



## **WINKING STUDIOS LIMITED**

(Company Registration No. 159882)

(Incorporated in the Cayman Islands)

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### **RESPONSE TO QUESTIONS RECEIVED FROM SIAS**

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The Board of Directors (the “**Board**”) of Winking Studios Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce the following responses to the questions raised by the Securities Investors Association (Singapore) (“**SIAS**”), with respect to the Company’s Annual Report for the financial year ended 31 December 2023 (“**FY2023**”) (the “**Annual Report**”):

**Q1. The company was successfully listed on the Catalist Board of the Singapore Exchange Securities Trading Limited on 20 November 2023. With over 25 years of experience, the group stands as Asia’s third largest game art outsourcing studio and the fourth largest globally. It offers comprehensive end-to-end art outsourcing and game development services across various platforms for the video games industry.**

**The three primary business segments are Art outsourcing, Game development and Global publishing and other services.**

- (i) **Can the board help shareholders better understand whether the gaming industry is exposed to significant policy risks, particularly considering China’s strict anti-gaming regulations and measures to curb excessive gaming behaviour? Can the board elaborate on the strategies and measures implemented by the group to mitigate these risks and safeguard shareholder interests?**

The Board believes that the Group is not facing significant policy risks, particularly in relation to China’s strict anti-gaming regulations and measures to curb excessive gaming behaviour. As one of the largest gaming markets in the world, it is understandable that the Chinese government has strengthened regulations on gaming due to the increasing number of minors spending long hours playing games. However, the Board is of the opinion that these Chinese governmental regulatory measures are largely targeted at local operations, that is, games developed and operated by local Mainland Chinese companies.

Furthermore, our Group's exposure to these regulatory risks is mitigated by our diversified client base and revenue streams. For FY2023, the Group's revenue from Mainland China and Hong Kong accounted for 40.9% of our total revenue. We would like to highlight that this figure includes revenue from projects outsourced to us by United States and European clients through their subsidiaries in Mainland China and such revenue made up to 11.15% of the revenue from Mainland China and Hong Kong in FY2023. Therefore, the actual proportion of revenue derived from local Mainland Chinese clients is in fact lower.

Furthermore, Chinese domestic game companies such as Tencent and NetEase are actively expanding their international presence. Tencent announced that in 2023, 30% of its gaming revenue came from international markets<sup>1</sup>. NetEase has also stated its intention to increase its revenue from outside China, aiming for 40-50%.<sup>2</sup>This indicates that a significant portion of the games developed by Chinese domestic companies are aimed at global markets and may therefore be less affected by the regulatory policies of the Chinese government over the long term. As the outsourced service provider of these Chinese domestic game companies, the Group will also be less affected by the Chinese regulatory measures.

Based on the above, we believe that our Group is not significantly affected by the Chinese government's regulatory policies on gaming. Furthermore, the Group will actively seek to diversify our revenue sources and expand our international client base into countries such as United States and Japan. This strategy will enable us to avoid or at least minimize the impact of the Chinese government's regulatory measures in the gaming industry.

(ii) **How significant are the risks posed by artificial intelligence to art outsourcing?**

The impact of artificial intelligence (“AI”) on the game art outsourcing industry could be explained from two aspects; firstly, whether there is sufficient training data. Training data refers to the collection of information used to train AI models that can be in a variety of forms, such as text, images, video or numerical data. Secondly, whether there is legal authorization to use such data for commercial purposes. The production of game art assets involves many stages. Some stages may have abundant training data but lack the necessary legal authorization for AI

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<sup>1</sup> Reference from EqualOcean News : <https://equalocean.com/news/2024032120662>

<sup>2</sup> Reference from Yicai Global News : <https://www.yicaiglobal.com/news/netease-expects-to-raise-overseas-market-share-to-50-of-gaming-business-founder-says>

applications, which constraints the use of such AI tools for commercial production. Other production stages may lack sufficient training data to develop into robust AI tools, relegating AI's role to that of an auxiliary development tools aimed at enhancing manual efficiency.

Based on the above, the impact of AI on the art outsourcing industry is limited for now.

