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 2020

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by approximately 119.7% to approximately RMB80.8 million for the six months ended 30 June 2020 (30 June 2019: approximately RMB36.8 million).
- The GMV of Changyou Alliance business amounted to approximately RMB132.2 million for the six months ended 30 June 2020 (30 June 2019: approximately RMB81.2 million), representing an increase of approximately 62.8%.
- Gross profit for the six months ended 30 June 2020 amounted to approximately RMB1.2 million (30 June 2019: approximately RMB3.6 million).
- The Group recorded a loss of approximately RMB23.7 million for the six months ended 30 June 2020 (30 June 2019: approximately RMB77.4 million).
- Net profit attributable to equity shareholders of the Company amounted to approximately RMB12.8 million for the six months ended 30 June 2020 (30 June 2019: net loss of approximately RMB19.6 million).
- Basic and diluted earnings per share for the six months ended 30 June 2020 amounted to RMB0.70 cent during the six months ended 30 June 2020 (30 June 2019: basic and diluted loss per share of RMB1.08 cent).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020.

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 2020. 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 2020-unaudited
(Expressed in Renminbi ("RMB"))

		Six months ended 30 June	
	Note	**2020**	2019
		RMB'000	*RMB'000*
Revenue	*4*	**80,805**	36,774
Cost of sales		**(79,650)**	(33,218)
Gross profit		**1,155**	3,556
Other income	*5*	**193**	2,577
Selling and distribution expenses		**(11,832)**	(20,516)
Administrative expenses		**(15,809)**	(29,842)
Research and development costs		**(16,552)**	(22,979)
Reversal of impairment losses/(impairment losses)	*6*	**22,617**	(8,028)
Loss from operations		**(20,228)**	(75,232)
Finance costs	*7(a)*	**(2,876)**	(2,217)
(Loss)/gain arising from changes in fair value on held-for-trading investments		**(569)**	2
Loss before taxation	*7*	**(23,673)**	(77,447)
Income tax	*8*	**–**	–
Loss for the period		**(23,673)**	(77,447)
Attributable to:			
Equity shareholders of the Company		**12,759**	(19,621)
Non-controlling interests		**(36,432)**	(57,826)
Loss for the period		**(23,673)**	(77,447)
Earnings/(loss) per share			
Basic and diluted (RMB cent)	*9*	**0.70**	(1.08)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020-unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Loss for the period	**(23,673)**	(77,447)
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into the Group's presentation currency	**406**	(715)
Total comprehensive income for the period	**(23,267)**	(78,162)
Attributable to:		
Equity shareholders of the Company	**13,165**	(20,336)
Non-controlling interests	**(36,432)**	(57,826)
Total comprehensive income for the period	**(23,267)**	(78,162)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020-unaudited

(Expressed in RMB)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	10	**17,902**	8,946
Intangible assets		**–**	–
Goodwill		**–**	–
		17,902	8,946
Current assets			
Held-for-trading investments		**1,948**	2,631
Inventories		**4,221**	1,733
Trade and other receivables	11	**118,225**	119,916
Cash and cash equivalents	12	**74,445**	137,839
		198,839	262,119
Current liabilities			
Trade and other payables	13	**136,648**	151,799
Convertible bonds	14	**–**	27,140
Lease liabilities		**8,139**	1,779
		144,787	180,718
Net current assets		**54,052**	81,401
Total assets less current liabilities		**71,954**	90,347
Non-current liabilities			
Lease liabilities		**6,059**	1,185
NET ASSETS		**65,895**	89,162
CAPITAL AND RESERVES	15		
Share capital		**117,812**	117,812
Reserves		**202,787**	189,622
Total equity attributable to equity shareholders of the Company		**320,599**	307,434
Non-controlling interests		**(254,704)**	(218,272)
TOTAL EQUITY		**65,895**	89,162

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020-unaudited

(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Exchange reserve *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019	117,812	1,263,789	61,996	3,511	2,893	(1,104,018)	345,983	(256,471)	89,512
Changes in equity for the six months ended 30 June 2019:									
Loss for the period	–	–	–	–	–	(19,621)	(19,621)	(57,826)	(77,447)
Other comprehensive income	–	–	–	(715)	–	–	(715)	–	(715)
Total comprehensive income	–	–	–	(715)	–	(19,621)	(20,336)	(57,826)	(78,162)
Effect on equity arising from capital injections from non-controlling equity shareholders into a subsidiary of the Group	–	–	–	–	37,885	–	37,885	154,966	192,851
Balance at 30 June 2019 and 1 July 2019	117,812	1,263,789	61,996	2,796	40,778	(1,123,639)	363,532	(159,331)	204,201
Changes in equity for the six months ended 31 December 2019:									
Loss for the period	–	–	–	–	–	(58,674)	(58,674)	(58,941)	(117,615)
Other comprehensive income	–	–	–	2,576	–	–	2,576	–	2,576
Total comprehensive income	–	–	–	2,576	–	(58,674)	(56,098)	(58,941)	(115,039)
Transfer between reserves	–	–	(42,573)	–	–	42,573	–	–	–
Balance at 31 December 2019	117,812	1,263,789	19,423	5,372	40,778	(1,139,740)	307,434	(218,272)	89,162

