



May 13, 2016

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## Notice Regarding Business Alliance with Whiz Partners Inc., and Issuance and Placement of First Unsecured Convertible Bonds with Equity Warrants through Third-Party Allotment

Hearts United Group Co., Ltd. (hereinafter referred to as the “Company”) would like to announce that it passed a resolution at its board of directors’ meeting today, to form a business alliance with Whiz Partners Inc. (hereinafter referred to as “Whiz Partners”) regarding the game debugging business in China. The Company also announces that it resolved to conclude an investment contract (hereinafter referred to as the “Investment Contract”) with Whiz Partners concerning issuance and placement of first unsecured convertible bonds with equity warrants (hereinafter referred to the “Convertible Bonds with Equity Warrants” (The Convertible Bonds and Equity warrants attached to the Convertible Bonds shall be referred to the “Bonds” and “Equity Warrants,” respectively.) This is to be done through a third-party allotment (hereinafter referred to as the “Third-Party Allotment”) to Whiz Asia Evolution Fund Investment Limited Partnership, in which Whiz Partners is a managing partner; subscription to the Convertible Bonds with Equity Warrants; and business alliance.

### **I. Business Alliance with Whiz Partners**

#### **1. Reasons for business alliance**

The Company has actively encouraged Japanese and other countries’ console game and mobile game developers and manufacturers to outsource debugging, and has increased its presence and established a firm position in the entertainment field as a result. The Company has also sought global markets with a wide margin for growth by attracting the needs for debugging in overseas game markets through its affiliates in North America, South Korea and Thailand.

The global game market has been conspicuously growing lately, and is expected to reach a size of \$113.3 billion (approx. 13.7 trillion yen) by 2018 from \$83.6 billion (approx. 10.12 trillion yen) in 2014.\*1

China has seen particularly remarkable growth in the mobile game market, having served as a driving force for the expansion of the overall game market. In January 2014, the Chinese authorities deregulated and lifted a ban on the manufacture and sale of game consoles. Consequently, in China, Xbox One was released in September 2014 and PlayStation®4 in March 2015. China’s game console market outstripped the U.S. market in 2015 and it is expected to expand further, and become the world’s largest market.\*1

The Company has surveyed the evolution and possibility of growth of game debugging operations, and has been seeking a business partner in China.

Whiz Partners and its subsidiary in Hong Kong, Whiz Partners Asia Ltd., (hereinafter collectively referred to as the “Whiz Group”) have a close tie with local companies including China’s game makers and major game publishers. They also have extensive experience and excellent credentials in supporting business operations in Asia. To date, the Company and the Whiz Group have jointly conducted feasibility studies on technical, economic, operational and other aspects of the

debugging business in China.

Our joint study has confirmed that, as Chinese game users increasingly demand higher quality and overseas game makers enter the Chinese market, debugging becomes increasingly important to China's game developers and manufacturers, so that they potentially will look for businesses to outsource debugging. The Company considers that it will be able to establish quality standards in China's game market and take the initiative in turning debugging into a business by taking full advantage of its own professional knowledge and experience in debugging. Thus the Company has resolved to enter China's game market.

The Company considers that it should make full use of the Whiz Group's network in China to push forward with our business operations there. It is thus appropriate not just to have a business alliance but to build a solid relationship with Whiz Partners from a wider perspective.

The game debugging business in China requires funds and the amount of funds increases as the operations develop. The Company has decided to issue the redeemable Convertible Bonds with Equity Warrants through the Third-Party Allotment to Whiz Asia Evolution Fund Investment Business Limited Partnership (hereinafter referred to as the "Allottee"), in which Whiz Partners is a managing partner, on the grounds that this is rational for building a solid relationship with Whiz Partners and also for raising funds in a way that flexibly responds to the progress of the debugging business.

The Company will seek to promote and accelerate the game debugging business in China through the Third-Party Allotment, and eventually improve the mid- and long-term corporate value. At the Company, we believe that the Third-Party Allotment is the best choice to bring benefits to our shareholders and other stakeholders.

