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Lapco Holdings Limited

立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8472)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO EXCLUSIVE ONLINE GAME LICENSING AGREEMENTS

Reference is made to the announcement of Lapco Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) dated 20 August 2024 in relation to the Transaction (the “**Announcement**”). Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless otherwise defined.

In relation to the Announcement, the Board would like to provide further information as follows:

PRINCIPAL TERMS OF THE LICENSING AGREEMENTS

Below is supplemental information on the basis for determining the rate (%) of completion of Licensed Game 3 for making the stage payments of the fixed license fee and prepaid royalty under Licensing Agreement 3.

Agreement: **Licensing Agreement 3**

License fee ***Fixed license fee***

The second instalment in the amount of USD45,000 (equivalent to approximately HK\$351,000) shall be paid within ten (10) Business Days from the date of invoice issued by Licensor 3, such invoice to be issued within five (5) Business Days after Licensed Game 3 reaches 40% completion (i.e. the accumulated number heroes (英雄) and soldiers (小兵) developed reaching twenty (20) and ten (10), respectively).

The third instalment in the amount of USD45,000 (equivalent to approximately HK\$351,000) shall be paid within ten (10) Business Days from the date of invoice issued by Licensor 3, such invoice to be issued within five (5) Business Days after Licensed Game 3 reaches 60% completion (i.e. the accumulated number of heroes (英雄) and soldiers (小兵) developed reaching thirty-five (35) and fifteen (15), respectively).

The fourth instalment in the amount of USD30,000 (equivalent to approximately HK\$234,000) shall be paid within ten (10) Business Days from the date of invoice issued by Licensor 3, such invoice to be issued within five (5) Business Days after Licensed Game 3 reaches 80% completion (i.e. the accumulated number of heroes (英雄) and soldiers (小兵) developed reaching forty-five (45) and twenty (20), respectively).

Prepaid royalty

The second instalment in the amount of USD45,000 (equivalent to approximately HK\$351,000) shall be paid within ten (10) Business Days from the date of invoice issued by Licensor 3, such invoice to be issued within five (5) Business Days after Licensed Game 3 reaches 40% completion (i.e. the accumulated number heroes (英雄) and soldiers (小兵) developed reaching twenty (20) and ten (10), respectively).

The third instalment in the amount of USD45,000 (equivalent to approximately HK\$351,000) shall be paid within ten (10) Business Days from the date of invoice issued by Licensor 3, such invoice to be issued within five (5) Business Days after Licensed Game 3 reaches 60% completion (i.e. the accumulated number of heroes (英雄) and soldiers (小兵) developed reaching thirty-five (35) and fifteen (15), respectively).

The fourth instalment in the amount of USD30,000 (equivalent to approximately HK\$234,000) shall be paid within ten (10) Business Days from the date of invoice issued by Licensor 3, such invoice to be issued within five (5) Business Days after Licensed Game 3 reaches 80% completion (i.e. the accumulated number of heroes (英雄) and soldiers (小兵) developed reaching forty-five (45) and twenty (20), respectively).

Below is supplemental information on the profit distribution arrangements under Licensing Agreement 4 and Licensing Agreement 5.

Agreement: Licensing Agreement 4

Profit distribution The revenue generated from the operation of Licensed Game 4 shall be apportioned between Licensee 1 and Licensor 4 according to the profit distribution arrangement as set forth below:

Guaranteed profit distribution

Licensee 1: Revenue x 94%
Licensor 4: Revenue x 6%

Profit distribution

In the event the accumulated distributable profits (i.e. the accumulated distributable revenue deducting related marketing and platform operating costs) from Licensed Game 4 exceeds 12% of the accumulated revenue generated from Licensed Game 4, the distributable profit (i.e. the distributable revenue deducting related marketing and platform operating costs) for the calendar month in which such event occurs and all subsequent profit distribution shall be adjusted in the manner set forth below:

Licensee 1: Profit x 50%

Licensor 4: Profit x 50%

Agreement: Licensing Agreement 5

Profit distribution The revenue generated from the operation of Licensed Game 5 shall be apportioned between Licensee 2 and Licensor 5 according to the profit distribution arrangement as set forth below:

