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## **CHANGYOU ALLIANCE GROUP LIMITED**

**暢由聯盟集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1039)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021**

#### **FINANCIAL HIGHLIGHTS**

- Revenue of the Group decreased by approximately 51.9% to approximately RMB38.9 million for the six months ended 30 June 2021 (30 June 2020: approximately RMB80.8 million).
- The GMV of Changyou Alliance business amounted to approximately RMB60.1 million for the six months ended 30 June 2021 (30 June 2020: approximately RMB132.2 million), representing a decrease of approximately 54.5%.
- Gross profit for the six months ended 30 June 2021 amounted to approximately RMB4.9 million (30 June 2020: approximately RMB1.2 million).
- The Group recorded a loss of approximately RMB60.3 million for the six months ended 30 June 2021 (30 June 2020: approximately RMB23.7 million).
- Net loss attributable to equity shareholders of the Company amounted to approximately RMB24.6 million for the six months ended 30 June 2021 (30 June 2020: net profit of approximately RMB12.8 million).
- Basic and diluted loss per share for the six months ended 30 June 2021 amounted to RMB1.36 cent during the six months ended 30 June 2021 (30 June 2020: basic and diluted earnings per share of RMB0.70 cent).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021.

The board (the “**Board**”) of directors (the “**Directors**”) of Changyou Alliance Group Limited (the “**Company**”) presents herewith the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2021. The interim financial information have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 - unaudited

(Expressed in Renminbi (“RMB”))

	Note	Six months ended 30 June	
		2021 RMB’000	2020 RMB’000
<b>Revenue</b>	4	<b>38,852</b>	80,805
Cost of sales		<b>(33,994)</b>	(79,650)
<b>Gross profit</b>		<b>4,858</b>	1,155
Other income	5	<b>355</b>	193
Selling and distribution expenses		<b>(10,463)</b>	(11,832)
Administrative expenses		<b>(26,800)</b>	(15,809)
Research and development costs		<b>(17,816)</b>	(16,552)
Impairment (loss)/gain on trade and other receivables		<b>(42)</b>	22,617
<b>Loss from operations</b>		<b>(49,908)</b>	(20,228)
Finance costs	6(a)	<b>(9,799)</b>	(2,876)
Loss arising from changes in fair value on held-for-trading investments		<b>(561)</b>	(569)
<b>Loss before taxation</b>	6	<b>(60,268)</b>	(23,673)
Income tax	7	<b>–</b>	–
<b>Loss for the period</b>		<b>(60,268)</b>	(23,673)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(24,645)</b>	12,759
Non-controlling interests		<b>(35,623)</b>	(36,432)
<b>Loss for the period</b>		<b>(60,268)</b>	(23,673)
<b>(Loss)/earnings per share</b>			
Basic and diluted (RMB cent)	8	<b>(1.36)</b>	0.70

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 – unaudited

(Expressed in RMB)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
<b>Loss for the period</b>	<b>(60,268)</b>	<b>(23,673)</b>
<b>Other comprehensive income for the period (after tax):</b>		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into the Group's presentation currency	<u>(1,148)</u>	<u>406</u>
<b>Total comprehensive income for the period</b>	<b><u>(61,416)</u></b>	<b><u>(23,267)</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	(25,793)	13,165
Non-controlling interests	<u>(35,623)</u>	<u>(36,432)</u>
Total comprehensive income for the period	<b><u>(61,416)</u></b>	<b><u>(23,267)</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 – unaudited

(Expressed in RMB)

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
<b>Non-current assets</b>			
Property and equipment	9	10,861	12,388
Intangible assets		–	–
Goodwill		–	–
		<u>10,861</u>	<u>12,388</u>
<b>Current assets</b>			
Held-for-trading investments		1,106	1,685
Inventories		1,029	1,408
Trade and other receivables	10	120,642	122,185
Cash and cash equivalents	11	107,356	152,273
		<u>230,133</u>	<u>277,551</u>
<b>Current liabilities</b>			
Trade and other payables	12	124,682	133,685
Lease liabilities		5,884	7,461
		<u>130,566</u>	<u>141,146</u>
<b>Net current assets</b>		<u>99,567</u>	<u>136,405</u>
<b>Total assets less current liabilities</b>		<u>110,428</u>	<u>148,793</u>
<b>Non-current liabilities</b>			
Convertible bonds	13	56,509	50,489
Lease liabilities		3,149	2,377
Loans from an equity shareholder of the Company	14	49,925	33,666
		<u>109,583</u>	<u>86,532</u>
<b>NET ASSETS</b>		<u>845</u>	<u>62,261</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	15	117,812	117,812
Reserves		217,470	243,263
<b>Total equity attributable to equity shareholders of the Company</b>		<u>335,282</u>	<u>361,075</u>
<b>Non-controlling interests</b>		<u>(334,437)</u>	<u>(298,814)</u>
<b>TOTAL EQUITY</b>		<u>845</u>	<u>62,261</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 – unaudited

(Expressed in RMB)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Other reserve	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<b>Balance at 1 January 2020</b>	117,812	1,263,789	19,423	5,372	40,778	(1,139,740)	307,434	(218,272)	89,162
<b>Changes in equity for the six months ended 30 June 2020:</b>									
Profit/(loss) for the period	-	-	-	-	-	12,759	12,759	(36,432)	(23,673)
Other comprehensive income	-	-	-	406	-	-	406	-	406
Total comprehensive income	-	-	-	406	-	12,759	13,165	(36,432)	(23,267)
<b>Balance at 30 June 2020 and 1 July 2020</b>	117,812	1,263,789	19,423	5,778	40,778	(1,126,981)	320,599	(254,704)	65,895
<b>Changes in equity for the six months ended 31 December 2020:</b>									
Loss for the period	-	-	-	-	-	(14,411)	(14,411)	(44,110)	(58,521)
Other comprehensive income	-	-	-	(4,325)	-	-	(4,325)	-	(4,325)
Total comprehensive income	-	-	-	(4,325)	-	(14,411)	(18,736)	(44,110)	(62,846)
Issuance of convertible bonds (Note 13)	-	-	59,212	-	-	-	59,212	-	59,212
<b>Balance at 31 December 2020</b>	<u>117,812</u>	<u>1,263,789</u>	<u>78,635</u>	<u>1,453</u>	<u>40,778</u>	<u>(1,141,392)</u>	<u>361,075</u>	<u>(298,814)</u>	<u>62,261</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 – unaudited (continued)

