Exercise Date, and any Shares allotted and issued pursuant to which will be subject to and be entitled to participate in the Scheme; (b) accept the Option Offer and receive the “see-through” Option Offer Price (being the Cancellation Price minus the relevant exercise price of those outstanding Options) on or before the Option Record Date; and (c) take no action, and the outstanding Options will lapse after the expiry of the Exercise Period.

Under the Option Offer, the Offeror is offering Optionholders the “see-through” Option Offer Price (being the Cancellation Price minus the relevant exercise price) for each outstanding Option held in exchange for the cancellation of every vested and unvested Option. The number of outstanding Options to which each Option exercise price applies as at the Latest Practicable Date and the corresponding Option Offer Price are set out in the table below:

Option exercise price (HK\$)	Option Offer Price (HK\$)	Number of outstanding Options as at the Latest Practicable Date
1.91	1.4119	262,071,200
2.50	0.8219	47,878,617
2.80	0.5219	48,978,005
3.10	0.2219	48,978,038

The Company has not granted any further Options between the date of the Announcement and the Latest Practicable Date and does not intend to grant any further Options between the Latest Practicable Date and the Effective Date.

Further information on the Option Offer is set out in the form of Option Offer Letter which is set out in Appendix VIII to this Scheme Document.

In the event that any Option vests and is exercised: (i) any Shares registered in the name of the relevant Optionholder prior to or on the Scheme Record Date as a result of the vesting and exercise of such Option, will be subject to and eligible to participate in the Scheme; and (ii) in addition, the holder of any Shares which are registered in the name of the relevant Optionholder prior to or on the Meeting Record Date as a result of the vesting and exercise of such Option, will be entitled to attend and vote at the Court Meeting and EGM in respect of such Shares.

Any Optionholder whose Option remains unvested or, to the extent the Option has vested, in respect of which the underlying Share has not been registered in the name of the relevant Optionholder, as at the Scheme Record Date and/or the Meeting Record Date as the case may be, will not be eligible to participate in the Scheme in respect of such Option, and will not be entitled to attend and vote at the Court Meeting and the EGM in respect of such underlying Share, respectively.

Save for the outstanding Options, the Company does not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into the Shares as at the Latest Practicable Date.

The Company has not declared, made or paid any dividend or other distribution (whether in cash or in kind) to the Shareholders between the date of the Announcement and the Latest Practicable Date and does not intend to declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders between the Latest Practicable Date and the Effective Date. If, after the Latest Practicable Date, any dividend or other distribution (whether of profit or capital) is made or paid in respect of the Scheme Shares, the Offeror reserves the right to reduce the Cancellation Price and the Option Offer Prices by an amount equal to the amount of such dividend or other distribution made or paid on each Scheme Share.

The Offeror will not increase the Cancellation Price or the Option Offer Prices and does not reserve the right to increase the Cancellation Price or the Option Offer Prices. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price or the Option Offer Prices.

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company is intended to be wholly owned by the Offeror.

The Proposal and the Scheme are conditional upon the satisfaction or valid waiver (as applicable) of the conditions described in the section headed “4. Conditions of the Proposal and the Scheme” below. All of the Conditions will have to be satisfied or validly waived (as applicable) on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse. When all of the Conditions are satisfied or validly waived (as applicable), the Scheme will become effective and binding on the Company and all Scheme Shareholders. Further announcements on any changes regarding the expected timetable of the Scheme will be made as and when necessary.

If the Proposal does not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

If the Scheme becomes effective on Monday, 21 December 2020, payments under the Proposal are expected to be despatched to the Scheme Shareholders by ordinary mail at their own risk on or before Thursday, 31 December 2020.

Settlement of the Cancellation Price and the Option Offer will be implemented in full in accordance with the terms of the Scheme and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Shareholder or Optionholder (as the case may be).

4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Scheme Shareholders, subject to the satisfaction or a valid waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Shareholders representing not less than 75% in value of the Shares held by the Shareholders present and voting, either in person or by proxy, at the Court Meeting, provided that:
 - (i) the Scheme is approved (by way of poll) by the Disinterested Shareholders holding at least 75% of the votes attaching to the Shares held by the Disinterested Shareholders that are voted, either in person or by proxy, at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting, either in person or by proxy, at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Shares held by all Disinterested Shareholders;

- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, either in person or by proxy, at the EGM to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and
- (ii) the passing of an ordinary resolution by a simple majority of the votes cast by the Shareholders present and voting, either in person or by proxy, at the EGM to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (c) the sanction of the Scheme (with or without modifications) and the confirmation of the reduction of the issued share capital of the Company by the Grand Court and the delivery of a copy of the Court Orders to the Registrar of Companies for registration;
- (d) to the extent necessary, the compliance by the Company with the procedural requirements of sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (e) all Authorisations in connection with the Proposal or the Scheme having been obtained from the relevant Governmental Authorities in Canada, the United States of America, Germany, Austria and any other relevant jurisdiction;
- (f) with respect to any applicable antitrust review in the U.S. under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations thereunder, the expiration or termination of any applicable waiting period (including any extensions thereof) in connection with the Proposal;
- (g) with respect to the competition review in Canada under the Competition Act (Canada) and the regulations thereunder, (i) an advance ruling certificate having been obtained from the Commissioner of Competition, or (ii) the expiration, termination or waiver of any applicable waiting period (including any extensions thereof) and a letter having been obtained from the Commissioner of Competition indicating that he does not intend to make an application under section 92 of the Competition Act (Canada), in each case in connection with the Proposal;

- (h) with respect to the national security review in Canada under the Investment Canada Act (Canada), as amended, and the regulations thereunder, (i) the expiration or termination of the applicable waiting period (including any extensions thereof) for national security review without any order or notice being given for national security review, or (ii) if any notice for national security review has been given during the applicable waiting period, a notice having been given by the applicable Canadian minister that either no order for national security review will be made, or no further action will be taken under the Investment Canada Act (Canada), or the Governor-in-Council for Canada having made an order authorizing the implementation of the Proposal provided that any conditions imposed upon such implementation are satisfactory to the Offeror at its discretion;
- (i) with respect to the competition review by the competition authorities in both Germany and Austria, (i) a decision having been made by such competition authorities that the Proposal does not give rise to a concentration falling within the scope of the relevant competition laws; (ii) a written confirmation having been issued by such competition authorities that the merger control regime applied by such competition authorities does not apply to the Proposal; (iii) a decision having been made by such competition authorities that allows the Proposal to be completed; or (iv) such competition authorities having not made any decision within the waiting period under the relevant merger control regime as it may have been validly suspended by the relevant competition authority, with the effect that the Proposal may be completed;
- (j) the Authorisations in connection with the Proposal or the Scheme remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any relevant Governmental Authority which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each case up to the date immediately prior to the date on which a copy of the Court Orders has been delivered to the Registrar of Companies for registration;
- (k) between the date of the Announcement up to immediately prior to the date on which a copy of the Court Orders has been delivered to the Registrar of Companies for registration, no government, governmental, quasi-governmental, statutory or regulatory, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted, made, proposed, issued, enforced or imposed (including without limitation through interpreting, amending, restating or supplementing) any Laws or other legal restraint or prohibition that would make the Proposal, the Scheme or its implementation in accordance with its terms void, unenforceable or illegal, impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its

terms or otherwise restrain or prohibit the implementation of the Proposal or the Scheme, or cause any transaction contemplated by the Proposal or the Scheme to be rescinded or otherwise disposed of after its implementation; and

- (l) since the date of the Announcement, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal).

Subject to the requirements of the Executive, the Offeror reserves the right (but is in no way obliged) to waive in whole or in part Conditions (e) and (j) to (l) in whole or in part, either generally or in respect of any particular matter. Conditions (a) to (d) and (f) to (i) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. As at the Latest Practicable Date, the Offeror is not aware of any such circumstances.

All of the above Conditions will have to be satisfied or validly waived (as applicable) on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse. When all of the above Conditions are satisfied or validly waived (as applicable), the Scheme will become effective and binding on the Company and all Scheme Shareholders. Implementation of the Option Offer will be conditional upon the Scheme becoming effective only. As at the Latest Practicable Date, save for the Authorisations set out above in Conditions (c) and (f) to (i), the Offeror is not aware of any other mandatory Authorisations required to be obtained prior to the Scheme becoming effective in respect of Conditions (e) and (j). As at the Latest Practicable Date, Conditions (f) to (i) have been satisfied.

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 21 December 2020 (Cayman Islands time). Further announcements will be made in relation to, among other things, the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the outcome of the hearing of the petition to sanction the Scheme by the Grand Court, the confirmation of reduction of capital as a result of the cancellation of the Shares by the Grand Court and if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange, in accordance with the requirements of the Takeovers Code and the Listing Rules.

If the Scheme is not approved or the Proposal otherwise lapses, an announcement will be made by the Offeror and the Company.

Shareholders and/or potential investors should be aware that the implementation of the Proposal will only become effective upon all of the Conditions being satisfied or validly waived (as applicable) and thus the Proposal and the Scheme may or may not become effective. Shareholders and/or potential investors should therefore exercise caution when dealing in Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

5. TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$3.3219 per Scheme Share and 3,085,319,017 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$10,249 million. On the assumption that:

- (a) (i) no outstanding Options are exercised, cancelled or have lapsed, and (ii) no further Shares are issued, on or before the Scheme Record Date, the amount of cash required to implement the Proposal (taking into account the Option Offer) is approximately HK\$10,695 million; and
- (b) (i) all outstanding Options are fully exercised and none of such Options are cancelled or have lapsed, and (ii) no further Shares (other than the Shares to be issued pursuant to the exercise of all outstanding Options) are issued, on or before the Scheme Record Date, the amount of cash required to implement the Proposal (taking into account the Option Offer) is approximately HK\$11,604 million.

The maximum cash consideration payable for the Proposal (including the Option Offer) is therefore approximately HK\$11,604 million.

The Offeror intends to finance the entire cash amount required to implement the Proposal from its internal cash resources.

BofA Securities, the financial adviser to the Offeror in connection with the Proposal, is satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal (including the Option Offer) in accordance with its terms.

6. IRREVOCABLE UNDERTAKINGS**(a) Controlling Shareholder Irrevocable Undertaking*****Committed Shares owned by Port New and Novel New***

As at the Latest Practicable Date, Port New beneficially held 1,539,894,522 Shares, representing approximately 49.91% of the issued share capital of the Company and Novel New beneficially held 74,100,000 Shares, representing approximately 2.40% of the issued share capital of the Company. Both Port New and Novel New are wholly-owned by Mr. Yuk. As such, the aggregate number of Committed Shares owned by Port New and Novel New that are subject to the Controlling Shareholder Irrevocable Undertaking is 1,613,994,522 Shares, representing approximately 52.31% of the issued share capital of the Company.

Controlling Shareholder Irrevocable Undertaking

On 27 August 2020, Port New and Novel New (each as a covenantor), Mr. Yuk (as the covenantors' guarantor) and the Offeror entered into the Controlling Shareholder Irrevocable Undertaking in favour of the Offeror, pursuant to which each of Port New, Novel New and Mr. Yuk irrevocably and unconditionally undertook to the Offeror that it or he will, and will procure and ensure that each of its or his affiliates or the legal holder(s) of its Shares (where appropriate) will:

- (i) vote all of the Committed Shares owned by it at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares;
- (ii) not, directly or indirectly, except with the prior written consent of the Offeror:
 - (A) sell, transfer, charge, create or grant any option over or otherwise dispose of (or permit any such action to occur in respect of), directly or indirectly, all or any of the Committed Shares owned by it or any interest therein;

- (B) create or permit to subsist any encumbrances (other than the Kingston Share Charge and certain margin financing facilities granted by Kingston Securities Limited) over all or any of the Committed Shares owned by it or any interest therein;
 - (C) accept, or give any undertaking (whether conditional or unconditional) to accept, or otherwise agree to, any offer, scheme of arrangement, merger or other business combination made or proposed to be made in respect of the Committed Shares owned by it by any person other than the Offeror;
 - (D) enter into any agreement in respect of the votes or other rights attached to any of the Committed Shares owned by it (including entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership to such Committed Shares owned by it or any interest therein);
 - (E) purchase, acquire, subscribe for or otherwise deal in any Shares or other securities of the Company or any interest therein; or
 - (F) enter into any discussion, negotiation, agreement or arrangement or incur any obligation with any person (other than the Offeror and any other person authorized in writing by the Offeror) (A) in relation to any of the Committed Shares owned by it, (B) to do any of the acts referred to in (i) to (v) above, or (C) make available any information to any person (other than the Offeror and any other person authorized in writing by the Offeror) in connection with the foregoing, except for such discussion or negotiation with Kingston in relation to the Kingston Share Charge and with Kingston Securities Limited in relation to certain margin financing facilities granted by it; and
- (iii) except as required under the Takeovers Code, the Listing Rules or any applicable laws or regulations, not to take any action which has or may have the effect of prejudicing, preventing, delaying or disrupting the Proposal, otherwise causing the Proposal not to become effective at the earliest practicable time or at all, or otherwise conflicting with or diminishing its or his obligations under such irrevocable undertaking.