Guaranteed profit distribution

Licensee 2: Revenue x 94%

Licensor 5: Revenue x 6%

Profit distribution

In the event the accumulated distributable profits (i.e. the accumulated distributable revenue deducting related marketing and platform operating costs) from Licensed Game 5 exceeds 12% of the accumulated revenue generated from Licensed Game 5 in a calendar month, the distributable profit (i.e. the distributable revenue deducting related marketing and platform operating costs) for the calendar month in which such event occurs and all subsequent profit distribution shall be adjusted in the manner set forth below:

Licensee 2: Profit x 50%

Licensor 5: Profit x 50%

REASONS FOR AND BENEFITS OF THE TRANSACTION

Prior to joining the Group as an executive Director, Mr. Wang Rong (“**Mr. Wang**”) was a director of a private equity company from April 2021 to April 2023 where he was responsible for strategic development and investment and fund management. During his tenure, Mr. Wang came across the opportunity to analyse various industries which maintained stable growth amidst the COVID-19 pandemic, one of which was the online gaming industry. He became familiar with the financials and industry know-how of the online gaming industry through continuing analyses and became acquainted with various veterans in the industry through his

network development. Mr. Wang’s knowledge and network in the online gaming industry has therefore led the Group to tap into this new business. Under the oversight of Mr. Wang, the Company is continually sourcing talents and has appointed Ms. Liu Jingjing (“**Ms. Liu**”) as an executive Director with effect from 29 August 2024 to assist in managing and overseeing this new business. Although Ms. Liu’s working experience stems from corporate finance activities, she holds a bachelor degree in engineering (computer science and technology)* (工學學士(計算機科學與技術)) and will be focusing on assessing the commercial value of the contracts to be entered into by the Group leveraging her corporate finance background. She will be supported by talents sourced by the Group forming the operation team. As at the date of this announcement, the Group has appointed Mr. Chen Jie (陳杰) (“**Mr. Chen**”) as general manager to operate the new online gaming business. Mr. Chen has since 2011 entered the online gaming industry and has accumulated over 13 years of experience in this arena through working for various gaming companies based in Chengdu and Guangzhou in the PRC, being strategic locations where gaming companies are based in. From 2016 to 2018, Mr. Chen was appointed as the commercial director (商務總監) of Guangzhou Yuanli Entertainment Network Technology Company Limited* (廣州原力互娛網絡科技有限公司). He was also the co-founder of Chengdu Pipi Shark Network Technology Company Limited* (成都皮皮鯊網絡科技有限公司) and Chengdu Tail of Meidusha Network Technology Company Limited* (成都美杜莎的尾巴網絡科技有限公司) and has driven the business development of these companies from 2018 to 2019 and from 2020 to 2021, respectively. From 2021 to 2023, Mr. Chen was appointed as commercial director (商務總監) of Chengdu Fuxiu Gaming Network Technology Company Limited* (成都拂袖遊戲網絡科技有限公司). Mr. Chen is currently supported by an operation team of five (5) members and the Group intends to enhance the operation team to fifteen (15) members in the near future.

Given the market presence of online game licensors, it is common industry practice for licensees to make upfront payments in the form of fixed license fees and/or prepaid royalty in order to secure licensing agreements with licensors where a particular online game is considered by a licensee to have the potential for development and commercialisation. It is the norm that the stage payments of the fixed license fee and prepaid royalties are determined based on the rate of completion of the Licensed Games as throughout the development of a game, objective metrics and data used in the industry are recorded in logs to determine the stage of completion of a game so that milestones and the stage payments to be made by a licensee can be determined. Further, it is considered that it is common within the online gaming industry and across other industries that even a game is successfully launched, there is no guarantee that a particular game will meet the revenue targets as this is highly dependent on the popularity of the game within the market and among end-users and the competition across the industry. It is commercially reasonable for the Group, being a new player in the online gaming market, to cooperate with established licensors in the market to introduce new online games into the market as the upfront research and development costs involved in developing a new online game on its own are substantial than the fixed license fees and royalties paid for licensing a game from a licensor. Should a particular online game turn out to be unsuccessful, the adverse impact on the Group would be more significant than licensing a game from a licensor. Taking into account similar arrangements of market comparables within the online gaming industry, it is considered that such market practice is fair as such market risks are intrinsic to almost any kind of new business and the potential return to licensees is commercially justified in the event where a particular online game becomes successful in the market.