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020-unaudited (continued)
(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Exchange reserve *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2020	117,812	1,263,789	19,423	5,372	40,778	(1,139,740)	307,434	(218,272)	89,162
Changes in equity for the six months ended 30 June 2020:									
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)
Balance at 30 June 2020	117,812	1,263,789	19,423	5,778	40,778	(1,126,981)	320,599	(254,704)	65,895

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020-unaudited

(Expressed in RMB)

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Operating activities			
Cash used in operations		**(42,206)**	(80,742)
Income tax paid		**–**	–
Net cash used in operating activities		**(42,206)**	(80,742)
Investing activities			
Payments for purchase of property, plant and equipment		**(629)**	(19)
Proceeds from disposal of held-for-trading investments		**158**	–
Loans to third parties		**–**	(2,663)
Repayment of loans from a third party		**22,858**	–
Interest received		**71**	3,119
Net cash generated from investing activities		**22,458**	437
Financing activities			
Payments for the redemption of convertible bonds	*14*	**(28,269)**	(18,202)
Capital injections from a non-controlling equity shareholder of a subsidiary, net of transaction costs		**–**	92,851
Advance from a non-controlling equity shareholder of a subsidiary		**–**	100,000
Deposit (refunded to)/received from a third party in connection with a terminated capital injection into a non-wholly owned subsidiary of the Group		**(10,000)**	10,000
Capital element of lease rentals paid		**(3,788)**	(3,332)
Interest element of lease rentals paid		**(688)**	(748)
Finance costs paid		**(1,541)**	(2,716)
Net cash (used in)/generated from financing activities		**(44,286)**	177,853
Net (decrease)/increase in cash and cash equivalents		**(64,034)**	97,548
Cash and cash equivalents at 1 January	*12*	**137,839**	97,420
Effect of foreign exchange rate changes		**640**	833
Cash and cash equivalents at 30 June	*12*	**74,445**	195,801

Notes

(Expressed in RMB unless otherwise indicated)

1 Corporate information

Changyou Alliance Group Limited (formerly known as Fortunet e-Commerce 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 2020 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.

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 31 August 2020.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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").

The financial information relating to the financial year ended 31 December 2019 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.

2 Basis of preparation (continued)

For the six months ended 30 June 2020, the Group had incurred net loss of RMB23,673,000 and net cash used in operating activities of RMB42,206,000. Notwithstanding of the above, based on a cash flow forecast of the Group for the twelve months ending 30 June 2021 prepared by the management, 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.

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:

– Revised Conceptual Framework for Financial Reporting 2018

– Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*

– Amendments to HKFRS 3, *Definition of a business*

– Amendments to HKAS 1 and HKAS 8, *Definition of material*

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. 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:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15 disaggregated by major products or service lines and by timing of revenue recognition		
Revenue from facilitation of digital point business through operation of an electronic platform:		
– Point in time	**80,774**	36,095
– Over time	**31**	679
	80,805	36,774

5 Other income

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Interest income	**71**	2,541
Government grants	**171**	–
Net loss on disposal of property, plant and equipment	**(121)**	–
Others	**72**	36
	193	2,577

6 (Reversal of impairment losses)/impairment losses

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
(Reversal of impairment losses)/impairment losses on trade and other receivables	**(22,617)**	8,028

The reversal of impairment losses for the six months ended 30 June 2020 represented recoveries of other receivables recognised by the Group as credit losses in the previous periods.

7 Loss before taxation

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

(a) Finance costs:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Finance charges on convertible bonds *(Note 14)*	**2,615**	4,580
Interest expenses on lease liabilities	**688**	748
	3,303	5,328
Net foreign exchange gain	**(113)**	(1,492)
Changes in fair value on the derivative components of convertible bonds *(Note 14)*	**–**	(148)
Gain on redemptions, extinguishment and recognition of convertible bonds *(Note 14)*	**(314)**	(1,471)
	2,876	2,217

7 Loss before taxation (continued)

(b) Staff costs:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**37,528**	46,889
Contributions to defined contribution retirement plans	**733**	5,269
	38,261	52,158

(c) Other items:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Cost of inventories	**79,650**	33,218
Depreciation charge:		
– owned property, plant and equipment	**2,337**	2,005
– right-of-use assets	**4,264**	3,680
Operating lease charges relating to short-term leases and leases of low-value assets	**1,152**	1,747

8 Income tax

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current taxation	**–**	–
Deferred taxation	**–**	–
	–	–

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 2020 (six months ended 30 June 2019: 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 2020 (six months ended 30 June 2019: 25%).

9 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The basic earnings per share for the six months ended 30 June 2020 is calculated based on the profit attributable to equity shareholders of the Company of RMB12,759,000 (six months ended 30 June 2019: loss of RMB19,621,000) and the weighted average number of ordinary shares of 1,810,953,000 (six months ended 30 June 2019: 1,810,953,000 ordinary shares) in issue during the six months ended 30 June 2020.