\* 1 : 2015 Global Games Market Report by market research and predictive analytics firm Newzoo

## 2. Specifics of business alliance

The Whiz Group has a wide business network in China, extensive experience and excellent credentials in supporting business operations in Asia. The Company will make full use of the Whiz Group's network, to seek to promote and accelerate the game debugging business in China, where the game market is expected to grow more. Specifically, the Company seeks to strengthen its earnings capacity and business foundation by proactively receiving assistance from the Whiz Group to find business partners, in which the Company can acquire capital, in around 2 to 3 years' time in accordance with the development of the debugging business; establish a joint venture with a local company in China; and engage in activities for sales expansion that can help promote the debugging business in China.

The Whiz Group, on the other hand, seeks to promote and expand its investment business by discovering and securing investment opportunities that will arise in the course of the business alliance with the Company and related business operations.

## 3. Summary of the partner in the business alliance

(1) Company name	Whiz Partners Inc.
(2) Location	2-5-1, Atago, Minato-ku, Tokyo
(3) Position and name of representative	Chief Executive Officer, Toshio Ando
(4) Business activities	1. Investment in and training at companies chiefly in the life science (biotechnology) and information telecommunication sectors inside and outside Japan 2. Establishment of investment limited partnerships, and asset management of investment limited partnerships

	3. Corporate strategy consulting and asset management advisory 4. Type II Financial Instruments Business as defined by the Japanese Financial Instruments and Exchange Act, investment advisory practice and agency as defined by the Japanese Financial Instruments and Exchange Act, and investment management practice as defined by the Japanese Financial Instruments and Exchange Act		
(5) Share capital	100 million yen		
(6) Date established	May 1, 2003		
(7) Major shareholders and their shareholding ratios	1. Atsushi Matsumura (9.17%) 2. Tokai Tokyo Investment Co., Ltd. (9.15%) 3. Other 25 persons (81.68%)		
(8) Relationship between the listed company and the said company	Capital ties	Not applicable	
	Personnel relations	Not applicable	
	Business relations	Not applicable	
	Any matter applicable to the parties concerned	Not applicable	
(9) Operating results and financial position of the said company for the past three years (non-consolidated)			
Fiscal year	Fiscal year ended March 2013 (in million yen except for net assets per share, net income per share and dividend per share)	Fiscal year ended March 2014 (in million yen except for net assets per share, net income per share and dividend per share)	Fiscal year ended March 2015 (in million yen except for net assets per share, net income per share and dividend per share)
Net assets	3,179	2,890	2,889
Total assets	4,312	3,543	3,499
Net assets per share	529,868.58 yen	679,119.87 yen	740,393.85 yen
Net sales	1,490	2,008	1,800
Operating income	728	1,025	1,025
Ordinary income	740	1,027	255
Net income	677	973	181
Net income per share	112,833.36 yen	194,838.62 yen	48,606.64 yen
Dividend per share	0 yen	0 yen	0 yen

#### 4. Schedule

(1) Date of resolution at the board of directors' meeting	May 13, 2016
(2) Date of contract	May 13, 2016
(3) Date of commencement of operations	June 1, 2016 (Plan)

#### 5. Future prospects

The business alliance has mid- and long-term effects but exerts no immediate effect within the fiscal year ending March 2017. Thus, there is no revision to the consolidated forecast for the fiscal year ending March 31, 2017, which was announced in a summary of consolidated financial statements published on May 13, 2016.