(Expressed in RMB)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Other reserve	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2021	117,812	1,263,789	78,635	1,453	40,778	(1,141,392)	361,075	(298,814)	62,261
Changes in equity for the six months ended 30 June 2021:									
Loss for the period	-	-	-	-	-	(24,645)	(24,645)	(35,623)	(60,268)
Other comprehensive income	-	-	-	(1,148)	-	-	(1,148)	-	(1,148)
Total comprehensive income	-	-	-	(1,148)	-	(24,645)	(25,793)	(35,623)	(61,416)
Balance at 30 June 2021	<u>117,812</u>	<u>1,263,789</u>	<u>78,635</u>	<u>305</u>	<u>40,778</u>	<u>(1,166,037)</u>	<u>335,282</u>	<u>(334,437)</u>	<u>845</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021 – unaudited

(Expressed in RMB)

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
<b>Operating activities</b>			
Cash used in operations		(54,301)	(42,206)
Income tax paid		–	–
<b>Net cash used in operating activities</b>		<b>(54,301)</b>	<b>(42,206)</b>
<b>Investing activities</b>			
Payments for purchase of property and equipment		(27)	(629)
Proceeds from disposal of held-for-trading investments		–	158
Repayment of loans from a third party		–	22,858
Interest received		25	71
<b>Net cash (used in)/generated from investing activities</b>		<b>(2)</b>	<b>22,458</b>
<b>Financing activities</b>			
Loans from an equity shareholder of the Company		16,798	–
Payments for the redemption of convertible bonds	13	–	(28,269)
Deposit refunded to a third party in connection with a terminated capital injection into a non-wholly owned subsidiary of the Group		–	(10,000)
Capital element of lease rentals paid		(3,673)	(3,788)
Interest element of lease rentals paid		(431)	(688)
Finance costs paid		(1,852)	(1,541)
<b>Net cash generated from/(used in) financing activities</b>		<b>10,842</b>	<b>(44,286)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(43,461)</b>	<b>(64,034)</b>
<b>Cash and cash equivalents at 1 January</b>	11	<b>152,273</b>	137,839
<b>Effect of foreign exchange rate changes</b>		<b>(1,456)</b>	640
<b>Cash and cash equivalents at 30 June</b>	11	<b>107,356</b>	<b>74,445</b>

## Notes

(Expressed in RMB unless otherwise indicated)

### 1 Corporate information

Changyou Alliance Group Limited (the “Company”) was incorporated in the Cayman Islands on 21 May 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 24 September 2010. The condensed consolidated financial statements of the Company as at and for the six months ended 30 June 2021 comprise the Company and its subsidiaries (collectively referred to as the “Group”).

The principal activities of the Group are the development and operation of an electronic trading platform to promote and facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions and other trading business.

### 2 Basis of preparation

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorised for issue on 30 August 2021.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).



## 2 Basis of preparation (continued)

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial information as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements.

For the six months ended 30 June 2021, the Group had incurred net loss of RMB60,268,000 and net operating cash outflows of RMB54,301,000. These events or conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. Based on a cash flow forecast of the Group for the twelve months ending 30 June 2022 prepared by the management, assuming that the capital injection as described in Note 20 which the Group is negotiating with the investor actively will complete in 2021 and that the Group is able to generate sufficient cash flows from future operations, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the interim financial information on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the interim financial information.

## 3 Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the Covid-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### 4 Revenue

The principal activities of the Group are the development and operation of an electronic trading platform to promote and facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions and other trading business. The directors of the Company consider the above is the only business of the Group, and accordingly, no segment information is presented.

##### Disaggregation of revenue

Disaggregation of revenue from contracts with customers is analysed as follows:

	<u>Six months ended 30 June</u>	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
<b>disaggregated by major products or service lines and by timing of revenue recognition</b>		
Revenue from facilitation of digital point business through operation of an electronic platform and other trading business:		
– Point in time	37,449	80,774
– Over time	1,403	31
	<u>38,852</u>	<u>80,805</u>

#### 5 Other income

	<u>Six months ended 30 June</u>	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	25	71
Government grants	–	171
Net loss on disposal of property and equipment	–	(121)
Others	330	72
	<u>355</u>	<u>193</u>

## 6 Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

### (a) Finance costs:

	<u>Six months ended 30 June</u>	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Finance charges on convertible bonds ( <i>Note 13</i> )	8,447	2,615
Interest expenses on lease liabilities	431	688
Interest expenses on loans from an equity shareholder of the Company	1,319	–
	<u>10,197</u>	<u>3,303</u>
Net foreign exchange gain	(398)	(113)
Gain on redemptions, extinguishment and recognition of convertible bonds	–	(314)
	<u>9,799</u>	<u>2,876</u>

### (b) Staff costs:

	<u>Six months ended 30 June</u>	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	34,849	37,528
Contributions to defined contribution retirement plans	3,928	733
	<u>38,777</u>	<u>38,261</u>

### (c) Other items:

	<u>Six months ended 30 June</u>	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories	33,994	79,650
Depreciation charges:		
– owned property and equipment	822	2,337
– right-of-use assets	3,591	4,264
Operating lease charges relating to short-term leases and leases of low-value assets	1,303	1,152
	<u>39,710</u>	<u>87,403</u>

## 7 Income tax

	<u>Six months ended 30 June</u>	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current taxation	–	–
Deferred taxation	–	–
	<hr/>	<hr/>
	–	–
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The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2021 (six months ended 30 June 2020: 16.5%).

The Company and the subsidiaries of the Group incorporated in the Cayman Islands and the British Virgin Islands, respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2021 (six months ended 30 June 2020: 25%).

## 8 (Loss)/earnings per share

### (a) Basic (loss)/earnings per share

The basic loss per share for the six months ended 30 June 2021 is calculated based on the loss attributable to equity shareholders of the Company of RMB24,645,000 (six months ended 30 June 2020: profit of RMB12,759,000) and the weighted average number of ordinary shares of 1,810,953,000 (six months ended 30 June 2020: 1,810,953,000 ordinary shares) in issue during the six months ended 30 June 2021.

### (b) Diluted (loss)/earnings per share

The Group's convertible bonds, share options granted and warrants issued could potentially dilute basic (loss)/earnings per share in the future, but were not included in the calculation of diluted (loss)/earnings per share because they are antidilutive during the six months ended 30 June 2021 and 2020.

## 9 Property and equipment

### (a) Right-of-use assets

During the six months ended 30 June 2021, the Group entered into certain lease agreements for use of office premises, and therefore recognised the additions to right-of-use assets of RMB2,912,000 (six months ended 30 June 2020: RMB14,970,000).

### (b) Owned property and equipment

During the six months ended 30 June 2021, the Group acquired items of property and equipment with a cost of RMB27,000 (six months ended 30 June 2020: RMB629,000).

