



FINANCIAL REVIEW
FAST100 2020
IN COOPERATION WITH **statista**
*iCandy – Proudly Ranked 25th
of Australia's Fastest Growing*

iCandy Interactive Limited
(ACN 604 871712)
Level 4, 91 William Street
Melbourne, VIC 3000
Australia

19 November 2021

ASX and Media Announcement

Landmark Acquisition of Renowned Lemon Sky Studios to Form New Gaming Powerhouse, Biggest of its kind in Australia and Southeast Asia

Highlights:

- **iCandy to acquire 100% of Lemon Sky Studios, which is a 2006-founded game and animation studio with an impressive portfolio of developing AAA game titles**
- **Lemon Sky Studios has an existing portfolio of partnerships with large industry players such as EA Entertainment, Microsoft Studios, Disney, Nickelodeon, Blizzard Entertainment, Naughty Dog, 2K Games, Square-Enix, Bandai Namco, among many others**
- **The acquisition is for a consideration of MYR135 million (A\$44.5 million), to be satisfied in cash and new Shares of iCandy**
- **The combined entity will be amongst the largest of its kind in Southeast Asia, Australia, and New Zealand**
- **The combined entity will have more than 450 full-time employees who are highly skilled in game design, development, game art and animation production**
- **The combined entity will be well positioned to make AAA games for the metaverse**

iCandy Interactive Limited ("**iCandy**" or the "**Company**") is pleased to announce that it has entered a Share Sale Agreement ("**Agreement**") to **acquire 100%** of renowned Southeast Asia-based game art and animation company, Lemon Sky Animation Sdn. Bhd. ("**Lemon Sky Studios**").

Lemon Sky Studios is the joint-venture partner of iCandy in the formation of **Sky Candy Sdn. Bhd.** that is currently developing a AAA-style mobile game based on the combined expertise of iCandy and Lemon Sky Studios. Reference is made to the Company's announcement dated 5 January 2021, in which iCandy announced the joint venture with Lemon Sky Studios.

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Lemon Sky Studios - A Renowned AAA Game Studio

Lemon Sky Studios is a video game, game art and animation studio founded in 2006 with an impressive portfolio of video games, including major global AAA game titles such as Uncharted: The Lost Legacy, the Last of Us Part 2, Final Fantasy VII Remake, the Final Fantasy XIV franchise, Final Fantasy XV, Diablo 3, StarCraft: Remastered, Command & Conquer Remastered, Marvel's Spider-man, and many others.

Notable clients and partners who have worked with Lemon Sky Studios include EA Entertainment, Microsoft Studios, Disney, Nickelodeon, Blizzard Entertainment, Naughty Dog, 2K Games, Square-Enix and Bandai Namco.

Lemon Sky Studios presently employs over 350 highly skilled artists from around the world and is headquartered in Kuala Lumpur, Malaysia.

Forming a New Gaming Powerhouse, Largest of its kind in Australia and Southeast Asia

The combined entity will have more than **450 talented full-time employees** skilled in A-Z game-making, including game concept development, game design, game art, animation, 3D modelling, motion capture, software development and game monetisation design.

The management of iCandy views the securing of a 450-strong team as a key synergetic outcome of the acquisition due to talent scarcity within the industry.

The Transaction Details

iCandy is acquiring 100% of Lemon Sky Studios from its two founders for a total consideration of **MYR135 million (A\$44.5 million)**, which will be settled as follows:

- (A) **Cash Consideration - MYR54 million (A\$17.8 million)** payable in cash, to be settled over a period of 6 months.
- (B) **Shares Consideration - MYR81 million (A\$26.7 million)** via the issuance of new fully paid ordinary shares ("**Shares**") of iCandy when the Agreement becomes unconditional. The issue price of the Consideration Shares shall be derived from the 5-day volume weighted average price ("**VWAP**") of iCandy's Shares immediately prior to the date of execution of the Agreement, which is at A\$0.11 per Share. These Shares will be escrowed under voluntary moratorium for two years from issue.

In accordance with ASX Listing Rules 11.1.2, the completion of the acquisition is conditional upon obtaining iCandy's shareholder approval in an Extraordinary Shareholders Meeting to be called by iCandy as soon as possible. Barring unforeseen circumstances, the

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Acquisition is expected to complete within 3 months.

The cash requirements of the transaction will be funded by existing working capital of iCandy and a fundraising exercise of iCandy. On a separate announcement released today, the Company announced an oversubscribed placement of A\$40 million.

Table below lists out the Use of Funds for the A\$40 million raised.

Placement Amount (AUD\$'000)	\$40,000
Use of Funds:	
Acquisition of Lemon Sky Studios (MYR 54 million)	\$17,800
Increasing staff headcount to increase production ability on its existing business and assets	\$8,800
Promotion and marketing on its new and existing games	\$6,700
Acquisition of additional infrastructure to assist with the increment in production capabilities on its existing business and assets	\$4,500
General working capital	\$2,200

The salient terms of the Acquisition are outlined in **Appendix A** of this announcement.