The Controlling Shareholder Irrevocable Undertaking also includes certain representations, warranties and indemnities given to the Offeror, and undertakings to, amongst others, procure that the Group conducts its business as a going concern in the ordinary course, use commercially reasonable efforts to preserve intact in all material respects the business organization of the Group, maintain its existing relationships with material suppliers and customers, ensure all material Authorisations or intellectual property (including domain names) registrations required for the business of the Group are maintained and/or renewed as necessary upon expiry, and comply with certain other customary restrictive covenants in relation to the Group, in each case before the Effective Date, as well as the following undertakings, for which none of Port New, Novel New and Mr. Yuk will receive any consideration other than the receipt of the Cancellation Price for the Scheme Shares owned by them subject to the Scheme becoming effective:

- (i) as soon as practicable after the date of the Controlling Shareholder Irrevocable Undertaking and in any case before 31 December 2020, Port New, Novel New and Mr. Yuk shall use their best efforts to procure (and shall, in respect of the period following the Effective Date, provide such assistance as may be reasonably requested by the Offeror, or as may be reasonably necessary for the Offeror or its affiliates, to procure) the applications for transfer of certain trademarks to Digital Extremes and for registration of certain trademarks owned by Digital Extremes in relation to specified services, in each case, to be duly accepted and registered by the competent Governmental Authority in the PRC;
- (ii) to indemnify the Group for any amount by which the aggregate amount of costs, expenses, charges, interest and penalties incurred or suffered by any member of the Group, Tencent Holdings or any of its subsidiaries arising from or in connection with the engagement letter entered into between the Company and Moelis dated 20 May 2019 and all of the related or ancillary agreements and the transactions contemplated thereby (including all legal and other professional fees and disbursements incurred in the conduct of any claim, action, litigation or other proceeding in relation thereto) exceeds US\$16 million;

- (iii) as soon as practicable after the date of the Controlling Shareholder Irrevocable Undertaking and in any case before the Effective Date, Port New, Novel New and Mr. Yuk shall procure the Group to obtain written consent from lending banks to the Group and to notify in writing counterparties under certain business contracts to which the Group is a party, in each case in relation to the change of control in the Company as contemplated by the Scheme; and
- (iv) during a period of no more than two (2) years after the Effective Date, Port New, Novel New and Mr. Yuk shall not, and shall procure that none of its or his affiliates shall, directly or indirectly, without the Offeror's prior written consent, solicit or induce any director, officer, employee, consultant, provider, supplier, vendor, customer, partner or agent of any member of the Group or any of its affiliates to leave or terminate such person's employment or other relationship with a member of the Group or any of its affiliates, or employ or engage any director, officer or employee of any member of the Group.

The Controlling Shareholder Irrevocable Undertaking will be terminated and cease to be binding (a) upon the delivery of a termination notice by one party thereof to the other party in the event one or more of the Conditions are not satisfied or waived by the Offeror on or prior to the Long Stop Date, provided that the non-satisfaction of such Condition identified in the termination notice shall not have been caused by or as a result of such party's breach of the relevant obligations thereunder, (b) if the Scheme and the Option Offer are withdrawn in circumstances permitted under the Takeovers Code, or (c) by the mutual written consent of the parties.

(b) Alpha Frontier Irrevocable Undertaking

Committed Shares owned by Alpha Frontier through LaGuardia

As at the Latest Practicable Date, Alpha Frontier (through LaGuardia) beneficially held 518,700,000 Shares, representing approximately 16.81% of the issued share capital of the Company. Alpha Frontier had exercised the Put Option with respect to such Shares but, as at the Latest Practicable Date, Port New had not paid the transfer price in connection with the Put Option and the transfer to Port New in accordance with the terms of the Put Option had not yet been completed, and Port New does not expect to pay the transfer price and complete the transfer of such Shares before the Court Meeting and the EGM is convened or the Effective Date.

Alpha Frontier Irrevocable Undertaking

On 27 August 2020, LaGuardia (as the covenantor), Alpha Frontier (as LaGuardia's guarantor) and the Offeror entered into the Alpha Frontier Irrevocable Undertaking in favour of the Offeror, pursuant to which LaGuardia irrevocably and unconditionally undertook to the Offeror that during the period from the date of the Alpha Frontier Irrevocable Undertaking to its termination pursuant to the terms thereof, it will, and will procure and ensure that each of its affiliates or the legal holder(s) of its Shares (where appropriate) will:

- (a) vote all of the Committed Shares owned by it at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares;
- (b) not, directly or indirectly, except with the prior written consent of the Offeror:
 - (i) sell, transfer, charge, create or grant any option over or otherwise dispose of (or permit any such action to occur in respect of), directly or indirectly, all or any of the Committed Shares owned by it or any interest therein;
 - (ii) create or permit to subsist any encumbrances over all or any of the Committed Shares owned by it or any interest therein;
 - (iii) accept, or give any undertaking (whether conditional or unconditional) to accept, or otherwise agree to, any offer, scheme of arrangement, merger or other business combination made or proposed to be made in respect of the Committed Shares owned by it by any person other than the Offeror;
 - (iv) enter into any agreement in respect of the votes or other rights attached to any of the Committed Shares owned by it (including entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership to such Committed Shares owned by it or any interest therein);

- (v) purchase, acquire, subscribe for or otherwise deal in any Shares or other securities of the Company or any interest therein; or
- (vi) enter into any discussion, negotiation, agreement or arrangement or incur any obligation with any person (other than the Offeror and any other person authorized in writing by the Offeror) (A) in relation to any of the Committed Shares owned by it, (B) to do any of the acts referred to in (i) to (v) above, or (C) make available any information to any person (other than the Offeror and any other person authorized in writing by the Offeror) in connection with the foregoing; and
- (c) except as required under the Takeovers Code, the Listing Rules or any applicable laws or regulations, not to, and to procure that each of its affiliates does not, take any action which has or is reasonably expected to have the effect of prejudicing, preventing, delaying or disrupting the Proposal, otherwise causing the Proposal not to become effective at the earliest practicable time or at all, or otherwise conflicting with or diminishing his obligations under such irrevocable undertaking.

The Alpha Frontier Irrevocable Undertaking will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer are withdrawn in circumstances permitted under the Takeovers Code.

(c) Li Irrevocable Undertaking

Committed Shares and Committed Options held by or owned by Mr. Li Yang

As at the Latest Practicable Date, Mr. Li Yang (an executive Director and the Deputy Chairman of the Company) held, directly and indirectly (through his wholly-owned company DC Capital Management Inc.), an aggregate of 2,895,000 Shares, representing approximately 0.09% of the issued share capital of the Company. Mr. Li Yang also directly held a total of 12,750,000 Options (of which 4,250,000 Options have an exercise price of HK\$2.50 per Option, 4,250,000 Options have an exercise price of HK\$2.80 per Option and 4,250,000 Options have an exercise price of HK\$3.10 per Option).

Li Irrevocable Undertaking

On 27 August 2020, Mr. Li Yang and the Offeror entered into the Li Irrevocable Undertaking in favour of the Offeror, pursuant to which Mr. Li Yang irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates or the legal holder(s) of its Shares (where appropriate) will:

- (a) vote all of the Committed Shares owned by him at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares;
- (b) refrain from exercising any Committed Option in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him;
- (c) not, directly or indirectly, except with the prior written consent of the Offeror:
 - (i) sell, transfer, charge, create or grant any option over or otherwise dispose of (or permit any such action to occur in respect of), directly or indirectly, all or any of the Committed Shares and Committed Options held by or owned by him or any interest therein;
 - (ii) create or permit to subsist any encumbrances over all or any of the Committed Shares owned by him or any interest therein;
 - (iii) accept, or give any undertaking (whether conditional or unconditional) to accept, or otherwise agree to, any offer, scheme of arrangement, merger or other business combination made or proposed to be made in respect of the Committed Shares or the Committed Options held by or owned by him by any person other than the Offeror;

- (iv) enter into any agreement in respect of the votes or other rights attached to any of the Committed Shares and Committed Options held by or owned by him (including entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership to such Committed Shares and Committed Options held by or owned by him or any interest therein);
 - (v) purchase, acquire, subscribe for or otherwise deal in any Shares or other securities of the Company or any interest therein; or
 - (vi) enter into any discussion, negotiation, agreement or arrangement or incur any obligation with any person (other than the Offeror and any other person authorized in writing by the Offeror) (A) in relation to any of the Committed Shares or the Committed Options held by or owned by him, (B) to do any of the acts referred to in (i) to (v) above, or (C) make available any information to any person (other than the Offeror and any other person authorized in writing by the Offeror) in connection with the foregoing; and
- (d) except as required under the Takeovers Code, the Listing Rules or any applicable laws or regulations, not to take any action which has or may have the effect of prejudicing, preventing, delaying or disrupting the Proposal, otherwise causing the Proposal not to become effective at the earliest practicable time or at all, or otherwise conflicting with or diminishing his obligations under such irrevocable undertaking.

The Li Irrevocable Undertaking will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer lapse or are withdrawn in circumstances permitted under the Takeovers Code, or if by the mutual written consent of the parties.

(d) Director Irrevocable Undertakings

Committed Options held by Mr. Xu Yiran and Mr. Gu Zhenghao

As at the Latest Practicable Date, Mr. Xu Yiran (an executive Director, the Chairman and Chief Executive Officer of the Company) and Mr. Gu Zhenghao (an executive Director) each held 29,246,800 Committed Options which have an exercise price of HK\$1.91. As such, the aggregate number of Committed Options held by Mr. Xu Yiran and Mr. Gu Zhenghao that are subject to the Director Irrevocable Undertaking is 58,493,600 Options which have an exercise price of HK\$1.91.

Director Irrevocable Undertakings

On 27 August 2020, each of Mr. Xu Yiran, Mr. Gu Zhenghao and the Offeror entered into the Director Irrevocable Undertakings in favour of the Offeror, pursuant to which each of Mr. Xu Yiran and Mr. Gu Zhenghao irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates will:

- (a) refrain from exercising any Committed Option in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him;
- (b) vote all of the Committed Shares owned by him at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares;
- (c) not, directly or indirectly, except with the prior written consent of the Offeror:
 - (i) sell, transfer, charge, create or grant any option over or otherwise dispose of (or permit any such action to occur in respect of), directly or indirectly, all or any of the Committed Shares and Committed Options held by or owned by him or any interest therein;
 - (ii) create or permit to subsist any encumbrances over all or any of the Committed Shares owned by him or any interest therein;
 - (iii) accept, or give any undertaking (whether conditional or unconditional) to accept, or otherwise agree to, any offer, scheme of arrangement, merger or other business combination made or proposed to be made in respect of the Committed Shares or the Committed Options held by or owned by him by any person other than the Offeror;
 - (iv) enter into any agreement in respect of the votes or other rights attached to any of the Committed Shares and Committed Options held by or owned by him (including entering into any swap or other arrangement that transfers to another, in whole or in part, any of the

economic consequences or incidents of ownership to such Committed Shares and Committed Options held by or owned by him or any interest therein);

- (v) purchase, acquire, subscribe for or otherwise deal in any Shares or other securities of the Company or any interest therein; or
- (vi) enter into any discussion, negotiation, agreement or arrangement or incur any obligation with any person (other than the Offeror and any other person authorized in writing by the Offeror) (A) in relation to any of the Committed Shares or the Committed Options held by or owned by him, (B) to do any of the acts referred to in (i) to (v) above, or (C) make available any information to any person (other than the Offeror and any other person authorized in writing by the Offeror) in connection with the foregoing; and
- (d) except as required under the Takeovers Code, the Listing Rules or any applicable laws or regulations, not to take any action which has or may have the effect of prejudicing, preventing, delaying or disrupting the Proposal, otherwise causing the Proposal not to become effective at the earliest practicable time or at all, or otherwise conflicting with or diminishing his obligations under such irrevocable undertaking.

The Director Irrevocable Undertakings will be automatically terminated and cease to be binding on the earlier of: (a) the Long Stop Date, and (b) the date on which the Scheme and the Option Offer lapse or are withdrawn in circumstances permitted under the Takeovers Code, or if by the mutual written consent of the parties.

As at the Latest Practicable Date, other than the Irrevocable Undertakings, neither the Offeror nor persons acting in concert with it had received any irrevocable commitment to accept or reject the Proposal.

7. SHAREHOLDING STRUCTURE

As at the Latest Practicable Date:

- (a) the authorized share capital of the Company is HK\$1,000,000,000 divided into 10,000,000,000 Shares, and the Company has 3,085,319,017 Shares in issue;
- (b) all of the Shares are fully paid and rank *pari passu* in all respects as regards to rights to capital, dividends and voting;
- (c) the Scheme Shares, comprising 3,085,319,017 Shares, represent 100% of the issued share capital of the Company; and

(d) neither the Offeror nor any of the persons acting in concert with it held any Shares.

The Shares held by HKSCC Nominees Limited as nominee on behalf of Southbound Investors will form part of the Scheme Shares, and the Cancellation Price will be paid to HKSCC Nominees Limited accordingly.

On the assumption that no outstanding Options are exercised on or before the Scheme Record Date and there is no change in shareholding of the Company before the Effective Date, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

	As at the Latest Practicable Date		Immediately upon completion of the Proposal	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Shareholders				
Offeror and persons acting in concert with it	–	–	3,085,319,017	100.00
Disinterested Shareholders and Scheme Shareholders				
Port New ^{1, 2}	1,539,894,522	49.91	–	–
Novel New ¹	74,100,000	2.40	–	–
LaGuardia ³	518,700,000	16.81	–	–
Mr. Li Yang	2,895,000	0.09	–	–
Public Shareholders	<u>949,729,495</u>	<u>30.79</u>	<u>–</u>	<u>–</u>
Total	<u>3,085,319,017</u>	<u>100.00</u>	<u>3,085,319,017⁴</u>	<u>100.00</u>

Note:

- Port New and Novel New are both wholly-owned by Mr. Yuk. Accordingly, Mr. Yuk is deemed to be interested in the Shares in which Port New and Novel New are respectively interested. Mr. Li Zhigang, a former non-executive Director, is one of the two directors of Port New.
- As disclosed in the notices of disclosure of interests filed in respect of Kingston's interest in the Company, the 1,539,894,522 Shares owned by Port New are pledged to Kingston pursuant to the Kingston Share Charge. As such, Kingston has a security interest in 1,539,894,522 Shares. Kingston is wholly controlled by Ample Cheer Limited, which is in turn controlled as to 80% by Best Forth Limited and 20% by Insight Glory Limited, both of which are wholly-controlled by Mrs. Chu Yuet Wah.

