
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Changyou Alliance Group Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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)

(1) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 6 to 27 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 28 of this circular. A letter from Optima Capital, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 56 of this circular.

A notice convening the EGM to be held at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Wednesday, 14 October 2020 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use by the Shareholders for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). The completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to the section headed "Precautionary Measures for the EGM" of this circular for the precautionary measures being implemented by the Company in order to safeguard the health and safety of the Shareholders and all attendees at the EGM and to prevent the spread of the coronavirus ("COVID-19"), including:

- compulsory body temperature checks will be conducted at the entrance of the EGM venue. Any person with a body temperature of 37.4 degrees Celsius or above, or is exhibiting flu-like symptoms, may be denied entry into the EGM venue and may be required to leave the EGM venue but may be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the EGM venue;
- every attendee will be required to wear a surgical face mask throughout the EGM and at all times within the EGM venue;
- appropriate social distancing and seating arrangements in line with the Regulation (as defined below) will be maintained; and
- no refreshment or drinks will be served at the EGM.

Any person who does not comply with the precautionary measures above or is subject to any Hong Kong Government prescribed quarantine may be denied entry to the EGM venue. The Company would like to further remind the Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. Shareholders are encouraged to appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM, as an alternative to attending the EGM in person.

17 September 2020

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PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and all attendees at the EGM and to prevent the spread of COVID-19, the following precautionary measures will be implemented at the EGM, including:

1. compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of 37.4 degrees Celsius or above, or is exhibiting flu-like symptoms, may be denied entry into the EGM venue and may be required to leave the EGM venue but may be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the EGM venue;
2. every attendee will be required to wear[#] a surgical face mask throughout the EGM and at all times within the EGM venue;
3. in view of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Chapter 599G of the Laws of Hong Kong) (the “**Regulation**”), the Shareholders attending in person at the venue of the EGM in excess of the 20 persons limit (or such other prevailing limit from time to time) under the Regulation will be accommodated in separate room(s) and/or partitioned area(s) in the same room at the venue of the EGM, with not more than 20 (or such other number of persons allowed under the Regulation) persons (including supporting staff for the EGM) in each such room and/or partitioned area; and
4. no refreshment or drinks will be served at the EGM.

Any person who does not comply with the precautionary measures above or is subject to any Hong Kong Government prescribed quarantine may be denied entry to the EGM venue.

The Company would like to remind the Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. Shareholders are encouraged to appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM, as an alternative to attending the EGM in person. In order to be valid, a proxy form together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be).

Subject to the development of the COVID-19 pandemic and any directive(s) that may be further issued by the Hong Kong Government, the Company may implement further changes and precautionary measures and may issue further announcement(s) on such measures as and when appropriate.

[#] *A reference to a person wearing a mask is a reference to the person wearing a mask over and covering the person’s nose and mouth, with the mask touching the person’s nose, chin and cheeks.*

DEFINITIONS

In this circular, unless the context requires otherwise, capitalised terms used shall have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 29 July 2020 in respect of the Subscription Agreement and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	at any time the person(s) who is (are) for the time being the registered holder(s) of the Convertible Bonds
“Business Day”	a day on which commercial banks in Hong Kong are generally open for business (other than a Saturday, Sunday, public holiday or a day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is in force in Hong Kong at any time between 9:30 a.m. and 5:30 p.m.)
“Company”	Changyou Alliance Group Limited (formerly known as Fortunet e-Commerce Group Limited), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1039)
“Completion”	completion of the Subscription which shall take place on the Completion Date
“Completion Date”	the fifth (5th) Business Day following the date on which the conditions precedent set out in the Subscription Agreement are fulfilled or waived, as the case may be (or such other date as the Company and the Subscriber may agree in writing)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Conversion Price”	HK\$0.42 per Conversion Share (subject to adjustments pursuant to the terms and conditions of the Convertible Bonds)

DEFINITIONS

“Conversion Share(s)”	new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attached to the Convertible Bonds by the Bondholder(s) pursuant to the terms and conditions of the instrument constituting the Convertible Bonds
“Convertible Bonds”	the convertible bonds in the aggregate principal amount of HK\$126,000,000 due on the Maturity Date to be issued by the Company to the Subscriber
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at 10:30 a.m. on Wednesday, 14 October 2020 for the Independent Shareholders to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate
“Event(s) of Default”	has the meaning given to such term in the Convertible Bonds
“Executive”	the executive director of the corporate finance division of the SFC or any of his delegate(s)
“Existing PRC Changyou Platform”	has the meaning as set out in the section headed “REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS” of this circular
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Government”	the government of Hong Kong

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Liu Jialin and Mr. Chan Chi Keung, Alan, established to advise and give recommendations to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Optima Capital”	Optima Capital Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than the Subscriber and its associates who are required to abstain from voting at the EGM pursuant to the Listing Rules
“Issue Date”	the date of first issue of the Convertible Bonds
“Last Trading Day”	29 July 2020, being the last trading day of the Shares immediately before the entering into of the Subscription Agreement
“Latest Practicable Date”	11 September 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	31 December 2020 (or such other date as may be agreed between the Company and the Subscriber in writing)
“Maturity Date”	the date falling three (3) years after the Issue Date
“New International Changyou Platform”	has the meaning as set out in the section headed “REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS” of this circular

DEFINITIONS

“PCL”	Pointsea Company Limited (分海有限公司), a company incorporated in the Cayman Islands with limited liability, being an indirect non-wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China, and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Public Float Requirement”	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange shall be held by the public
“RMB”	Renminbi, the lawful currency of the PRC
“Sendlink”	Sendlink LTD, a company incorporated in the British Virgin Islands with limited liability
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of a par value of US\$0.01 each in the issued share capital of the Company from time to time, and if there is a subdivision, consolidation or reclassification of those Shares, the Shares resulting from it
“Shareholder(s)”	the holder(s) of the Shares
“Share Options”	72,000,000 outstanding share options which may be converted into 72,000,000 Shares under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 28 June 2010
“Specific Mandate”	the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Subscriber”	Century Investment (Holding) Limited, a company incorporated in the British Virgin Islands with limited liability, being the controlling shareholder of the Company
“Subscription”	the subscription of the Convertible Bonds pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 29 July 2020 and entered into between the Company and the Subscriber in relation to the Subscription
“US\$”	United States dollars, the lawful currency of the United States of America
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC
“Warrants”	298,000,000 warrants issued by the Company to the Subscriber pursuant to the Warrant Documents, each of which carries the right to subscribe for one Share at the strike price of HK\$1.38 per warrant (subject to adjustments)
“Warrant Documents”	(i) the warrant subscription agreement dated 26 March 2018 and entered into between the Company and the Subscriber in relation to the issue and subscription of the Warrants; (ii) the warrant instrument dated 18 September 2018 executed by the Company in favour of the Subscriber in relation to the Warrants; and (iii) the terms and conditions of the Warrants, each as may be amended, supplemented or otherwise modified from time to time
“%”	per cent.

Unless specified otherwise, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.10. The exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. Cheng Jerome (*Chairman*)

Mr. Yuan Weitao

Non-executive Director:

Mrs. Guo Yan

Independent non-executive Directors:

Mr. Wong Chi Keung

Mr. Liu Jialin

Mr. Chan Chi Keung, Alan

Registered Office:

Royal Bank House

3rd Floor

24 Shedden Road

P.O. Box 1586

Grand Cayman, KY1-1110

Cayman Islands

Principal place of business in Hong Kong:

Rooms 1908-1916

19/F, Sun Hung Kai Centre

30 Harbour Road

Wan Chai

Hong Kong

17 September 2020

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement.

On 29 July 2020 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber in relation to the issue of the Convertible Bonds in an aggregate principal amount of HK\$126,000,000 due on the date falling on three (3) years after the Issue Date.

The purpose of this circular is to provide you with, among other things, (a) further information on the Subscription Agreement and the transactions contemplated thereunder; (b) a letter from the Independent Board Committee to the Independent Shareholders containing the recommendations in relation to the Subscription Agreement and the transactions contemplated thereunder; (c) a letter from Optima Capital, being the Independent Financial

LETTER FROM THE BOARD

Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder; (d) a notice convening the EGM; and (e) other information required under the Listing Rules.

SUBSCRIPTION AGREEMENT

Principal terms of the Subscription Agreement are set out below:

Date

29 July 2020 (after trading hours)

Parties

- (i) the Company; and
- (ii) the Subscriber.

Subject matter

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$126,000,000 on the Completion Date.

Conversion Shares

The Convertible Bonds carry the conversion rights to convert into the Conversion Shares at the initial Conversion Price of HK\$0.42 per Conversion Share (subject to adjustments). As at the Latest Practicable Date, the Company had a total of 1,810,953,272 Shares in issue. Assuming (i) the conversion rights under the Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the Latest Practicable Date to the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 300,000,000 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 16.57% of the total number of issued Shares as at the Latest Practicable Date and approximately 14.21% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares.

The aggregate nominal value of the 300,000,000 Conversion Shares is US\$3,000,000.

The Conversion Shares, when allotted and issued, will be credited as fully paid up, free from any encumbrance and will rank *pari passu* in all respects with the Shares in issue on the conversion date.

The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the Convertible Bonds.

The Conversion Price

The Conversion Price of HK\$0.42 per Conversion Share represents:

- (i) a premium of approximately 7.69% over the closing price of HK\$0.390 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 4.74% over the average closing price of approximately HK\$0.401 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 4.74% over the average closing price of approximately HK\$0.401 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 5.00% over the closing price of HK\$0.400 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 124.96% over the Group's audited consolidated net assets per Share attributable to the owners of the Company as at 31 December 2019 of approximately HK\$0.1867 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group's audited consolidated net assets attributable to the owners of the Company of approximately RMB307,434,000 (equivalent to approximately HK\$338,177,400) as at 31 December 2019); and
- (vi) a premium of approximately 115.72% over the Group's unaudited consolidated net assets per Share attributable to the owners of the Company as at 30 June 2020 of approximately HK\$0.1947 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group's unaudited consolidated net assets attributable to the owners of the Company of approximately RMB320,599,000 (equivalent to approximately HK\$352,658,900) as at 30 June 2020).

The Conversion Price of HK\$0.42 per Conversion Share was determined after arm's length negotiations among the Company and the Subscriber with reference to, among others, the prevailing market price of the Shares and the financial position of the Company. Having primarily considered that the Conversion Price of HK\$0.42 per Conversion Share represents (i) premiums of approximately 7.69%, 4.74% and 4.74% over the closing price per Share as quoted on the Stock Exchange on the Last Trading Day, the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and the average closing price per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day, respectively; and (ii) premiums of approximately 124.96% and 115.72% over the Group's consolidated net assets per Share attributable to the owners of the Company as at 31 December 2019 of approximately HK\$0.1867 and 30 June 2020 of approximately

LETTER FROM THE BOARD

HK\$0.1947, the Directors (including the independent non-executive Directors after taking into consideration of the advice from Optima Capital) consider that the Conversion Price is fair and reasonable as a whole.

Conditions precedent

Completion of the Subscription is subject to the following conditions being fulfilled (or waived, as the case may be):

- (a) the passing by the Independent Shareholders of relevant resolution at the EGM in compliance with the requirements of the Listing Rules approving (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares in accordance with the terms of the Subscription Agreement;
- (b) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares, and such approval not having been revoked prior to Completion;
- (c) all approvals which are necessary and required under all applicable laws and all other agreements, instruments or other documents in connection with the Subscription Agreement and the transactions contemplated thereunder and all other matters incidental thereto having been obtained by the Subscriber and the Company and remaining in full force and effect;
- (d) each of the warranties given by the Company remaining true and accurate and not misleading, in each case as at the Completion Date with the same force and effect as if repeated throughout the period between the date of the Subscription Agreement and up to and including the Completion Date;
- (e) each of the warranties given by the Subscriber remaining true and accurate and not misleading, in each case as at the Completion Date with the same force and effect as if repeated throughout the period between the date of the Subscription Agreement and up to and including the Completion Date;
- (f) no governmental authority of any competent jurisdiction having enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that has the effect of making the Subscription Agreement and the transactions contemplated thereunder illegal or otherwise prohibiting consummation of the Subscription Agreement and the transactions contemplated thereunder; and
- (g) no material adverse change in respect of the Group having occurred since the date of the Subscription Agreement and up to and including the Completion Date.