(iii) **Conversely, how is the group leveraging artificial intelligence to enhance efficiency, productivity, and ultimately, profit margins?**

Major companies worldwide specialize in developing game art production tools. Through their continuous efforts, these tools have been evolving and improving, constantly enhancing the efficiency of game artists, and many of these tools are increasingly integrating AI technologies.

The Group's development strategy includes equipping our workforce with the necessary skills to master these AI technologies. By training more talent proficient in the use of AI tools, it enables our team to better utilize these advancements, thereby leading to greater operational efficiency and potentially increased profit margins. Additionally, our Group will leverage our 20 years of deep experience in the game industry's art production field to develop proprietary AI tools. We will ensure that the training data used is completely original and authorized. Once these AI tools are successfully developed, they will enhance our inhouse game art production capabilities.

(iv) **Are there contractual provisions through which the company receives royalties or contingent benefits for its art outsourcing and game development work? This could be particularly impactful if a game ends up being a blockbuster.**

Based on the Group's knowledge, such royalties or contingent benefits provisions are not common in art outsourcing and game development outsourcing cooperation models.

(v) **What are the current market dynamics in the industry and how much pricing power does the group have?**

Larger game developers and publishers control more intellectual properties (“IP”) and budget, and have greater pricing power. On the contrary, if a smaller

developer or publisher seeks the services of a larger art outsourcing and game development supplier, the supplier has greater pricing power.

The Group's diverse clientele includes top-tier game companies and local studios. With the Group's renowned brand, rich industrial experience, and abundant manpower, we are able to offer diversified services in the game outsourcing business segment. Also, we are able to maintain long-term cooperative relationships with our reputable clients who recognise our strengths. We are usually able to meet customers' specific needs and often have pricing power.

- (vi) **What is the strategy to grow the “Global publishing” segment into a significant revenue and profit driver? This segment contributed 1% and 0.5% to the group’s total revenue in 2022 and 2023 respectively.**

There are always opportunities in the game industry, and we never know when a humble little game will suddenly start to gain a lot of traction and make significant profits. The Group often cooperates with small studios with potential to develop or publish small experimental games. These are low-cost and low-risk, but may bring some unexpected benefits.

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**Q2. The company announced the acquisition of On Point Creative Co., Ltd. (OPC) in December 2023, soon after the company’s IPO on SGX. OPC is a design studio specialising in complementary art outsourcing services. On 8 April 2024, the company announced the proposed acquisition of Pixelline Production Sdn Bhd (Pixelline). Pixelline is mainly engaged in the provision of art outsourcing services and animation outsourcing services.**

- (i) **Can the board provide additional insights into its M&A strategy? How does the group identify potential targets?**

Appropriate and carefully planned and evaluated mergers and acquisitions can produce comprehensive effects and accelerate the Company's growth. When considering the acquisition of a target, we focus on whether the target company has a different customer base, unique internal technology and capabilities, and synergetic effect with our existing businesses.

- (ii) **Given that the industry relies heavily on talent, how does management ensure that the acquired targets align with the company's vision, culture and values?**

We believe that studios with diverse customer bases or technical capabilities possess unique cultural and managerial philosophies, making them our preferred acquisition targets. As part of the Company's strategy to retain talent, we do not intend to significantly alter the corporate culture and management styles of any acquired targets, except to ensure their compliance with the internal control standards meet those mandated for or expected of public listed companies, such as procedures and norms related to finance, legal affairs, and data security.

- (iii) **Given that the company has indicated its intention to pursue strategic acquisitions as a growth strategy, what experience does management have in effectively integrating acquired companies?**

Our Executive Chairman and CEO, Mr Johnny Jan has more than 20 years of hands-on operational, business development, and collaborative experience in the gaming industry. Also, the Group's management actively engages with industry professionals with extensive experience in mergers and acquisitions. Furthermore, our controlling shareholder, the Acer Group, also has abundant acquisition experience. They provide valuable expertise and assistance during the acquisition and integration processes within the group. Our management team works closely with Acer Group on our acquisition, where necessary or required, and this collaborative approach, together with our inhouse expertise, has equipped us with the capabilities required for effectively integrating acquired companies.