3. LaGuardia is wholly controlled by Alpha Frontier, which is held as to 42.04% by Chongqing Cibi Business Information Consultancy Co., Ltd.* (重慶賜比商務信息諮詢有限公司) (“**Chongqing Cibi**”), 32.95% by Hazlet Global Limited (“**Hazlet**”), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓚逸互聯網科技合夥企業(有限合夥)), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓚熠互聯網科技合夥企業(有限合夥)) and 3.27% by Chongqing Jiezi Business Information Consultancy Partnership (Limited Partnership)* (重慶傑資商務信息諮詢合夥企業(有限合夥)) respectively. Chongqing Cibi is a company controlled by Mr. Shi Yuzhu (史玉柱) and the de facto controller of Hazlet is Ms. Shi Jing (史靜), who is the daughter of Mr. Shi Yuzhu. Hazlet is a person acting in concert with Chongqing Cibi. Mr. Shi Yuzhu is the de facto controller of LaGuardia and Alpha Frontier.
4. Under the Scheme, all of the issued share capital of the Company will, on the Effective Date, be reduced by cancelling the Scheme Shares. On the assumption that (i) no outstanding Options are exercised on or before the Scheme Record Date and (ii) there is no change in shareholding of the Company before the Effective Date, immediately upon such reduction, the issued share capital of the Company will be increased to its former amount prior to the cancellation of the Scheme Shares by the issue at par to the Offeror, credited as fully paid, of the same number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished. The reserve created in the Company’s books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued to the Offeror.

Immediately following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Offeror will hold the entire issued share capital of the Company on the assumption that there are no other changes in shareholding in the Company before completion of the Proposal.

As at the Latest Practicable Date, (i) save for the 3,085,319,017 issued Shares, the Company did not have any other securities in issue; and (ii) save for the 407,905,860 outstanding Options granted under the Share Option Scheme, the Company did not have any other outstanding Options, convertible securities, warrants or derivatives in respect of such securities.

8. REASONS FOR AND BENEFITS OF THE PROPOSAL

Benefits of the Proposal to the Scheme Shareholders

An opportunity for Scheme Shareholders to monetize Shares

The average daily trading volume of Shares for the six-month period, 12-month period and 24-month period up to and including the Last Trading Day were approximately 7.7 million Shares, 7.0 million Shares and 5.1 million Shares per day, representing only approximately 0.25%, 0.23% and 0.17% respectively of the total number of issued Shares as at the Latest Practicable Date.

The low trading liquidity of the Shares could make it difficult for Scheme Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Scheme Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the price of the Shares occurs.

As such, the Scheme presents an immediate opportunity for Scheme Shareholders to monetize their investments for cash and redeploy the proceeds from accepting the Scheme into other investment opportunities.

Cancellation Price represents an attractive exit premium

The Proposal allows an exit for the Scheme Shareholders at a compelling premium to the current market price. As set out in the section headed “The Proposal – Comparisons of value” in Part IV – Letter from the Board of this Scheme Document, the Cancellation Price represents a significant premium of approximately 5.66% and 25.03% over the average closing price of approximately HK\$3.1440 and HK\$2.6569 per Share for the 10 and 90 trading days up to and including the Last Trading Day, respectively, and a premium of 3.81% over the highest closing price of HK\$3.2000 per Share during the six-month period ending on the Last Trading Day. The Cancellation Price also represents a premium of approximately 435.78% to the unaudited consolidated net asset value per Share of approximately US\$0.08 (equal to approximately HK\$0.6200, using an exchange rate of US\$1 = HK\$7.7502) per Share as at 30 June 2020.

Benefits of the Proposal to the Company

The taking private of the Company will permit the Offeror and the Company to make strategic decisions focused on long-term growth and benefits, free from regulatory constraints, the pressure of market expectations and share price fluctuations which arise from being a publicly listed company.

The Proposal, which entails the delisting of the Company, is also expected to reduce the administrative costs and management resources associated with maintaining the Company’s listing status and compliance with regulatory requirements and, in turn, allow greater flexibility for the Offeror and the Company to manage the Group’s business.

9. OFFEROR’S INTENTION IN RELATION TO THE GROUP

It is the intention of the Offeror for the Group to maintain its existing business following the implementation of the Proposal. The Offeror has no immediate plans, in the event the Scheme becomes effective, (i) to make any material changes to the business and/or disposal or redeployment of assets of the Group, other than the possible exercise within three calendar months of Certain Affinity’s delivery of its financial statements for the year ending 31 December 2020 to the Company in 2021 of the buyout option in respect of the remaining 80% interest in

Certain Affinity which the Company has an existing right to exercise at a price calculated based on an agreed formula to determine Certain Affinity's valuation, which shall, in any case, not exceed US\$150 million; and upon exercise of such buyout option, Certain Affinity shall become a wholly-owned subsidiary of the Company and its financial results will be consolidated into that of the Company; or (ii) to discontinue the employment of employees of the Group; or (iii) to develop new business that is outside the existing business of the Group upon the Scheme becoming effective. For further details of the buyout option granted to the Company to acquire the remaining interest in Certain Affinity, please refer to the announcement of the Company dated 16 October 2017 regarding the 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 Board welcomes the intentions of the Offeror in respect of the Company and its employees and will co-operate with and provide the full support to the Offeror to facilitate the continued smooth business operation and management of the Group.

10. INFORMATION ON THE GROUP AND THE OFFEROR

Information on the Company and the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the development and publishing of online multi-player PC/console video games and is a leading player in the niche market of high quality PC/console free-to-play games. The profitability of the Group is mainly driven by the Group's subsidiaries from Canada and United Kingdom, however, the Group's China subsidiaries are still in the investment phases and are considered as the cost centre of the Group, which did not bring profit to the Group in the past few years.

Information on the Offeror

The Offeror is a company incorporated in Hong Kong with limited liability. Its primary businesses are the provision of telecommunication services and investment holding. It is a wholly-owned subsidiary of Tencent Holdings, which is a leading provider of Internet services in the PRC.

11. WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on Wednesday, 23 December 2020. The Shareholders will be notified by way of a public announcement of the exact dates of the last day of dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares will become effective. The expected timetable has been included in Part III of this Scheme Document.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or does not become effective. If the Scheme is withdrawn or not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

12. RECOMMENDATION

Your attention is drawn to the following:

- (a) the letter from the Board set out in Part IV of this Scheme Document;
- (b) the letter from the Independent Board committee set out in Part V of this Scheme Document; and
- (c) the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document.

13. COSTS OF THE SCHEME

Since the Proposal is recommended by the Independent Board Committee, and is recommended as fair and reasonable by the Independent Financial Adviser, the Company and the Offeror have agreed that each party will bear their own costs, charges and expenses.

14. GENERAL

BofA Securities has been appointed as the financial adviser to the Offeror in connection with the Proposal. By reason of being the financial adviser to the Offeror, BofA Securities is presumed to be acting in concert with the Offeror in accordance with class 5 of the definition of “acting in concert” in the Takeovers Code.

The Board comprises Mr. Xu Yiran (Chairman and Chief Executive Officer), Mr. Li Yang (Deputy Chairman) Dr. Alan Chen (Chief Operating Officer), Mr. Gu Zhenghao and Mr. Cao Bo as executive Directors; Mr. Eric Todd as non-executive Director; and Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit as independent non-executive Directors.

The Independent Board Committee, which comprises Mr. Eric Todd, Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, being all of the non-executive Directors, has been established by the Board to make a recommendation (i) to the Disinterested Shareholders as to whether the Proposal is, or is not, fair and reasonable and as to voting in respect of the Scheme at the Court Meeting and the Proposal at the EGM; and (ii) to the Optionholders as to whether the Option Offer is, or is not, fair and reasonable, and whether to accept the Option Offer.

In addition, Optima Capital Limited, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal pursuant to Rule 2.1 of the Takeovers Code. The appointment of Optima Capital Limited as the Independent Financial Adviser has been approved by the Independent Board Committee.

Respective associates (as defined in the Takeovers Code) of the Company and the Offeror (including persons holding 5% or more of any class of relevant securities (as defined in paragraphs (a) to (d) in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Offeror) are reminded to disclose their dealings in any securities in the Company under Rule 22 of the Takeovers Code.

15. REQUIREMENTS UNDER COMPANIES LAW AND THE TAKEOVERS CODE

The Companies Law

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be held in such manner as the Grand Court directs.

It is expressly provided in Section 86(2) of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company.

The Grand Court has convened a meeting of the Shareholders at which, on account of the Takeovers Code, only the Disinterested Shareholders will vote and the Offeror has undertaken to the Grand Court to be bound by the Scheme. Pursuant to the Companies Law, the Scheme needs to be approved by a majority in number of the Shareholders representing not less than 75% in value of the Shares held by the Shareholders, present and voting either in person or by proxy at the Court Meeting.

Additional requirements as imposed by Rule 2.10 of the Takeovers Code

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved (by way of poll) by the Disinterested Shareholders holding at least 75% of the votes attaching to the Shares held by the Disinterested Shareholders that are voted, either in person or by proxy, at the Court Meeting; and
- (b) the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting, either in person or by way of proxy, at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Shares held by all Disinterested Shareholders.

For the purpose of this vote, Disinterested Shareholders comprise all holders of Shares as at the Meeting Record Date other than the Offeror and persons acting in concert with it. It is noted that pursuant to Rule 35.4 of the Takeovers Code, any Shares held by an exempt principal trader connected with the Offeror or the Company must not be voted at the Court Meeting. For the avoidance of doubt, each member of BofA Securities group which is an exempt principal trader is a Disinterested Shareholder but is not entitled to vote at the Court Meeting, except in respect of the Shares held by it as a simple custodian for and on behalf of its non-discretionary clients where such client (i) controls the voting rights attaching to such Shares; (ii) if the Shares are voted, gives instructions as to how such Shares are to be voted; and (iii) is not the Offeror nor a person acting in concert with it; and where the Executive has confirmed that Rule 35.4 of the Takeovers Code does not apply to such Scheme Shares.

As at the Latest Practicable Date, the Disinterested Shareholders held in aggregate 3,085,319,017 Shares. On that basis, 10% of the votes attached to all Shares held by all the Disinterested Shareholders referred to in (b) above therefore represent approximately 308,531,902 Shares as at the Latest Practicable Date.

16. BINDING EFFECT OF THE SCHEME

Upon the Scheme becoming effective, it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

17. COURT MEETING AND EGM**Court Meeting**

In accordance with the directions of the Grand Court, the Court Meeting will be held at 10 a.m. (Hong Kong time) on Friday, 11 December 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). The notice of Court Meeting is set out in Appendix VI to this Scheme Document.

The Disinterested Shareholders will be entitled to attend and vote, in person or by proxy, at the Court Meeting and the votes of the Disinterested Shareholders present and voting either in person or by proxy will be counted for the purposes of determining whether the requirements set out in the section headed “15. Requirements under Companies Law and the Takeovers Code” in this Explanatory Memorandum are satisfied in accordance with the Takeovers Code.

The Offeror has undertaken to the Grand Court to be bound by the Scheme. The Scheme will therefore be subject to the receiving by the Grand Court of this undertaking from the Offeror and the approval by the Shareholders and Disinterested Shareholders at the Court Meeting in the manner referred to described in the section above headed “15. Requirements under Companies Law and the Takeovers Code”.

At the Court Meeting, the Disinterested Shareholders (other than HKSCC Nominee Limited), present and voting either in person or by proxy, will be entitled to vote all of their respective Scheme Shares in favour of the Scheme or against it. HKSCC Nominees Limited may vote for and against the Scheme in accordance with the instructions received from CCASS Participants (as defined under the “**General Rules of CCASS**”).

In accordance with the Companies Law, the “75% in value” requirement, as described above, will be met if the total value of the Shares held by Shareholders being voted in favour of the Scheme is at least 75% of the total value of the Shares held by Shareholders voted at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement, as described above, will be met if the number of Shareholders voting in favour of the Scheme exceeds the number of Shareholders voting against the Scheme at the Court Meeting. For the purpose of calculating the “majority in number” requirement, the number of Shareholders, present and voting in person or by proxy, will be counted in the manner described below.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote both for and against the Scheme in accordance with instructions received by it from the CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited shall be treated as a multi-headed Shareholder of the Company. In this regard, HKSCC Nominees Limited shall be entitled to vote for and against the Scheme in accordance with instructions received by it from the CCASS Participants. However, for the purpose of calculating the “majority in number” requirement at the Court Meeting, each such CCASS Participant who instructs HKSCC Nominees Limited to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees Limited to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees Limited itself, as opposed to instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”.

Each of Port New, Novel New and Mr. Yuk, Alpha Frontier, Mr. Li Yang (an executive Director and the Deputy Chairman of the Company), Mr. Xu Yiran (an executive Director, the Chairman and Chief Executive Officer of the Company) and Mr. Gu Zhenghao (an executive Director) has given the Irrevocable Undertakings to the Offeror that, among other things, it or he will vote in favour of the Scheme at the Court Meeting.

Each Shareholder is only entitled to submit one form of proxy for the Court Meeting. If more than one form of proxy for the Court Meeting is submitted by a Shareholder and the voting instructions require the proxies to vote both FOR and AGAINST the Scheme, the forms of proxy will not be accepted. If more than one form of proxy for the Court Meeting is submitted by a Shareholder other than HKSCC Nominees Limited and the voting instructions require the proxies to vote either FOR or AGAINST the Scheme but not both FOR and AGAINST the Scheme, the Chairman of the Court Meeting shall have absolute discretion as to whether or not to accept those forms of proxy.

EGM

The EGM will be held at the same place and on the same date at 11 a.m. (or as soon thereafter as the Court Meeting shall have concluded or been adjourned). The notice of EGM is set out in Appendix VII to this Scheme Document.

The EGM will be held for the purpose of considering and, if thought fit, passing, among other things, (i) a special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) an ordinary resolution to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror.

All Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend the EGM and vote, in person or by proxy, on the resolutions to be proposed at the EGM. The special resolution described under (i) in the paragraph above will be passed if not less than 75% of the votes cast by the Shareholders, present and voting in person or by proxy at the EGM, are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Shareholders, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolution. Alternatively, such Shareholder may vote some of his/her/its Shares in favour of the special resolution and/or the ordinary resolution and any or all of the balance of their Shares against the special resolution and/or the ordinary resolution (and vice versa).