(b) Diluted earnings/(loss) per share

The Group's convertible bonds, share options granted and warrants issued could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings/(loss) per share because they are antidilutive during the six months ended 30 June 2020 and 2019.

10 Property, plant and equipment

(a) Right-of-use assets

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

During the six months ended 30 June 2020, certain leases of the Group had expired, and therefore the cost and accumulated depreciation of the corresponding right-of-use assets of RMB8,578,000 were written back.

(b) Owned property, plant and equipment

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with a cost of RMB629,000 (six months ended 30 June 2019: RMB19,000).

11 Trade and other receivables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables	**4,739**	5,876
Less: loss allowance	**(551)**	(310)
	4,188	5,566
Other receivables:		
– Loans to third parties	**37,059**	58,857
– Receivable for issuance of shares of a subsidiary to a non-controlling equity shareholder *(Note (i))*	**100,000**	100,000
– Others	**9,711**	9,325
	146,770	168,182
Less: loss allowance	**(41,753)**	(63,551)
	105,017	104,631
Financial assets measured at amortised cost	**109,205**	110,197
Prepayments and deposits	**9,020**	9,719
	118,225	119,916

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 13) which is non-interest bearing and will mature upon receipt of the proceeds for shares issued to the investor by PCL.

11 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 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Within 3 months	**4,009**	5,141
Over 3 months but within 6 months	**137**	409
Over 6 months	**42**	16
	4,188	5,566

12 Cash and cash equivalents

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Cash at bank and on hand	**74,445**	137,839

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.

13 Trade and other payables

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Trade payables	**17,595**	10,440
Payables for staff related costs	**4,631**	6,974
Payables for miscellaneous taxes	**260**	543
Payables for selling expenses incurred for digital point business	**1,035**	2,259
Advance from a non-controlling equity shareholder of a subsidiary *(Note 11(i))*	**100,000**	100,000
Refundable deposit received from a third party in connection with a terminated capital injection into a non-wholly owned subsidiary of the Group	**–**	10,000
Others	**6,852**	18,554
	112,778	138,330
Financial liabilities measured at amortised cost	**130,373**	148,770
Deposits received from business partners in connection with the Group's digital point business	**1,569**	1,439
Receipts-in-advance received from customers	**3,353**	336
Deferred income	**1,353**	1,254
	136,648	151,799

13 Trade and other payables (continued)

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 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Within 3 months	**5,119**	9,937
3 to 6 months	**12,142**	154
Over 6 months	**334**	349
	17,595	10,440

14 Convertible bonds

The Group's convertible bonds are analysed as follows:

	Liability components *RMB'000*	**Derivative components** *RMB'000*	**Total** *RMB'000*
At 1 January 2019	44,363	72	44,435
Accrued finance charges for the year	6,804	–	6,804
Interest paid	(4,542)	–	(4,542)
Exchange adjustments	359	2	361
Fair value changes on the derivative components	–	(245)	(245)
Redemptions, extinguishment and recognition of convertible bonds	(19,857)	184	(19,673)
At 31 December 2019 and 1 January 2020	27,127	13	27,140
Accrued finance charges for the period *(Note 7(a))*	2,615	–	2,615
Interest paid	(1,541)	–	(1,541)
Exchange adjustments	369	–	369
Redemptions of convertible bonds	(28,570)	(13)	(28,583)
At 30 June 2020	–	–	–

14 Convertible bonds (continued)

In June 2015, the Company issued two secured convertible bonds with an aggregate face value of United States Dollar ("USD")10,000,000 (equivalent to approximately RMB61,176,000) to Chance Talent Management Limited ("Chance Talent"), a third party, (together, "CB1"). On the date of issuance, both bonds bore interest at 13% per annum and were to mature in June 2018, where Chance Talent could convert them into the Company's ordinary shares at the respective stipulated conversion prices before their maturity dates.

In December 2017, the Company has extinguished CB1 and issued secured convertible bonds with face value of USD10,000,000 (equivalent to approximately RMB66,066,000) to Chance Talent ("CB2"). On the date of issuance, CB2 bore interest at 13% per annum, were to mature in June 2019 and secured by 109,343,662 ordinary shares in the Company owned by Century Investment (Holding) Limited ("Century Investment"). Chance Talent could convert CB2 into the Company's ordinary shares at HK$1.209 per share before the maturity date.

In July 2018, the Company and Chance Talent entered into an agreement to amend the terms of CB2 which constituted significant contract modifications, and accordingly, CB2 has been accounted for as extinguishment of the original financial instrument and the recognition of a new financial instrument. Pursuant to this agreement, the Company redeemed an aggregate principal amount of USD3,300,000 (equivalent to approximately RMB21,994,000) of CB2 in cash and provided an additional 45,347,514 shares in the Company owned by Century Investment as securities for CB2 in 2018. The remaining principal amount of USD6,700,000 was to mature in June 2019 and could be converted into the Company's ordinary shares at HK$1.209 per share before the maturity date in June 2019 ("CB3").