LETTER FROM THE BOARD

The Subscriber may, at its discretion, waive conditions (c) (to the extent related to the Company and not related to any requirement under applicable laws), (d) and (g) set out above. The Company may, at its discretion, waive conditions (c) (to the extent related to the Subscriber and not related to any requirement under applicable laws) and (e) set out above. None of the other conditions may be waived by either party. In the event that any of the above conditions is not fulfilled (or waived, as the case may be) on or before the Long Stop Date, the Subscription Agreement shall automatically terminate and the parties shall be released from all obligations thereunder, save for liabilities for any antecedent breaches thereof.

Completion

Completion will take place on the Completion Date after the fulfilment or waiver (as the case may be) of the conditions precedent set out in the Subscription Agreement.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Issuer:	The Company
Principal amount:	HK\$126,000,000
Issue price:	100% of the principal amount of the Convertible Bonds
Interest rate:	3.50% per annum accrued on a daily basis of a 365-day year and payable semi-annually in arrears.
Maturity Date:	The date falling on three (3) years after the Issue Date.
Conversion right:	The Bondholder shall have the right, at any time during the conversion period, to elect to convert the whole or part of the Convertible Bonds for the time being outstanding into Conversion Shares at the Conversion Price.

LETTER FROM THE BOARD

The Bondholder shall not exercise any of its right to convert the Convertible Bonds into Conversion Shares to an extent that would result in:

- (i) a mandatory general offer obligation being triggered under the Takeovers Code in respect of such Bondholder and the parties acting in concert with it, unless either (a) such Bondholder and parties acting in concert with it comply with the Takeovers Code and make a mandatory general offer to acquire for all the Shares not already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the Independent Shareholders and is granted by the Executive before the date of completion of the conversion; or
- (ii) the Company not meeting the Public Float Requirement immediately after the conversion.

Conversion period:

The Bondholder(s) shall have the right to convert the whole or part of the outstanding principal amount of the Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to (i) 5:00 p.m. on the day falling five (5) Business Days before the Maturity Date; and (ii) if the Convertible Bonds have been called for an early redemption in full before the Maturity Date, 5:00 p.m. on the day which is one (1) Business Day before the date of such redemption.

Conversion Price:

The Conversion Price is initially HK\$0.42 per Conversion Share, subject to adjustment provisions as summarised below.

Adjustment events:

The Conversion Price is subject to adjustments from time to time on the occurrence of certain events in accordance with the terms and conditions of the Convertible Bonds, including, distributions, bonus issues, alteration to nominal value, issue of Shares, share-related rights and share-related securities to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares, issue of other securities to the Shareholders and issue of share-related securities other than to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares.

LETTER FROM THE BOARD

- Conversion Shares to be issued under the Convertible Bonds: Upon exercise of the conversion rights under the Convertible Bonds in full at the initial Conversion Price of HK\$0.42 per Conversion Share and assuming there is no change to the total number of issued Shares from the Latest Practicable Date and the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 300,000,000 Conversion Shares will be issued, representing:
- (i) approximately 16.57% of the total number of issued Shares as at the Latest Practicable Date; and
 - (ii) approximately 14.21% of the total number of issued Shares as enlarged by the issue of Conversion Shares.
- Redemption upon maturity: Any Convertible Bonds which remain outstanding on the Maturity Date shall be redeemed by the Company in full at the redemption price equal to the outstanding principal amount of such Convertible Bonds together with interest accrued thereon.
- Voluntary redemption by the Company: The Convertible Bonds may be redeemed in whole or part by the Company at any time from the Issue Date and from time to time prior to the Maturity Date at the redemption price equal to the outstanding principal amount and interest accrued thereon of the Convertible Bonds to be redeemed.
- Voting rights: The Convertible Bonds do not confer on the Bondholder(s) the right to vote at any general meetings of the Company.
- Listing: No application has been or will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.
- Ranking of the Conversion Shares: The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.
- Transferability: The Convertible Bonds are freely transferrable by the Bondholder(s), in whole or part, to any person without the consent from the Company, provided that no transfer shall be made to a connected person of the Company, and subject to the terms of the Convertible Bonds.

LETTER FROM THE BOARD

Events of Default:

Major Events of Default under the Convertible Bonds include (among other things):

- (i) non-payment of principal, interest or any other amount in respect of or in connection with the Convertible Bonds on the due date for payment thereof;
- (ii) breach of terms of the Convertible Bonds by the Company;
- (iii) delisting of the Shares on the Stock Exchange or steps being taken by or on behalf of the Company to effect such delisting;
- (iv) suspension or halt of the trading in the Shares on the Stock Exchange for 30 consecutive trading days, except where such suspension or halt is (a) in relation to any circumstances under Chapter 14 and/or Chapter 14A of the Listing Rules or under the Takeovers Code (to the extent relevant to a suspension in the case of a takeover); or (b) any voluntary suspension of trading in the Shares on the Stock Exchange by the Company.

If an Event of Default has occurred and (a) such Event of Default is incapable of being remedied; or (b) such Event of Default is capable of being remedied but remains unremedied for 10 Business Days (or such longer period as the Bondholder(s) may agree) after the date of a notice given by a Bondholder, each Bondholder shall have the right to elect either:

- (1) require the Company to redeem its Convertible Bonds in full; or
- (2) (where such Event of Default is capable of being remedied) require the Company to pay an additional default interest at a compound rate of 1.5% per month to the Bondholder from the date of occurrence of such Event of Default to the date on which such Event of Default has been fully remedied in the opinion of the Bondholder.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the relevant securities of the Company in issue comprised (i) 1,810,953,272 Shares; (ii) the Share Options, the exercise of which in full will result in the issue of 72,000,000 Shares; and (iii) the Warrants, the exercise of which in full will result in the issue of 298,000,000 Shares.

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.42 per Conversion Share (assuming there will be no other change in the issued share capital of the Company, save for the allotment and issue of the Conversion Shares); and (iii) immediately upon full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.42 per Conversion Share (assuming there will be no other change in the issued share capital of the Company, save for the allotment and issue of the Conversion Shares and the full exercise of the Warrants and the Share Options):

	As at the Latest Practicable Date		Immediately upon full conversion of the Convertible Bonds (assuming no exercise of the Warrants and the Share Options)		Immediately upon full conversion of the Convertible Bonds (assuming full exercise of the Warrants and the Share Options)	
	Number of Shares	Approx. %	Number of Shares	Approx. %	Number of Shares	Approx. %
The Subscriber (Note 1)	598,885,818	33.07	898,885,818	42.58	1,196,885,818	48.24
Starr International Foundation (Note 2)	224,710,691	12.41	224,710,691	10.65	224,710,691	9.06
Holder(s) of the Share Options	-	-	-	-	72,000,000	2.90
Public Shareholders	<u>987,356,763</u>	<u>54.52</u>	<u>987,356,763</u>	<u>46.77</u>	<u>987,356,763</u>	<u>39.80</u>
Total	<u>1,810,953,272</u>	<u>100.00</u>	<u>2,110,953,272</u>	<u>100.00</u>	<u>2,480,953,272</u>	<u>100.00</u>

Notes:

- The Subscriber is wholly-owned by Ms. Pun Tang. As at the Latest Practicable Date, the Subscriber held 598,885,818 Shares, and would hold a further 298,000,000 Shares upon the exercise in full of the Warrants.

On 18 April 2019, a subscription agreement (“**Exchangeable Bonds Subscription Agreement**”) was entered into between the Subscriber and Mega Prime Development Limited (“**Mega Prime**”), pursuant to which the Subscriber issued exchangeable bonds (“**Exchangeable Bonds**”) to Mega Prime, which are exchangeable into 220,000,000 Shares. Such underlying Shares are currently owned by the Subscriber. Mega Prime is wholly-owned by Greater Bay Area Homeland Investments Limited.

LETTER FROM THE BOARD

Subsequently, on 30 July 2019, a novation deed (“**Novation Deed**”) was entered into between Mega Prime as outgoing party, Poly Platinum Enterprises Ltd (“**Poly Platinum**”) as incoming party and the Subscriber as continuing party, pursuant to which all rights, obligations and liabilities of Mega Prime under the Exchangeable Bonds Subscription Agreement were novated to Poly Platinum. Poly Platinum is wholly-owned by Greater Bay Area Homeland Development Fund LP (“**GBAHD Fund**”). Greater Bay Area Homeland Development Fund (GP) Limited (“**GBAHD GP**”) is the general partner of GBAHD Fund. Greater Bay Area Development Fund Management Limited (“**GBAD Fund Management**”) is the fund manager of GBAHD Fund. Both GBAHD GP and GBAD Fund Management are wholly-owned by Greater Bay Area Homeland Investments Limited.

2. As at the Latest Practicable Date, Starr Investments Cayman II, Inc. and Starr Investments Cayman V, Inc. were the beneficial owners of 114,801,600 Shares and 109,909,091 Shares, respectively (being approximately 6.34% and 6.07% of the total shareholding of the Company as at the Latest Practicable Date, respectively). Starr Investments Cayman II, Inc. is wholly-owned by Starr International Cayman, Inc., which is in turn wholly-owned by Starr Insurance and Reinsurance Limited. Starr Insurance and Reinsurance Limited and Starr Investments Cayman V, Inc. are wholly-owned subsidiaries of Starr International Investments Limited, which is in turn wholly-owned by Starr International Company Inc. Starr International Company Inc. is wholly-owned by Starr International AG, which is wholly-owned by Starr International Foundation, a charitable foundation established in Switzerland.

INFORMATION ABOUT THE SUBSCRIBER

The Subscriber is a company incorporated in the British Virgin Islands with limited liability, and is principally engaged in investment holding. Ms. Pun Tang is the ultimate beneficial owner of the Subscriber.

INFORMATION ON THE COMPANY AND THE GROUP

The Company is an investment holding company incorporated in the Cayman Islands with limited liability.

The Group is engaged in the development and operations of the digital point business and electronic platform, “Changyou” (“**Changyou Platform**”), which aims to integrate the digital membership points, resources and strategic advantages of business partners in the Changyou digital point business ecosystem alliance (the “**Changyou Alliance**”). The digital membership points from various partnership entities and industries are redeemable and can be purchased, earned and used by customers for the purpose and consumption of merchandise, games and entertainment, financial services and other commercial transactions (collectively, the “**Digital Point Business**”).

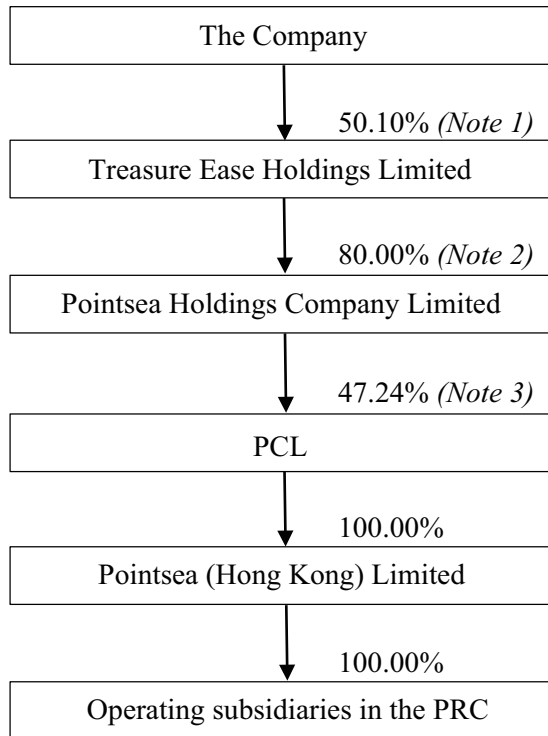
THE PCL SUBSCRIPTION

Reference is made to the announcement dated 29 July 2020 of the Company in relation to the subscription agreement (the “**PCL Subscription Agreement**”) entered into among PCL (an indirect non-wholly-owned subsidiary of the Company) and Sendlink, pursuant to which, among other things, PCL conditionally agreed to allot and issue, and Sendlink conditionally agreed to subscribe for not less than 61,078,767 but not more than 73,287,671 ordinary shares in PCL (the “**PCL Subscription**”) for not less than US\$35,670,000 but not more than US\$42,800,000 (the “**PCL Subscription Proceeds**”). Completion of the PCL

LETTER FROM THE BOARD

Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent set out in the PCL Subscription Agreement. As at the Latest Practicable Date, completion of the PCL Subscription had not yet taken place.