Each of Port New, Novel New and Mr. Yuk, Alpha Frontier, Mr. Li Yang (an executive Director and the Deputy Chairman of the Company), Mr. Xu Yiran (an executive Director, the Chairman and Chief Executive Officer of the Company) and Mr. Gu Zhenghao (an executive Director) has given the Irrevocable Undertakings to the Offeror that, among other things, it or he will vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the issued share capital of the Company, the immediate increase in the issued share capital of the Company thereafter and any resolutions proposed at the EGM which would assist the implementation of the Scheme or are necessary for the Scheme to become effective.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Monday, 21 December 2020 (Cayman Islands time). Further announcements will be made in relation to, among other things, the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings, the outcome of the hearing of the petition to sanction the Scheme by the Grand Court and the confirmation of the reduction of capital as a result of the cancellation of the Shares by the Grand Court and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of the Shares on the Stock Exchange, in accordance with the requirements of the Takeovers Code and the Listing Rules.

18. SUMMARY OF ACTIONS TO BE TAKEN

You are urged to read Part II – Actions to be taken of this Scheme Document for detailed actions to be taken in respect of the Proposal.

Shareholders

Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, if you are a Disinterested Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 10 a.m. (Hong Kong time) on Wednesday, 9 December 2020 or be handed to the Chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it), and the **white** form of proxy for use at the EGM should be lodged not later than 11 a.m. (Hong Kong time) on Wednesday, 9 December 2020. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and the EGM if, among other things, the resolutions are passed by the requisite majorities at the Court Meeting and EGM. You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

For the purpose of determining the entitlements of the Disinterested Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 7 December 2020 to Friday, 11 December 2020 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 4 December 2020.

Actions to be taken by beneficial owners through trust or CCASS

The Company will not recognise any person as holding any Shares through any trust. If you are a Beneficial Owner whose Share(s) are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions and/or make arrangements with the Registered Owner in relation to the manner in which the Share(s) beneficially owned by you should be voted at the Court Meeting and/or the EGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally, you should (i) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the EGM and, for such purpose, the Registered Owner may appoint you as its proxy; or (ii) arrange for some or all of the Share(s) registered in the name of the Registered Owner to be transferred into your own name.

If you are a Beneficial Owner whose Share(s) are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with another CCASS Participant, regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares.

China Securities Depository and Clearing Corporation Limited will collect voting instructions from Southbound Investors for the Court Meeting and the EGM, and then submit such voting instructions to HKSCC Nominees Limited on behalf of Southbound Investors.

Actions to be taken by Optionholders

The Option Offer Letter is being sent to each Optionholder, together with this Scheme Document and a Form of Acceptance. If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, care of Leyou Technologies Holdings Limited at Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong, for the attention of the Company Secretary of the Company and marked “Leyou Technologies Holdings Limited – Option Offer” by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 5 January 2021 (or such later date and time as may be notified to you by the Offeror, BofA Securities and the Company or by way of joint announcement by the Offeror and the Company on the website of the Stock Exchange). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Options or any other document will be given.

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter, substantially in the form set out in Appendix VIII to this Scheme Document.

Petition hearing in the Grand Court

Prior to the despatch of this Scheme Document, the Company obtained directions from the Grand Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the EGM, the Company must then make a further application to the Grand Court to confirm the resolution reducing the issued share capital of the Company and to sanction the Scheme. The Company and the Offeror cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, the Company has filed a petition with the Grand Court seeking these approvals which will be heard at 10 a.m. on Friday, 18 December 2020 (Cayman Islands time).

In determining whether to exercise its discretion and sanction the Scheme, the Grand Court will determine, among other things, whether the votes cast at the Court Meeting fairly represented the decision of the holders of Shares subject to the Scheme and whether the Scheme is fair to the Scheme Shareholders. At the hearing of the petition, the Grand Court may impose such conditions as it deems appropriate in relation to the Scheme but may not impose any material changes without the joint consent of the Company and the Offeror. The Company may consent on behalf of the Shareholders to any modification of the Scheme which the Grand Court may think fit to approve or impose.

If the Grand Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to deliver the court order sanctioning the Scheme and confirming the reduction of issued share capital of the Company resulting from the cancellation of the Scheme Shares with the Registrar of Companies in the Cayman Islands on Monday, 21 December 2020 or as otherwise directed by the Grand Court for registration, at which time the order sanctioning the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY WILL BE ENTITLED TO APPEAR AT THE GRAND COURT HEARING EXPECTED TO BE HELD AT 10 A.M. ON FRIDAY, 18 DECEMBER 2020 (CAYMAN ISLANDS TIME) AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

19. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Monday, 21 December 2020, it is proposed that the register of members of the Company will be closed from Friday, 18 December 2020 (or such other date as Shareholders may be notified by an announcement) onwards in order to determine entitlements to qualify under the Scheme. In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that the transfers of Shares to them are lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration in their names or in the names of their nominees no later than 4:30 p.m. (Hong Kong time) on Thursday, 17 December 2020.

Payment of Cancellation Price to Scheme Shareholders

Subject to the Scheme becoming effective, the Cancellation Price will be paid to the Scheme Shareholders whose names appear in the register of members of the Company on the Scheme Record Date as soon as possible but in any event within seven (7) Business Days following the Effective Date. On the basis that the Scheme becomes effective on Monday, 21 December 2020, the cheques for the payment of the Cancellation Price are expected to be despatched on or before Thursday, 31 December 2020.

Cheques for the payment of the Cancellation Price will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name then stands first in the register of members of the Company in respect of the joint holding. All such cheques will be posted at the risk of the persons entitled thereto and none of the Offeror, the Company, BofA Securities and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to the Scheme to persons who satisfy the Offeror that they are respectively entitled thereto. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to, if applicable, any deduction of interest, tax or any withholding tax or any other deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates for the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Monday, 21 December 2020.

Settlement of the Cancellation Price to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

Payment in respect of the Option Offer Price to Optionholders

On the basis that the Scheme becomes effective, cheque for payment of the Option Offer Price payable under the Option Offer are expected to be despatched as soon as possible but in any event within seven (7) Business Days following the Effective Date or receipt of the relevant validly completed Form of Acceptance, whichever is the later. Payment will be made by cheque drawn in the name of Computershare Hong Kong Investor Services Limited (“**Computershare**”) as the Optionholder’s agent and delivered to Computershare at its registered office. Optionholders should refer to the Option Offer Letter and the Form of Acceptance for further details of the election. All such cheques will be despatched at the risk of the person(s) entitled thereto and none of the Offeror, the Company, BofA Securities and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the despatch of such cheque, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror’s name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the seventh (7th) Business Day following receipt of the relevant Form of Acceptance and shall, prior to such date, make payments therefrom of the sums payable pursuant to the Option Offer to persons who satisfy the Offeror that they are respectively entitled thereto. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies. On the expiry of six years from the seventh (7th) Business Day following receipt of the relevant Form of Acceptance, the Offeror shall be released from any further obligation to make any payments under the Option Offer and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to, if applicable, any deduction of interest, tax or any withholding tax or any other deduction required by law and expenses incurred.

Settlement of the Option Offer Price to which any Optionholder is entitled will be implemented in full in accordance with the terms of the Option Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Optionholder.

20. OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

The making of the Proposal (including the Option Offer) to and acceptance of the Proposal (including the Option Offer) by Scheme Shareholders and Optionholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and Optionholders are located.

Such Scheme Shareholders and Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Scheme Shareholders and overseas Optionholders wishing to take any action in relation to the Proposal (including the Option Offer), respectively, to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any taxes, duties and other amounts required to be paid in such jurisdictions.

As at the Latest Practicable Date, there was two (2) overseas Shareholders (representing approximately 1.69% of the total number of Shareholders) whose addresses as shown in the register of members of the Company were outside Hong Kong. Those two (2) overseas Shareholders included one Shareholder in the British Virgin Islands holding 244,095,000 Shares (representing approximately 7.91% of the total issued share capital of the Company) and one Shareholder in the PRC holding 15,000 Shares (representing approximately 0.0005% of the total issued share capital of the Company). As at the Latest Practicable Date, there were also 72 Optionholders (representing approximately 86.7% of the total number of Optionholders) whose addresses as shown in the records of the Company were outside Hong Kong, and these Optionholders held 346,611,846 Options. Those 72 Optionholders included: 44 Optionholders whose addresses were in the PRC, 2 Optionholders whose addresses were in the U.S. and 26 Optionholders whose addresses were in Canada. The Company and the Offeror had been advised by the local counsels in the aforementioned jurisdictions that there is no restriction or requirement under the respective laws or regulations of those jurisdictions for extending the Proposal and despatching this Scheme Document, the forms of proxy and the Forms of Acceptance to those overseas Shareholder and Optionholders. The Proposal will be extended and this Scheme Document, the forms of proxy and the Forms of Acceptance will be despatched to those overseas Shareholders and Optionholders.

Any acceptance by the Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers, including BofA Securities that those laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

Notice to U.S. holders of Scheme Shares and Options

The Proposal is being made to cancel the securities of a Cayman Islands company by means of a scheme of arrangement provided for under the Companies Law. The financial information included in this Scheme Document has been prepared in accordance with Hong Kong Financial Reporting Standards and thus may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the U.S..

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the U.S. Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the disclosure requirements and practices applicable in the Cayman Islands and Hong Kong to schemes of arrangement, which differ from the disclosure requirements of the U.S. tender offer rules.

The receipt of cash pursuant to the Proposal by a U.S. holder of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme or by a U.S. Optionholder as consideration for the cancellation of its Options pursuant to the Option Offer may be a taxable transaction for U.S. federal income tax purposes and under applicable U.S. state and local, as well as foreign and other tax laws. Each holder of Scheme Shares or Options is urged to consult his/her/its independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him/her/it.

It may be difficult for U.S. holders of Scheme Shares and Options to enforce their rights and claims arising out of the U.S. federal securities laws, since the Offeror and the Company are located in a country other than the U.S., and some or all of their officers and directors may be residents of a country other than the U.S.. U.S. holders of Scheme Shares and Options may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, it may be difficult to compel a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgement.

21. TAXATION AND INDEPENDENT ADVICE

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the cash consideration for the cancellation of the outstanding Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) upon the acceptance of the Option Offer or the payment of the cash consideration under the Option Offer.

Payments of cash consideration under the Option Offer may be liable to taxation in the PRC and/or other jurisdictions and the Offeror (on behalf of the Company) will withhold the relevant amount from the payments for the purpose of making the tax payment on behalf of the relevant Optionholders.

All Scheme Shareholders and Optionholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal and, in particular, whether the receipt of the Cancellation Price or the Option Offer Price(s) would make such Scheme Shareholder or Optionholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Offeror, the Company, BofA Securities, Moelis or any of their respective directors, officers or associates or any other persons involved in the Proposal accepts responsibility or has any liability for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

22. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, BofA Securities or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated financial information of the Group for each of the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the unaudited consolidated financial information of the Group for each of the six months ended 30 June 2019 and 30 June 2020. The figures for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 are extracted from the annual reports of the Company for the respective years and the figures for each of the six months ended 30 June 2019 and 30 June 2020 are extracted from the interim reports of the Company for the respective six months ended 30 June 2019 and 30 June 2020.

The auditors' reports issued by the auditors of the Company, HLB Hodgson Impey Cheng Limited, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

There was no item which was exceptional because of its size, nature or incidence that was recorded in the audited consolidated financial statements of the Group for each of the financial years ended 31 December 2017, 2018 and 2019 and the unaudited consolidated financial statements of the Group for each of the six months ended 30 June 2019 and 30 June 2020.

Save as disclosed below, there are no other items of income or expenses which are material to the Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 30 June 2020.

Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income

	(Audited)			(Unaudited)	
	For the year ended			For six months ended	
	31 December			30 June	
	2017	2018	2019	2019	2020
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	166,736	227,720	214,235	105,671	90,692
Cost of sales	<u>(55,962)</u>	<u>(86,233)</u>	<u>(92,454)</u>	<u>(41,763)</u>	<u>(47,888)</u>
Gross profit	110,774	141,487	121,781	63,908	42,804
Profit before taxation	25,095	43,850	12,653	20,974	4,551
Loss for the year/period from discontinued operations	(1,026)	-	-	-	-
Taxation	<u>(13,823)</u>	<u>(23,483)</u>	<u>(19,142)</u>	<u>(10,744)</u>	<u>(9,246)</u>
Profit/(loss) for the year/period	<u>10,246</u>	<u>20,367</u>	<u>(6,489)</u>	<u>10,230</u>	<u>(4,695)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	(Audited)			(Unaudited)	
	For the year ended			For six months ended	
	31 December			30 June	
	2017	2018	2019	2019	2020
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Profit/(loss) for the year/period attributable to owners of the Company	8,808	20,413	(8,379)	9,288	(5,788)
Profit/(loss) for the year/period attributable to non-controlling interest	<u>1,438</u>	<u>(46)</u>	<u>1,890</u>	<u>942</u>	<u>1,093</u>
	<u>10,246</u>	<u>20,367</u>	<u>(6,489)</u>	<u>10,230</u>	<u>(4,695)</u>
Other comprehensive income/(expense)	<u>14,459</u>	<u>(14,265)</u>	<u>10,695</u>	<u>6,341</u>	<u>(12,881)</u>
Total comprehensive income/(expense)	<u>24,705</u>	<u>6,102</u>	<u>4,206</u>	<u>16,571</u>	<u>(17,576)</u>
Total comprehensive income/(expense) for the year/period attributable to owners of the Company	23,084	6,367	2,509	15,748	(18,493)
Total comprehensive income/(expense) for the year/period attributable to non-controlling interests	<u>1,621</u>	<u>(265)</u>	<u>1,697</u>	<u>823</u>	<u>917</u>
	<u>24,705</u>	<u>6,102</u>	<u>4,206</u>	<u>16,571</u>	<u>(17,576)</u>
Earnings/(loss) per share (US cents per share) (Basic)	0.30	0.67	(0.27)	0.30	(0.19)
Total amount of dividends paid to shareholders of the Company	Nil	Nil	Nil	Nil	Nil
Dividends per share	Nil	Nil	Nil	Nil	Nil

2. CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out or refer to in this Scheme Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”), and (ii) the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2020 (the “**2020 Interim Financial Statements**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2019 Financial Statements are set out on pages 96 to 207 of the annual report of the Company for the year ended 31 December 2019 (the “**Annual Report 2019**”), which was published on 17 April 2020. The Annual Report 2019 is posted on the Company’s website at <http://www.leyoutech.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.hk>. Please also see below a direct link to the Annual Report 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0417/2020041700009.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2018 are set out on pages 84 to 199 of the annual report of the Company for the year ended 31 December 2018 (the “**Annual Report 2018**”), which was published on 17 April 2019. The Annual Report 2018 is posted on the Company’s website at <http://www.leyoutech.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.hk>. Please also see below a direct link to the Annual Report 2018:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0417/lt20190417075.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2017 are set out on pages 80 to 185 of the annual report of the Company for the year ended 31 December 2017 (the “**Annual Report 2017**”), which was published on 20 April 2018. The Annual Report 2017 is posted on the Company’s website at <http://www.leyoutech.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.hk>. Please also see below a direct link to the Annual Report 2017:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0420/lt20180420375.pdf>

The 2020 Interim Financial Statements are set out on pages 25 to 54 of the interim report of the Company for the six months ended 30 June 2020 (the “**Interim Report 2020**”), which was published on 11 September 2020. The Interim Report 2020 is posted on the Company’s website at <http://www.leyoutech.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.hk>. Please also see below a direct link to the Interim Report 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0911/2020091100091.pdf>

The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2019 (the “**2019 Interim Financial Statements**”) are set out on pages 28 to 62 of the interim report of the Company for the six months ended 30 June 2019 (the “**Interim Report 2019**”), which was published on 20 September 2019. The Interim Report 2019 is posted on the Company’s website at <http://www.leyoutech.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.hk>. Please also see below a direct link to the Interim Report 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0920/ltn20190920047.pdf>

The 2019 Financial Statements and 2020 Interim Financial Statements (but not any other part of the Annual Report 2019 and Interim Report 2020 in which they appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 August 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the Group had an aggregate outstanding borrowings of approximately US\$43,326,000 comprising:

- (a) outstanding secured bank borrowings of approximately US\$26,040,000, which were secured by leasehold land and buildings and a corporate guarantee given by a subsidiary of the Company;
- (b) unsecured debenture of approximately US\$635,000; and
- (c) lease liabilities of approximately US\$16,651,000.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, intra-group guarantees and normal trade payables in the ordinary course of business, as at the close of business on 31 August 2020, the Group did not have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

4. MATERIAL CHANGE

The Directors confirm that save for the following changes in the financial position and business updates as disclosed in the Interim Report 2020, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date:

1. The COVID-19 pandemic swept across the world, causing unexpected changes on how people live and work. While the major live product *Warframe* remains one of the most popular video games, the operation of the Group was also impacted to a certain extent due to the shutdown of its overseas studios, leading to a 14.2% year-on-year decrease in revenue.
2. Due to the suspended development of an original F2P game of the Group, the capitalised development cost of US\$10.9 million was impaired, which in turn dragged down the gross profit by approximately 33.0% and the gross profit margin from 60.5% during the first half of 2019 to 47.2% during the first half of 2020 (“1H2020”).
3. In view of the above, the Group recorded approximately year-on-year decrease in EBITDA of 36.2% and approximately 78.3% in profit before taxation for 1H2020.
4. On 26 June 2020, the Company entered into a termination agreement with MEGA Ample Holdings Limited (“MEGA”), a company wholly-owned by Mr. Yuk, the controlling shareholder of the Company, with immediate effect, pursuant to which the parties agreed to terminate the cooperative agreement dated 9 November 2018 in relation to a joint arrangement for the development, operation and maintenance of five specific video games (“New Games”), pursuant to which, the Company shall utilise its expertise, intellectual property rights and other assets and manpower to develop, market and operate the New Games to industry standards; MEGA shall provide the necessary funds for such development, operation and maintenance of the New Games; and the parties shall share the profit generated by the New Games on a game by game basis.
5. In respect of the outlook of the Group, the unprecedented COVID-19 pandemic has affected the operational efficiency of the game development studios of the Group, and as a result, the cadence and frequency of the content updates of the Group’s games might not live up to the players’ expectation.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Scheme, the Proposal, the Option Offer and the Group.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this Scheme Document in relation to the Group and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Scheme Document by the Directors have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL AND OPTIONS

Share Capital

As at the Latest Practicable Date, the authorized share capital and the issued share capital of the Company were as follows:

HK\$

Authorized share capital

10,000,000,000

1,000,000,000.00

Issued and fully paid-up share capital

3,085,319,017

308,531,901.70

All the issued Shares are fully paid and rank *pari passu* in all respects including, in particular, the rights in respect of capital, dividends and voting. The Shares are listed on the Main Board of the Stock Exchange and no Shares are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

The Company has issued 3,624,017 new Shares pursuant to the exercise of the Share Options since 31 December 2019, being the end of the last financial year of the Company, up to the Latest Practicable Date.

Options

As at the Latest Practicable Date, save for the Options granted by the Company pursuant to the Share Option Scheme, under which 407,905,860 Options remain outstanding, the Company has no outstanding convertible securities, options, warrants, derivatives or any other conversion rights in issue affecting the Shares. Other than the outstanding Options, there were no options, derivatives, warrants or other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

The details of the outstanding Options under the Share Option Scheme are set out below:

Date of grant	Exercise price per Share	Outstanding as at the Latest Practicable Date
24 October 2017	HK\$1.91	262,071,200
2 May 2019	HK\$2.50	43,816,663
	HK\$2.80	44,516,659
	HK\$3.10	44,516,682
20 May 2019	HK\$2.50	3,228,621
	HK\$2.80	3,628,013
	HK\$3.10	3,628,022
5 June 2019	HK\$2.50	833,333
	HK\$2.80	833,333
	HK\$3.10	833,334

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange or were required to be disclosed under the Takeovers Code were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Mr. Xu Yiran	Beneficial owner	29,246,800 ⁽¹⁾	0.95%
Mr. Gu Zhenghao	Beneficial owner	29,246,800 ⁽²⁾	0.95%
Mr. Li Yang	Beneficial owner and interest of controlled corporation	15,645,000 ⁽³⁾	0.51%

Note:

- (1) This represents interest in the underlying Shares of the Options granted by the Company on 24 October 2017, which have an exercise price of HK\$1.91 per Option and are exercisable between 24 October 2017 to 24 October 2022.
- (2) This represents interest in the underlying Shares of the Options granted by the Company on 24 October 2017, which have an exercise price of HK\$1.91 per Option and are exercisable between 24 October 2017 to 24 October 2022.
- (3) This represents interest in:
 - (a) 12,750,000 underlying Shares of the Options granted by the Company on 2 May 2019 (of which 4,250,000 Options have an exercise price of HK\$2.50 per Option and are exercisable between 2 May 2020 to 2 November 2022, 4,250,000 Options have an exercise price of HK\$2.80 per Option and are exercisable between 2 May 2021 to 2 November 2022, and 4,250,000 Options have an exercise price of HK\$3.10 per Option and are exercisable between 2 May 2022 to 2 November 2022); and
 - (b) 2,895,000 Shares (of which 1,895,000 Shares are beneficially owned by Mr. Li Yang and 1,000,000 Shares are beneficially owned by DC Capital Management Inc., a company 100% controlled by Mr. Li Yang). Accordingly, Mr. Li Yang is deemed to be interested in the shares in which DC Capital Management Inc. is interested.

As at the Latest Practicable Date, save as disclosed above, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this Scheme Document pursuant to the requirements of the Takeovers Code.

As at the Latest Practicable Date, none of the Company and the Directors were interested in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

4. ADDITIONAL DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date and prior to the posting of this Scheme Document, each of Port New and Novel New irrevocably and unconditionally undertook to the Offeror that it will, and will procure and ensure that each of its affiliates will, amongst other things, vote all of its Committed Shares at the Court Meeting and the EGM (a) in favour of (i) the Scheme, (ii) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (iii) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (b) against any resolution which (i) might prevent or delay implementation of the Proposal, or (ii) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares.
- (b) As at the Latest Practicable Date and prior to the posting of this Scheme Document, LaGuardia irrevocably and unconditionally undertook to the Offeror that it will, and will procure and ensure that each of its affiliates will, amongst other things, vote all of its Committed Shares at the Court Meeting and the EGM (a) in favour of (i) the Scheme, (ii) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (iii) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (b) against any resolution which (i) might prevent or delay implementation of the Proposal, or (ii) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares.

- (c) As at the Latest Practicable Date and prior to the posting of this Scheme Document, Mr. Li Yang irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates will, amongst other things, (a) vote all of his Committed Shares at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares; and (b) refrain from exercising any Committed Option held by him in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him.
- (d) As at the Latest Practicable Date and prior to the posting of this Scheme Document, each of Mr. Xu Yiran and Mr. Gu Zhenghao irrevocably and unconditionally undertook to the Offeror that he will, and will procure and ensure that each of his affiliates will, amongst other things, (a) vote all of his Committed Shares at the Court Meeting and the EGM (i) in favour of (A) the Scheme, (B) the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company, and (C) any resolutions proposed at the EGM to assist the implementation of the Proposal or are necessary for the Proposal to become effective; and (ii) against any resolution which (A) might prevent or delay implementation of the Proposal, or (B) purports to approve or give effect to a proposal by a person other than the Offeror to acquire any Shares; and (b) refrain from exercising any Committed Option held by him in the event such Option becomes exercisable, and accept the Option Offer in respect of all of the Committed Options held by him.
- (e) As at the Latest Practicable Date:
 - (i) no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

- (ii) save as disclosed below in connection with the Irrevocable Undertakings, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and any other person;

Name of Shareholders	Number of Shares held as at the Latest Practicable Date
Port New ⁽¹⁾⁽²⁾	1,539,894,522
Novel New ⁽¹⁾	74,100,000
Alpha Frontier ⁽³⁾	518,700,000
Mr. Li Yang	2,895,000

Name of Optionholders	Number of Options held as at the Latest Practicable Date
Mr. Xu Yiran	29,246,800
Mr. Li Yang	12,750,000
Mr. Gu Zhenghao	29,246,800

Note:

- (1) Port New and Novel New are both wholly-owned by Mr. Yuk. Accordingly, Mr. Yuk is deemed to be interested in the Shares in which Port New and Novel New are respectively interested. Mr. Li Zhigang, a former non-executive Director, is one of the two directors of Port New.
- (2) As disclosed in the notices of disclosure of interests filed in respect of Kingston's interest in the Company, the 1,539,894,522 Shares owned by Port New are pledged to Kingston pursuant to the Kingston Share Charge. As such, Kingston has a security interest in 1,539,894,522 Shares. Kingston is wholly controlled by Ample Cheer Limited, which is in turn controlled as to 80% by Best Forth Limited and 20% by Insight Glory Limited, both of which are wholly-controlled by Mrs. Chu Yuet Wah.
- (3) LaGuardia is wholly controlled by Alpha Frontier, which is held as to 42.04% by Chongqing Cibi Business Information Consultancy Co., Ltd.* (重慶賜比商務信息諮詢有限公司) (“Chongqing Cibi”), 32.95% by Hazlet Global Limited (“Hazlet”), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓊逸互聯網科技合夥企業(有限合夥)), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓊熠互聯網科技合夥企業(有限合夥)) and 3.27% by Chongqing Jiezi Business Information Consultancy Partnership (Limited Partnership)* (重慶杰資商務信息諮詢合夥企業(有限合夥)) respectively. Chongqing Cibi is a company controlled by Mr. Shi Yuzhu (史玉柱) and the de facto controller of Hazlet is Ms. Shi Jing (史靜), who is the daughter of Mr. Shi Yuzhu. Hazlet is a person acting in concert with Chongqing Cibi. Mr. Shi Yuzhu is the de facto controller of LaGuardia and Alpha Frontier.

- (iii) no fund managers (other than exempt fund managers) connected with the Company had managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis; and
- (iv) none of the Company or the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any Shares.

5. DEALINGS IN SECURITIES

- (a) During the Relevant Period, neither the Company nor any of the Directors had dealt for value in any Shares, convertible securities, warrants, options, or derivatives in respect of any Shares.
- (b) During the Offer Period and up to the Latest Practicable Date, no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (c) During the Offer Period and up to the Latest Practicable Date, no fund managers connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares.
- (d) During the Offer Period and up to the Latest Practicable Date, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (e) During the Relevant Period, neither the Company nor any of the Directors had dealt for value in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the Company and its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was pending or threatened by or against the Company or any other member of the Group.