In June 2019, the Company and Chance Talent agreed to further amend the terms of CB3 which constituted significant contract modifications, and accordingly, CB3 has been accounted for as extinguishment of the financial instrument recognised in July 2018 and the recognition of a new financial instrument. Pursuant to the agreement, the Company redeemed a principal amount of USD2,700,000 (equivalent to approximately RMB18,202,000) of CB3 in cash, and the remaining principal amount of USD4,000,000 is to mature in June 2020 and can be converted into the Company's ordinary shares at HK$1.209 per share from 22 July 2019 to the maturity date in June 2020 ("CB4").

In June 2020, the Company redeemed the remaining principal amount of USD4,000,000 (equivalent to approximately RMB28,269,000) of CB4 in cash. The difference between the redemption value and the carrying amount of CB4 amounted to a gain of RMB314,000 which has been recognised in profit or loss for the six months ended 30 June 2020. On 6 July 2020, 154,691,176 pledged ordinary shares mentioned above had been released.

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 2020 (six months ended 30 June 2019: 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 2019 (2018: 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 3 October 2016, 80,000,000 share options were granted to directors of the Company and employees of the Group under the above share option scheme. All of the share options granted will vest after one year from the date of grant. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK$1.41 and is settled gross in shares. The share options granted in 2016 had expired in 2019.

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.

15 Capital, reserves and dividends (continued)

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

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

	Six months ended 30 June 2020		Year ended 31 December 2019	
	Weighted average exercise price *HK$*	**Number of share options**	Weighted average exercise price *HK$*	Number of share options
Outstanding at the beginning of the period/year	**1.21**	**72,000,000**	1.31	147,000,000
Expired during the period/year		**–**	1.41	(75,000,000)
Outstanding at the end of the period/year	**1.21**	**72,000,000**	1.21	72,000,000
Exercisable at the end of the period/year	**1.21**	**72,000,000**	1.21	72,000,000

(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 2020, no warrant was exercised (six months ended 30 June 2019: 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.

	Fair value measurements at 30 June 2020 categorised into	Fair value measurements at 31 December 2019 categorised into	
	Level 1	*Level 1*	*Level 3*
	RMB'000	*RMB'000*	*RMB'000*
Recurring fair value measurement			
Financial assets			
– Held-for-trading investments	**1,948**	2,631	–
Financial liabilities			
– Derivative components of convertible bonds *(Note 14)*	**–**	–	13

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (year ended 31 December 2019: 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 2020 and 31 December 2019.

17 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

Details of guarantees provided by the equity shareholder of the Company for the Group's convertible bonds are set out in Note 14.

18 Non-adjusting events after the reporting period

(a) Capital injection from a non-controlling equity shareholder

On 29 July 2020, 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. The completion of the capital injection mentioned above is subject to the fulfilment of conditions set out in the agreement, including the Company's equity shareholders' approval.

(b) Issuance of convertible bonds to an equity shareholder of the Company

On 29 July 2020, the Company entered into an agreement with Century Investment, pursuant to which the Company will issue convertible bonds with aggregate principal amount of HK$126,000,000 to Century Investment. The convertible bonds will bear interest at 13% per annum and will be due on the date falling three years after the date of issuance. The completion of the convertible bonds issuance mentioned above is subject to fulfilment of conditions set out in the agreement, including the Company's independent equity shareholders' approval.

19 Impacts of Covid-19 pandemic

The Covid-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact from the Covid-19 pandemic on the Group's business and has put in place various contingency measures. 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 Group will keep the contingency measures under review as the Covid-19 pandemic situation evolves.

As far as the Group's business are concerned, the directors of the Company are of the opinion that the Covid-19 pandemic has no material impact on the Group's financial position and financial performance as the Group's business is mainly operated online. In addition, the Group received waive of contributions to defined contribution retirement plan of RMB2,341,000 during the interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The COVID-19 pandemic severely challenged the global economy during the first half of 2020, bringing new complexity and uncertainty to the domestic and international environment. However, in China, the government's increasing effectiveness in pandemic control and prevention enabled an accelerated resumption of work, production, business and market activities, and the economy bounced back from a decline. Economic growth in the second quarter turned from negative to positive, reflecting a gradual recovery of its economy. According to the National Bureau of Statistics of China, China's gross domestic product in the first half of 2020 amounted approximately to RMB45.66 trillion. On a quarterly basis, China's gross domestic product in the first quarter fell by 6.8% year-on-year, and in the second quarter increased by 3.2%. Following the economic recovery, the consumer market has been back on track, continuing to stimulate the vigorous growth of the digital points market.

The Company and its subsidiaries (the "**Group**") has capitalised on its 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 (the "**Digital Points Business**"). In the second half of 2017, the Group formed the Changyou digital point business ecosystem alliance (the "**Changyou Alliance**") with CCB International (Holdings) Limited ("**CCB International**"), China UnionPay Merchant Services Company Limited ("**UnionPay Merchant**"), Bank of China Group Investment Limited ("**Bank of China**"), China Mobile (Hong Kong) Group Limited ("**China Mobile**") and China Eastern Airlines Corporation Limited ("**China Eastern Airlines**"). To better promote our corporate image and in line with the Group's strategic focus on the development of Changyou, the English name of the Company has been changed from "Fortunet e-Commerce Group Limited" to "Changyou Alliance Group Limited" and the Company has adopted "暢由聯盟集團有限公司" as the dual foreign name in Chinese of the Company in place of "鑫網易商集團有限公司" with effect from 3 June 2020.