## II. Placement of First Unsecured Convertible Bonds with Equity Warrants through Third-Party Allotment

(1) Name of bonds	First Unsecured Convertible Bonds with Equity Warrants of Hearts United Group Co., Ltd.
(2) Placement method and allottee	All the Bonds shall be allotted to Whiz Asia Evolution Fund Investment Limited Partnership through third-party allotment.
(3) Total amount of issue	1,017,200,000 yen
(4) Issue price	25,430,000 yen (100 yen per 100 yen par value)
(5) Interest rate	The bonds bear no interest.
(6) Security or guarantee	The Bonds are not secured by any property or guaranteed. There is no asset particularly reserved for security thereof.
(7) Payment date	June 9, 2016
(8) Redemption method and period	<p>(1) 100 yen per 100 yen par value of the Bonds shall be redeemed on June 8, 2021.</p> <p>(2) The Company may, during the period from June 9, 2018, to June 7, 2021, perform advanced redemption of all or part of the Bonds at the face value of the Bonds multiplied by the applicable percentage among those listed below by providing 2-week-or-more prior notice of the said redemption (which shall be earlier than the due date) to the holder thereof.</p> <p>i) From June 9, 2018, to June 8, 2019: 101.5%</p> <p>ii) From June 9, 2019, to June 8, 2020: 103.3%</p> <p>iii) From June 9, 2020, to June 7, 2021: 104.5%</p> <p>(3) The holder of the Bonds shall be entitled, during the period from issuance of the bonds to June 7, 2021, to request advanced redemption of all or part of the Bonds at the face value of the bonds multiplied by the applicable percentage among those listed below by providing 15 business days' prior notice of the redemption requested (which shall be earlier than the due date) to the Company.</p> <p>i) from June 9, 2016, to June 8, 2018: 105.0%</p> <p>ii) from June 9, 2018, to June 7, 2021: 100.0%</p> <p>(4) If the date when the Bonds are to be redeemed is a bank holiday, it shall be brought forward to the previous business day.</p>
(9) Type and number of shares subject to equity warrants	<p>(1) Type: The Company's common stock</p> <p>(2) Number: 40 units</p>
(10) Specifics of equity warrants	<p>(1) Type and calculation method of number of shares subject to the Equity Warrants</p> <p>The type of shares subject to the Equity Warrants shall be the common stock of the Company. The number of shares to be newly issued or shares owned by the Company to be disposed of upon exercise of the Equity Warrants shall be the largest integer obtained by dividing the total value of the paid-in amount of the Bonds subject to the exercise of the Equity Warrants by the conversion value. Any fraction less than one share shall be rounded down, and no cash adjustment shall be made.</p> <p>(2) Value of assets to be paid in upon exercise of the Equity Warrants</p> <p>Assets to be paid in upon exercise of the Equity Warrants shall be the Bonds to which the Equity Warrants are attached, and the value of the Bonds shall be equal to the paid-in amount.</p> <p>(3) Conversion value</p> <p>2,543 yen</p> <p>(4) Adjustment of conversion value</p> <p>The Company shall adjust the conversion value according to the following formula in the</p>

	<p>event the number of outstanding shares of the Company needs to be or is likely to be changed after the Company issues the Bonds.</p> $\frac{\text{Conversion value before adjustment} \times \text{No. of outstanding shares}}{\text{Conversion value after adjustment} \times \text{No. of outstanding shares} + \frac{\text{No. of shares to be issued} \times \text{Paid-in value per share}}{\text{Market value}}}$ <p>(5) Exercise period of the Equity Warrants</p> <p>The exercise period of the Equity Warrants shall be from June 9, 2016, to June 7, 2021; provided, however, that it shall be (i) the previous business day of the redemption date in the case of advanced redemption at the option of the Company; (ii) the date of forfeiture of benefit of time in the case of forfeiture of benefit of time; and (iii) the previous business day of the redemption date in the case of advanced redemption at the option of the holder of the Bonds. In any case, the holder may not exercise the Equity Warrants on and after June 8, 2021.</p> <p>(6) Other conditions to exercise the Equity Warrants</p> <p>The holder may not partially exercise the Equity Warrants.</p>
(11) Use of funds	<p>The Company plans to use the funds to be procured through the Third-Party Allotment for the following purposes.</p> <p>(i) Funds for investment in the game debugging business in China</p> <p>The Company plans to invest 400 million yen as local operating funds in seeking Chinese companies that can serve as business partners to supply human and other resources and future local business partners, in which the Company can acquire capital. The ultimate purpose is to accelerate the game debugging business in the Chinese market.</p> <p>(ii) Funds for M&amp;A related to business in China</p> <p>The Company plans to invest 607 million yen as a part of funds for flexible M&amp;A to meet the requirement of accelerating the growth of the game debugging business in China.</p> <p>If the funds procured through the Third-Party Allotment are insufficient, the Company will also borrow funds from financial institutions or raise funds by other means in comprehensive consideration of its capital policy and other factors.</p>

\* The details of issuance of first unsecured convertible bonds with equity warrants through third-party allotment were partially revised on May 25, 2016. The revisions are reflected in this document.