7. MATERIAL CONTRACTS

Saved as disclosed below, the Group has not entered into any material contract (being contract not entered into in the ordinary course of business carried on or intended to be carried on by the Group) within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, which is or may be material:

- (a) the Implementation Undertaking;
- (b) the VIE Agreements, pursuant to which the Group, via WFOE, is able to assert management control over the operations of, and enjoy substantially all the economic benefits of the VIE Entity;
- (c) Placing agreement dated 29 September 2017 and entered into between the Company as issuer and Kingston Securities Limited as placing agent in relation to the placing of up to 146,230,000 placing shares at the placing price of HK\$1.7 per share;
- (d) Sale and purchase agreement dated 18 January 2018 and entered into between the Company as purchaser and Galaxy Strategic Investment Co., Ltd. as vendor in relation to the acquisition of 188,679,245 shares in Freeman Fintech Corporation Limited at a consideration of HK\$100,000,000;
- (e) Sale and purchase agreement dated 2 February 2018 and entered into between the Company as purchaser and Galaxy Strategic Investment Co., Ltd. as vendor in relation to the acquisition of 93,457,943 shares in Freeman Fintech Corporation Limited at a consideration of HK\$100,000,000;
- (f) Facility letter dated 7 May 2018 and entered into between the Company as borrower and HSBC as lender in relation to the term loan of US\$25,000,000;
- (g) Facility letter dated 12 November 2018 and entered into between the Company as borrower and HSBC as lender in relation to (i) the revolving loan of HK\$65,000,000; and (ii) three mortgage loans totalled HK\$104,000,000 for the acquisition of properties situated at Suites 3201, 3206 and 3207, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong;

- (h) Sale and purchase agreement dated 29 August 2018 and entered into among Excellent Wish Limited (a wholly-owned subsidiary of the Company) as purchaser, Ms. Wu Laam Anne as vendor and Mr. Yuk as vendor's guarantor in relation to the sale and purchase of the entire issued share capital of and the shareholder's loan in Xiang Tian Limited, which indirectly owned a property, at a consideration of HK\$83,310,000;
- (i) Sale and purchase agreement dated 29 August 2018 and entered into among Excellent Wish Limited (a wholly-owned subsidiary of the Company) as purchaser, Ms. Wu Laam Anne as vendor and Mr. Yuk as vendor's guarantor in relation to the sale and purchase of the entire issued share capital of and the shareholder's loan in Reach Affluent Limited, which indirectly owned a property, at a consideration of HK\$52,540,000;
- (j) Sale and purchase agreement dated 29 August 2018 and entered into between Excellent Wish Limited as purchaser and Cindic Holdings Limited as vendor in relation to the sale and purchase of a property at a consideration of HK\$124,150,000;
- (k) Digital license agreement entered into by and among Hasbro Inc., Hasbro International, Inc. and the Company dated as of 3 August 2017, as amended on 20 March 2019 and 15 July 2020;
- (l) Sale and purchase agreement dated 15 October 2017 and entered into between the Company and Certain Affinity, LLC in relation to, among other things, the purchase of series A preferred stock representing 20% of the issued share capital of Certain Affinity, LLC at a total consideration of US\$10 million;
- (m) Game development agreement entered into by and between the Company and Certain Affinity dated 15 October 2017, as amended by the first amendment agreement dated 4 May 2018, the second amendment agreement dated 7 January 2019, the third amendment agreement dated 13 November 2019, and the fourth amendment agreement dated 6 July 2020;
- (n) Investors' rights agreement entered into by and among Certain Affinity, the Company, Capstar Capital, LLC and Certain Affinity Holdings, Inc. dated 30 October 2017;
- (o) Right of first refusal and co-sale agreement entered into by and among Certain Affinity, the Company, Capstar Capital, LLC, Certain Affinity Holdings, Inc. and certain other parties thereto dated 30 October 2017;
- (p) Voting agreement entered into by and among Certain Affinity, the Company, Capstar Capital, LLC and Certain Affinity Holdings, Inc. dated 30 October 2017;

- (q) Amended and restated restricted stock purchase agreement entered into by and among Certain Affinity Holdings, Inc., Max Hoberman, Certain Affinity and the Company dated 30 October 2017;
- (r) Civilization Online development agreement entered into by and among Take Two International GmbH, Guangzhou Radiance Software Technology Co. Ltd. (廣州榮端軟件科技有限公司) and the Company dated as of 12 June 2017, as amended on 30 November 2017, and 17 October 2018;
- (s) Civilization Online license and distribution agreement entered into by and among Take-Two International GmbH, Take-Two Interactive Software Inc. and the Company dated as of 15 October 2018;
- (t) Leyou Lord of the Rings game license agreement entered into by and between The Saul Zaentz Company d/b/a Middle-earth Enterprises and the Company dated as of 6 June 2018, as amended on 5 June 2019;
- (u) Project Austin co-development and co-operation agreement entered into by and among Amazon Technologies Inc., Amazon Digital Services LLC and the Company dated as of 5 June 2019;
- (v) Deed of release entered into by and among the Company, Paul Wedgwood and Radius Maxima Limited dated 24 August 2020 in relation to the discharge and release of the charge over shares in Splash Damage Limited, Fireteam Limited and Warchest Limited, which was granted by Radius Maxima Limited in favour of Paul Wedgwood dated 31 March 2017;
- (w) Memorandum of understanding entered into among Port New, Novel New, Mr. Yuk and iDreamSky Technology Holdings Limited dated 29 November 2019 regarding the possible sale by Port New and Novel New to iDreamSky Technology Holdings Limited of a total of 2,132,694,522 Shares;
- (x) Privatization exclusivity agreement entered into among Mr. Yuk, the Company and Tencent Mobility Limited dated 10 July 2020 regarding a possible acquisition and privatization of the Company; and
- (y) Engagement letter as financial adviser entered into by and between the Company and Moelis dated 20 May 2019 as amended by an amendment letter entered into by and between the Company and Moelis dated 27 August 2020.

8. DIRECTORS' SERVICE CONTRACTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group or the associated companies of the Company which (a) was entered into or amended (including both continuous and fixed term contracts) within six months prior to the commencement of the Offer Period; (b) is a continuous contract with a notice period of 12 months or more; or (c) is a fixed term contract with more than 12 months to run irrespective of the notice period.

Name of Director	Date of service contract	Term of service contract	Amount of remuneration
Xu Yiran	5 September 2020	From 5 September 2020 to 4 September 2023	HK\$4,800,000 per annum, with discretionary management bonus in respect of each financial year of the Company in an amount as determined by the Board (or the Remuneration Committee if so delegated) in its absolute discretion
Li Yang	23 November 2018	From 23 November 2018 to 22 November 2021	HK\$4,800,000 per annum, with discretionary management bonus in respect of each financial year of the Company in an amount as determined by the Board (or the Remuneration Committee if so delegated) in its absolute discretion
Alan Chen	27 May 2020	From 27 May 2020 to 26 May 2023	US\$360,000 per annum, with discretionary management bonus in respect of each financial year of the Company in an amount as determined by the Board (or the Remuneration Committee if so delegated) in its absolute discretion
Gu Zhenghao	14 March 2020	From 14 March 2020 to 13 March 2023	HK\$480,000 per annum, with discretionary management bonus in respect of each financial year of the Company in an amount as determined by the Board (or the Remuneration Committee if so delegated) in its absolute discretion
Cao Bo	5 September 2020	From 5 September 2020 to 4 September 2023	HK\$480,000 per annum, with discretionary management bonus in respect of each financial year of the Company in an amount as determined by the Board (or the Remuneration Committee if so delegated) in its absolute discretion

9. ARRANGEMENTS AFFECTING THE DIRECTORS

As at the Latest Practicable Date:

- (a) other than the Cancellation Price and the Option Offer Prices to be paid under the Scheme and the Proposal, no arrangement was in place for any benefit (other than statutory compensation) to be given to any Directors as compensation for loss of office or otherwise in connection with the Scheme and the Proposal;
- (b) save for the Li Irrevocable Undertaking and Directors Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) between any Directors and any other person which was conditional on or dependent upon the outcome of the Scheme and the Proposal or is otherwise connected with the Scheme and the Proposal; and
- (c) save for the Li Irrevocable Undertaking and Directors Irrevocable Undertaking, there was no material contract entered into by the Offeror in which any Director has a material personal interest.

10. EXPERT AND CONSENT

The following are the name and qualification of the expert who had been engaged by the Company and has given its opinion or advice, which is contained in this Scheme Document:

Name	Qualifications
Optima Capital Limited	a licensed corporation under the SFO, registered to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

The expert mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion of its letter and references to its name in the form and context in which it appears.

11. MISCELLANEOUS

- (a) The Directors are:

Executive Directors

Mr. Xu Yiran (*Chairman and Chief Executive Officer*)

Mr. Li Yang (*Deputy Chairman*)

Dr. Alan Chen (*Chief Operating Officer*)

Mr. Gu Zhenghao

Mr. Cao Bo

Non-executive Director:

Mr. Eric Todd

Independent non-executive Directors:

Mr. Hu Chung Ming

Mr. Chan Chi Yuen

Mr. Kwan Ngai Kit

- (b) The company secretary of the Company is Mr. Chan Siu Tak.
- (c) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong.
- (e) The principal share registrar of the Company is SMP Partners (Cayman) Limited at 3rd Floor, Royal Bank House, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.
- (f) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (g) The principal business address of Optima Capital Limited is at Suite 1501, 15th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Scheme, the Proposal, the Option Offer and the Group.

The directors of the Offeror are Mr. Ma Huateng and Mr. Charles St Leger Searle, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Directors), have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last Business Day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price per Shares (HK\$)
29 March 2019	2.19
30 April 2019	2.25
31 May 2019	2.37
28 June 2019	2.34
31 July 2019	2.24
30 August 2019	1.99
19 September 2019 (the last trading day prior to the Rule 3.7 Announcement)	2.55
30 September 2019	2.53
31 October 2019	2.60
29 November 2019	2.50
31 December 2019	2.33
31 January 2020	2.50
28 February 2020	2.70
31 March 2020	2.27
29 April 2020	2.31
29 May 2020	2.36
30 June 2020	2.55
31 July 2020	3.06
25 August 2020 (the Last Trading Day)	3.18
30 September 2020	3.25
30 October 2020	3.27
6 November 2020 (the Latest Practicable Date)	3.27

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$3.2800 per Share on 5 November 2020 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$1.5700 per Share on 19 March 2020.

The Cancellation Price of HK\$3.3219 in cash for every Scheme Share represents a premium of approximately 1.59% over the closing price of HK\$3.2700 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Offeror, its directors and/or persons acting in concert with it owned or controlled or had any interest in any Shares, Options, convertible securities, warrants or options or any derivatives in respect of such securities.

4. ADDITIONAL DISCLOSURE OF INTEREST AND DEALINGS IN SECURITIES

During the Relevant Period, none of the Offeror, the directors of the Offeror nor persons acting in concert with it (excluding exempt principal traders and exempt fund managers) had dealt for value in any Shares, Options, convertible securities, warrants or options or any derivatives in respect of such securities.

5. INTERESTS IN THE COMPANY AND OTHER ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL, THE SCHEME AND THE OPTION OFFER

As at the Latest Practicable Date:

- (a) none of the Offeror, the directors of the Offeror and/or persons acting in concert with it (excluding BofA Securities group entities that are exempt principal traders or exempt fund managers) owned or had control or direction over any voting rights or rights over the Shares, Options, or convertible securities, warrants, options or any derivatives in respect of such securities;
- (b) there was no agreement, arrangement for or understanding that any Shares or Options acquired by the Offeror in pursuance of the Proposal would be transferred, charged or pledged to any other persons;
- (c) save as disclosed below in connection with the Irrevocable Undertakings, none of the persons who, prior to the posting of this Scheme Document, had irrevocably committed himself/herself/itself to accept or reject the Proposal, owned or had control or direction over any voting rights or rights over the Shares, Options, or convertible securities, warrants of the Company or any derivatives in respect of such securities;

Name of Shareholders	Number of Shares held as at the Latest Practicable Date
Port New ⁽¹⁾⁽²⁾	1,539,894,522
Novel New ⁽¹⁾	74,100,000
Alpha Frontier ⁽³⁾	518,700,000
Mr. Li Yang	2,895,000

Name of Optionholders	Number of Options held as at the Latest Practicable Date
Mr. Li Yang	12,750,000
Mr. Xu Yiran	29,246,800
Mr. Gu Zhenghao	29,246,800

Note:

- (1) Port New and Novel New are both wholly-owned by Mr. Yuk. Accordingly, Mr. Yuk is deemed to be interested in the Shares in which Port New and Novel New are respectively interested. Mr. Li Zhigang, a former non-executive Director, is one of the two directors of Port New.
- (2) As disclosed in the notices of disclosure of interests filed in respect of Kingston's interest in the Company, the 1,539,894,522 Shares owned by Port New are pledged to Kingston pursuant to the Kingston Share Charge. As such, Kingston has a security interest in 1,539,894,522 Shares. Kingston is wholly controlled by Ample Cheer Limited, which is in turn controlled as to 80% by Best Forth Limited and 20% by Insight Glory Limited, both of which are wholly-controlled by Mrs. Chu Yuet Wah.
- (3) LaGuardia is wholly controlled by Alpha Frontier, which is held as to 42.04% by Chongqing Cibi Business Information Consultancy Co., Ltd.* (重慶賜比商務信息諮詢有限公司) (“**Chongqing Cibi**”), 32.95% by Hazlet Global Limited (“**Hazlet**”), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓊逸互聯網科技合夥企業(有限合夥)), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓊熠互聯網科技合夥企業(有限合夥)) and 3.27% by Chongqing Jiezi Business Information Consultancy Partnership (Limited Partnership)* (重慶杰資商務信息諮詢合夥企業(有限合夥)) respectively. Chongqing Cibi is a company controlled by Mr. Shi Yuzhu (史玉柱) and the de facto controller of Hazlet is Ms. Shi Jing (史靜), who is the daughter of Mr. Shi Yuzhu. Hazlet is a person acting in concert with Chongqing Cibi. Mr. Shi Yuzhu is the de facto controller of LaGuardia and Alpha Frontier.

- (d) save for the Irrevocable Undertakings, none of the Offeror, the directors of the Offeror, or persons acting in concert with it had any arrangement (whether by way of option, indemnity, or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, relating to any Shares, Options, or convertible securities, warrants, options or any derivatives in respect of such securities, with any other person;
- (e) neither the Offeror nor any persons acting in concert with it (excluding BofA Securities group entities that are exempt principal traders or exempt fund managers) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (f) other than the Cancellation Price and the Option Offer Price, no benefit (other than statutory compensation) was or would be given to any Director as compensation for loss of office or otherwise in connection with the Proposal;
- (g) save for the Irrevocable Undertakings, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or persons acting in concert with it and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependence upon the Proposal;
- (h) save for the Irrevocable Undertakings, there was no agreement or arrangement to which the Offeror and/or persons acting in concert with it was a party which related to the circumstances in which the Offeror may or may not invoke or seek to invoke a pre-condition or condition to the Proposal;
- (i) save for the Proposal, the Scheme, the Option Offer, the Irrevocable Undertakings and the Implementation Undertaking, there are no agreements or arrangements (whether by way of option, indemnity or otherwise) in relation to shares of the Offeror and persons acting in concert with it or the Shares which might be material to the Proposal;
- (j) save for the Cancellation Price and the Option Offer Prices, there is no other consideration, compensation or benefit in whatever form paid or to be paid by the Offeror or any person acting in concert with it to the Scheme Shareholders or any person acting in concert with the Scheme Shareholders in connection with the cancellation of the Scheme Shares or the Options (as applicable);
- (k) save for the Irrevocable Undertakings, there is no understanding, arrangement, agreement or special deal between the Offeror or any person acting in concert with it on the one hand, and the Scheme Shareholders or any person acting in concert with the Scheme Shareholders on the other hand; and
- (l) save for the Irrevocable Undertakings, there is no understanding, arrangement, agreement or special deal between any shareholder of the Company and (i) the Offeror and any person acting in concert with it or (ii) the Company, its subsidiaries or associated companies.