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 2020, the Changyou Platform's total number of registered users was approximately 46.2 million, representing an increase of approximately 8.6 million newly registered users compared to the total number of registered users as at 31 December 2019.

For the six months ended 30 June 2020, the Changyou Alliance business's total transaction volume and revenue amounted to approximately RMB132.2 million and approximately RMB80.8 million, respectively.

Financial cooperation business

With the improvement of China's financial market and the rapid development of information technology, numerous fintech models have emerged in this "pan-financial" era. Changyou is dedicated to the issuance, exchange and settlement of digital points with the hope of creating a forward-looking commercial financial platform. Users can monetise Changyou points via Changyou Pay (暢由付) on the Changyou Platform. Changyou Pay also enhances the standardised, low-cost and efficient Changyou points services for small and medium enterprises.

The Group offers points consumption and cashier output services, and from the first half of 2020, Bank of China digital points and cash payment functions. The Changyou Platform has separated point realisation and payment steps from its product experience and has been visually optimised for a clearer user interface. Additionally, the Changyou Platform has optimised the back office of its offline scan-and-pay business as well as product management and reconciliation for merchants.

The product structure of the Group's instalment business has been enriched with the introduction of TOP brand suppliers for various levels of consumer needs. As a result, consumer loyalty and conversion of digital points are respectively maximised and facilitated. The Group follows mainstream platforms in keeping up with e-commerce promotions, refining its marketing activities, increasing customer unit prices, and boosting sales. The Group has also developed a steady sales growth with the expansion of its UnionPay channels combined with channel activities.

Entertainment

To expand the scope of the Group's Digital Points Business and build a more solid customer base, in the first half of 2020 the Group prioritised the development of entertainment scenarios, cooperation with brand merchants, and the internet accelerator business, and has achieved good results.

In addition to the existing Youku and Tencent CF Games, the Group engaged merchants from iQiyi, Qingting FM, Baidu Wenku, Zhihu, and Qidian to commence their operations on the Changyou Platform. The Changyou Platform is also categorising users in the scenario according their needs, in order to improve the customisation of entertainment users, and offering rewards packages to targeted customers. The Changyou Platform is expanding entertainment scenarios by developing other scenarios related to the entertainment economy, such as food delivery services, delivery of fresh produce, etc.

The Group has signed cooperation agreements with several enterprises and intend to conduct online promotions of point realisation scenarios with their own channels and user resources in this integration structure. Plans for cooperation and application programming interface connection have been confirmed.

Retail

The Group's new retail business continues to blossom and make substantial progress in the parking fee business, car owner services, and joint brand business operations.

Parking Fee Business

The Group cooperates with several carpark service brands such as ECTP, Speed Parking, PP Parking, Bee Parking and Parking King. The Changyou Platform's parking fee business can cover more than 3,000 carparks in over 300 cities. The Changyou Platform has completed the set up of the technological infrastructure to facilitate the webpage flow, customer complaint follow-ups and optimisation of the customer complaint monitoring process.

Car Owner Services

The Changyou Platform designed and developed the H5 page for car owner services, as well as for member operations and event plans. There are three H5 services, and three types of card and coupon products now available, and an expansion of the product collection is in progress. Apart from owning an official 'Changyou Car Owner Selection' page, the Changyou Platform also adjusts and optimises its strategies for the page's attraction, engagement and retention.

Joint Brand Business Operations

The Changyou Platform has established a joint marketing brand business model, for which four online platforms are now available and three are under development. Product launches and optimisation of business and operational processes have been completed, while merchant access and standards in testing and verification have been improved.

Travel and related businesses

In the first half of the year, the Group commenced its cooperation with intra-city travel apps by placing business portals in their apps. The Group also established cooperative relationships with oil companies. At present, Sichuan, Guizhou, Zhejiang and Jiangsu are demonstration provinces for these cooperative relationships, in which full connection of more than 300 petrol stations and the oil companies' oil products and non-oil products businesses will be achieved. Cooperative intentions have been reached between the Group and travel enterprises.

FINANCIAL REVIEW

Revenue

The Group recorded a consolidated revenue of approximately RMB80.8 million (six months ended 30 June 2019: approximately RMB36.8 million), representing an increase by approximately 119.7% as compared with the corresponding period in 2019. The increase in revenue was mainly attributable to the continuing development and significant expansion of the Digital Point Business including the increase in consumption scenarios of the digital points business and an increase of registered users from 37.6 million users in December 2019 to 46.2 million users in June 2020.

Gross profit

Gross profit for the six months ended 30 June 2020 amounted to approximately RMB1.2 million (six months ended 30 June 2019: approximately 3.6 million). The decrease in gross profit in 2020 was attributable to the favourable product price offered to the users for their consumption in order to attract them to utilize the digital points via the Changyou Platform.