The Group is currently engaged in the Digital Point Business (i.e. the Changyou Alliance and the Existing PRC Changyou Platform) through Treasure Ease Holdings Limited and its subsidiaries (which includes PCL, collectively the “**TEHL Group**”). A simplified group chart as of the Latest Practicable Date is illustrated as follows:



Notes:

1. The remaining interest of 49.9% is owned by the below investors:
 - (a) 19.9% is owned by Chance Talent Management Limited, an indirect wholly owned subsidiary of China Construction Bank Corporation; and
 - (b) 30% is owned by Fin-Tech Company Ltd, an indirect wholly-owned subsidiary of CIH who is the controlling Shareholder of the Company.
2. The remaining interest of 20% is owned by Easylink Payment Network (Hong Kong) Company Limited, an indirect wholly-owned subsidiary of China UnionPay Merchant Services Company Limited.
3. The remaining interest of 52.76% is owned by each of the below investors:
 - (a) approximately 15.75% by Joy Empire Holdings Limited, a wholly-owned subsidiary of Bank of China Group Investment Limited;
 - (b) approximately 15.75% by Extra Step Investments Limited, a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited;

LETTER FROM THE BOARD

- (c) approximately 15.75% by China Eastern Airlines E-Commerce Co., Ltd., a wholly-owned subsidiary of China Eastern Airlines Corporation Limited (0670.HK);
- (d) approximately 2.76% by 中金祺智(上海)股權投資中心(有限合夥) (Zhongjin Qizhi (Shanghai) Equity Investment Centre (Limited Partnership)*), an indirect wholly-owned subsidiary of China International Capital Corporation Limited (3908.HK); and
- (e) approximately 2.76% by Senran Investment HK Company Limited (森然投資(香港)有限公司).

* *The English translation is for reference only and the official name of the entity is in Chinese.*

Considering that:

- (a) it is intended by the Group, Sendlink and other existing minority shareholders of PCL that the PCL Subscription Proceeds and the TEHL Group's Cash Balance (as defined below) shall be utilised and earmarked for the development and expansion of the Existing PRC Changyou Platform (with PRC as its target market), capital expenditure and general working capital of PCL and its subsidiaries; and
- (b) the Existing PRC Changyou Platform was jointly developed by the Group together with other major partners such as CCB International (Holdings) Limited, China UnionPay Merchant Services Company Limited, China Mobile (Hong Kong) Group Limited, Bank of China Group Investment Limited and China Eastern Airlines Corporation Limited (the "**Existing PRC Major Partners**"), whereby these major partners have certain extent of influence over the operations of the TEHL Group (including the usage of the PCL Subscription Proceeds and the TEHL Group's Cash Balance (as defined below)),

the PCL Subscription Proceeds and the TEHL Group's Cash Balance (as defined below) cannot be freely re-allocated by the Group for the development of the New International Changyou Platform, which is an additional new digital point electronic platform with Hong Kong and overseas as its target markets.

Assuming that the net proceeds raised from the PCL Subscription is US\$42,800,000 (equivalent to approximately HK\$333,840,000), it is expected that the PCL Subscription Proceeds will be applied as follows and will be fully utilised by June 2022:

- (i) approximately HK\$155,815,000 for the 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;
- (ii) approximately HK\$166,025,000 for the 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;
- (iii) approximately HK\$2,000,000 for the capital expenditure of the Existing PRC Changyou Platform; and
- (iv) approximately HK\$10,000,000 for the general working capital of PCL and its subsidiaries.

LETTER FROM THE BOARD

The expected timeline for utilisation of the PCL Subscription Proceeds is as follows:

	Planned use of net proceeds from completion of PCL Subscription up to 31 December 2020 <i>HK\$'000</i>	Planned use of net proceeds during 1st quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 2nd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 3rd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 4th quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 1st half of 2022 <i>HK\$'000</i>
Use of the net proceeds						
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	22,393	22,237	22,237	22,237	22,237	44,474
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	18,624	28,567	29,223	28,567	29,223	31,821
Capital expenditure of the Existing PRC Changyou Platform	300	300	300	300	300	500
General working capital of PCL and its subsidiaries	1,500	1,500	1,500	1,500	1,500	2,500

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

The gross proceeds from the Subscription are expected to be HK\$126,000,000. After deducting related professional fees and all related expenses which will be borne by the Company in relation to the Subscription, the net proceeds of the Subscription will amount to approximately HK\$124,400,000. Based on such estimated net proceeds and the total number of Conversion Shares (assuming conversion of the Convertible Bonds in full at the initial Conversion Price of HK\$0.42 per Conversion Share), the net price received by the Company for each Conversion Share is approximately HK\$0.415.

LETTER FROM THE BOARD

It is expected that the net proceeds from the Subscription of approximately HK\$124,400,000 will be applied as follows:

- (i) approximately HK\$100,000,000 (representing approximately 80.39% of the net proceeds) as to the development and operations of an additional new digital point electronic platform with Hong Kong and overseas as the target markets (the “**New International Changyou Platform**”) which is expected to be launched by May 2021, among which:
 - (a) approximately HK\$25,000,000 for 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 behaviour. Such electronic platform is expected to be ready for operation by December 2020;
 - (b) approximately HK\$25,000,000 for setting up a new team, comprising various departments such as information technology, marketing, general administration, to support the daily operations of the New International Changyou Platform. Such new team is expected to be duly established by March 2021;
 - (c) approximately HK\$40,000,000 for 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. The Company targets to progressively launch the marketing activities starting from March 2021; and
 - (d) approximately HK\$10,000,000 for the general working capital of the New International Changyou Platform.
- (ii) approximately HK\$24,400,000 (representing approximately 19.61% of the net proceeds) as to the general working capital of the Group.

LETTER FROM THE BOARD

The expected timeline for utilisation of the net proceeds from the Subscription is as follows:

Use of the net proceeds	Planned use of net proceeds from the Completion up to 31 December 2020 <i>HK\$'000</i>	Planned use of net proceeds during 1st quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 2nd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 3rd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 4th quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 2022 <i>HK\$'000</i>
Development of the New International Changyou Platform supported by relevant technology infrastructure	4,000	4,000	3,000	3,000	4,000	7,000
Setting up a new team to support the daily operations of the New International Changyou Platform	1,830	2,880	3,285	3,285	3,285	10,435
Promotional and marketing activities to attract merchants and customers into the New International Changyou Platform and maintain their loyalty and participation	–	–	9,000	7,500	6,000	17,500
General working capital of the New International Changyou Platform	2,300	900	900	900	900	4,100
General working capital of the Group	2,500	2,500	2,500	2,500	2,500	11,900

The New International Changyou Platform is intended to target the Hong Kong and overseas markets whereas the Existing PRC Changyou Platform targets the PRC market. Apart from the target markets, the Group intends to adopt a similar business model for the New International Changyou Platform as the Existing PRC Changyou Platform.

The New International Changyou Platform aims to integrate the digital membership points, resources and strategic advantages of potential new business partners in the Hong Kong and overseas markets. In the early stage development of the New International Changyou Platform, it is intended by the Group to first approach the subsidiaries and/or associates of the Existing PRC Major Partners which are located in the Hong Kong and overseas markets to build up another business alliance similar to the “Changyou Alliance”

LETTER FROM THE BOARD

for the New International Changyou Platform through which the source and variety of digital membership points can be interchanged and redeemed through the “Changyou” platform. The digital membership points earned by the customers from these potential new business partners will be interchangeable and redeemable globally through the New International Changyou Platform and the Existing PRC Changyou Platform. The Group will also source for new partners from the Hong Kong and overseas markets to supply new goods and services for the New International Changyou Platform (such as home appliances, electronic goods, food and beverages, cosmetic and health products, maternity and children’s products, auto accessories, sportswear and equipment, mobile phones, cinema tickets and entertainment, electronic gift card and coupons, and others), games and entertainment, financial services and other commercial transactions. Therefore, in addition to the existing goods and services on the Existing PRC Changyou Platform, the digital membership points can be used by customers for the purchase and consumption of goods and services on both the New International Changyou Platform and the Existing PRC Changyou Platform.

Users can use digital points, cash, or a combination of both, to purchase goods and services offered on the New International Changyou Platform and Existing PRC Changyou Platform, or to participate in games, rewards and other entertainment services. The New International Changyou Platform will also allow certain business partners to sell its products through the “Changyou” platform in return for an agency fee or commission payable to the Group. The Group will earn revenue of the sales of merchandise goods or relevant services.

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, such as CCB International (Holdings) Limited, China UnionPay Merchant Services Company Limited, China Mobile (Hong Kong) Group Limited, Bank of China Group Investment Limited and China Eastern Airlines Corporation Limited, and collectively formed the Changyou Alliance. The target market of the Existing PRC Changyou Platform is the PRC.

Since the launch of the Existing PRC Changyou Platform in September 2017, the number of registered users of the Existing PRC Changyou Platform has substantially increased from approximately 10 million as at 31 December 2017 to over 37 million registered users as at 31 December 2019. The business scale of the Existing PRC Changyou Platform has been continuously developing and expanding. According to the annual report of the Company for the year ended 31 December 2019, the Digital Point Business achieved a revenue of approximately RMB204.1 million for the year ended 31 December 2019, representing an increase of over 300% as compared to a revenue of approximately RMB50.3 million for the year ended 31 December 2018.

In view of (i) the increasing popularity of consumer spending with digital points; (ii) the successful experience of the Group in developing the Existing PRC Changyou Platform; and (iii) the robust performance and growth of the Existing PRC Changyou Platform, the Company intends to expand the Digital Point Business into the Hong Kong and overseas markets by developing the New International Changyou Platform. It is anticipated that users of the Existing PRC Changyou Platform and the New International Changyou Platform will be able to redeem or exchange their points in both platforms easily under the same system. The Company believes that such expansion into the Hong Kong and overseas markets will

LETTER FROM THE BOARD

(i) help to enhance and diversify the income sources of the Digital Point Business in the upcoming future; and (ii) enhance the attractiveness of the Existing PRC Changyou Platform by offering quality overseas products and services to be provided by the New International Changyou Platform, which will in turn increase the loyalty and participation of members and thus the revenue for the Existing PRC Changyou Platform. As at the Latest Practicable Date, the Company did not have any plan to introduce new investors to the New International Changyou Platform.

The operations of Changyou Platform is capital intensive as a large amount of capital is required (i) to attract and retain talented and experienced personnel and management team for the development of the Changyou Platform; (ii) for promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services provided on the Changyou Platform; and (iii) to develop its technology infrastructure and feature new financial technologies into the Changyou Platform to enable effective extraction and development of big data samples, creating a precise and extensive database of consumer transactions and consumption behaviour.

As at 30 June 2020, the Group recorded cash and cash equivalents of approximately RMB74,445,000 (equivalent to approximately HK\$81,889,500), among which:

- (i) the cash balance held by the Group (other than the TEHL Group) amounted to approximately RMB41,910,000 (equivalent to approximately HK\$46,101,000) (the “**Listco’s Cash Balance**”); and
- (ii) the cash balance held by the TEHL Group amounted to approximately RMB32,535,000 (equivalent to approximately HK\$35,788,500) (the “**TEHL Group’s Cash Balance**”).

Given that the TEHL Group’s Cash Balance is intended to be utilised for the development of the Existing PRC Changyou Platform and it cannot be freely re-allocated by the Group for the development of the New International Changyou Platform, the Company considers that the Listco’s Cash Balance is very limited or not sufficient to fulfill the capital requirements for development of the New International Changyou Platform as discussed above.

The Directors have also assessed the interest rate of the Convertible Bonds of 3.5% per annum against its existing interest-bearing loan and noted that as at the Latest Practicable Date, the interest rate of the outstanding loan of the Group was 6.5% per annum, which was higher than that of the Convertible Bonds. Accordingly, the Directors are of the view that the interest rate of the Convertible Bonds is fair and reasonable. In addition, it is noted by the Directors that the shareholding in the Company held by the public Shareholders would be diluted from approximately 54.52% to approximately 46.77% immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming no exercise of the Warrants and the Share Options). Having taken into account (i) the principal terms of the Subscription Agreement (such as the Conversion Price and the interest rate of the Convertible Bonds) are fair and reasonable; and (ii) the reasons for and benefits of the Subscription as mentioned above, the Directors consider that the aforesaid dilution effect on the shareholding of public Shareholders is justifiable.