Financial Impact of the Acquisition

In its last audited financial report for Financial Year Ending 31 December 2020, Lemon Sky Studios has shown strong financial performance:

Lemon Sky Studios Audited FYE 31 December 2020 (in AUD)	
Revenue	\$ 14.8 m
Gross Profit	\$ 8.25 m
Profit Before Tax (PBT)	\$ 4.02 m
Profit After Tax (PAT)	\$ 3.92 m
Net Assets	\$ 15.21 m
Net Tangible Assets	\$ 11.96 m
Cash and Equivalent in Hand	\$ 6.06 m

The acquisition will significantly enhance the financial position of iCandy. The combined entity is expected to have multiple new revenue streams which will provide further

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diversification and robustness going forward.

The estimated pro forma balance sheet of the combined entity is provided in **Appendix B** of this announcement.

Well Positioned to Make AAA Games for the Metaverse

Based on the track record of Lemon Sky Studios in producing AAA video games, iCandy is able to leverage its expertise and industry connections in game development to position itself to develop AAA games for the metaverse. AAA, or triple-A, is an informal classification within the gaming industry used to categorise games produced with the highest visual quality and gaming experience for gamers, typically having higher development and marketing budgets.

The metaverse is an emerging technology concept where users play and work in a virtual world that is connected online and involves an immersive experience that utilises multiple technologies including virtual reality, augmented reality, etc.

The metaverse concept has attracted significant attention of late from the tech industry as social media giant Facebook Inc rebranded itself as Meta Inc, positioning itself to provide tools and media for the metaverse.

The metaverse is currently one of the best regarded growth areas for the game industry.

The combined entity will have among the best-in-class skills and experience to develop AAA games, as well as expertise in developing its own Intellectual Properties (“IPs”) and publishing games independently. These abilities will position iCandy well to be among the pioneering game developers in making AAA games for the metaverse.

Other Rationale for the Acquisition

The Company views the acquisition of Lemon Sky Studios as an attractive opportunity to expand shareholder value, based on the following points:

I. Clear synergies and strategy towards growth

The combined entity will allow iCandy to realise potential **business synergies** between both companies, with a very strong existing underlying business.

The business synergies and combined strength will allow iCandy to undertake more ambitious projects in its endeavour to expand its market share of the global gaming industry.

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II. **Addition to talent base, resources, and intellectual properties**

In addition, the human capital and talent base that Lemon Sky Studios possesses are important advantages to be gained by the Company. iCandy is retaining the two founders of Lemon Sky Studios and all its existing 350 employees. Lemon Sky Studios' proprietary assets (IPs in the form of designs, brands, animation, etc.) and resources are also expected to contribute significantly to iCandy's growing portfolio of games.

III. **Accelerating international recognition to become a major global player**

Becoming one of the largest players of its kind in Southeast Asia, Australia and New Zealand will put the combined entity prominently on the map and ensure that it is poised to become a global player to be well recognised by the global gaming industry.

Post-acquisition, the Company will focus on integrating and harnessing the synergies of the combined businesses to drive accretive value for shareholders.

The global video gaming industry is forecasted to be worth A\$360.66 billion by the year 2025. The APAC region leads the video gaming industry in population of gamers, representing a total of 1.5 billion gamers, or 55.25%, out of the total 2.9 billion gamers worldwide (source: Statista and Newzoo).

iCandy is founded and backed by Fattfish Group Ltd (ASX: FFG), which holds a significant stake of 192.5 million Shares in iCandy through its subsidiaries. Other significant shareholders of iCandy include Animoca Brands.

Investor Webinar

The management of iCandy is hosting an investor webinar to introduce Lemon Sky Studios and the post-acquisition strategic direction for the Company.

The details of the call are in **Appendix C** of this announcement.

This announcement has been authorised by the Board of Directors of iCandy.

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About iCandy Interactive

iCandy Interactive Limited (ASX: ICI) is an Australian publicly traded company that has its core business in the development and publishing of mobile games and digital entertainment for a global audience.

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iCandy Interactive runs a portfolio of mobile games that have been played by over 360 million mobile gamers worldwide and has won multiple awards in various coveted international events.

For more details, please contact:

ir@icandy.io or visit www.icandy.io

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Appendix A - Other Salient Terms of the Acquisition

1. Management Agreement

Upon completion of the acquisition, iCandy will enter into a management agreement wherein the 2 founders of Lemon Sky Studios shall continue to manage Lemon Sky Studios for a period of 3 years with an option to renew for another 3 years thereafter.

2. Termination

Either Party can terminate the agreement if the other Party (the “**Defaulting Party**”) by serving a 14 days' notice:

- (a) breaches any material or fundamental terms or conditions of the Agreement, and fails to remedy such breach within 14 days upon receipt of a letter from the non-Defaulting Party requiring the Defaulting Party to remedy the said breach;
- (b) passes a resolution for winding-up;
- (c) is unable to pay its debts when they are due within the meaning of any legislation regarding insolvency of the jurisdiction in which it carries on its business; or
- (d) enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of its creditors or any class of them.