## 10 Trade and other receivables

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Trade receivables	4,648	9,121
Less: loss allowance	<u>(413)</u>	<u>(1,403)</u>
	<u>4,235</u>	<u>7,718</u>
Other receivables:		
– Loans to third parties	26,277	26,537
– Receivable for issuance of shares of a subsidiary to a non-controlling equity shareholder ( <i>Note (i)</i> )	100,000	100,000
– Others	<u>8,437</u>	<u>8,209</u>
	134,714	134,746
Less: loss allowance	<u>(31,401)</u>	<u>(31,664)</u>
	<u>103,313</u>	<u>103,082</u>
Financial assets measured at amortised cost	107,548	110,800
Prepayments and deposits	<u>13,094</u>	<u>11,385</u>
	<u>120,642</u>	<u>122,185</u>

Trade receivables are generally due immediately from the date of billing. Normally, the Group does not obtain collateral from debtors.

### *Note:*

- (i) During the year ended 31 December 2019, Pointsea Company Limited (“PCL”), an indirect non-wholly owned subsidiary of the Company, issued 28,036,564 new shares to one investor. Proceeds of RMB100,000,000 from the investor has not yet been received while the investor granted an advance of RMB100,000,000 to PCL (see Note 12) which is non-interest bearing and will mature upon receipt of the proceeds for shares issued to the investor by PCL.

## 10 Trade and other receivables (continued)

### (a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables (net of loss allowance), included in trade and other receivables, based on the invoice date, is as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Within 3 months	4,079	7,625
Over 3 months but within 6 months	136	37
Over 6 months	20	56
	<u>4,235</u>	<u>7,718</u>

## 11 Cash and cash equivalents

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Cash at bank and on hand	<u>107,356</u>	<u>152,273</u>

The Group's operations in the PRC (excluding Hong Kong) conduct their businesses in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

## 12 Trade and other payables

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Trade payables	6,932	10,285
Payables for staff related costs	5,355	8,331
Payables for miscellaneous taxes	308	609
Advance from a non-controlling equity shareholder of a subsidiary ( <i>Note 10(i)</i> )	100,000	100,000
Interest payable to an equity shareholder of the Company	1,977	668
Others	5,871	8,896
	<u>113,511</u>	<u>118,504</u>
Financial liabilities measured at amortised cost	120,443	128,789
Deposits received from business partners in connection with the digital point business	1,614	1,904
Receipts-in-advance received from customers	514	812
Deferred income	2,111	2,180
	<u>124,682</u>	<u>133,685</u>

As of the end of the reporting period, the ageing analysis of trade payables included in trade and other payables, based on the invoice date, is as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Within 3 months	5,565	9,558
3 to 6 months	629	124
Over 6 months	738	603
	<u>6,932</u>	<u>10,285</u>

### 13 Convertible bonds

The Group's convertible bonds are analysed as follows:

	<b>Liability components</b>	<b>Derivative components</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2020	27,127	13	27,140
Redemption of convertible bonds	(28,570)	(13)	(28,583)
Convertible bonds issued	48,665	–	48,665
Accrued finance charges for the year	5,861	–	5,861
Interest paid	(1,541)	–	(1,541)
Exchange adjustments	(1,053)	–	(1,053)
	<hr/>	<hr/>	<hr/>
At 31 December 2020 and 1 January 2021	50,489	–	50,489
Accrued finance charges for the period ( <i>Note 6(a)</i> )	8,447	–	8,447
Interest paid	(1,852)	–	(1,852)
Exchange adjustments	(575)	–	(575)
	<hr/>	<hr/>	<hr/>
At 30 June 2021	<u>56,509</u>	<u>–</u>	<u>56,509</u>

In June 2020, the Company redeemed the remaining principal amount of USD4,000,000 (equivalent to approximately RMB28,269,000) of the convertible bonds issued in prior periods in cash. The difference between the redemption value and the carrying amount of these convertible bonds amounted to a gain of RMB314,000 had been recognised in profit or loss for the six months ended 30 June 2020. In July 2020, 154,691,176 ordinary shares of the Company owned by Century Investment (Holding) Limited (“Century Investment”) which were pledged for the above convertible bonds had been released.

In October 2020, the Company issued convertible bonds with face value of HK\$126,000,000 (equivalent to approximately RMB108,945,000) (“CB1”) to Century Investment. CB1 bear interest at 3.5% per annum and will mature on 19 October 2023. The Company has the right to redeem all or part of CB1 (i.e. the call option) at any time before the maturity date. As the call option is closely related to the host contract, the call option is not accounted for as a separate derivative financial instrument. Upon issuance of CB1, Century Investment can convert CB1 into the Company's ordinary shares at HK\$0.42 per share (i.e. the conversion option) at any time, in whole or in part, before 14 October 2023. The conversion option amounted to RMB59,212,000 was regarded as an equity component of CB1 and credited to the Company's capital reserve account.

### 14 Loans from an equity shareholder of the Company

In 2020, PCL, a subsidiary of the Company, and Century Investment entered into loan facility agreements (“Facility Agreements”), pursuant to which Century Investment granted loan facilities of HK\$111,000,000 to PCL. The loan facilities will expire after 3 years or such later date as may be agreed between PCL and Century Investment in writing, representing the date upon which the Company is to repay all loans drawn under the Facility Agreements in full. The Facility Agreements are unsecured with an interest rate of 6.5% per annum applicable to all loans drawn under the Facility Agreements. At 30 June 2021, the outstanding principal of loans drawn under the Facility Agreements is HK\$60,000,000 (equivalent to approximately RMB49,925,000) (31 December 2020: HK\$40,000,000 (equivalent to approximately RMB33,666,000)).



## 15 Capital, reserves and dividends

### (a) Dividends

- (i) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: RMBNil).

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

The directors of the Company did not recommend the payment of a dividend for the year ended 31 December 2020 (2019: RMBNil).

### (b) Equity-settled share-based transactions

The Company has a share option scheme which was adopted on 28 June 2010 whereby the directors of the Company are authorised, at their discretion, to invite any full-time or part-time employees, executives, officers or directors (including independent non-executive directors) of the Group and any advisors, consultants, agents, suppliers, customers, distributors and such other persons who, in the sole opinion of the directors of the Company, will contribute or have contributed to the Group, to take up share options at HK\$1 to subscribe for ordinary shares in the Company.

On 7 August 2018, 72,000,000 share options were granted to a director of the Company under the above share option scheme. All of the share options granted will vest immediately from the date of grant and will mature on 3 May 2023. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK\$1.21 and is settled gross in shares.