Other income

Other income of the Group for the six months ended 30 June 2020 amounted to approximately RMB0.2 million (six months ended 30 June 2019: approximately RMB2.6 million), which mainly consists of government grants and interest income. Detailed breakdown is disclosed in the note 5 of the interim financial information as disclosed in this announcement.

Reversal of impairment losses

Reversal of impairment losses of the Group for the six months ended 30 June 2020 amounted to approximately RMB22.6 million which mainly represents recoveries of other receivables recognised by the Group as credit losses in the previous periods (six months ended 30 June 2019: impairment losses of approximately RMB8.0 million).

Selling and distribution expenses

Selling and distribution expenses of the Group for the six months ended 30 June 2020 decreased to approximately RMB11.8 million (six months ended 30 June 2019: approximately RMB20.5 million) was mainly attributable to reduced sales and promotion activities for Changyou platform during the six months ended 30 June 2020.

Administrative expenses

The Group's administrative expenses for the six months ended 30 June 2020 decreased to approximately RMB15.8 million, as compared to RMB29.8 million for the corresponding period in 2019. The administrative expenses decreased approximately 47.0% when comparing with the respective period in 2019. The decrease was mainly attributable to the implementation of cost saving measures by the Group during the six months ended 30 June 2020.

Research and development costs

Research and development costs of the Group for the six months ended 30 June 2020 decreased to approximately RMB16.6 million (six months ended 30 June 2019: approximately RMB23.0 million) was mainly attributable to the reduction in staff costs for research and development activities during the six months ended 30 June 2020.

Finance costs

The Group incurred finance costs of approximately RMB2.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB2.2 million). The finance costs mainly consist of the net effect of finance charges on convertible bonds, interest expenses on lease liabilities and net foreign exchange gain, the details of which are disclosed in note 7(a) of the interim financial information as disclosed in this announcement.

Taxation

No income tax is provided for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, cash and cash equivalents of the Group amounted to approximately RMB74.4 million (31 December 2019: approximately RMB137.8 million).

As compared with the position as at 31 December 2019, cash and cash equivalents decreased by approximately RMB63.4 million, resulting from the net cash outflow from operating activities of approximately RMB42.2 million for the six months ended 30 June 2020 (year ended 31 December 2019: approximately RMB134.2 million), the net cash inflow from investing activities of approximately RMB22.5 for the six months ended 30 June 2020 (year ended 31 December 2019: approximately RMB0.3 million) and the net cash outflow from financing activities of approximately RMB44.3 million for the six months ended 30 June 2020 (year ended 31 December 2019: net cash inflow of approximately RMB171.9 million).

As at 30 June 2020, net current assets of the Group amounted to approximately RMB54.1 million (31 December 2019: approximately RMB81.4 million). As at 30 June 2020, the current ratio (representing total current assets divided by total current liabilities) of the Group was approximately 1.37 (31 December 2019: approximately 1.45).

As at 30 June 2020, total assets of the Group were approximately RMB216.7 million (31 December 2019: approximately RMB271.1 million) and total liabilities were approximately RMB150.8 million (31 December 2019: approximately RMB181.9 million). The debt ratio (representing total liabilities divided by total assets) as at 30 June 2020 was 0.70 as compared to 0.67 as at 31 December 2019.

As at 30 June 2020, the Group did not have any borrowings (31 December 2019: approximately RMB27.1 million). The gearing ratio as at 30 June 2020 (i.e. total borrowing/total equity) was nil (31 December 2019: approximately 0.30).

Convertible bonds

On 7 December 2017, the Company and Chance Talent Management Limited ("**Chance Talent**"), an indirect wholly-owned special purpose vehicle of CCB International (Holdings) Limited, entered into a subscription agreement, pursuant to which the Company shall issue US$10 million 13% secured convertible bonds (the "**Convertible Bonds**") to Chance Talent. The Convertible Bonds bear an interest at 13% per annum with a maturity date on 3 June 2019. For further details, please refer to the announcement of the Company dated 7 December 2017.

The issuance of Convertible Bonds was completed on 20 December 2017. The US$10 million payable by Chance Talent for the subscription of the Convertible Bonds was satisfied by way of off-setting the aggregate outstanding principal amount of US$10 million payable by the Company under the previous convertible bonds issued by the Company to Chance Talent in June 2015. Accordingly, no proceeds arose from the issue of the Convertible Bonds.

On 10 July 2019, the Company entered into a framework deed of amendment (the "**Amendment Deed**") with Chance Talent and Century Investment (Holding) Limited, and executed an amendment deed poll pursuant to the Amendment Deed, to amend, among other things, the maturity date of the Convertible Bonds from 3 June 2019 to 3 June 2020. For further details of the extension of the maturity date of the Convertible Bonds, please refer to the announcement of the Company dated 10 July 2019.

As at 30 June 2020, the Convertible Bonds were fully redeemed.

Issue of warrants

On 26 March 2018, the Company and Century Investment (Holding) Limited ("**CIH**"), the substantial shareholder of the Company, 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 Warrants (after deduction of relevant expenses) of approximately HK$1,480,000 was fully utilised for the development of the Changyou Platform during the year ended 31 December 2018.