6. EXPERT AND CONSENT

The following are the name and qualification of the expert who had been engaged by the Offeror and has given its opinion or advice, which is contained in this Scheme Document:

Name	Qualifications
Merrill Lynch (Asia Pacific) Limited	a licensed corporation under the SFO, registered to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO

The expert mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion of its letter and references to its name in the form and context in which it appears.

7. MISCELLANEOUS

As at the Latest Practicable Date:

- (a) The Offeror is a company incorporated in Hong Kong with limited liability. The registered office of the Offeror is at 29/F., Three Pacific Place, No.1 Queen's Road East, Wanchai, Hong Kong.
- (b) The directors of the Offeror comprise Mr. Ma Huateng and Mr. Charles St Leger Searle.
- (c) Tencent Holdings is a company incorporated in the Cayman Islands with limited liability. The address of the registered office of Tencent Holdings is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (d) The directors of Tencent Holdings comprise Mr. Ma Huateng (Chairman), Mr. Lau Chi Ping Martin, Mr. Jacobus Petrus (Koos) Bekker, Mr. Charles St Leger Searle, Mr. Li Dong Sheng, Mr. Iain Ferguson Bruce, Mr. Ian Charles Stone, Mr. Yang Siu Shun and Ms. Ke Yang.
- (e) The principal place of business of BofA Securities is situated at 55/F, Cheung Kong Centre, 2 Queen's Road Central, Central, Hong Kong.

Copies of the following documents are available for inspection from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier (i) during normal business hours from 9:00 a.m. to 5:30 p.m. (except Saturdays, Sundays and public holidays in Hong Kong) (Hong Kong time) at the principal place of business of the Company in Hong Kong at Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong; (ii) on the website of the Company (www.leyoutech.com.hk); and (iii) on the website of the SFC (www.sfc.hk):

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the years ended 31 December 2018 and 31 December 2019;
- (d) the interim report of the Company for the six months ended 30 June 2020;
- (e) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (f) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (g) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (h) material contracts referred to in the section headed “7. Material Contracts” in Appendix II – General Information on the Company to this Scheme Document;
- (i) service contracts referred to in the section headed “8. Directors’ Service Contracts” in Appendix II – General Information on the Company to this Scheme Document;
- (j) written consent referred to in the section headed “10. Expert and Consent” in Appendix II – General Information on the Company to this Scheme Document;
- (k) written consent referred to in the section headed “6. Expert and Consent” in Appendix III – General Information on the Offeror to this Scheme Document;
- (l) the Irrevocable Undertakings; and
- (m) this Scheme Document.

**IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION
CAUSE NO: FSD 204 OF 2020 (IKJ)**

**IN THE MATTER OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED 樂遊科技控股有限公司
AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW (2020 REVISION)**

**SCHEME OF ARRANGEMENT
between
LEYOU TECHNOLOGIES HOLDINGS LIMITED 樂遊科技控股有限公司
and
THE SCHEME SHAREHOLDERS
(as hereinafter defined)**

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“BofA Securities”	Merrill Lynch (Asia Pacific) Limited, a licensed corporation under the SFO, registered to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO, financial adviser to the Offeror
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$3.3219 for every Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Company”	Leyou Technologies Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability whose Shares are listed on the Stock Exchange (stock code: 1089)

“Companies Law”	the Cayman Islands Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised)
“Condition(s)”	the condition(s) of the Proposal, details of which are set out in the section headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the court order of the Grand Court sanctioning the Scheme and confirming the reduction of issued share capital resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Monday, 21 December 2020 (Cayman Islands time)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	6 November 2020, being the latest practicable date for ascertaining certain information contained in this Scheme Document
“Long Stop Date”	31 December 2020
“New Shares”	new Shares to be issued to the Offeror pursuant to the Scheme, corresponding to the number of the Scheme Shares
“Offeror”	Image Frame Investment (HK) Limited, a private company limited by shares incorporated under the laws of Hong Kong which is wholly owned by Tencent Holdings Limited

“Offeror Concert Parties”	parties acting in concert or presumed to be acting in concert with the Offeror in relation to the Company which comprise BofA Securities only
“Option Offer”	the cash offer made by or on behalf of the Offeror to the Optionholders for the cancellation of all outstanding Options in accordance with the Takeovers Code
“Optionholder(s)”	the holder(s) of the outstanding option(s) granted by the Company from time to time under the share option scheme adopted by the Company on 25 August 2017
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme, the implementation of the Option Offer, the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, and the withdrawal of the listing of the Shares from the Stock Exchange, in each case, on the terms and subject to the Conditions set out in this Scheme Document
“Register”	the register of members of the Company
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law, with or subject to any modification, addition or condition as may be approved or imposed by the Grand Court and agreed to by the Offeror, involving the cancellation of all of the Scheme Shares and the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Record Date”	Monday, 21 December 2020, or such other date as shall have been announced for determining entitlements of the Scheme Shareholders under the Scheme
“Scheme Shareholder(s)”	the Shareholder(s) at the Scheme Record Date
“Scheme Share(s)”	Share(s) held by the Scheme Shareholders
“SFC”	the Securities and Futures Commission of Hong Kong

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers (as revised from time to time)
“Tencent Holdings Limited”	Tencent Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700)

- (B) The Company was incorporated in the Cayman Islands on 22 February 2010 under the provisions of the Companies Law as an exempted company with limited liability.
- (C) As at the Latest Practicable Date, the authorised share capital of the Company was HK\$1,000,000,000.00 divided into 10,000,000,000 ordinary shares of a single class with a par value of HK\$0.10 each. As at the Latest Practicable Date, the issued share capital of the Company was HK\$308,531,901.70 divided into 3,085,319,017 Shares, with the remainder being unissued. Since 11 January 2011, the issued shares of the Company have been listed and traded on the Main Board of the Stock Exchange.
- (D) The Offeror has proposed the privatisation of the Company by way of the Scheme.
- (E) The primary purpose of the Scheme is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration of the Cancellation Price so that thereafter the Offeror will own 100% of the Company. Simultaneously with the cancellation of the Scheme Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par, credited as fully paid, the same number of New Shares as is equal to the number of Scheme Shares cancelled and extinguished.
- (F) As at the Latest Practicable Date, neither the Offeror nor any Offeror Concert Parties legally or beneficially owns any Shares in the Company.
- (G) Each of the Offeror Concert Parties which, being presumed to be acting in concert with the Offeror under the Takeovers Code, will procure that any Shares in respect of which they are legally or beneficially interested will not be represented or voted at the meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the Scheme. As at the Latest Practicable Date, the Offeror Concert Parties are not interested in any Shares.

- (H) The Offeror has undertaken to the Grand Court to be bound by the Scheme, and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing all of the Scheme Shares and the Scheme Shareholders shall cease to have any rights with respect to the Scheme Shares except the right to receive the Cancellation Price;
 - (b) subject to and forthwith upon such reduction of share capital taking effect, the issued share capital of the Company will be increased to its former amount by issuing to the Offeror the same number of New Shares as is equal to the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par such number of New Shares as is equal to the number of Scheme Shares cancelled, which shall be allotted and issued to the Offeror, credited as fully paid, as mentioned in paragraph 1(b) above.

PART II

Consideration for the cancellation and extinguishment of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III**General**

3. (a) As soon as possible and not later than seven (7) Business Days after the Effective Date, the Offeror shall send or cause to be sent to Scheme Shareholders cheques in respect of the Cancellation Price payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
- (b) Unless otherwise indicated in writing to the branch share registrar of the Company in Hong Kong, being Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques payable to the Scheme Shareholders shall be sent by ordinary post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Scheme Record Date or, in the case of joint holders, at the address as appearing on the Register at the Scheme Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) Cheques shall be posted at the risk of the addressee and none of the Offeror, the Company or BofA Securities and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be responsible for any loss or delay in the despatch of the same.
- (d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.

- (e) On or after the day being six (6) calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand any cheque which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been cashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to, if applicable, any deduction of interest, tax or any withholding tax or any other deduction required by law and expenses incurred.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. Each instrument of transfer and certificate existing at the Scheme Record Date in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Offeror to deliver up the same to the Offeror for the cancellation thereof.
5. All mandates or relevant instructions to the Company in force at the Scheme Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.

6. Subject to the Conditions having been satisfied in full or waived by the Offeror in the manner described in the section headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document, this Scheme shall become effective as soon as a copy of the order of the Grand Court sanctioning this Scheme under Section 86 of the Companies Law and confirming the reduction of issued share capital resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law.
7. Unless this Scheme shall have become effective on or before the Long Stop Date (or such later date, if any, as the Company and the Offeror may agree, or to the extent applicable as the Grand Court, on application of the Company and/or the Offeror may direct, and in all cases, as permitted by the Executive), this Scheme shall lapse.
8. The Company and the Offeror may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition which the Grand Court may think fit to approve or impose.
9. All costs, charges and expenses of the advisers and counsels appointed by the Company will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme of Arrangement will be shared between the Company and the Offeror equally.

11 November 2020

**IN THE GRAND COURT
OF THE CAYMAN ISLANDS FINANCIAL SERVICES DIVISION**

Cause No. FSD 204 of 2020 (IKJ)

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2020 REVISION)

AND IN THE MATTER OF ORDER 102 OF THE GRAND COURT RULES 1995

AND IN THE MATTER OF LEYOU TECHNOLOGIES HOLDINGS LIMITED (樂遊科技控股有限公司)

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 6 November 2020 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of holders of ordinary shares of HK\$0.10 each in the capital of Leyou Technologies Holdings Limited (樂遊科技控股有限公司) (the “**Company**”) (the “**Holders**”) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme**”) proposed to be made between the Company and the Scheme Shareholders (as defined in the Scheme) and that the Court Meeting will be held at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 11 December 2020 at 10 a.m. (Hong Kong time) at which place and time all such Holders are requested to attend.

A copy of the Scheme and a copy of an explanatory memorandum explaining the effect of the Scheme are incorporated in the scheme document of which this Notice forms part. A copy of the scheme document can also be obtained from the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited.

Such Holders (other than those required to abstain from voting as detailed in the Scheme) may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed with the scheme document dated 11 November 2020 despatched to members of the Company on 11 November 2020.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders are present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the most senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such joint holding, the first named shareholder being the most senior.

It is requested that the **pink** form of proxy in respect of the Court Meeting be deposited at the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 10 a.m. (Hong Kong time) on Wednesday, 9 December 2020 or be handed to the Chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it).

By the Order, the Court has appointed Mr. LI Yang, or failing him, any of the other directors of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme will be subject to a subsequent application seeking the sanction of the Court.

By order of the Court
Leyou Technologies Holdings Limited

Dated 11 November 2020

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal place of business in Hong Kong:

Suite 3201, Tower Two
Lippo Centre
89 Queensway
Admiralty
Hong Kong

Notes:

- (a) In order to be valid, the **pink** form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be completed and deposited with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 10 a.m. (Hong Kong time) on Wednesday, 9 December 2020. The completion and return of a form of proxy for the Court Meeting will not preclude any member from attending and voting in person at the Court Meeting. In the event that a member of the Company attends the meeting after having lodged his form of proxy, the returned form of proxy will be deemed to have been revoked.
- (b) Shareholders whose names appear on the register of members of the Company on Friday, 11 December 2020 are entitled to attend and vote at the Court Meeting. The register of members of the Company will be closed from Monday, 7 December 2020 to Friday, 11 December 2020, both days inclusive, and during such period no share transfer will be registered. In order to qualify to attend and vote at the meeting convened by the above notice, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, 4 December 2020.
- (c) Voting at the Court Meeting will be determined by way of a poll.
- (d) **In view of the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Court Meeting to protect Shareholders from the risk of infection:**
 - (i) **compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;**
 - (ii) **every attending Shareholder or proxy is required to wear a surgical mask throughout the Court Meeting; and**
 - (iii) **no refreshments will be served at the Court Meeting.**

Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to any Hong Kong Government prescribed quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Court Meeting as a proxy to attend and vote on any of the resolutions, instead of attending the Court Meeting in person. Physical attendance by a Shareholder is not necessary for the purpose of exercising their voting rights.

The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong Government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the Court Meeting.

- (e) As at the date of this notice, the board of directors of the Company comprises Mr. Xu Yiran (Chairman and Chief Executive Officer), Mr. Li Yang (Deputy Chairman), Dr. Alan Chen (Chief Operating Officer), Mr. Gu Zhenghao and Mr. Cao Bo as executive Directors, Mr. Eric Todd as non-executive Director, and Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit as independent non-executive Directors.

**LE YOU****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)****NOTICE OF EXTRAORDINARY GENERAL MEETING**

NOTICE IS HEREBY GIVEN that that an extraordinary general meeting of Leyou Technologies Holdings Limited (the “**Company**”) will be held at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 11 December 2020 at 11 a.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the Court Meeting convened at the direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering and, if thought fit, passing (with or without modifications) the following as a special resolution and ordinary resolutions, respectively:

SPECIAL RESOLUTION**1. “THAT AS A SPECIAL RESOLUTION:**

for the purpose of giving effect to the scheme of arrangement dated 11 November 2020 (the “**Scheme**”) between the Company and the Scheme Shareholders (as defined in the Scheme) in the form of the print thereof, which has been produced to this meeting and for the purpose of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme), the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme).”