The number and weighted average exercise price of share options are as follows:

	<b>Six months ended 30 June 2021</b>		<b>Year ended 31 December 2020</b>	
	<b>Weighted average exercise price HK\$</b>	<b>Number of share options</b>	<b>Weighted average exercise price HK\$</b>	<b>Number of share options</b>
Outstanding at the beginning/end of the period/year	<b>1.21</b>	<b><u>72,000,000</u></b>	1.21	<u>72,000,000</u>
Exercisable at the end of the period/year	<b>1.21</b>	<b><u>72,000,000</u></b>	1.21	<u>72,000,000</u>

### (c) Warrants

In September 2018, the Company issued 298,000,000 unlisted warrants (the “Warrants”) at a price of HK\$0.01 per warrant to Century Investment. Each warrant entitles the holder to acquire one ordinary share in the Company at an exercise price of HK\$1.38 per share from a period commencing on the date that is six months after the issue date and ending on the fifth anniversary date of the issue date.

During the six months ended 30 June 2021, no warrant was exercised (six months ended 30 June 2020: Nil).

## 16 Fair value measurement of financial instruments

### (a) Financial assets and liabilities measured at fair value

#### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	<b>Fair value measurements at 30 June 2021 categorised into Level 1 RMB'000</b>	<b>Fair value measurements at 31 December 2020 categorised into Level 1 RMB'000</b>
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#### Recurring fair value measurement

Financial assets

– Held-for-trading investments	<u>1,106</u>	<u>1,685</u>
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During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (year ended 31 December 2020: none). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

### (b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 30 June 2021 and 31 December 2020.

## 17 Contingent liabilities

In January 2021, a subsidiary of the Group was named the defendant in a lawsuit in respect of a labor dispute with a former employee of the Group. As at the date of this interim financial information, the lawsuit is under reviewed before court. If this subsidiary is found to be liable, the total expected monetary compensation may amount to approximately RMB2,735,000. The directors of the Company do not believe it is probable that the court will find against this subsidiary. Therefore, no provision has been made in respect of this claim in the interim financial information.

## 18 Material related party transactions

In addition to the balances disclosed elsewhere in this interim financial information, the material related party transactions entered into by the Group during the interim period are set out below.

### (a) Transactions with the equity shareholders of the Company

	<u>Six months ended 30 June</u>	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest bearing loans received	16,798	–
Interest expenses	1,319	–
	<u>16,798</u>	<u>–</u>

Details of the issuance of convertible bonds to an equity shareholder of the Company and the ordinary shares pledged and subsequently released by this equity shareholder for convertible notes redeemed in 2020 are set out in Note 13.

## 19 Impacts of Covid-19 pandemic

The Covid-19 pandemic since early 2020 continues to bring uncertainties to the Group's operating environment and may impact the Group's operations and financial position.

Despite of the easing of the Covid-19 pandemic in Mainland China, the Group continues to closely monitor the possible impact from the Covid-19 pandemic has on the Group's business and keep contingency measures in place and under review in the case where the Covid-19 pandemic rebounds. These contingency measures included but not limited to reassessing changes (if any) to the customers' preferences on the types of goods or services and to align the Group's procurement strategies (where necessary) to meet the customers' needs, reassessing the adequacy and sustainability of the existing suppliers, expanding the Group's supplier base in a view to procure suitable goods and services to meet customers' preferences on a timely basis, and improving the Group's cash management by expediting debtor settlements and negotiating with suppliers on payment extensions.

The exact timing of the cessation of the Covid-19 pandemic is still uncertain. Nonetheless, the directors of the Company are optimistic that the Covid-19 pandemic will eventually be under full control.

## 20 Non-adjusting event after the reporting period

Capital injection from a third party into a non-wholly owned subsidiary of the Group

In July 2020, the Group, via PCL, entered into an agreement with an independent third party, pursuant to which PCL will issue not less than 61,078,767 new ordinary shares but not more than 73,287,671 new ordinary shares at a total subscription consideration of not less than USD35,670,000 but not more than USD42,800,000 to this third party. Up to the date of issue of this interim financial information, the capital injection mentioned above is still under negotiation and has yet to be completed.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Company and its subsidiaries (collectively, the “**Group**”) have capitalised on their years of experience in the e-commerce business, which has enabled the Group to grasp market opportunities and enter the digital points business segment and industry. In the second half of 2017, the Group formed the Changyou digital point business ecosystem alliance (the “**Changyou Alliance**”) with CCB International (Holdings) Limited, China UnionPay Merchant Services Company Limited, Bank of China Group Investment Limited, China Mobile (Hong Kong) Group Limited and China Eastern Airlines Corporation Limited.

With an aim to integrate the digital membership points, resources and strategic advantages of the business partners in the Changyou Alliance, the Group has developed an electronic platform, “Changyou” (the “**Changyou Platform**”). The Group strives to develop the Changyou Platform as an integrative and secured platform, so as to preserve and maximise the value of digital points as virtual assets for the platform users. With the development of blockchain technology, digital assets have received increasing attention from the industry. By leveraging advanced technologies such as blockchain and big data, the Changyou Alliance aims to develop a global financial platform for the issuance, circulation, storage and payment settlement of blockchain tokenisation of assets.

The Changyou Platform has undergone rapid development, with further increases of members and users, more diversified products and services, and optimised business models and consumption scenarios. As at 30 June 2021, the Changyou Platform’s total number of registered users was approximately 68.5 million, representing an increase of approximately 10.0 million newly registered users compared to the total number of registered users as at 31 December 2020.

For the six months ended 30 June 2021 (the “**Reporting Period**”), the Changyou Alliance business’s total transaction volume and revenue amounted to approximately RMB60.1 million and approximately RMB38.85 million, respectively.

#### **Financial cooperation business**

Driven by advanced technologies such as big data, blockchain, cloud computing and artificial intelligence, financial technology is developing rapidly, digitalisation of financial institutions is accelerating, and digital financial products and tools are becoming increasingly abundant. In order to create a commercial financial platform catered for the future, Changyou continues to strengthen its efforts in issuance, exchange and settlement of digital points. Users can monetise Changyou points via Changyou Pay (暢由付) on the Changyou platform. Meanwhile, Changyou also enhances the standardised, low-cost and efficient Changyou points services for small and medium-sized enterprises with digital points.