None of the Warrants were exercised during the six months ended 30 June 2020. However, the Company is of the view that CIH has demonstrated continuous support and motivation to improve the Company's financial performance, and it is the mutual understanding between the Company and CIH that CIH will consider to exercise the subscription rights of the Warrants when the Company is in need of financial resources to cope with the development and expansion of the Digital Points Business in the future.

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 under the 2010 Share Option Scheme. 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 2020.

Advance to an entity

On 3 January 2019, Fortunet Development Limited (the "**Lender**"), an indirect wholly-owned subsidiary of the Company, entered into a loan agreement (the "**Loan Agreement**") with Asia Television Holdings Limited (the "**Borrower**"), pursuant to which the Lender conditionally agreed to provide to the Borrower a term loan of HK$40,000,000 for the general working capital of the Borrower, at an interest rate of 12% per annum for a term of 12 months commencing from the date of the drawdown of the loan by the Borrower (the "**Loan**"). The obligations of the Borrower under the Loan Agreement are secured by a deed of guarantee by a substantial shareholder of the Borrower (the "**Guarantor**"). For further details of the Loan, please refer to the announcement of the Company dated 3 January 2019. The Borrower has fully drawn down the Loan in one single amount on 3 January 2019. Pursuant to the Loan Agreement, the Borrower shall repay the principal amount of the Loan in full together with the interest accrued thereon on 3 January 2020. During the six months ended 30 June 2020, the Lender has been in negotiations with the Borrower and the Guarantor since 3 January 2020 for the repayment of the Loan. As at the date of this announcement, the Borrower repaid HK$28,000,000, comprising the principal of approximately HK$25,350,000 and accrued interest of approximately HK$2,650,000. The Lender is in negotiations with the Borrower and the Guarantor for the repayment of the remaining balance of the Loan.

Deemed disposal of equity interest in a subsidiary

On 31 January 2019, Pointsea Company Limited ("**PCL**"), an indirect non-wholly owned subsidiary of the Company, entered into subscription agreements with certain investors (collectively, the "**Investors**") in relation to the allotment and issue of shares in PCL (the "**Subscriptions**"). The aggregate amount of proceeds expected to be raised upon the completion of all the Subscriptions amounts to RMB300 million, which is intended to be utilised for, among other things, the further development and expansion of the Digital Points Business of the Group. The subscription price payable for the Subscriptions was determined after arm's length negotiations between PCL and the Investors on the basis of the pre-money valuation of US$500 million (approximately RMB3,424 million). The Subscriptions by two out of three Investors were completed in March 2019, and gross proceeds of RMB200 million were received by the Group. The Subscription by the remaining one Investor was terminated on 1 December 2019 as the conditions precedent set out in the relevant subscription agreement have not been fully satisfied or waived. Further details in relation to the Subscriptions have been disclosed in the Company's announcements dated 31 January 2019, 14 February 2019, 31 May 2019 and 1 December 2019.

As at 30 June 2020, the actual use of proceeds from the Subscriptions was as follows:

Usage	Original use of the proceeds from the Subscriptions as previously disclosed in the annual report of the Company for the year ended 31 December 2018	Revised use of the proceeds from the Subscriptions due to the termination of the Subscription by one of the Investors	Actual use of the proceeds from the Subscriptions
	RMB (million)	*RMB (million)*	*RMB (million)*
To fund the fixed expenses (comprising salaries and other administrative expenses) for the recruitment and retention of personnel and management and for the development of Changyou Platform in 2019 and 2020	120	93	93
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 Changyou Platform in 2019 and 2020	80	10	9
For the repayment of the unsecured term loan facility advanced from the Company by August 2019	88	88	88
To fund the registered capital of any direct or indirect wholly foreign owned enterprise of PCL in 2019 and 2020	3	–	–
To fund the general working capital of PCL and its subsidiaries in 2019 and 2020	9	9	9
Total	300	200	199

The total balance of unutilised proceeds from the Subscriptions was approximately RMB1 million as at 30 June 2020 (the "Unutilised Proceeds"). The Group intends that the Unutilised Proceeds will be used for the purpose as set out above for the year ending 31 December 2020.

Property, plant and equipment

As at 30 June 2020, property, plant and equipment were approximately RMB17.9 million (31 December 2019: approximately RMB8.9 million). Detailed breakdown is disclosed in the note 10 of the interim financial information as disclosed in this announcement.

Trade and other receivables

Trade and other receivables of the Group as at 30 June 2020 were approximately RMB118.2 million (31 December 2019: approximately RMB119.9 million). Detailed breakdown is disclosed in the note 11 of the interim financial information as disclosed in this announcement.

Trade and other payables

Trade and other payables of the Group as at 30 June 2020 were approximately RMB136.6 million (31 December 2019: approximately RMB151.8 million). Detailed breakdown is disclosed in the note 13 of the interim financial information as disclosed in this announcement.

Pledged assets

As at 30 June 2020, the Group did not have pledged assets (as at 31 December 2019: Nil).

Contingent liabilities

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

Capital commitment

As at 30 June 2020, the Group had no contracted capital commitments which were not provided in the interim financial information (31 December 2019: Nil).