3. Voluntary moratorium of Consideration Shares

The Consideration Shares will be escrowed under voluntary moratorium for two years from issue.

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Appendix B - Pro-forma Balance Sheet & Other Information

Basis of preparation

The unaudited Pro Forma Historical Statement of Financial Position as at 30 June 2021 has been prepared for illustrative purposes to reflect the consolidated financial position of iCandy on the basis that iCandy completed the Proposed Acquisition outlined in this announcement as at 30 June 2021.

The Financial Information is presented in abbreviated form, insofar as it does not include all of the presentation, statements, comparative information and disclosures required by Australian Accounting Standards ("AAS") and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Preparation of Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information of iCandy and adjusted for the effects of pro forma transactions described below.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS other than it includes adjustments prepared in a manner consistent with AAS that reflect the impact of certain transactions as if they had occurred as of 30 June 2021.

The Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position.

Impact of the transaction

Under the Proposed Acquisition, iCandy will acquire 100% of Lemon Sky Studios. Lemon Sky Studios will be consolidated as a subsidiary from the date of completion.

The Pro Forma Historical Financial Information shows the acquisition of Lemon Sky Studios based on an MYR/AUD exchange rate of 3.0845 as at 17 November 2021.

The value of the Shares being issued is at A\$0.11 per Share, based on a 5-day VWAP of iCandy's Shares on 17 November 2021.

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Pro-forma Balance Sheet

	30 June 2021	Pro Forma Adjustments	Capital Raise	Pro Forma Historical at 30 June 2021
	\$	\$	\$	\$
ASSETS				
Current Assets				
Cash and cash equivalents	9,982,829	(9,561,904)	17,860,000	18,280,925
Trade and other receivables	1,482,442	5,216,175	-	6,698,617
Other financial assets	340,238	-	-	340,238
Other assets	113,447	-	-	113,447
Total Current Assets	11,918,956	(4,345,729)	17,860,000	25,433,227
Non-Current Assets				
Property, plant and equipment	107,227	9,199,785	-	9,307,012
Other financial assets	1,180,229	-	-	1,180,229
Intangible assets	4,269,297	31,900,512	-	36,169,809
Investments accounted for using the equity method	46,236	329,063	-	375,299
Right-of-use assets	162,746	-	-	162,746
Total Non-Current Assets	5,765,735	41,429,360	-	47,195,095
TOTAL ASSETS	17,684,691	37,083,631	17,860,000	72,628,322
LIABILITIES				
Current Liabilities				
Trade and other payables	1,141,442	1,254,961	-	2,396,403
Lease liabilities	71,575	113,006	-	184,581
Other financial liabilities	295,259	-	-	295,259
Borrowings	-	1,032,525	-	1,032,525
Current tax liabilities	-	57,707	-	57,707
Total Current Liabilities	1,508,276	2,458,199	-	3,966,475
Non-Current Liabilities				
Lease liabilities	93,583	300,009	-	393,592
Borrowings	-	6,123,201	-	6,123,201
Deferred tax liabilities	3,307	-	-	3,307
TOTAL Non-Current Liabilities	96,890	6,423,210	-	6,520,100
TOTAL LIABILITIES	1,605,166	8,881,409	-	10,486,575
NET ASSETS	16,079,525	28,202,222	17,860,000	62,141,747
EQUITY				
Issued capital	44,131,830	26,260,200	17,860,000	88,252,030
Reserves	(18,535,011)	-	-	(18,535,011)
Retained earnings	(9,645,081)	1,942,022	-	(7,703,059)
Equity attributable to owners of the parent entity	15,951,738	28,202,222	17,860,000	62,013,960
Non-controlling interest	127,787	-	-	127,787
TOTAL EQUITY	16,079,525	28,202,222	17,860,000	62,141,747

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Capital Structure

Security	Existing	Completion of Proposed Acquisition
Existing shares	588,123,471	588,123,471
Consideration Shares	-	238,729,091
Total Shares	588,123,471	826,852,562
Existing Options	85,156,264	85,156,264
New Options	-	-
Fully diluted capital structure	673,279,735	912,008,826

Indicative Timetable

The proposed timetable to complete the Proposed Acquisition is set out below.

Event	Date
Notice of meeting for General Meeting sent to shareholders	December 2021
Shareholder meeting to approve the Acquisition	January 2022
Issue of Consideration Shares and Completion of Acquisition	January 2022

*Please note this timetable is indicative only and the Directors reserve the right to amend the timetable as required.

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Appendix C - Investor Webinar

The Webinar details are as follow: -

Date : **Friday, 19th November 2021**
Time : 12pm AEDT (Sydney/Canberra/Melbourne)(GMT+11)

Register in advance for this meeting: <https://shorturl.at/exKQ5>

After registering, you will receive a confirmation email containing information about joining the meeting.

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