The Group offers points consumption services and points cashier output services to the Changyou Alliance and other alliances utilising the Digital Points Business. In the first half of the year, the Changyou Platform integrated channel marketing resources to further supplement China Mobile channel traffic and achieve cross-selling, actively extended the breadth of points sources to receive new loyalty program points from various enterprises, and introduced more diversified digital points forms such as red packet and membership benefits. In addition, the Changyou Platform also attracted a significant number of application ecological resources, consolidated the foundation of digital assets application, and promoted the circulation of digital assets. The Group added 514 cooperative merchants, covering more than a thousand scenarios, and reaching 100,000 offline outlets.

The product structure of the Group has been enriched with the introduction of top brand suppliers to meet various levels of consumer needs and trading habits, and consumer loyalty and conversion of digital points are respectively maximised and facilitated. During the Reporting Period, sales of the Group continued to grow with the expansion of its UnionPay channels combined with channel activities, such as UnionPay-China Mobile project, Pay Full for Immediate Reduction of Changyou Mobile QuickPass as well as the ongoing Mobile QuickPass-Changyou China Mobile Red Packet Promotion Project.

## **Entertainment**

To continue to expand the scenarios of the Group's Digital Points Business and build a more solid customer base, as well as to achieve the acquisition and conversion of target customers, in the first half of the year, the Group vigorously expanded its application ecosystem and prioritised the development of entertainment scenarios, strengthened its retail business and cooperation with brands, and has achieved good results.

In the Group's development of online entertainment scenarios, two games with over 100 million downloads were promoted through collaboration. In the next stage, the Changyou Platform will continue to stabilise the promotion channels of the abovementioned games. The Changyou Platform has conducted a detailed analysis of the population in the entertainment scenario on an ongoing basis and further diversified and captured different user profiles, precisely located the subject population, and accurately delivered the promotion content through the development of membership benefits for members of entertainment platforms such as games and live streaming as well as props exchange.

During the Reporting Period, the Group communicated and contacted 200 merchants, including 35 large-scale merchants, and contracted with 53 merchants, including important partners and well-known companies. The Group will continue to update the cooperation plan with its partners and upgrade the operation plan.

## **Retail**

The Group has continued to develop its retail business by further expanding the development of consumer user interface including interface for catering, offline entertainment, department stores, and the provision of products relating to clothing, food, housing and transportation. The Group has developed in key cities as well as online and offline markets to centralise its business and broadened its application channels for the business of Changyou points. In the first half of the year, the Group completed the

signing for direct cooperation with 33 brands, added 380 virtual products and 1,890 physical products to its SKU portfolio, and improved the supply chain of the six major cross-industry interests and physical products. In terms of catering, the Group adjusted its development plan from focusing on key urban business districts to key catering brands, and chose a fast food restaurant chain as a pilot Scheme in Nanjing and Shanghai for initial testing and implementation. At the same time, the Group also continued to communicate with more restaurant chain brands.

### ***Joint Brand Business Operations***

The two joint operation models of financial institution member agency operation and product commercialisation model have achieved good results. Financial institutions carried out marketing activities by relying on their own needs and combining with the resources of the Changyou Platform. With vertical use scenario and points exchange process, merchant users can get real benefits while acquiring users of other partners to achieve incremental benefits between merchants and financial institutions, so that the overall operational efficiency of the alliance can be enhanced. In addition, during the Reporting Period, the Group's strong alliances with a number of well-known brands and the export of mature commercialised product models also demonstrated the strong resource support of the Changyou Platform, which greatly boosted business orders and increase the conversion rate of users in the new members engagement activities jointly held with China Mobile and UnionPay.

### **Travel related businesses**

#### ***Public Transportation Services***

The Group's public transportation services were steadily promoted in the first half of the year with the introduction of daily service support such as travel vouchers, public transportation deduction vouchers and monthly bicycle pass. At the same time, the Group continued to enrich scenic spot ticket redemption vouchers and tourist privileges to meet more users' needs for urban travel. The Changyou Platform actively expands livelihood scenarios, improves user conversion rate and vitality, and ultimately retains users in the private domain of the Changyou ecology.

#### ***Personal Car Owner Services***

The Group has entered into cooperation agreements with many industry-leading carpark service brands to provide parking payment and refuelling services, regular maintenance and repair and car washing services. During the Reporting Period, the Group introduced a number of industry-leading suppliers as partners, bridging the gap in the areas of merchant card vouchers and automotive aftermarket. Furthermore, the Group has successfully been selected as the core agent of Alipay car owners, with its cost of equity lower than its industry peers and opening up the major scenarios of high-frequency cars such as parking, new energy vehicle charging, and high-speed MTC payment. Moreover, the Group has started CCB's parking benefits integration, providing immediate reduction for parking and other activities. At the same time, the Changyou Platform continued to enhance technical innovation, strengthened the management of the research and development process, improved the quality of project delivery, strengthened the monitoring of system operation conditions, provided timely warning and rapid repair for operational faults, and completed the monitoring of operational data, customer complaints and real-time business complaint process optimization.

## **FINANCIAL REVIEW**

### **Revenue**

The Group recorded a consolidated revenue of approximately RMB38.9 million (six months ended 30 June 2020: approximately RMB80.8 million), representing a decrease of approximately 51.9% as compared with the corresponding period in 2020. During the six months ended 30 June 2021, the Company targeted to provide its products to customers with higher profit margins. Revenue from products with low profit margins or offered at the most favourable price was reduced gradually, which results in a decrease in the Group's revenue for the six months ended 30 June 2021. The Company believes that the business strategy of increasing the gross profit margin of revenue will be advantageous to the development of the Digital Points Business.

### **Gross profit**

Gross profit for the six months ended 30 June 2021 amounted to approximately RMB4.9 million (six months ended 30 June 2020: approximately RMB1.2 million). Since the Company changed its business strategy to providing its products to customers with higher profit margins, the gross profit margin was eventually increased to approximately 12.5% (six months ended 30 June 2020: approximately 1.4%).

### **Other income**

Other income of the Group for the six months ended 30 June 2021 amounted to approximately RMB0.4 million (six months ended 30 June 2020: approximately RMB0.2 million). A detailed breakdown is disclosed in note 5 to the interim financial information as disclosed in this announcement.

### **Impairment losses**

Impairment losses of the Group for the six months ended 30 June 2021 amounted to approximately RMB42,000 (six months ended 30 June 2020: reversal of impairment losses of approximately RMB22.6 million). The difference is attributable to a one-off recognition of a reversal of impairment losses on financial assets of approximately RMB22.6 million because of the repayment of loan receivables during the six months ended 30 June 2020 which were impaired for the year ended 31 December 2019.

### **Selling and distribution expenses**

Selling and distribution expenses of the Group for the six months ended 30 June 2021 decreased to approximately RMB10.5 million (six months ended 30 June 2020: approximately RMB11.8 million), which was mainly attributable to the reduced sales and promotion activities for the Changyou Platform during the six months ended 30 June 2021.