ORDINARY RESOLUTION**2. “THAT AS AN ORDINARY RESOLUTION:**

- (A) subject to and forthwith upon such reduction of capital taking effect, the issued share capital of the Company will be increased to its former amount by issuing to Image Frame Investment (HK) Limited the same number of shares as the number of Scheme Shares cancelled and extinguished;

- (B) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph (A) above in paying up in full at par the new shares issued, credited as fully paid, to Image Frame Investment (HK) Limited and the directors of the Company be and are hereby authorised to allot and issue the same accordingly;
- (C) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him/her to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modification of, or addition to, the Scheme, which the Grand Court of the Cayman Islands may see fit to impose;
- (D) any one of the directors of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company.”

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

Dated 11 November 2020

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal place of business in Hong Kong:

Suite 3201, Tower Two
Lippo Centre
89 Queensway
Admiralty
Hong Kong

Notes:

- (a) Any member entitled to attend and vote at the EGM (or any adjournment thereof) is entitled to appoint one or more proxies (who must be individuals) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (b) In the case of joint registered holders of any share of the Company, any one of such joint holders may vote at the EGM, either personally or by proxy, in respect of such share(s) as if he were solely entitled thereto. But if more than one of such joint holders are present at the EGM personally or by proxy, the most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority will be determined by reference to the order in which the names of the joint holders stand in the register of members of the Company in respect of the relevant joint holding, the first named shareholder being the most senior.
- (c) A **white** form of proxy for use at the EGM is enclosed.
- (d) In order to be valid, the **white** form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be completed and deposited with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 11 a.m. (Hong Kong time) on Wednesday, 9 December 2020. The completion and return of a form of proxy for the EGM will not preclude any member from attending and voting in person at the EGM. In the event that a member of the Company attends the meeting after having lodged his form of proxy, the returned form of proxy will be deemed to have been revoked.
- (e) Shareholders whose names appear on the register of members of the Company on Friday, 11 December 2020 are entitled to attend and vote at the EGM. The register of members of the Company will be closed from Monday, 7 December 2020 to Friday, 11 December 2020, both days inclusive, and during such period no share transfer will be registered. In order to qualify to attend and vote at the meeting convened by the above notice, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, 4 December 2020.
- (f) The special resolution and the ordinary resolution as set out above will be determined by way of a poll.
- (g) **In view of the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the EGM to protect Shareholders from the risk of infection:**
 - (i) **compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;**
 - (ii) **every attending Shareholder or proxy is required to wear a surgical mask throughout the EGM; and**
 - (iii) **no refreshments will be served at the EGM.**

Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to any Hong Kong Government prescribed quarantine in relation to COVID-19, that they may appoint any person or the chairman of the EGM as a proxy to attend and vote on any of the resolutions, instead of attending the EGM in person. Physical attendance by a Shareholder is not necessary for the purpose of exercising their voting rights.

The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong Government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the EGM.

- (h) As at the date of this notice, the board of directors of the Company comprises Mr. Xu Yiran (Chairman and Chief Executive Officer), Mr. Li Yang (Deputy Chairman), Dr. Alan Chen (Chief Operating Officer), Mr. Gu Zhenghao and Mr. Cao Bo as executive Directors, Mr. Eric Todd as non-executive Director, and Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit as independent non-executive Directors.

The following is a form of the Option Offer Letter being sent to each Optionholder in connection with the Option Offer.



Financial Adviser to the Offeror

11 November 2020

To the Optionholders

Dear Sir or Madam,

**OPTION OFFER IN RELATION TO PROPOSED TAKE PRIVATE OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW**

A scheme document dated the same date as this letter issued jointly by the Offeror and the Company (the “**Scheme Document**”) and a form of acceptance (the “**Form of Acceptance**”) is provided to you together with this letter. Terms used but not defined in this letter shall have the same meanings as defined in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On 27 August 2020, the Offeror and the Company jointly announced that on 27 August 2020, in response to the Offeror’s Proposal put forward to the Board, the Company provided the Implementation Undertaking in favour of the Offeror, pursuant to which the Company irrevocably undertook to the Offeror to put forward to the Scheme Shareholders the Scheme which, if approved and implemented, will result in the Company being taken private by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange. As stated in the Announcement, the Offeror is making an appropriate offer to all of the holders of the outstanding Options in accordance with Rule 13 of the Takeovers Code (the “**Option Offer**”), subject to and conditional upon the Scheme becoming effective.

This letter explains the terms of the Option Offer and the actions you may take in relation to any Options held by you. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the documentation under which each of your Options was granted (including the terms of the Share Option Scheme).

TERMS OF THE OPTION OFFER

On behalf of the Offeror, we are making the Option Offer, which is conditional on the Scheme becoming effective, to you pursuant to the terms of the Share Option Scheme.

In accordance with the terms of the Share Option Scheme, if a general offer (whether by takeover offer or scheme of arrangement or otherwise in like manner) is made to all Shareholders and such offer becomes or is declared unconditional prior to the expiry of the Options, the Optionholders are entitled to exercise the Options in full (to the extent such Options have become exercisable but have not already been exercised) at any time within one calendar month after the later of: (a) the despatch of the offer document; and (b) the date on which the offer becomes or is declared unconditional (the “**Exercise Period**”). Any Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Offer will lapse automatically upon the expiry of such Exercise Period. To the extent that there are any shares held by any person other than the Offeror after the Scheme becomes effective, it shall be reminded that the Companies Law, to which the Company is subject, permits certain compulsory acquisition and similar rights to be exercised by a majority shareholder such as the Offeror after the Effective Date to make the Company a wholly-owned subsidiary thereof, although the Offeror currently has no intention to take any such action within two (2) years after the Effective Date.

To the extent that the outstanding Options have not otherwise lapsed, been cancelled or been exercised, the Offeror is making (or procuring to be made on its behalf) the Option Offer to you in accordance with Rule 13 of the Takeovers Code to cancel every vested and unvested outstanding Option (regardless of whether they are exercisable on, before or after the Scheme Record Date), subject to the Scheme becoming effective.

Under the Option Offer, the Offeror is offering you the “see-through” Option Offer Price (being the Cancellation Price minus the relevant exercise price) for each outstanding Option held in exchange for the cancellation of every vested and unvested Option. The number of outstanding Options to which each Option exercise price applies as at the Latest Practicable Date and the corresponding Option Offer Price is set out in the table below:

Option exercise price <i>(HK\$)</i>	Option Offer Price <i>(HK\$)</i>	Number of outstanding Options as at the Latest Practicable Date
1.91	1.4119	262,071,200
2.50	0.8219	47,878,617
2.80	0.5219	48,978,005
3.10	0.2219	48,978,038

In consideration for our agreement to pay you the cash consideration set out above (as applicable to your holdings of Options), all rights and obligations under your Options will be immediately cancelled by the Offeror and the Company upon your acceptance.

Conditions of the Option Offer

The Option Offer is conditional upon the Scheme becoming effective. The Option Offer will become unconditional immediately upon the Scheme becoming effective and prior to the listing of the Shares being withdrawn from the Stock Exchange.

The Conditions of the Proposal and the Scheme are set out in the section headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document. You are further advised to refer to the sections headed “19. Registration and Payment” in Part VII – Explanatory Memorandum of this Scheme Document.

Payments under the Option Offer

On the basis that the Scheme becomes effective, cheque for payment of the Option Offer Price payable under the Option Offer are expected to be despatched as soon as possible and in any event within seven (7) Business Days following the Effective Date or receipt of such validly completed Forms of Acceptance, whichever is the later.

Payment will be made by cheque drawn in the name of Computershare Hong Kong Investor Services Limited (“**Computershare**”) as the Optionholder’s agent and delivered to Computershare at its registered office. Optionholders should refer to this letter and the Form of Acceptance for further details of the election. All such cheques will be despatched at the risk of the person(s) entitled thereto and none of the Offeror, the Company, BofA Securities and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in despatch.

You are advised to refer to the sections headed “19. Registration and Payment”, “20. Overseas Shareholders and Optionholders”, and “21. Taxation and Independent Advice” in Part VII – Explanatory Memorandum of the Scheme Document.

It is emphasised that none of the Offeror, the Company, BofA Securities, Moelis or any of their respective directors, officers or associates or any other persons involved in the Proposal accepts responsibility or has any liability for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS

The choices available to you in respect of your Options are set out below.

(A) Accept the Option Offer

The Option Offer shall be in respect of (i) all vested Options that you hold as at the Option Record Date (expected to be Tuesday, 5 January 2021) and (ii) all Options that are unvested as at the Option Record Date (expected to be Tuesday, 5 January 2021).

You may choose to accept the Option Offer on the terms (including all declarations and undertakings) as set out in this letter and the enclosed Form of Acceptance, by ticking the “Accept” box on the Form of Acceptance and returning it in accordance with the instructions set out below. Such acceptance of the Option Offer will be in respect of all Options held by you as at the Option Record Date.

(B) Reject the Option Offer

If you choose to reject the Option Offer, please tick the “Reject” box on the enclosed Form of Acceptance and return it in accordance with the instructions set out below. Such rejection of the Option Offer will be in respect of all Options held by you as at the Option Record Date.

Under the terms of the Share Option Scheme, if the Scheme becomes effective, these Options will automatically lapse and not be exercisable upon expiry of the period that is one calendar month after the Effective Date.

If you reject the Option Offer, you will not be entitled to receive the cash consideration offered in respect of any of your Options.

Following receipt of this letter, if you (i) choose to do nothing (including not returning a Form of Acceptance) or (ii) fail to tick either an “Accept” or “Reject” box on a returned Form of Acceptance or fail to sign the Form of Acceptance, and the Scheme becomes effective, you will be treated as if not having accepted the Option Offer in respect of all Options held by you as at the Option Record Date, your Options will automatically lapse upon expiry of the period that is one calendar month after the Effective Date and you will receive neither the Option Offer Price nor the Cancellation Price.

(C) Become a Scheme Shareholder

If any of your Options are or become exercisable, you may choose to pay the exercise price and applicable taxes and exercise your Options under their terms prior to the Latest Options Exercise Date. If, as a result, you are a registered holder of the underlying Shares as at the Scheme Record Date (expected to be Monday, 21 December 2020), such Shares will form part of the Scheme Shares and will be cancelled if the Scheme becomes effective. You will then be entitled to receive the Cancellation Price for Scheme Share that you hold as at the Scheme Record Date.

Please note, however, that as the cash consideration offered for each Option under the Option Offer is based on a “see-through price” equal to the Cancellation Price of HK\$3.3219 minus any applicable exercise price, there is no monetary benefit to taking this course of action. Nonetheless, holders of Shares to be voted at the Court Meeting as at the Meeting Record Date will be entitled, subject to the Takeovers Code, to attend and vote at the Court Meeting and the EGM, whereas you will not have such right to attend and vote if you are only an Optionholder.

HOW TO RETURN THE FORM OF ACCEPTANCE

You must complete and return the duly completed and executed Form of Acceptance to the Offeror, care of Leyou Technologies Holdings Limited at Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong, for the attention of the Company Secretary of the Company and marked “Leyou Technologies Holdings Limited – Option Offer” by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 5 January 2021 (or such later date and time as may be notified to you by the Offeror, BofA Securities and the Company or by way of joint announcement by the Offeror and the Company on the website of the Stock Exchange). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Options or any other document will be given.

Before returning the Form of Acceptance, please ensure that you have completed and signed the Form of Acceptance and that your signature has been witnessed.

LAPSED OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of an Option which lapses, will lapse, or has already lapsed, under the terms of its grant or the Share Option Scheme. You cannot accept the Option Offer in respect of an Option which has lapsed or will have lapsed by the Option Record Date.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

Your attention is drawn to the letter from the Independent Board Committee to the Disinterested Shareholders and the Optionholders set out in Part V of the Scheme Document and the letter from the Independent Financial Adviser, set out in Part VI of the Scheme Document which contain the recommendation of the Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Proposal, the Scheme and the Option Offer.

INDEPENDENT FINANCIAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document, the Form of Acceptance or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional advisor.

DECLARATION

By returning the Form of Acceptance, you:

- (a) confirm that you have read, understood and agreed to the terms and conditions of the Option Offer (including, without limitation, those set out in this letter and the Form of Acceptance), and that you have received the Scheme Document and this letter;
- (b) confirm that each Option in respect of which you accept the Option Offer is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever;
- (c) confirm that all local laws and requirements applicable to the Option Offer have been complied with;
- (d) acknowledge that you cease to have any rights or obligations, and waive all rights and claims against any party (including the Offeror and the Company), in respect of such Option you hold in respect of which you accept the Option Offer and agree that all rights and obligations under such Options will be cancelled;
- (e) confirm that any acceptance of the Option Offer cannot be withdrawn or altered;
- (f) irrevocably and at your own risk elect to authorise the Offeror to send to you, or procure the sending to you of, the cash to which you are entitled;

- (g) authorise the Company and the Offeror, jointly and severally, or any director or officer of the Company or the Offeror or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to or in consequence of your acceptance of the Option Offer, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance (including consenting to the Company, the Board or the Offeror, as applicable, exercising its rights to amend the terms of your Options such that they may be transferred to the Offeror); and
- (h) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney or agent appointed by or pursuant to this letter or the Form of Acceptance.

GENERAL

All communications, notices, Form(s) of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of BofA Securities, the Offeror or the Company accepts any liability for any loss or any other liabilities whatsoever which may arise as a result. This letter shall be taken as having been received by you within two Business Days of its despatch.

The provisions set out in the Form of Acceptance form part of the terms of the Option Offer.

The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

The delivery of the Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the instructions set out in the Form of Acceptance and this letter, including the date specified for receipt.

Any acceptance of the Option Offer and the receipt of cash consideration may trigger taxes subject to withholding obligations of the Offeror and/or the Company. Cash consideration under the Option Offer will be paid to you net of such applicable taxes, if any. All Optionholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Option Offer.

RESPONSIBILITY STATEMENTS

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this letter relating to the Group and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this letter by the directors of the Company have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

The directors of Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this letter (other than those expressed by the directors of the Company), have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

Yours truly,
For and on behalf of
Merrill Lynch (Asia Pacific) Limited
Thomas Barsha
Managing Director