Under the Licensing Agreements, the Licensors shall be responsible for developing and launching the Licensed Games while the Group shall be responsible for the related marketing and promotional activities. The provisions of the Licensing Agreements provide that in the event a licensing agreement is terminated due to the breach or default of the Licensors resulting in the failure to launch the Licensed Games and/or termination of the Licensing Agreements, the Licensors shall forthwith return the fixed license fees and/or prepaid royalty paid under the Licensing Agreements to the Licensees in full. In the event that the Licensed Games are not launched, the Licensors shall have committed breach of the Licensing Agreements and the Group shall be entitled to return of the fixed license fees and/or prepaid royalty. While actual financial position of the Licensors are not public information that can be accessed by the Group, it is considered that the risk that the Licensors may not be able to honour the contractual obligations under the Licensing Agreements to return the fixed license fees and/or prepaid royalty paid in the event the Licensed Games are not launched is low based on the Group's assessment on the due diligence conducted on the Licensors as detailed below which reflects on their creditworthiness. It is considered that such arrangement offers additional protection to the Group should the Licensors fail to develop and launch the Licensed Games in accordance with the Licensing Agreements and is fair and reasonable taking into account the market risks the Group are exposed to and the potential return.

BASIS FOR DETERMINING THE CONSIDERATION

The license fees under the Licensing Agreements, including the fixed license fee and/or prepaid royalty, were determined after arm's length negotiation between the Licensors and the Licensees with reference to (i) the current and development status and the scope of the Authorised Territories of the Licensed Games; and (ii) the prevailing market practice. The following sets forth the development status and expected commercialisation timetable of the Licensed Games:

Game:	Development status:
Licensed Game 1	The public testing version of Licensed Game 1 has since June 2024 been launched and become online and operating.
Licensed Game 2	Licensed Game 2 is currently at approximately 30% of its development stage. The core contents of Licensed Game 2 have been completed and a preliminary internal testing package will be available for internal testing. The public testing version is expected to be launched and become online and operating by the first quarter of 2025.
Licensed Game 3	Licensed Game 3 is currently at approximately 10% of its development stage. The design, layout and characters of Licensed Game 3 have been confirmed while the game mode is under development. The public testing version is expected to be launched and become online and operating by the first quarter of 2025.

Licensed Game 4

Licensed Game 4 has passed the development stage and completed the internal testing process. The public testing version is expected to be launched and become online and operating by the last quarter of 2024. Licensed Game 4 is a strategic battle online card game featuring Eastern mythology. Licensed Game 4 was originally expected to be launched and become online and operating in the third quarter of 2024. Nonetheless, during August 2024, the market's attention and all eyes were drawn to another newly launched ancient China game Black Myth: WuKong (黑神話：悟空) which caused ancient China themed games to go viral among gamers. The Group considered that it was necessary to make enhancements to Licensed Game 4 and therefore actively negotiated with the Licensor to make adjustments and enhancements to Licensed Game 4 to further enhance the ancient China elements of these games and cope with expectations from the market. As a result, more ongoing adjustments and enhancements are expected to be made to the public testing versions of Licensed Game 4 and it is expected that revenue will only be generated for the year ending 31 December 2025.

Licensed Game 5

Licensed Game 5 has passed the development stage and is currently under internal testing. The public testing version is expected to be launched and become online and operating by the first quarter of 2025. Licensed Game 5 is a strategic battle online game featuring zombies and the Three Kingdoms of ancient China. Licensed Game 5 was originally expected to be launched and become online and operating in the fourth quarter of 2024. For the same reason in respect of Licensed Game 4 set out above, more ongoing adjustments and enhancements are expected to be made to the public testing versions of Licensed Game 5 and it is expected that revenue will only be generated for the year ending 31 December 2025.

Based on the above development status and expected timetable, apart from Licensed Game 1 which has already generated revenue as at the date of this announcement, the remaining Licensed Games are expected to generate revenue for the year ending 31 December 2025.