## **Administrative expenses**

The Group's administrative expenses for the six months ended 30 June 2021 increased to approximately RMB26.8 million, as compared to approximately RMB15.8 million for the corresponding period in 2020. The increase was mainly attributable to the development of a new business of Software as a Service (the "SaaS") business in which the SaaS business are expected to launch in second half of 2021.

## **Research and development costs**

Research and development costs of the Group for the six months ended 30 June 2021 increased to approximately RMB17.8 million (six months ended 30 June 2020: approximately RMB16.6 million), which was mainly attributable to the increase in staff costs for research and development activities during the six months ended 30 June 2021.

## **Finance costs**

The Group incurred finance costs of approximately RMB9.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately RMB2.9 million). The finance costs mainly consist of the net effect of interest expense on convertible bonds and loans from an equity shareholder of the Company, interest expenses on lease liabilities and net foreign exchange gain, the details of which are disclosed in note 6(a) to the interim financial information as disclosed in this announcement.

## **Taxation**

No income tax is provided for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2021, cash and cash equivalents of the Group amounted to approximately RMB107.4 million (as at 31 December 2020: approximately RMB152.3 million).

As compared with the position as at 31 December 2020, cash and cash equivalents decreased by approximately RMB44.9 million, resulting from the net cash outflow from operating activities of approximately RMB54.3 million for the six months ended 30 June 2021 (year ended 31 December 2020: approximately RMB104.2 million), the net cash outflow from investing activities of approximately RMB2,000 for the six months ended 30 June 2021 (year ended 31 December 2020: net inflow of approximately RMB30.4 million) and the net cash inflow from financing activities of approximately RMB10.8 million for the six months ended 30 June 2021 (year ended 31 December 2020: approximately RMB94.7 million).



As at 30 June 2021, the net current assets of the Group amounted to approximately RMB99.6 million (as at 31 December 2020: approximately RMB136.4 million). As at 30 June 2021, the current ratio (representing total current assets divided by total current liabilities) of the Group was approximately 1.76 (as at 31 December 2020: approximately 1.97).

As at 30 June 2021, the total assets of the Group amounted to approximately RMB241.0 million (as at 31 December 2020: approximately RMB289.9 million) and the total liabilities amounted to approximately RMB240.1 million (as at 31 December 2020: approximately RMB227.7 million). The debt ratio (being total liabilities divided by total assets) as at 30 June 2021 was approximately 1.00 as compared to approximately 0.79 as at 31 December 2020.

As at 30 June 2021, the Group had total borrowings (which consisted of convertible bonds) of approximately RMB106.4 million (as at 31 December 2020: approximately RMB84.2 million). The gearing ratio as at 30 June 2021 (being total borrowing divided by total equity) was 126.0 (as at 31 December 2020: approximately 1.35).

### **Convertible bonds**

In view of the increasing popularity of consumer spending with digital points, the successful experience of the Group in developing the Changyou Platform and the robust performance and growth of the Changyou Platform, the Company intended to issue HK\$126.0 million 3.5% convertible bonds (the “**2020 Convertible Bonds**”) to Century Investment (Holding) Limited (“**CIH**”), the substantial shareholder of the Company, the net proceeds of which was intended to be utilised to expand the Digital Points Business into the Hong Kong and overseas markets by developing an additional new digital point electronic platform with Hong Kong and overseas as the target markets (the “**New International Changyou Platform**”).

On 29 July 2020, the Company entered into a subscription agreement with CIH for the issuance of the 2020 Convertible Bonds to CIH. The 2020 Convertible Bonds bear interest at 3.5% per annum and will mature on the date falling three years after the first issue date of the 2020 Convertible Bonds. For further details of the transaction, please refer to the announcement of the Company dated 29 July 2020 and the circular of the Company dated 17 September 2020.

The issuance of the 2020 Convertible Bonds was completed on 19 October 2020.

As at 30 June 2021, the actual uses of the proceeds from the issuance of the 2020 Convertible Bonds were as follows:

Usage	Original use of the net proceeds from the issuance of the 2020 Convertible Bonds as disclosed in the circular of the Company dated 17 September 2020 <i>HK\$ (million)</i>	Proposed change in the allocation of the net proceeds from the issuance of the 2020 Convertible Bonds <i>HK\$ (million)</i>	Revised use of the net proceeds from the issuance of the 2020 Convertible Bonds <i>HK\$ (million)</i>	Actual use of the net proceeds from the issuance of the 2020 Convertible Bonds <i>HK\$ (million)</i>	Estimated timeline for utilitation of the net proceeds from the issuance of the 2020 Convertible Bonds after reallocation
To fund the development of the New International Changyou Platform supported by relevant technology infrastructure which enables effective extraction and development of big data samples, creating a precise and extensive database of consumer transactions and consumption behavior	25.0	(22.0)	3.0	–	31 December 2022
To fund the set-up of a new team, comprising various departments such as information technology, marketing, and general administration, which is to support the daily operations of the New International Changyou Platform	25.0	(15.0)	10.0	–	31 December 2022
To fund promotional and marketing activities, such as advertising, roadshow promotion, customers bonus rewards, etc., to attract merchants and customers into the New International Changyou Platform and maintain their loyalty and participation	40.0	(40.0)	–	–	
As the general working capital of the New International Changyou Platform	10.0	(8.0)	2.0	–	31 December 2022
To fund promotional and marketing activities to attract and maintain customers' loyalty and their participation and consumption of the products and services provided on the existing Changyou Platform in the PRC (the "Existing PRC Changyou Platform")	–	5.0	5.0	3.3	31 December 2021

Usage	Original use of the net proceeds from the issuance of the 2020 Convertible Bonds as disclosed in the circular of the Company dated 17 September 2020	Proposed change in the allocation of the net proceeds from the issuance of the 2020 Convertible Bonds	Revised use of the net proceeds from the issuance of the 2020 Convertible Bonds	Actual use of the net proceeds from the issuance of the 2020 Convertible Bonds	Estimated timeline for utilitation of the net proceeds from the issuance of the 2020 Convertible Bonds after reallocation
	HK\$ (million)	HK\$ (million)	HK\$ (million)	HK\$ (million)	
To fund the staff costs and staff related expenses and the development of the technology infrastructure for the Existing PRC Changyou Platform	–	32.0	32.0	32.0	31 December 2021
To fund the fixed administrative expenses for the Existing PRC Changyou Platform (excluding promotion and marketing expenses and staff costs and staff related expenses)	–	8.0	8.0	8.0	31 December 2021
For the repayment of the unsecured revolving loan from CIH	–	40.0	40.0	–	30 June 2022
As the general working capital of the Group	24.4	–	24.4	16.7	30 June 2022
Total	<u>124.4</u>	<u>–</u>	<u>124.4</u>	<u>60.0</u>	

## Issue of warrants

On 26 March 2018, the Company and CIH entered into a warrant subscription agreement, pursuant to which the Company shall issue 298,000,000 warrants (“Warrants”) to CIH at a subscription price of HK\$0.01 per Warrant. The Company received the subscription price of HK\$2,980,000. For further details of the transaction, please refer to the announcements of the Company dated 26 March 2018 and 27 June 2018, respectively, and the circular of the Company dated 5 July 2018. The Warrants were issued on 18 September 2018. The net proceeds from the issue of the Warrants (after deduction of relevant expenses) of approximately HK\$1,480,000 were fully utilised for the development of the Changyou Platform during the year ended 31 December 2018.