LETTER FROM THE BOARD

Moreover, the Directors have considered various alternative means of financing apart from the issue of the Convertible Bonds, details as follows:

- (i) *Debt financing from banks or money lenders*: the Company had approached 3 banks and/or money lenders for new loans for its financing needs. However, due to the prevailing market conditions, the loss-making financial performance for recent years and the financial position of the Group, the banks and/or money lenders had indicated that they were unable to make any loan offer to the Company of similar size as the principal amount of the Convertible Bonds, and no other principal terms, such as the interest rate, had been quoted during the negotiations between the parties. In addition, the Company considered that bank loan applications may be subject to lengthy due diligence and negotiations with the banks which could not match the Group's schedule for its financing needs;
- (ii) *Straight bond*: having considered the fact that the Company will be released from the repayment obligation if the Convertible Bonds are fully converted prior to the maturity date of the Convertible Bonds in accordance with its terms, the Board is of the view that issue of the Convertible Bonds is more preferable than the issue of straight bond; and
- (iii) *Other equity financing*: the Company has considered other equity financing such as placing of new Shares, rights issue or open offer of Shares, and had approached 3 placing agents and/or underwriters in this regard. However, in light of the current market sentiment as a result of the COVID-19 outbreak, the loss-making financial performance for recent years and the financial position of the Group, and notwithstanding the attempts made by the Company to explore the aforesaid equity financing methods to raise funds of similar size as the principal amount of the Convertible Bonds, the proposals were being rejected by the placing agents and/or underwriters, and the parties did not proceed further to negotiate other principal terms. Further, the Company, after having discussed with the placing agents and/or underwriters, is of the view that (a) if it were to raise the funds by way of placing or rights issue or open offer of new Shares, the subscription price would have to be set at a deeper discount to the prevailing market price of the Shares so as to attract subscription by potential investors or the Shareholders; and (b) given the current volatile market condition, there is high uncertainty in the willingness of subscription by potential investors or the Shareholders. In addition, placing or rights issue or open offer of new Shares is subject to underwriting uncertainty and market risk and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter and it may incur a higher transaction cost (such as underwriting and other fees). Further, placing or rights issue or open offer of new Shares will have immediate dilution effect on the shareholding interests of the non-participating Shareholders while the dilution effect of the Convertible Bonds will only occur when the holder exercises the conversion rights attaching to the Convertible Bonds.

The Directors (including the independent non-executive Directors after taking into consideration of the advice from Optima Capital) consider that:

LETTER FROM THE BOARD

- (i) the PCL Subscription Proceeds and the TEHL Group's Cash Balance cannot be freely re-allocated by the Group for the development of the New International Changyou Platform given that it is intended by the Group, Sendlink and other existing minority shareholders of PCL that the PCL Subscription Proceeds shall be utilised and earmarked for the development and expansion of the Existing PRC Changyou Platform, capital expenditure and general working capital of PCL and its subsidiaries;
- (ii) the proceeds raised from the Subscription shall be utilised for the development and operations of the New International Changyou Platform, and not the Existing PRC Changyou Platform, and therefore the usages of the PCL Subscription Proceeds and the proceeds raised from the Subscription are clear-cut and for different purposes;
- (iii) the Subscription represents an opportunity to raise capital for the Company in order to maintain a sufficient cash position of the Group to continue its expansion of the Digital Point Business (i.e. development of the New International Changyou Platform);
- (iv) the Conversion Price of HK\$0.42 per Conversion Share represents a premium over (a) the closing price per Share as quoted on the Stock Exchange on the Last Trading Day; (b) the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; (c) the average closing price per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and (d) the Group's consolidated net assets per Share attributable to the owners of the Company as at 31 December 2019 and 30 June 2020, respectively;
- (v) the interest rate of the Convertible Bonds of 3.5% per annum was lower than the interest rate of the outstanding loan of the Group of 6.5% per annum;
- (vi) the dilution effect on the shareholding of public Shareholders is justifiable as discussed above; and
- (vii) the Subscription is a more appropriate and timely fund raising method as compared with other alternative ways of financing considered by the Company as discussed above.

Having considered the above factors as a whole, the Directors (including the independent non-executive Directors after taking into consideration of the advice from Optima Capital) consider the terms of the Subscription Agreement to be normal commercial terms and are fair and reasonable, and the Subscription and the grant of the Specific Mandate are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activities in the past 12 months immediately preceding the Latest Practicable Date.

MANDATE TO ISSUE THE CONVERSION SHARES

The Company will seek approval of the Specific Mandate from the Independent Shareholders at the EGM to allot and issue the Conversion Shares.

Application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, the Subscriber held 598,885,818 Shares, representing approximately 33.07% of the issued share capital of the Company. Since the Subscriber is a controlling shareholder of the Company and hence a connected person of the Company under Rule 14A of the Listing Rules, the Subscription constitutes a connected transaction of the Company, and is subject to the announcement, circular, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval of, among other things, the Subscription Agreement and the transactions contemplated thereunder, at the EGM.

APPROVAL BY THE BOARD

None of the Directors had a material interest in the transactions contemplated under the Subscription Agreement and none of them had abstained from voting on the relevant board resolutions to approve the Subscription Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established to advise and give recommendations to the Independent Shareholders as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate, are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Optima Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

EGM

The EGM will be convened and held at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Wednesday, 14 October 2020 at 10:30 a.m. to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate. The voting on such resolution will be conducted by way of poll at the EGM in accordance with Rule 13.39(4) the Listing Rules.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date, the Subscriber and its associates were interested in 598,885,818 Shares, representing approximately 33.07% of the issued share capital of the Company and as it had a material interest in the Subscription Agreement and the transactions contemplated thereunder, it is required to abstain from voting on the resolution at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate.

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use by the Independent Shareholders for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). The completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate, set out on page 28 of this circular; and (ii) the letter from Optima Capital, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the fairness and reasonableness on the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate, set out on pages 29 to 56 of this circular.

LETTER FROM THE BOARD

The Directors (including the members of the Independent Board Committee having considered the advice from Optima Capital) consider that the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee having considered the advice from Optima Capital) recommend all Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

The Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions. As such, the transactions contemplated under the Subscription Agreement may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

17 September 2020

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

We refer to the circular of the Company to the Shareholders dated 17 September 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular.

The Independent Board Committee has been established to advise the Independent Shareholders on whether the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 27 of the Circular and the letter of advice from Optima Capital, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders as set out on pages 29 to 56 of the Circular in relation to the Subscription Agreement and the transactions contemplated thereunder.

Having taken into consideration the factors and reasons as stated in the letter from the Board, and the opinion as stated in the letter of advice from Optima Capital, we consider that despite the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Group, (i) the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate are normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. We recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate, to be proposed at the EGM.

Yours faithfully
For and on behalf of the
Independent Board Committee of
Changyou Alliance Group Limited
Mr. Wong Chi Keung
Mr. Liu Jialin
Mr. Chan Chi Keung, Alan
Independent non-executive Directors

LETTER FROM OPTIMA CAPITAL

The following is the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

17 September 2020

*To: The Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement and the transactions contemplated thereunder including the grant of Specific Mandate, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of the Company dated 17 September 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 29 July 2020, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$126,000,000, which can be converted into 300,000,000 Conversion Shares at the Conversion Price of HK\$0.42 per Conversion Share. Assuming there is no change in the issued share capital of the Company, the 300,000,000 Conversion Shares to be allotted and issued upon full conversion of the Convertible Bonds represent approximately 16.57% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 14.21% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to the Specific Mandate.

As at the Latest Practicable Date, the Subscriber held 598,885,818 Shares, representing 33.07% of the total issued share capital of the Company. Since the Subscriber is the controlling shareholder of the Company and hence a connected person of the Company under Chapter 14A of the Listing Rules, the Subscription constitutes a connected transaction for the Company and is subject to the announcement, reporting and Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules. The Subscriber and its respective associates shall abstain from voting on the resolution at the EGM.

LETTER FROM OPTIMA CAPITAL

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Liu Jialin and Mr. Chan Chi Keung Alan, has been established to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of the Specific Mandate) and on how the Independent Shareholders should vote on the resolution to be proposed at the EGM. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, among other things, the Subscription Agreement, the annual reports of the Company for the three years ended 31 December 2017 (the “**2017 Annual Report**”), 2018 (the “**2018 Annual Report**”), and 2019 (the “**2019 Annual Report**”), and the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”) and information set out in the Circular. We have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the EGM, and that the Independent Shareholders will be informed as soon as reasonably practicable if we become aware of any material change to such representations.

We have not considered the tax and regulatory implications of the Subscription on the Independent Shareholders, since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

We are not associated or connected with the Company, the Subscriber or any of their respective associates and, accordingly, are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder. Apart from normal professional fees paid or payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscriber or any of their respective associates.

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As at the Latest Practicable Date, we did not have any relationships or interests with the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence. In the last two years, there has been no other engagement between the Company and us. Accordingly, we do not consider any conflict of interest arises for us in acting as the independent financial adviser on the Subscription Agreement and the transactions contemplated thereunder.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Subscription, we have taken into account of the principal factors and reasons set out below:

1. Information of the Group

(a) Principal business of the Group

Upon the cessation of the e-commerce business (the “**E-commerce Business**”) in 2018, the Group is principally engaged in the development and operations of the digital point business and electronic platform, the “Changyou” electronic trading platform, which aims to integrate the digital membership points, resources and strategic advantages of business partners in the Changyou digital point business ecosystem alliance (the “**Digital Point Business**”) through Treasure Ease Holdings Limited and its subsidiaries (which includes Pointsea Company Limited, an indirect non-wholly-owned subsidiary of the Company, “**PCL**”, collectively the “**TEHL Group**”). Such platform is launched by the Group with partnership entities, namely CCB International (Holdings) Limited, China UnionPay Merchant Services Company Limited, China Mobile (Hong Kong) Group Limited, Bank of China Group Investment Limited and China Eastern Airlines Corporation Limited (the “**Existing PRC Major Partners**”) in September 2017. Platform users can integrate the digital membership points from various partnership entities and spend the points in online digital mall. As at 31 December 2019, the digital mall included products of not less than 12,000 and 752 brands. Platform users can also use the digital points for payment by using QR code in some retail chain, such as Crlife Club (華潤通) and Family Mart (全家).

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(b) Financial performance of the Group

The following table sets forth the consolidated profit and loss account of the Group for each of the financial years ended 31 December 2017 (the “FY2017”), 2018 (the “FY2018”), 2019 (the “FY2019”) and the six months ended 30 June 2019 (the “1H2019”) and 2020 (the “1H2020”) respectively, as extracted from the 2017 Annual Report, 2018 Annual Report, 2019 Annual Report and the 2020 Interim Report respectively:

	FY2017	FY2018	FY2019	1H2019	1H2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue:	167,632	50,977	204,112	36,774	80,805
– Digital Point Business	941	50,321	204,112	36,774	80,805
– E-commerce Business	134,040	656	–	–	–
– Axle business	32,651	–	–	–	–
Cost of sales	(175,216)	(59,068)	(203,304)	(33,218)	(79,650)
Gross (loss)/profit	(7,584)	(8,091)	808	3,556	1,155
Selling, distribution and administrative expenses	(161,685)	(198,904)	(112,971)	(50,358)	(27,641)
Research and development costs	(54,229)	(49,300)	(44,156)	(22,979)	(16,552)
Impairment (losses)/gains	(68,329)	(26,504)	(36,779)	(8,028)	22,617
Finance (costs)/income	(4,812)	17,137	(5,662)	(2,217)	(2,876)
Gain on disposal of subsidiaries	141,495	–	–	–	–
Other income/(expense)	2,673	1,766	3,698	2,579	(376)
Loss before taxation	(152,471)	(263,896)	(195,062)	(77,447)	(23,673)
Income tax expense	(47,210)	–	–	–	–
Loss for the year/period	(199,681)	(263,896)	(195,062)	(77,447)	(23,673)
Attributable to:					
Equity shareholders of the Company	(66,413)	(69,167)	(78,295)	(19,621)	12,759
Non-controlling interests	(133,268)	(194,729)	(116,767)	(57,826)	(36,432)
	(199,681)	(263,896)	(195,062)	(77,447)	(23,673)

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FY2018 vs FY2017

In view of the popularity of internet shopping and mobile payment which boosted the application of consumption points, the Group launched the Changyou platform in September 2017. The Group has ceased the business of manufacturing of axle and E-commerce Business in April 2017 and 2018 respectively and has been focusing on the expansion of Changyou platform. The revenue from E-commerce Business decreased significantly from approximately RMB134.0 million for FY2017 to approximately RMB0.7 million for FY2018 while the revenue from Digital Point Business increased significantly by approximately 55 times from approximately RMB0.9 million to approximately RMB50.3 million over the same period. Despite the significant drop in revenue, the gross loss of the Group remained at a similar level at approximately RMB8.1 million for FY2018 (FY2017: RMB7.6 million). The net loss after taxation increased from approximately RMB199.7 million in FY2017 to approximately RMB263.9 million in FY2018, which was mainly due to the combined effects of (i) an absence of one-off gain of approximately RMB141.5 million which was recorded in FY2017 in relation to the disposal of the entire interests in Chang Feng Holding (Hong Kong) Limited, a company which was principally engaged in the business of manufacturing of axle in the PRC; (ii) the absence of the impairment in goodwill of approximately RMB61.0 million recognised in FY2017 due to the slower than expected growth of E-commerce Business; (iii) the increase in selling, distribution and administrative expenses of approximately RMB37.2 million resulting from the promotion and expansion of Changyou platform in FY2018; (iv) the change from finance costs of approximately RMB4.8 million for FY2017 to finance income of approximately RMB17.1 million for FY2018, which was mainly due to the net foreign exchange gain in 2018; and (v) the absence of the deferred tax of approximately RMB47.2 million recognised in FY2017.