Employees

As at 30 June 2020, the Group had 210 employees which are located in Beijing, Shanghai and Hong Kong. For the six months ended 30 June 2020, total staff costs were approximately RMB38.3 million. During the six months ended 30 June 2020, 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 2020, the Group's net foreign currency assets amounted to approximately RMB14.9 million (as at 31 December 2019: net foreign currency assets of approximately RMB64.5 million). During the six months ended 30 June 2020, 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 2020. As at the date of this announcement, PCL entered into a subscription agreement with an investor in relation to the allotment and issue of shares in PCL, which constitutes a deemed disposal of equity interest in PCL by the Company. For further details, please refer to the announcement of the Company dated 29 July 2020. 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 2020 (30 June 2019: Nil).

PROSPECTS

With the support from blockchain technology, artificial intelligence and big data, the Group has, through Changyou, created the one of the first domestic digital points ecosystem alliance in the People's Republic of China ("**PRC**") that is applicable to different industries. Through various measures of empowerment of points, authorities, technologies and marketing, it has gradually become a large-scale supply chain platform from suppliers to businesses to customers (S2B2C) internet platform to (i) provide consumers with diversified and convenient digital points usage scenarios with higher efficiency and to preserve and maintain the value of the digital points, (ii) enhance the users' loyalty and satisfaction to promote the development of the main business of Changyou and its business partners, and (iii) accurately explore the characteristics and appeals of platform users for business partners and carry out high efficiency analysis, combine big data and artificial intelligence to provide customised services for channel promotion, connection methods and event organisation of partnering business enterprises.

For the future business prospects of the Group, the Group intends to initiate and expand the scope of corporation and collaboration with international leading enterprises in various industries worldwide to grasp richer and more diverse digital points resources, increase the number of users and expand the scope and categories of products, service and business, and the consumption scenarios on the Changyou Platform. In addition, the Group will increase its effort, among others, to provide and improve the value-added services of the Changyou Platform, including (i) to carry out precise marketing by analysing comprehensive mass data and consumption scenarios, and accurately identify the characteristics and appeals of platform users with integrated user attributes and transaction big data; (ii) to provide merchants with advertising spaces through one-stop online advertising solutions to develop precise and creative strategies, and monitor its effectiveness through data analysis; and (iii) to integrate financial services resources to provide partnering institutions and personal users on the Changyou Platform with a series of financial services, including but not limited to asset transfer, supply chain finance and consumer finance services. The Group will continuously strive to expand and enhance the Changyou business and maintain the high-speed growth of the business.

Development in the Greater Bay Area

In recent years, the Guangdong-Hong Kong-Macau Greater Bay Area has attracted much attention, and it has been one of the main focus areas of the local governments to expand the scope of development and growth opportunities and overall connectivity of the Greater Bay Area. The Company has put Greater Bay Area as one of its main focus areas to develop its Digital Points Business, and have, among other things, (i) set up a permanent team in Guangdong Province to liaise and negotiate cooperation opportunities with local internet technology companies, local businesses and financial institutions to expand the coverage of the Changyou Platform in the Greater Bay Area; (ii) collaborated with its existing networks and business partners to develop specialised area of operation and maintenance of the Changyou Platform tailored to the Greater Bay Area; and (iii) entered into cooperative arrangements with certain e-commerce platforms and local businesses in the food and beverage and catering industries to leverage existing local networks in order to expand the coverage of the goods and services of the Changyou Platform. The Group intends to continue to explore further business development prospects with other industries in the Greater Bay Area in the future.

New International Changyou Platform

The existing Changyou Platform (the "**Existing PRC Changyou Platform**") was jointly developed by the Group in the second half of 2017 together with other well-known and leading enterprises from various industries, including 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. The target market of the Existing PRC Changyou Platform are networks and customers within the PRC.

In view of (i) the increasing popularity of consumer spending with digital points systems; (ii) the successful experience of the Group in the development of the Existing PRC Changyou Platform; and (iii) the robust performance and growth of the Existing PRC Changyou Platform, the Company intends to capitalise on its experience and connections and expand its Digital Points Business into the Hong Kong and overseas markets by developing a new international Changyou platform ("**New International Changyou Platform**" to be based in Hong Kong. The Board is of the view that such expansion will help to enhance and diversify the future income sources of the Group's Digital Points Business and improve the attractiveness of the Existing PRC Changyou Platform by offering quality overseas goods and services to be provided on the New International Changyou Platform, which will in turn increase the loyalty and participation of members, customers and users, and thus the revenue generated from the Existing PRC Changyou Platform. The development of the New International Changyou Platform will also help to promote these opportunities on a cross-border and international scale.

CORPORATE GOVERNANCE

The Company is committed to maintain 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 2020, the Company has applied the principles of and has complied with all code provisions as set forth in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 of 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 3 June 2020 due to their other engagement in other commitments.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company during the six months ended 30 June 2020.

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 2020.

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 2020 with the management of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.changyou-alliance.com and the Stock Exchange at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2020 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, 31 August 2020

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.