- (iv) **What guidance has the board given to management to ensure that it does not overpay for its acquisition. especially considering that the targets are predominantly asset-light?**

Where necessary, the Board will recommend the hiring of professional valuation firms to appraise the acquisition targets. In addition to thorough due diligence, the Board will ensure that the management team conducts detailed background checks within the industry to ensure that the acquisition targets have a good reputation. In the process, the Group will make reference to the valuation methods used by our international counterparts for their acquisition targets. The Board also ensures that strict performance commitment clauses for the management of the acquired targets are established; if performance targets are not met, the management's performance rewards or the acquisition valuation will

be subject to adjustments. The above-mentioned over-sight by the Board helps to ensure that we do not overpay for the acquisitions.

**Q3. As noted in the corporate governance report, the company engaged Baker Tilly Consultancy (Singapore) Pte. Ltd. as the internal auditors and held discussions on its internal controls in preparation for the listing.**

**Following the listing, the company has started the process of sourcing for a suitable internal auditor to conduct and review the adequacy and effectiveness of the group's internal controls on a regular basis in light of the size and complexity of the group's operations.**

**(i) Can the company (re)state the findings of Baker Tilly and outline their recommendations?**

As part of the internal audit process during the IPO process, Baker Tilly has reviewed and tested the controls of the Company's processes. Baker Tilly also recommended certain improvements to our internal control policies and procedures, particularly in relation to compliance with Catalist Rules, payroll management, expense management, seal management and data back-up procedure, and other operational controls.

In response, the Group has enhanced certain internal procedures as detailed on page 269 of the Company's IPO prospectus dated 8 November 2023.

**(ii) Has management implemented all of Baker Tilly's recommendations?**

The Company has adopted and implemented all of Baker Tilly's recommendations prior to its listing on the Catalist Board of the Singapore Exchange Securities Trading Limited ("SGX-ST").

**(iii) What level of oversight does the audit committee maintain to ensure that management has comprehensively implemented Baker Tilly's recommendations?**

The Company has established an internal audit function, referred to as the "audit room" prior to listing on the Catalist Board of the SGX-ST. This internal audit function conducts reviews on the adequacy and effectiveness of the Group's internal controls on a regular basis (including reviewing Baker Tilly's previous recommendations) in light of the size and complexity of the Group's operations. This internal audit function regularly reports directly to the Audit Committee.

The audit room consists of two staff members who will act as the primary liaison with the internal auditors, whose appointment the Company is

currently in the process of finalising and address issues raised by the internal auditors.

In relation to Audit Committee's level of oversight, each internal audit process by the audit room and the internal auditor to be appointed reports/will be reporting directly to the Audit Committee. The members of the Audit Committee play a crucial role in overseeing the effectiveness of the Company's internal controls. This includes ensuring management implements the audit room's and/or the internal auditor's recommendations effectively.

(iv) **What challenges did the board encounter in appointing a new internal auditor? What criteria will the board employ to shortlist and select a candidate?**

Prior to the finalisation of the appointment of the internal auditors, the Company relies on the audit room to ensure adherence to internal controls including the recommendations made by Baker Tilly during the IPO process.

The Board, together with the Audit Committee, will, in accordance with the Group's risk management system in relation to information technology, finance, business type, business volume and compliance, seek internal auditors with relevant experience to review the adequacy and effectiveness of the Group's internal controls.

Being the first gaming company to be listed on the Catalist Board of the SGX-ST, finding an internal auditor who is familiar with our specific business model and processes is the main challenge. Our selection criteria for the new internal auditor includes:

- past internal audit experience within the gaming industry;
- availability of resources;
- reputation of the audit firm.

The Company targets to commence the relevant internal audit work by the to-be appointed internal auditors in the fourth quarter of this year.

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BY ORDER OF THE BOARD

MR. JOHNNY JAN  
Executive Chairman and CEO

29 April 2024

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*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement. The contact person for the Sponsor is Ms. Foo Jien Jieng, 16 Collyer Quay, #10-00 Collyer Quay Centre, Singapore 049318, [sponsorship@ppcf.com.sg](mailto:sponsorship@ppcf.com.sg).*