FY2019 vs FY2018

Upon cessation of the E-Commerce Business in 2018, the Digital Point Business became the sole business segment of the Group in FY2019. As a result of the continuing development of the Changyou platform, the Group recorded a significant increase in revenue of around 300% from approximately RMB51.0 million in FY2018 to approximately RMB204.1 million in FY2019. The Group recorded a gross profit of approximately RMB0.8 million for FY2019, as opposed to a gross loss of approximately RMB8.1 million for FY2018. The net loss after taxation also reduced from approximately RMB263.9 million to approximately RMB195.1 million, which was mainly due to the decrease in selling, distribution and administrative expenses as less promotion activities were carried out by the Group for Changyou platform in FY2019.

1H2020 vs 1H2019

The Group recorded a significant increase in revenue by around 120% from RMB36.8 million in 1H2019 to RMB80.8 million in 1H2020, primarily due to the continuing development and expansion of the Changyou platform and the growth

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of number of registered users during 1H2020 from approximately 37.6 million as at 31 December 2019 to approximately 46.2 million as at 30 June 2020. Despite the significant increase in revenue, the Group recorded a lower gross profit of approximately RMB1.2 million for 1H2020, as compared with a gross profit of approximately RMB3.6 million for 1H2019. Such decrease was mainly due to the favourable price offered by the Group for attracting the users to use the Changyou platform during the lockdown period of certain cities in the PRC as a result of COVID-19. The net loss after taxation decreased from approximately RMB77.4 million to approximately RMB23.7 million, which was mainly attributable to (i) the recognition of a reversal of impairment losses on financial assets of approximately RMB22.6 million as a result of the settlement of loan receivables from customers during 1H2020; and (ii) the decrease in selling, distribution and administrative expenses due to the implementation of cost saving measures by the Group in 1H2020.

(c) Financial position of the Group

A summary of the financial position of the Group as at the end of FY2017, FY2018, FY2019 and 1H2020 respectively, as extracted from the 2017 Annual Report, 2018 Annual Report, 2019 Annual Report and the 2020 Interim Report respectively, is set out below:

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(unaudited)
Non-current assets:				
Property, plant and equipment	8,805	9,396	8,946	17,902
Total non-current assets	8,805	9,396	8,946	17,902
Current assets:				
Inventories	94	482	1,733	4,221
Trade and other receivables	49,646	67,065	119,916	118,225
Held-for-trading investments	–	3,062	2,631	1,948
Pledged bank deposits and cash and cash equivalents	393,024	97,420	137,839	74,445
Total current assets	442,764	168,029	262,119	198,839

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	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(unaudited)
Current liabilities:				
Trade and other payables	34,096	43,478	151,799	136,648
Convertible bonds	–	44,435	27,140	–
Lease liabilities	–	–	1,779	8,139
Total current liabilities	34,096	87,913	180,718	144,787
Non-current liabilities:				
Convertible bonds	85,075	–	–	–
Lease liabilities	–	–	1,185	6,059
Total non-current liabilities	85,075	–	1,185	6,059
Equity attributable to owners of the Company				
Share Capital	117,978	117,812	117,812	117,812
Reserves	276,162	228,171	189,622	202,787
Non-controlling interests	(61,742)	(256,471)	(218,272)	(254,704)
Total equity	332,398	89,512	89,162	65,895

As the principal business of the Group is conducted via the online platform, the Group is an asset-light company. Total assets of the Group amounted to approximately RMB216.7 million as at 30 June 2020. It comprised principally trade and other receivables of approximately RMB118.2 million and cash and cash equivalents of approximately RMB74.4 million which accounted for about 54.5% and 34.3% of the total assets of the Group, respectively. The total liabilities of the Group amounted to approximately RMB150.8 million as at 30 June 2020. It comprised mainly trade and other payables of approximately RMB136.6 million, which represented about 90.6% of the total liabilities of the Group. In June 2020, the Company redeemed all outstanding convertible bonds which bore interest rate of 13% (“**Previous CB**”) and therefore there was no such balance as at 30 June 2020.

2. Information of the Subscriber

As set out in the Letter from the Board, the Subscriber is a company incorporated in the British Virgin Islands with limited liability, and is principally engaged in investment holding. Ms. Pun Tang is the ultimate beneficial owner of the Subscriber.

3. Reasons for and benefits of the Subscription and use of proceeds

As discussed under the section headed “1. Information of the Group” above, the Digital Point Business recorded a revenue of approximately RMB204.1 million for FY2019, representing an increase of around 300% as compared to that of FY2018 since the launch of

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the Changyou platform focusing in the PRC (the “**Existing PRC Changyou Platform**”) in September 2017. In addition, the number of registered users has substantially increased from approximately 10 million as at 31 December 2017 to around 46.2 million registered users as at 30 June 2020. As set out in the Letter from the Board, in view of (i) the increasing popularity of consumer spending with digital points; (ii) the successful experience of the Group in developing the Existing PRC Changyou Platform; and (iii) the robust performance and growth of the Existing PRC Changyou Platform, the Company intends to expand the Digital Point Business into Hong Kong and overseas markets by developing the international Changyou platform (the “**New International Changyou Platform**”) with an estimated capital requirement of approximately RMB124.4 million.

We note that the cash and cash equivalents of the Group was approximately RMB74.4 million (equivalent to approximately HK\$81.9 million) as at 30 June 2020 and such balance will further increase if including the proceed from the subscription (the “**PCL Subscription**”) of ordinary shares in PCL by Sendlink LTD for not less than US\$35,670,000 but not more than US\$42,800,000 (the “**PCL Subscription Proceeds**”). However, we understand from the management of the Company (the “**Management**”) that the existing cash level is not sufficient for, and the PCL Subscription Proceeds is restricted from, development of the New International Changyou Platform.

According to the Letter from the Board, the cash and cash equivalents of the Group of approximately RMB74,445,000 (equivalent to approximately HK\$81,889,500) as at 30 June 2020 comprised:

- (i) the cash balance held by the Group (other than the TEHL Group) amounted to approximately RMB41,910,000 (equivalent to approximately HK\$46,101,000); and
- (ii) the cash balance held by the TEHL Group amounted to approximately RMB32,535,000 (equivalent to approximately HK\$35,788,500) (the “**TEHL Group’s Cash Balance**”).

Since the Existing PRC Changyou Platform was jointly developed by the Group together with the Existing PRC Major Partners, whereby these major partners have certain extent of influence over the operations of the TEHL Group, the TEHL Group’s Cash Balance is intended to be utilised for the development of the Existing PRC Changyou Platform and it cannot be freely re-allocated by the Group for the development of the New International Changyou Platform. Similar to the TEHL Group’s Cash Balance, the PCL Subscription Proceeds of not more than US\$42,800,000 (equivalent to approximately HK\$333,840,000) shall be earmarked and utilised for the development and expansion of the Existing PRC Changyou Platform, capital expenditure and general working capital of PCL and its subsidiaries by June 2022 as follows:

- (i) approximately HK\$155,815,000 for the 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;

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- (ii) approximately HK\$166,025,000 for the 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;
- (iii) approximately HK\$2,000,000 for the capital expenditure of the Existing PRC Changyou Platform; and
- (iv) approximately HK\$10,000,000 for the general working capital of PCL and its subsidiaries.

The expected timeline for utilisation of the PCL Subscription Proceeds is as follows:

	Planned use of net proceeds from completion of PCL Subscription up to 31 December 2020 <i>HK\$'000</i>	Planned use of net proceeds during 1st quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 2nd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 3rd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 4th quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 1st half of 2022 <i>HK\$'000</i>
Use of the net proceeds						
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	22,393	22,237	22,237	22,237	22,237	44,474
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	18,624	28,567	29,223	28,567	29,223	31,821
Capital expenditure of the Existing PRC Changyou Platform	300	300	300	300	300	500
General working capital of PCL and its subsidiaries	1,500	1,500	1,500	1,500	1,500	2,500

We understand from the Management that (i) the TEHL Group's Cash Balance was mainly deposited in the PRC; (ii) the PCL Subscription Proceeds to be received by PCL are for the use of development of the Existing PRC Changyou Platform; and (iii) any material transaction to be conducted by PCL is subject to prior approval from its directors in accordance with its memorandum of association. In light of the above, we concur with the

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Management that (i) the PCL Subscription Proceeds and the TEHL Group's Cash Balance cannot be freely re-allocated by the Group for the development of the New International Changyou Platform; (ii) PCL Subscription Proceeds and the proceeds from the Subscription are clear-cut and for different purposes; and (iii) the Subscription represents an opportunity for the Company to raise capital to maintain a sufficient cash position of the Group to expand its Digital Point Business (i.e. development of the New International Changyou Platform).

According to the Letter from the Board, the gross proceeds from the Subscription are expected to be HK\$126,000,000. After deducting related professional fees and all related expenses which will be borne by the Company in relation to the Subscription, the net proceeds of the Subscription will amount to approximately HK\$124,400,000.

The Company intends to apply the net proceeds arising from the issue of the Convertible Bonds in the following manner:

- (i) approximately HK\$100,000,000 (representing approximately 80.39% of the net proceeds) as to the development and operations of the New International Changyou Platform which is expected to be launched by May 2021, among which:
 - (a) approximately HK\$25,000,000 for the development of the new digital point electronic 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. Such electronic platform is expected to be ready for operation by December 2020;
 - (b) approximately HK\$25,000,000 for setting up a new team, comprising various departments such as information technology, marketing, general administration, to support the daily operations of the New International Changyou Platform. Such new team is expected to be duly established by March 2021;
 - (c) approximately HK\$40,000,000 for 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. The Company targets to progressively launch the marketing activities starting from March 2021; and
 - (d) approximately HK\$10,000,000 for the general working capital of the New International Changyou Platform.
- (ii) approximately HK\$24,400,000 (representing approximately 19.61% of the net proceeds) as to the general working capital of the Group.

The expected timeline for utilisation of the net proceeds from the Subscription is as follows:

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	Planned use of net proceeds from the Completion up to 31 December 2020 <i>HK\$'000</i>	Planned use of net proceeds during 1st quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 2nd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 3rd quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 4th quarter of 2021 <i>HK\$'000</i>	Planned use of net proceeds during 2022 <i>HK\$'000</i>
Use of the net proceeds						
Development of the New International Changyou Platform supported by relevant technology infrastructure	4,000	4,000	3,000	3,000	4,000	7,000
Setting up a new team to support the daily operations of the New International Changyou Platform	1,830	2,880	3,285	3,285	3,285	10,435
Promotional and marketing activities to attract merchants and customers into the New International Changyou Platform and maintain their loyalty and participation	-	-	9,000	7,500	6,000	17,500
General working capital of the New International Changyou Platform	2,300	900	900	900	900	4,100
General working capital of the Group	2,500	2,500	2,500	2,500	2,500	11,900

According to the Letter from the Board, the operations of Changyou Platform are capital intensive as a large amount of capital is required (i) to attract and retain talented and experienced personnel and management team for the development of the Changyou Platform; (ii) for promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services provided on the Changyou Platform; and (iii) to develop its technology infrastructure and feature new financial technologies into the Changyou Platform to enable effective extraction and development of big data samples, creating a precise and extensive database of consumer transactions and consumption behaviour.

As disclosed in the Letter from the Board, the Group intends to first approach the subsidiaries and/or associates of the Existing PRC Major Partners which are located in the Hong Kong and overseas markets to build up another business alliance similar to “Changyou Alliance” for the New International Changyou Platform in the early stage development of the New International Changyou Platform. The Group will also source new partners from Hong Kong and overseas markets to supply new products and services for the New International Changyou Platform.