Upon the fulfilment of certain conditions, the Warrants are exercisable in full or in part at any time between the period commencing on the date that is six months after the date of the issue of the Warrants and ending on the earliest of (i) the date on which all Warrants have been exercised in full; and (ii) the date that is the fifth anniversary date of the issue date of such Warrants. None of the Warrants were exercised during the six months ended 30 June 2021. However, the Company is of the view that CIH has demonstrated continuous support and motivation to improve the Company's financial performance. CIH will continue to introduce strategic partners to the Group so as to further enhance the performance.

### **Share options**

On 7 August 2018, the Company granted 72,000,000 share options to Cheng Jerome, the chairman and an executive director of the Company. For further details of the transaction, please refer to the announcement of the Company dated 4 May 2018 and the circular of the Company dated 15 June 2018. No option was exercised during the six months ended 30 June 2021.

### **Deemed disposal of equity interest in a subsidiary**

On 29 July 2020, Pointsea Company Limited (“**PCL**”), an indirect non wholly-owned subsidiary of the Company, entered into a subscription agreement with an investor (“**New Investor**”), pursuant to which, among other things, PCL conditionally agreed to allot and issue, and the New Investor conditionally agreed to subscribe for or shall procure the nominee of the New Investor to subscribe for, not less than 61,078,767 but not more than 73,287,671 shares of PCL at the subscription price of not less than US\$35,670,000 but not more than US\$42,800,000 (the “**2020 Subscription**”). The net proceeds expected to be raised upon the completion of the 2020 Subscription were intended to be utilised for, among other things, the development and expansion of the Digital Points Business and the Existing PRC Changyou Platform. The subscription price payable for the 2020 Subscription was determined after arm's length negotiations between PCL and the New Investor on the basis of the pre-money valuation of approximately US\$593 million. For further details of the 2020 Subscription, please refer to the announcements of the Company dated 29 July 2020 and 30 June 2021 and the circular of the Company dated 22 September 2020.

As at the date of this announcement, the 2020 Subscription had yet to be completed and no proceeds from the 2020 Subscription were received. PCL and the New Investor are using all reasonable efforts within their respective capacity to satisfy the conditions precedent of the 2020 Subscription by 31 December 2021 (being the long stop date of the 2020 Subscription). The Company will consider other alternatives to finance the operations of the Existing PRC Changyou Platform if the completion of the 2020 Subscription is further postponed.

Assuming the maximum proceeds of US\$42.8 million (equivalent to approximately RMB277 million) are raised from the 2020 Subscription, it is expected that the proceeds will be applied as follows and will be fully utilised by June 2022:

<b>Usage</b>	<b>Proposed use of proceeds from the 2020 Subscription as previously disclosed in the circular of the Company dated 22 September 2020 RMB (million)</b>
To fund fixed expenses (comprising salaries and other administrative expenses) for the recruitment and retention of personnel and management and for the development of the Existing PRC Changyou Platform	129
To fund promotional and marketing activities to attract and maintain customers' loyalty and their participation and consumption of the products and services provided on the Existing PRC Changyou Platform	138
To fund capital expenditure of the Existing PRC Changyou Platform	2
To fund general working capital of PCL and its subsidiaries	8
	<hr/>
	<b>277</b>

### **Property and equipment**

As at 30 June 2021, property and equipment were approximately RMB10.9 million (as at 31 December 2020: approximately RMB12.4 million). A detailed breakdown is disclosed in note 9 to the interim financial information as disclosed in this announcement.

### **Trade and other receivables**

Trade and other receivables of the Group as at 30 June 2021 were approximately RMB120.6 million (as at 31 December 2020: approximately RMB122.2 million). A detailed breakdown is disclosed in note 10 to the interim financial information as disclosed in this announcement.

### **Trade and other payables**

Trade and other payables of the Group as at 30 June 2021 were approximately RMB124.7 million (as at 31 December 2020: approximately RMB133.7 million). A detailed breakdown is disclosed in note 12 to the interim financial information as disclosed in this announcement.

## **Loans from an equity shareholder of the Company**

In 2020, PCL and CIH entered into loan facility agreements (the “**Facility Agreements**”), pursuant to which CIH granted loan facilities of HK\$110,000,000 to PCL. The loans are unsecured, with an interest of 6.5% per annum and with a term of 3 years or such later date as may be agreed between PCL and CIH in writing. As at 30 June 2021, the outstanding principal of loans drawn under the Facility Agreements is HK\$60 million (as at 31 December 2020: HK\$40 million).

## **Pledged assets**

As at 30 June 2021, the Group did not have any pledged assets (as at 31 December 2020: Nil).

## **Contingent liabilities**

Save as disclosed in note 17 to the interim financial information as disclosed in this announcement, as at 30 June 2021, the Group had no significant contingent liabilities (as at 31 December 2020: Nil).

## **Capital commitment**

As at 30 June 2021, the Group had no contracted capital commitments which were not provided in the interim financial information (as at 31 December 2020: Nil).

## **Employees**

As at 30 June 2021, the Group had 222 employees which are located in Beijing, Shanghai and Hong Kong. For the six months ended 30 June 2021, total staff costs were approximately RMB38.8 million. During the six months ended 30 June 2021, the Group also provided internal training, external training and correspondence courses for its staff in order to promote self-improvement and enhancement of skills relevant to work.

## **Foreign exchange risk**

The business of the Group is mainly located in China and most of the transactions are denominated in Renminbi. Most of the assets and liabilities of the Group are computed in Renminbi. As at 30 June 2021, the Group’s net foreign currency assets amounted to approximately RMB11.4 million (as at 31 December 2020: approximately RMB1.2 million). During the six months ended 30 June 2021, the Group did not utilise any future contracts, currency borrowings and otherwise to hedge against its foreign exchange risk. However, the Group will continue to monitor the risk exposures and will consider to hedge against material currency risk if required.