INFORMATION OF THE PARTIES

Due diligence conducted

Prior to entering into the Licensing Agreements, the Group has conducted public searches on the background and ultimate beneficial owners of the Licensors including obtaining search reports on the registered capital of the Licensors. The Group has also obtained information relating to the track record of the games developed by the Licensors as well as the background and experience of the development team members of the Licensors. Based on (i) the background information obtained from public searches (ii) the popularity of the games previously developed by the Licensors and their development team members; and (iii)

the working experience of the development team members of the Licensors, the Group is satisfied that the Licensors are able to honour their contractual obligations under the Licensing Agreements.

The following sets forth further information of the Licensors based on the due diligence conducted by the Company prior to entering into the Licensing Agreements:

Licensor 1

Licensor 1 has established offices in Beijing, Changsha and Guangzhou in the PRC. Licensor 1 has participated in the development of various well-received online games and its core members are experienced in the online gaming industry. Some of the well-received online games developed by Licensor 1 include Mou Sanguo* (貓三國), Lian Sanguo* (戀三國), Tianrenge* (天人歌) and World Soccer (世界足球).

Licensor 2

Licensor 2 was established in 2023 and its core members have years of experience in the online gaming industry. The core members of Licensor 2 have participated in the development of renowned online games such as Kaijian Xiaodian* (開間小店).

Licensor 3

Licensor 3 was established in 2021. Its core members have years of experience in the online gaming industry and have previously worked for NetEase Inc. and Kingsoft. Some of the well-received online games developed by Licensor 3 include Liema Jihua* (獵碼計劃), Taiguyao Huangjue* (太古妖皇決) and CallToWar.

Licensor 4

The core members of Licensor 4 have years of experience in the online gaming industry. The parent group of Licensor 4, Zhongkun Hudong Group* (中坤互動集團) was established in 2018. The first online game developed by Zhongkun Hudong Group* (中坤互動集團), Sheishi Shoufu* (誰是首富) was the first online game in the PRC to focus on market warfares (商戰). Sheishi Shoufu* (誰是首富) grew into fame and led to the subsequent development of other renowned games on market warfares (商戰). Some of the well-received online games developed by Zhongkun Hudong Group* (中坤互動集團) include Wudao Duijue* (武道對決) and Huaxia Huijuan* (華夏繪卷).

Licensor 5

Licensor 5 is a company incorporated in Hong Kong with limited liability and is principally engaged in the design and development of online games. Licensor 5 is wholly-owned by Huolieniao Network (Guangzhou) Company Limited* (火烈鳥網絡(廣州)股份有限公司), a company established in the PRC with limited liability. Huolieniao Network (Guangzhou) Company Limited* (火烈鳥網絡(廣州)股份有限公司) is ultimately controlled by Tianjin Huolieniao Group Company Limited* (天津火烈鳥集團有限公司), a company established

in the PRC with limited liability and is owned by Mr. Ma Shuo (馬朔) and Mr. Zhang Shihua (張士華) as to 84% and 16%, respectively. Each of the above parties is an Independent Third Party.

The parent group of Licensor 5, Huolieniao Network* (火烈鳥網絡) was established in 2011. Huolieniao Network* (火烈鳥網絡) has been named China's New Innovative Technology Corporation (國家高新技術企業), Top 20 China's Internet Growth Corporation (中國互聯網成長型企業20強), Guangdong Province Engineering Technology Research Centre (廣東省工程技術研究中心) and Guangdong Province Innovative Corporation (廣東省創新型企業) etc. Some of the well-received online games developed by Huolieniao Network* (火烈鳥網絡) include Mingyun Zhange* (命運戰歌), Guajiba Xiongdi* (掛機吧兄弟), Onion Qishituan* (洋蔥騎士團), Huoyuan Zhanji* (火源戰紀) and Wangzhe Lieren* (王者獵人).

Save as disclosed above, all other information set out in the Announcement remains unchanged.

* For identification purposes only

By order of the Board
Lapco Holdings Limited
Wang Rong
Executive Director

Hong Kong, 25 October 2024

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Tam Yiu Shing, Billy, Mr. Wang Rong and Ms. Liu Jingjing; and three independent non-executive Directors, namely Mr. Mak Kwok Kei, Mr. Chow Yun Cheung and Mr. Leung Ka Wai.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no matters the omission of which would make any statement in this announcement misleading.

This announcement will remain on the "Latest Listed Company Information" page of the website of the Stock Exchange at www.hkexnews.hk for at least 7 days from the date of its posting and on the Company's website at www.lapco.com.hk.