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We understand from the Management that (i) the Company has already approached a few potential new business partners in Hong Kong for building up the business alliance for the New International Changyou Platform; and (ii) the above allocation of the net proceeds was determined based on the experience of the Group for setting up the Existing PRC Changyou Platform and the costs incurred. We also understand that it is anticipated that users of the Existing PRC Changyou Platform or the New International Changyou Platform will be able to redeem or exchange their points in both platforms easily under the same system, which would enhance the attractiveness of both platforms. We concur with the Management that the development of the New International Changyou Platform will (i) enhance and diversify the income sources of the Digital Point Business in the future; and (ii) enhance the attractiveness of the Existing PRC Changyou Platform by offering quality overseas products and services to be provided by the New International Changyou Platform, which will in turn increase the loyalty and participation of members and thereby the revenue for the Existing PRC Changyou Platform.

We consider it is justifiable for the Company to raise additional fund for the development and operations of the New International Changyou Platform which is in the ordinary and usual course of the Digital Point Business of the Group. We have discussed with the Management and concur that the expansion of the New International Changyou Platform is in line with the business development strategy of the Group in strengthening its presence of the Digital Point Business in the international market. Having considered the benefit to be brought by the New International Changyou Platform and the funding requirement as stated above, we are of the view that the proposed fund raising size and the intended allocation of the net proceeds from the Subscription are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4. Alternative financing

As discussed with the Management, they have considered various alternative means of financing apart from the issue of the Convertible Bonds:

(i) Debt financing from bank or money lenders

We have discussed with the Management and were given to understand that the Company has approached three financial institutions and conducted preliminary discussions with them. The banks and/or money lenders had indicated that they were unable to make any loan offer to the Company of similar size as the principal amount of the Convertible Bonds, and no other principal terms, such as the interest rate, had been quoted during the negotiations between the Company and the parties. Therefore, the Management was of the view that the Company was unable to obtain any debt financing at favourable terms acceptable to the Company due to the prevailing market conditions and the less than satisfactory financial performance and financial position of the Group. In addition, bank loan applications may be subject to lengthy due diligence and negotiations with the banks which could not match the Group's schedule. As the Group has recorded losses attributable to Shareholders for consecutive years, the

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Management considered that it would be difficult for the Company to secure a loan from banks or money lenders for a substantial principal amount at an interest rate lower than or equal to the interest rate of the Convertible Bonds of 3.5%.

(ii) Straight bond

Having considered the fact that the Company will be released from the repayment obligation at maturity if the Convertible Bonds are fully converted prior to the maturity date of the Convertible Bonds, the Board is of the view that issue of the Convertible Bonds is more preferable than the issue of straight bond.

(iii) Other equity financing

The Management has considered other equity financing such as placing of new Shares, rights issue or open offer of Shares. The Company has approached three placing agents and/or underwriters during April 2020 to June 2020 to explore the possibility and feasibility for identification of potential investors for equity financing, but has not received any concrete feedback from them due to the current market sentiment as a result of COVID-19 outbreak and the loss-making financial position of the Group for the recent financial years as it takes time for the Digital Point Business to penetrate the market and record satisfactory financial performance. The Management considers that if the Company were to raise the necessary funds by way of placing or rights issue or open offer of new Shares, the subscription price would have to be set at a deeper discount to the prevailing market price of the Shares so as to attract subscription by the potential investors or Shareholders. In addition, placing or rights issue or open offer of new Shares is subject to underwriting uncertainty and market risk and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter and it may incur a higher transaction cost (such as underwriting and other fees). Further, placing or rights issue or open offer of new Shares will have immediate dilution effect on the shareholding interests of the non-participating Shareholders while the dilution effect of the Convertible Bonds will only occur when the holders exercise the conversion rights attaching to the Convertible Bonds.

Taking into account that (i) the Group has recorded net losses for consecutive years; (ii) the interest rate of the Convertible Bonds is lower than that its existing interest-bearing loan of 6.5% per annum; and (iii) the Group has not received any positive feedback from financiers or investors for debt or equity financing as discussed above, we concur with the Management that the issue of the Convertible Bonds would be the most appropriate and timely fund raising method to meet the financial needs of the Company, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Subscription Agreement

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK\$126,000,000 which can be fully converted into

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300,000,000 Shares at the Conversion Price of HK\$0.42 per Conversion Share. Set out below is a summary of the principal terms of the Subscription Agreement. Further details of the Subscription Agreement are set out in the Letter from the Board.

Principal Terms

Issuer:	The Company
Subscriber:	The Subscriber
Principal amount:	HK\$126,000,000
Maturity date:	The date falling on three (3) years after the Issue Date.
Interest rate:	3.5% per annum accrued on a daily basis of a 365-day year and payable semi-annually in arrears.
Conversion rights:	The Bondholder shall have the right, at any time during the conversion period, to elect to convert the whole or part of the Convertible Bonds for the time being outstanding into Conversion Shares at the Conversion Price.

The Bondholder shall not exercise any of its right to convert the Convertible Bonds into Conversion Shares to an extent that would result in:

- (i) a mandatory general offer obligation being triggered under the Takeovers Code in respect of such Bondholder and the parties acting in concert with it, unless either (a) such Bondholder and parties in concert with it comply with the Takeovers Code and make a mandatory general offer to acquire all the Shares not already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the Independent Shareholders and is granted by the Executive before the date of completion of the conversion; or
- (ii) the Company not meeting the Public Float Requirement immediately after the conversion.

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- Conversion period: The Bondholder(s) shall have the right to convert the whole or part of the outstanding principal amount of the Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to (i) 5:00 p.m. on the day falling five (5) Business Days before the Maturity Date; and (ii) if the Convertible Bonds have been called for an early redemption in full before the Maturity Date, 5:00 p.m. on the day which is one (1) Business Day before the date of such redemption.
- Conversion Price: The Conversion Price is initially HK\$0.42 per Conversion Share, subject to adjustments as summarised below.
- Adjustment events: The Conversion Price is subject to adjustments from time to time on the occurrence of certain events in accordance with the terms and conditions of the Convertible Bonds, including distributions, bonus issues, alteration to nominal value, issue of Shares, share-related rights and share-related securities to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares, issue of other securities to the Shareholders and issue of share-related securities other than to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares.
- Redemption upon maturity: Any Convertible Bonds which remain outstanding on the Maturity Date shall be redeemed by the Company in full at the redemption price equal to the outstanding principal amount of such Convertible Bonds together with interest accrued thereon.
- Voluntary redemption by the Company: The Convertible Bonds may be redeemed in whole or part by the Company at any time from the Issue Date and from time to time prior to the Maturity Date at the redemption price equal to the outstanding principal amount and interest accrued thereon of the Convertible Bonds to be redeemed.
- Voting rights: The Convertible Bonds do not confer on the Bondholder(s) the right to vote at any general meetings of the Company.
- Ranking of Conversion Shares: The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.

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Transferability: The Convertible Bonds are freely transferrable by the Bondholder(s), in whole or part, to any person without the consent from the Company, provided that no transfer shall be made to a connected person of the Company, and subject to the terms of the Convertible Bonds.

Conditions precedent

Completion of the Subscription is subject to the following conditions being fulfilled (or waived, as the case may be):

- (i) the passing by the Independent Shareholders of relevant resolutions at the EGM in compliance with the requirements of the Listing Rules approving (a) the Subscription Agreement and the transactions contemplated thereunder; and (b) the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares in accordance with the terms of the Subscription Agreement;
- (ii) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares, and such approval not having been revoked prior to Completion;
- (iii) all approvals which are necessary and required under all applicable laws and all other agreements, instruments or other documents in connection with the Subscription Agreement and the transactions contemplated thereunder and all other matters incidental thereto having been obtained by the Subscriber and the Company and remaining in full force and effect;
- (iv) each of the warranties given by the Company remaining true and accurate and not misleading, in each case as at the Completion Date with the same force and effect as if repeated throughout the period between the date of the Subscription Agreement and up to and including the Completion Date;
- (v) each of the warranties given by the Subscriber remaining true and accurate and not misleading, in each case as at the Completion Date with the same force and effect as if repeated throughout the period between the date of the Subscription Agreement and up to and including the Completion Date;
- (vi) no governmental authority of any competent jurisdiction having enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that has the effect of making the Subscription Agreement and the transactions contemplated thereunder illegal or otherwise prohibiting consummation of the Subscription Agreement and the transactions contemplated thereunder; and
- (vii) no material adverse change in respect of the Group having occurred since the date of the Subscription Agreement and up to and including the Completion Date.

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The Subscriber may, at its discretion, waive the conditions (iii) (to the extent related to the Company and not related to any requirement under applicable laws), (iv) and (vii) set out above. The Company may, at its discretion, waive the conditions (iii) (to the extent related to the Subscriber and not related to any requirement under applicable laws) and (v) set out above. None of the other conditions may be waived by either party. In the event that any of the above conditions is not fulfilled (or waived, as the case may be) on or before the Long Stop Date, the Subscription Agreement shall automatically terminate and the parties shall be released from all obligations thereunder, save for liabilities for any antecedent breaches thereof.

6. Evaluation of principal terms of the Convertible Bonds

(i) Conversion Price

The Conversion Price is HK\$0.42 per Conversion Share, subject to any adjustment from time to time, in accordance with the terms of the Convertible Bonds (details of which are disclosed in the section headed “Principal terms of the Convertible Bonds” in the Letter from the Board). We have reviewed the adjustment clause in the Subscription Agreement including the triggering events and the adjustment mechanisms, and consider such adjustment clauses to be similar to those anti-dilution adjustments for other convertible debt securities of this type in the market.

As stated in the Letter from the Board, the Conversion Price was determined after arm’s length negotiations among the Company and the Subscriber with reference to, among others, the prevailing market price of the Shares and the financial position of the Company.

The Conversion Price of HK\$0.42 per Conversion Share represents:

- (a) a premium of approximately 7.69% over the closing price of HK\$0.390 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 4.74% over the average closing price of approximately HK\$0.401 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 4.74% over the average closing price of approximately HK\$0.401 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 124.96% over the Group’s audited consolidated net assets per Share attributable to the owners of the Company as at 31 December 2019 of approximately HK\$0.1867 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group’s audited consolidated net assets attributable to the owners of the Company of approximately RMB307,434,000 (equivalent to approximately HK\$338,177,400) as at 31 December 2019);

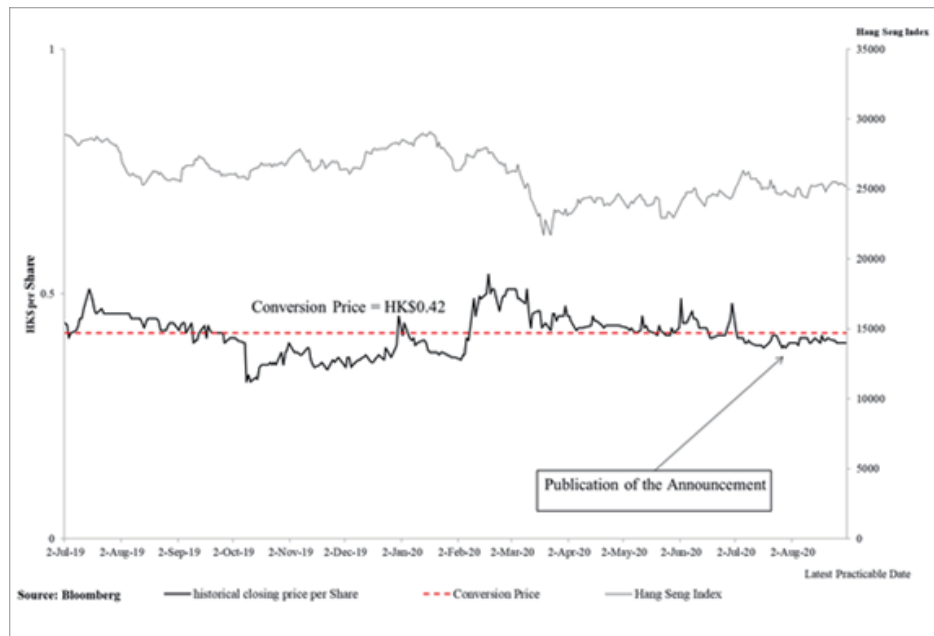
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- (e) a premium of approximately 115.72% over the Group's unaudited consolidated net assets per Share attributable to the owners of the Company as at 30 June 2020 of approximately HK\$0.1947 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group's unaudited consolidated net assets attributable to the owners of the Company of approximately RMB320,599,000 (equivalent to approximately HK\$352,658,900) as at 30 June 2020); and
- (f) a premium of approximately 5.00% over the closing price of HK\$0.400 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

In assessing the reasonableness and fairness of the Conversion Price, we have performed the analyses set out below.

Historical Share price performance

The chart below illustrates the daily closing price of the Shares as quoted on the Stock Exchange for the period from 1 July 2019 to the Latest Practicable Date, being the period of approximately 12 months prior to the date of the Subscription Agreement and up to and including the Latest Practicable Date (the “**Review Period**”), including a comparison to the Hang Seng Index. We consider that the Review Period represents a reasonable period of time within which the prevailing market price of the Shares can be illustrated.