## **SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Save as the deemed disposal of equity interest in PCL by the Company as disclosed in this announcement, there were no significant investments held nor material acquisitions or disposals of subsidiaries during the six months ended 30 June 2021. There was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

### **DIVIDEND**

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2021 (30 June 2020: Nil).

### **PROSPECTS**

The Changyou Platform is available for the issuance, circulation, payment and settlement of global assets which are able to be tokenised and serves as the gate point for point redemption. Leveraging on the smart business macro environment, the Group makes full use of the channel and customer resources of the Changyou Platform to gain insights into the intrinsic needs of enterprises and build and operate alliance platforms to achieve network synergy and win-win situation.

In the second half of the year, the Group will further deepen and expand the two-wheel drive to consolidate resource allocation of digital asset sources and explore further the application ecology. The Group will insist on the product-oriented strategy, improve the two-wheel driven commercialised products, and focus on marketing resources, benefits and interests, scenarios and enhancing users' experience. The Group will focus on improving user activity, transaction frequency growth and profit growth in 2021. The Group will focus on the operations of the main site, continue to build a quality supply chain, support the operation solutions of each partner channel, and maintain cooperation and channel development with business partners such as China Mobile, UnionPay, banks and insurance companies, as well as expand the merchant scenarios of KA merchants and O2O chain merchants.

Due to the impact brought about by the COVID-19 outbreak, the Group has accelerated the process of digital transformation of merchants and will launch its SaaS. The SaaS will help merchants digitalize their sales data, manage their reward point schemes and improve their online and offline capabilities. The Group is building an open marketing platform for small and medium-sized merchants, which can provide merchants with customised operation solutions and help them realise diversified revenue sources by empowering small and medium-sized merchants through various dimensions such as supply chain, microstore construction, traceability, digital point issuance and brand marketing, etc.



As for the main site operation, the Group will improve its efficiency and strengthen its effectiveness with the goal of “promoting activity and diverting traffic”. Regarding “promoting activity”, the Group will continue to create fixed special events, set up new product launch areas and optimise the experience of visiting related pages. As for “diverting traffic”, the Group will continue to expand the cooperation with external traffic channels, and realise the integration with the traffics of the application of ecological scenarios and SaaS service merchants. In addition, the Group will make efforts to support the operations of the UnionPay zone and China Mobile zone and devote to the secondary transformation with Changyou.

The Group will put emphasis on building China Mobile’s proprietary channels and continue to maintain cooperations with UnionPay for red packets and immediate reductions. The Group plans to create a China Mobile-Changyou zone to introduce more red packets, digital points and payment discounts. At the same time, the platform will focus on marketing resources activities and combine the advantageous products and benefits of Changyou to create a “welfare zone” for China Mobile’s users. With the use of the rich ecology of Changyou, the acceptance of immediate reduction and red packet resources introduced from UnionPay will continue to be new digital resources for the platform.

With the development of blockchain technology, digital assets are gaining increasing attention. The Changyou Platform has been growing rapidly and is widely recognised for its growing number of users, plentiful products and services, and its improved business model and consumption scenarios. In the future, the Group will move forward with more partners to improve the ecology of the Changyou Platform and seek long-term development together.

The impact of the COVID-19 pandemic on the global economy has been far-reaching and has led to disruptions to many businesses across various industries. The development of the New International Changyou Platform is expected to be delayed as the Group will need to further assess the uncertainties of the impact of COVID-19 on the development progress and the business operations of the investors and business partners, and the prospects of consumer spending in relation to the New International Changyou Platform.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining high standards of corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders of the Company. These can be achieved by an effective Board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency of the Company. The Board will continue to review and improve the corporate governance practices from time to time to ensure the Group is led by an effective Board in order to optimize returns for the shareholders of the Company. During the six months ended 30 June



2021, the Company has applied the principles of and has complied with all code provisions as set forth in the Corporate Governance Code and Corporate Government Report (the “**CG Code**”) as contained in Appendix 14 to the Listing Rules, save for the deviation as set forth below:

### **Code Provision A.6.7**

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and non-executive directors should generally attend general meetings of the Company. Mrs. Guo Yan and Mr. Liu Jialin were not able to attend the annual general meeting of the Company held on 25 June 2021 and the extraordinary general meeting of the Company held on 31 May 2021 due to their other engagement in other commitments.

### **CHANGE IN INFORMATION OF A DIRECTOR**

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of a Director of the Company subsequent to the date of the annual report of the Company for the year ended 31 December 2020 is set out below:

Mr. Wong Chi Keung ceased to be an independent non-executive director and a member of the audit committee, nomination committee and remuneration committee of Guoan International Limited (stock code: 143) with effect from 9 June 2021.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES**

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company or other listed securities of the Company.

### **COMPLIANCE WITH THE MODEL CODE FOR DIRECTOR’S SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed and declared that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2021.

### **REVIEW ON INTERIM RESULTS**

The Audit Committee has reviewed the accounting principles, practices and treatments adopted by the Group and the unaudited interim results of the Group for the six months ended 30 June 2021 with the management of the Company.

## **EXTRACT OF THE REVIEW REPORT TO THE BOARD OF DIRECTORS**

KPMG was engaged to review the consolidated financial statements of the Group. The section below sets out an extract of review report to the Board of Directors regarding the consolidated financial statements of the Group for the six months ended 30 June 2021:

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

### **Material uncertainty related to going concern**

We draw attention to Note 2 to the condensed consolidated financial statements which indicates the Group incurred net loss of RMB60,268,000 and net operating cash outflows of RMB54,301,000 during the six months ended 30 June 2021. These events or conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. The condensed consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to generate sufficient cash flows from future operations and/or other sources. Further details are set out in Note 2. Our conclusion is not modified in respect of this matter.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement is published on the websites of the Company at [www.changyou-alliance.com](http://www.changyou-alliance.com) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2021 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available on the same websites in due course.

By order of the Board  
**Changyou Alliance Group Limited**  
**Mr. Cheng Jerome**  
*Chairman*

Hong Kong, 30 August 2021

*As at the date of this announcement, the executive Directors of the Company are Mr. Cheng Jerome and Mr. Yuan Weitao; the non-executive Director of the Company is Mrs. Guo Yan; and the independent non-executive Directors of the Company are Mr. Wong Chi Keung, Mr. Liu Jialin and Mr. Chan Chi Keung Alan.*