Source: Bloomberg

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As illustrated in the chart above, the Share price closed in a range between HK\$0.32 and HK\$0.54 and the average closing price during the Review Period is approximately HK\$0.42. The Conversion Price is within the range of the closing price during the Review Period and equals the aforesaid average closing price. In addition, the Share price closed at a price below the Conversion Price of HK\$0.42 for more than 55% of the total number of trading days during the Review Period. In light of the above analysis and the fact as disclosed in the Letter from the Board that the Conversion Price of HK\$0.42 per Conversion Share represents (i) premiums of approximately 7.69%, 4.74% and 4.74% over the closing price per Share as quoted on the Stock Exchange on the Last Trading Day, the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and the average closing price per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day, respectively; and (ii) premiums of approximately 124.96% and 115.72% over the Group's consolidated net assets per Share attributable to the owners of the Company as at 31 December 2019 of approximately HK\$0.1867 and 30 June 2020 of approximately HK\$0.1947, respectively, we concur with the view of the Management that the Conversion Price is fair and reasonable as it reflects the current market price.

Trading volume

We have also reviewed the trading liquidity of the Shares during the Review Period. The table below sets out the trading volume of the Shares on the Stock Exchange during the Review Period:

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Month	Average daily trading volume of the Shares (Number of Shares) <i>(Note 1)</i>	Average daily trading volume as a percentage of the total number of issued Shares <i>(Note 2)</i>
2019		
July	1,712,318	0.09%
August	1,587,909	0.09%
September	3,281,333	0.18%
October	6,911,238	0.38%
November	2,440,048	0.13%
December	2,216,650	0.12%
2020		
January	1,431,950	0.08%
February	837,500	0.05%
March	1,271,545	0.07%
April	3,845,211	0.21%
May	1,692,842	0.09%
June	104,524	0.01%
July	489,682	0.03%
August	105,667	0.01%
September (up to the Latest Practicable Date)	78,778	0.01%

Notes:

1. Source: The Stock Exchange
2. The calculation is based on the average daily trading volume of the Shares divided by the total number of issued Shares at the end of each month or as at the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume of the Shares was low during the Review Period, with a range of 78,778 to 6,911,238, representing approximately 0.01% to 0.38% of the number of total issued Shares, respectively. The trading volume of the Shares is low and the relatively thin trading liquidity may hinder third party underwriters to participate when the Company tries to pursue fund raising exercise by way of placement, rights issue or open offer.

Market comparable analysis

We have conducted a comparable analysis through identifying companies listed on the Stock Exchange (excluding the issuance of A share convertible bond and perpetual convertible bond) which announced issue of convertible bonds/notes solely for cash during the period between 1 May 2020 and the Last Trading Day. On such basis, we have identified 17 issues of convertible bonds/notes (the

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“**Comparable Issues**”). We consider that a review period from 1 May 2020 (which represented an approximate three-month period prior to the Last Trading Day) and up to the Last Trading Day to be sufficient and appropriate for our analysis as it has covered the recent market conditions and sentiments of the capital market of Hong Kong at which time the terms of the Convertible Bonds, including the Conversion Price, were determined. We consider that it is an exhaustive list of relevant comparable issue of convertible bonds/notes based on the aforesaid criteria.

Shareholders should note that the businesses, operations, fund raising sizes and prospects of the Company may not be the same as, or even substantially different from, that of the subject companies involved in the Comparable Issues, and we have not conducted any detailed investigation into the respective businesses and operations of the subject companies. The circumstances leading to the subject companies to proceed with the subscriptions may also be different from those relating to the Company. We consider that the Comparable Issues were determined under similar market conditions and sentiment, and hence provide a general reference of this type of transaction in the market. Therefore, we consider them to be an appropriate basis to assess the fairness of the terms of the Convertible Bonds.

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Our analysis on the Comparable Issues is set out below:

Company Name	Stock code	Date of announcement	Interest rate per annum(%) (Note 1)	Premium/(discount) of the conversion price over/to closing price per share on the last trading day prior to/ the date of announcement/ agreement in relation to the respective subscription/ placing of convertible bonds/notes(%) (Note 1)
Wai Chun Bio-Technology Limited	660	28/7/2020	4.0	0.00
Shoucheng Holdings Limited	697	27/7/2020	1.0	4.89
Value Convergence Holdings Limited	821	24/7/2020	nil	(4.31)
Green Leader Holdings Group Limited	61	22/7/2020	nil	0.00
Styland Holdings Limited	211	16/7/2020	6.0	0.00
King Stone Energy Group Limited	663	15/7/2020	7.0	14.30
Vobile Group Limited	3738	29/6/2020	5.0	0.00
Polyard Petroleum International Group Limited	8011	28/6/2020	nil	29.50
Link Holdings Limited	8237	21/6/2020	nil	2.86
China Automotive Interior Decoration Holdings Limited	48	18/6/2020	0.5	31.58
Far East Horizon Limited	3360	18/6/2020	2.5	21.61
Echo International Holdings Group Limited	8218	11/6/2020	7.0	0.00
Oriental Payment Group Holdings Limited (“ Oriental ”)	8613	11/6/2020	7.0	100.00
GOME Retail Holdings Limited	493	28/5/2020	5.0	37.91
Wai Chun Group Holdings Limited	1013	21/5/2020	4.0	5.88
Zhongsheng Group Holdings Limited	881	13/5/2020	nil	27.50
Weimob Inc.	2013	7/5/2020	1.5	12.94
Maximum			7.0	100.00
Minimum			nil	(4.31)
Median			2.5	5.88
Mean			3.0	16.74
Excluding outlier (Note 2)				
Maximum			7.0	37.91
Minimum			nil	(4.31)
Median			2.0	5.39
Mean			2.7	11.54
The Company	1039	29/7/2020	3.5	7.69

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Note:

1. The interest rate per annum and the premium/discount are extracted from the relevant published announcements of the companies for the Comparable Issues.
2. The conversion price of Oriental represents 100% premium of the conversion price over closing price per share on the date of agreement in relation to the placing of convertible bonds, which is more than five times the average of the Comparable Issues. Given the significant deviation from other Comparable Issues, we consider it is an outlier and is excluded in the analysis.

Conversion Price as compared to the Last Trading Price

As demonstrated in the above table, it is noted that the conversion price of the Comparable Issues (excluding the outlier) ranged from a discount of approximately 4.31% to a premium of approximately 37.91% as compared with their respective closing price of their shares on the last trading days prior to/on the date of their respective announcements in relation to the subscription/placing of convertible bonds/notes.

As illustrated in the table above, the premium of the Conversion Price over the closing price of the Share on the Last Trading Date of approximately 7.69% falls within the range of conversion premium/discount of the Comparable Issues and is below the mean of a premium of approximately 11.54% but above the median of a premium of approximately 5.39%.

Although the premium as represented by the Conversion Price is lower than the mean of the premium, it nonetheless is higher than the median of the premium and falls within the range of the Comparable Issues. In view of the above, we consider that Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Interest rate

The Convertible Bonds shall bear interest from and including the Issue Date to the Maturity Date at the rate of 3.5% per annum. The Company shall redeem all outstanding Convertible Bonds at an amount of the principal amount of such outstanding Convertible Bonds with interest on the Maturity Date. The Company has an early redemption right under the Subscription Agreement.

In assessing the reasonableness of the interest rate of the Convertible Bonds, we have compared the interest rate of the Convertible Bonds against the interest-bearing loans of the Group. As disclosed in the Letter from the Board, the Management has assessed that the interest rate of the Convertible Bonds of 3.5% per annum against its existing interest-bearing loans of 6.5% per annum as at the Latest Practicable Date, which was higher than that of the Convertible Bonds. We note that the existing interest-bearing loan of 6.5% per annum, and the interest rate of the Previous CB of 13% per annum were much higher than the interest rate of the Convertible Bonds.

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As demonstrated in the above table, interest rate of the Comparable Issues (excluding the outlier) ranged from nil to 7.0% per annum. Although the interest rate of the Convertible Bonds of 3.5% is higher than the mean of interest rate of the Comparable Issues of 2.7%, it falls within the range of that of the Comparable Issues. As such, we concur with the view of the Management that the interest rate of 3.5% of the Convertible Bonds is fair and reasonable.

(iii) Other terms of the Convertible Bonds

The Convertible Bonds are transferrable, except to connected persons of the Company without prior consent of the Company. The Conversion Shares, when allotted and issued, will rank *pari passu* with, and carry the same rights in all aspects as, the other Shares then in issue and outstanding.

We consider that the above terms of the Convertible Bonds in relation to transferability and ranking of the Conversion Shares are in line with the terms of the convertible bonds/notes of similar kind issued by other listed companies in Hong Kong.

In light of the above, we concur with of the view of the Management that the terms of the Subscription Agreement, including the Conversion Price and interest rate, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

7. Possible dilution effect on the shareholding interests of the Shareholders

As at the Latest Practicable Date, the issued share capital of the Company comprised 1,810,953,272 Shares. Set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming no exercise of the Warrants and the Share Options); and (iii) immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming full exercise of the Warrants and the Share Options):

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Shareholders	(i) as at the Latest Practicable Date		(ii) immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming no exercise of the Warrants and the Share Options)		(iii) immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming full exercise of the Warrants and the Share Options)	
	Number of Shares	Approx. %	Number of Shares	Approx. %	Number of Shares	Approx. %
The Subscriber (<i>Note 1</i>)	598,885,818	33.07	898,885,818	42.58	1,196,885,818	48.24
Starr International Foundation	224,710,691	12.41	224,710,691	10.65	224,710,691	9.06
Holder of the Share Options (<i>Note 2</i>)	-	-	-	-	72,000,000	2.90
Public Shareholders	<u>987,356,763</u>	<u>54.52</u>	<u>987,356,763</u>	<u>46.77</u>	<u>987,356,763</u>	<u>39.80</u>
Total	<u><u>1,810,953,272</u></u>	<u><u>100.00</u></u>	<u><u>2,110,953,272</u></u>	<u><u>100.00</u></u>	<u><u>2,480,953,272</u></u>	<u><u>100.00</u></u>

Notes:

1. The Subscriber is wholly-owned by Ms. Pun Tang, and currently holds 598,885,818 Shares and 298,000,000 Warrants.
2. As at the Latest Practicable Date, all 72,000,000 outstanding Share Options were held by Mr. Cheng Jerome (an executive Director).

As shown in the above table, the shareholding in the Company held by the existing public Shareholders would be diluted from 54.52% as at the Latest Practicable Date to (i) approximately 46.77% immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming no exercise of the Warrants and the Share Options); and (ii) approximately 39.80% immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming full exercise of the Warrants and the Share Options).

Having considered that the principal terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the reasons for and benefits of the Subscription as mentioned above, we concur with the view of the Management that the dilution effect on the shareholding of existing public Shareholders is fair and reasonable so far as the Independent Shareholders are concerned.

8. Possible financial effects of the Subscription

We have analysed the effects on the net asset value, liquidity and working capital and earnings of the Group as a result of the Subscription. The analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion of the Subscription Agreement.

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(i) Net asset value

As disclosed in the 2020 Interim Report, the consolidated net asset value of the Group attributable to the equity owners of the Company was approximately RMB320.6 million (equivalent to approximately HK\$352.7 million) as at 30 June 2020. Based on 1,810,953,272 Shares in issue as at the Latest Practicable Date, the net asset value per Share was approximately HK\$0.1947 per Share.

The net proceeds from the issue of the Convertible Bonds are estimated be approximately HK\$124.4 million. Completion of the Subscription would lead to an increase in cash and cash equivalents of the Group by the same amount. As advised by the Management, the non-current liabilities and the convertible equity reserve of the Group will also be increased respectively as a result of the recognition of liability and equity components of the Convertible Bonds. It is expected that the net asset value of the Group will be improved upon the issue of the Convertible Bonds as the increase in cash and cash equivalents is expected to be higher than the increase in liability component of the Convertible Bonds given that certain portion would be allocated to the equity component of the Convertible Bonds. The exact amount of the respective fair value of the liability and equity components of the Convertible Bonds and their financial impacts to the Group will be subject to the assessment and valuation by a professional valuer at the time of completion of the Subscription.

The Conversion Price of HK\$0.42 represents a premium of approximately 115.72% over the net asset value per Share of approximately HK\$0.1947 per Share. Assuming the Convertible Bonds are converted in full at the Conversion Price, the outstanding liability component of the Convertible Bonds will be credited to equity. The net asset value attributable to owners of the Company per Share and consolidated net asset value of the Group attributable to the Shareholders will be increased accordingly.

Based on the above, we are of the view that the issue of the Convertible Bonds would enhance the net asset value of the Group and net asset value per Share.

(ii) Liquidity and working capital

Based on the 2020 Interim Report, the Group had net current assets of approximately RMB54.0 million as at 30 June 2020, comprising current assets of approximately RMB198.8 million and current liabilities of approximately RMB144.8 million. The cash and cash equivalents of the Group amounted to approximately RMB74.4 million as at 30 June 2020.

Immediately upon completion of the Subscription, the cash and cash equivalents of the Group will be increased by the net proceeds from the issue of the Convertible Bonds amounting to approximately RMB187.5 million, and the liability portion of the Convertible Bonds will be treated as non-current liabilities of the Group. Therefore, the current ratio will increase from 1.37 to 2.15. The issue of the Convertible Bonds would therefore have a positive effect on the liquidity, current ratio and working capital position of the Group.

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(iii) Earnings

As advised by the Management, the liability portion of the Convertible Bonds will be carried at amortised cost using the effective interest method. The effective interest expenses of the Convertible Bonds will be charged to the consolidated statement of profit or loss until any conversion and/or redemption of the Convertible Bonds in full. In view of (i) the funding needs of the Group as described in the section headed “3. Reasons for and benefits of the Subscription and use of proceeds” above; and (ii) the lengthy application procedures in obtaining other alternative sources of financing, which may carry a higher interest rate, as discussed in the section headed “3. Reasons for and benefits of the Subscription and use of proceeds” above, we are of the view that the negative effect on earnings caused by the effective interest of the Convertible Bonds is justifiable.

9. Discussion

We consider that the terms of the Subscription Agreement, including the Conversion Price, are fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole after taking into account the above principal factors and reasons, in particular:

- (i) as discussed in the section headed “3. Reasons for and benefits of the Subscription and use of proceeds” above, (a) the PCL Subscription Proceeds and the TEHL Group’s Cash Balance cannot be freely re-allocated by the Group for the development of the New International Changyou Platform; (b) the PCL Subscription Proceeds and the proceeds from the Subscription are clear-cut and for different purposes; and (c) the Subscription represents an opportunity for the Company to raise capital to maintain a sufficient cash position of the Group to expand its Digital Point Business (i.e. development of the New International Changyou Platform);
- (ii) as illustrated in the section headed “7. Possible dilution effect on the shareholding interests of the Shareholders” above, the shareholdings of the public are expected to be diluted from approximately 54.52% as at the Latest Practicable Date to approximately 39.80% immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds (assuming full exercise of the Warrants and the Share Options). We regard that the dilution effect is acceptable in view of the aforesaid reasons and factors and, as discussed in the section headed “4. Alternative financing” above, we concur that the Subscription would be a more appropriate and timely fund raising method compared with other alternative ways of financing considered by the Management;
- (iii) the basis of the Conversion Price is commercially justified. Having considered the premium of the Conversion Price over the closing price of the Share on the Last Trading Day, which is higher than the median of the premium and falls within the range of conversion premium/discount of the Comparable Issues as discussed

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under the section headed “6. Evaluation of principal terms of the Convertible Bonds” above, we concur with the view of the Management that the Conversion Price is fair and reasonable;

- (iv) as discussed in the section headed “6. Evaluation of principal terms of the Convertible Bonds” above, terms of the Convertible Bonds are generally in line with the market whilst the Convertible Bonds also represent a funding source for the Company at less finance cost as compared with the Group’s existing interest-bearing borrowings; and
- (v) the possible positive financial effect of the Subscription as discussed in the section headed “8. Possible financial effects of the Subscription” above.

OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons set out above, we are of the opinion that despite the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Group, (i) the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of Conversion Shares upon conversion of the Convertible Bonds under the Specific Mandate are normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Ng Ka Po
Senior Director, Corporate Finance

Mr. Ng Ka Po is a licensed person and a responsible officer of Optima Capital Limited registered with the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES PURSUANT TO THE SFO

As at the Latest Practicable Date, the interests and short positions of the Directors, chief executive of the Company or their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares

Name of Director	Number of underlying Shares comprised in options	Approximate percentage of the Shares in issue ^(Note 2)
Cheng Jerome	72,000,000 ^(Note1)	3.98%

Notes:

- This represents the interest in the underlying Shares of the Share Option Scheme to be allotted and issued upon the exercise of the Share Options.
- The approximate percentage is based on a total of 1,810,953,272 issued Shares as at the Latest Practicable Date.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors, chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii)

were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS PURSUANT TO THE SFO

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Nature of interest	Interest in Shares	Approximate percentage of interest ^(Note 7)
The Subscriber ^(Note 1)	Beneficial interest	1,196,885,818 (L) 220,000,000 (S)	66.09% 12.15%
Greater Bay Area Homeland Investments Limited ^(Note 2)	Interest of controlled corporation	271,673,000 (L)	15.00%
Starr International Foundation ^(Note 3)	Interest of controlled corporation	224,710,691 (L)	12.41%
Beijing Enterprises Real Estate (HK) Limited ^(Note 4)	Beneficial interest	151,515,000 (L)	8.37%
Yang Liu ^(Note 5)	Interest of controlled corporation	148,400,000 (L)	8.19%
Taiping Trustees Limited ^(Note 6)	Beneficial interest	138,888,000 (L)	7.67%

L = Long position; S = Short position

Notes:

- The Subscriber is wholly-owned by Ms. Pun Tang. As at the Latest Practicable Date, the Subscriber had a long position in 1,196,885,818 Shares, which comprised (i) direct holding of 598,885,818 Shares (being approximately 33.07% of the total shareholding of the Company as at the Latest Practicable Date); (ii) 300,000,000 Conversion Shares that may be issued upon conversion in full of the Convertible Bonds at the initial Conversion Price of HK\$0.42 per Conversion Share; and (iii) 298,000,000 Shares upon the exercise in full of the Warrants.

On 18 April 2019, pursuant to the Exchangeable Bonds Subscription Agreement, the Subscriber issued the Exchangeable Bonds to Mega Prime, which are exchangeable into 220,000,000 Shares. Such underlying Shares are currently owned by the Subscriber. Mega Prime is wholly-owned by Greater Bay Area Homeland Investments Limited.

Subsequently, on 30 July 2019, the Novation Deed was entered into between Mega Prime as outgoing party, Poly Platinum as incoming party and the Subscriber as continuing party, pursuant to which all rights, obligations and liabilities of Mega Prime under the Exchangeable Bonds Subscription Agreement was novated to Poly Platinum.

2. As at the Latest Practicable Date, Poly Platinum held 51,673,000 Shares and was the beneficial owner of the Exchangeable Bonds, which are exchangeable into 220,000,000 Shares. Poly Platinum is wholly owned by GBAHD Fund. GBAHD GP is the general partner of GBAHD Fund. GBAD Fund Management is the fund manager of GBAHD Fund. Both GBAHD GP and GBAD Fund Management are wholly-owned by Greater Bay Area Homeland Investments Limited.
3. As at the Latest Practicable Date, Starr Investments Cayman II, Inc. and Starr Investments Cayman V, Inc. were the beneficial owners of 114,801,600 Shares and 109,909,091 Shares, respectively (being approximately 6.34% and 6.07% of the total shareholding of the Company, respectively). Starr Investments Cayman II, Inc. is wholly-owned by Starr International Cayman, Inc., which is in turn wholly-owned by Starr Insurance and Reinsurance Limited. Starr Insurance and Reinsurance Limited and Starr Investments Cayman V, Inc. are wholly-owned subsidiaries of Starr International Investments Limited, which is in turn wholly-owned by Starr International Company Inc. Starr International Company Inc. is wholly-owned by Starr International AG, which is wholly-owned by Starr International Foundation, a charitable foundation established in Switzerland.
4. Beijing Enterprises Real Estate (HK) Limited is wholly-owned by 北京北控置業有限責任公司, which is in turn wholly-owned by Beijing Enterprises Group Company Limited. Beijing Enterprises Group Company Limited is wholly-owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.
5. Atlantis Investment Management (Ireland) Limited and Atlantis Investment Management (Hong Kong) Limited are the beneficial owners of Shares, and are wholly-owned by Atlantis Capital Holdings Limited, which is in turn wholly owned by Yang Liu.
6. Taiping Trustees Limited is the beneficial owner of Shares. The ultimate controlling shareholder of Taiping Trustees Limited is China Taiping Insurance Group Limited, which is ultimately controlled by the State Council of the PRC.
7. The approximate percentage is based on a total of 1,810,953,272 issued Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no other persons or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director is materially interested and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

5. DIRECTOR'S INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) was interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

8. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert whose statements have been included in this circular:

Name	Qualification
Optima Capital	A corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders

Optima Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, opinion and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Optima Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Optima Capital did not have any direct or indirect interests in any assets which have been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

9. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Company have been made up).

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong from the date of this circular up to and including 14 October 2020:

- (a) the Subscription Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 28 of this circular;
- (c) the letter from Optima Capital, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 29 to 56 of this circular;
- (d) the written consent referred to in the section headed "Expert's Qualification and Consent" in this Appendix; and
- (e) this circular.

11. GENERAL

- (a) The registered office of the Company is at Royal Bank House, 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong.
- (c) The company secretary of the Company is Mr. Chan Chi Keung, Billy, who is a fellow member of the Association of Chartered Certified Accountants.
- (d) The Company's share registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (e) In the event of inconsistency, the English version of this circular shall prevail over the Chinese text.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**EGM**”) of Changyou Alliance Group Limited (“**Company**”) will be held at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Wednesday, 14 October 2020 at 10:30 a.m. or at any adjournment thereof, to consider and, if thought fit, purpose and pass the following resolution, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the Subscription Agreement (as defined in the circular of the Company dated 17 September 2020 (the “**Circular**”)), a copy of which has been produced to the EGM and marked “A” and initialed by the chairman of the EGM for identification purposes, in relation to the subscription for the Convertible Bonds in an aggregate principal amount of HK\$126,000,000 and the transactions contemplated thereunder, including the issue of the Convertible Bonds (as defined in the Circular) and the allotment and issue of the Conversion Shares (as defined in the Circular) upon conversion of the Convertible Bonds under the Specific Mandate (as defined in the Circular), be and is hereby considered, approved, confirmed and ratified;
- (b) the instrument constituting the Convertible Bonds, a copy of which has been produced to the EGM and marked “B” and initialed by the chairman of the EGM for identification purposes, and the transactions contemplated thereunder, be and are hereby considered, approved, confirmed and ratified;
- (c) subject to and conditional upon the listing committee approving the listing of, and granting the permission to deal in, the Conversion Shares, the directors of the Company (“**Directors**”) be and are hereby authorised to: (i) issue the Convertible Bonds to the Subscriber; and (ii) allot and issue the Conversion Shares on the terms and subject to the conditions of the Convertible Bonds;
- (d) an unconditional Specific Mandate be and is hereby granted to the Directors to exercise the powers to allot, issue and deal with such number of Conversion Shares as may be required to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds pursuant to the terms of the Convertible Bonds; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (e) any one Director be and is hereby authorised to, for and on behalf of the Company, do all such further acts and things and to sign and execute all such documents, instruments and agreements, and to take all such steps which in his/her opinion may be necessary, appropriate, desirable or expedient for the purpose of, or in connection with, implementing and/or giving effect to the Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Convertible Bonds and the Conversion Shares to be issued upon conversion of the Convertible Bonds under the Specific Mandate.”

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

Hong Kong, 17 September 2020

Notes:

1. A member of the Company entitled to attend and vote at the EGM by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. Where there are joint holders of any share of the Company, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). The proxy form will be published on the website of the Stock Exchange and the website of the Company.
4. Please refer to the section headed "Precautionary Measures for the EGM" of the Circular for precautionary measures implemented by the Company in order to safeguard the health and safety of the shareholders of the Company and all the attendees at the EGM and to prevent the spread of COVID-19, including: (i) compulsory body temperature checks; (ii) compulsory wearing[#] of surgical face masks for every attendee; (iii) appropriate social distancing and seating arrangements in line with the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Chapter 599G of the Laws of Hong Kong); and (iv) no refreshment or drinks will be served at the EGM.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. The Company would like to encourage Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM, instead of attending the EGM in person.

[#] *A reference to a person wearing a mask is a reference to the person wearing a mask over and covering the person's nose and mouth, with the mask touching the person's nose, chin and cheeks.*

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