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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)

VOLUNTARY ANNOUNCEMENT BUSINESS UPDATE

This announcement is made by Changyou Alliance Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) on a voluntary basis for the purpose of keeping the shareholders of the Company (the “**Shareholders**”) and potential investors informed of the latest development of the Group.

In 2021, the Group carried out comprehensive optimisation in terms of (i) product structure, (ii) the profitability of each business line, and (iii) platform and system capabilities, the effect of which is significant. The Group achieved a gross profit of approximately RMB12.7 million for the year ended 31 December 2021, representing an increase of 11 times compared to the previous year (gross profit of approximately RMB1.0 million in 2020). The Changyou Platform, operated by a controlled subsidiary of the Company, achieved its first monthly EBIT break-even in December 2021 and has since achieved steady EBIT growth for several consecutive months, with a monthly EBIT growth remaining at around 20% in the second quarter of the year. The achievement of EBIT was made possible mainly by the optimisation of the business structure of the Changyou Platform through (i) eliminating businesses which are unprofitable and cost-ineffective in the short term, and optimising the relevant staffing and operating costs; (ii) rapidly increasing the operating income of existing businesses and accelerated the expansion of new businesses that are closely linked to existing platform resources, users and supply chain resource with a view to reducing the initial expansion costs of new businesses and laying the foundation for the rapid development of the new businesses at a later stage; and (iii) optimising its supplier structure and a combination of high-frequency rigid services and high-margin products. As at the date of this announcement, the Group is in discussion with potential business partners to further enhance the Changyou Platform and expand its business scope to other industries in order to achieve its goal of rapid business growth.

In 2021, the Group's multi-scenario cross-marketing business has made positive progress, gradually building up an affiliate marketing platform for all affiliates and their users. Such platform solves the difficulties of sharing data across platforms. By (i) utilising the channels and rich scenarios in the alliance ecosystem, and (ii) filtering and matching some of the user tags and cross-platform data profiles formed by users in shareholders' units, consumption scenarios, various channels and the Changyou Platform, the Changyou Platform covers a large number of merchants and user groups and realises the accurate delivery of thematic groups. Not only does it help to attract new members and promote user activities for its affiliates, the Changyou Platform also offers users the status of being a affiliate membership of the Changyou Platform, thereby establishing and continuously improving the labellisation of static and dynamic profiles of users, gradually increasing their repeat purchases and activity. After a user has purchased at any one consumption scenario, through the user's profile established in the previous consumption scenario, marketing campaigns and promotions of relevant affiliate consumption scenarios which match the actual needs of the users can be offered to the relevant users. This provides the users with a wide range of products and services, while enhancing the user experience and the overall operational efficiency and transaction volume, ultimately achieving a mutually beneficial situation for the Changyou Platform, its affiliates and users.

Through gathering 900 million users from its shareholder companies and affiliates and a pool of points of up to RMB50 billion with annual increments of approximately RMB20 billion, as at the end of December 2021, the Changyou Platform had about 96.70 million registered users and up to 13.9 billion digital points were redeemed in 2021.

The Group will step up its efforts to promote and improve its existing businesses by (i) continuing to optimise and improve the operating level and profitability of its existing 2C points business to achieve steady growth in business profitability based on the existing scale of the business; (ii) with a focus on the platform's existing travel and vehicle owner demographic, enhancing its service capabilities and user activity at the angle of the supply chain, products and operations, and achieve a certain level of business revenue, laying the foundation for rapid development in the next two years; and (iii) through fully utilising the platform's resources and core competencies, based on the bonus points business ecology and leveraging on the innovative products and service capabilities of Changyou Points Marketing SaaS Platform, offering corporate customer oriented products and services to SMEs/merchants, as well as provide marketing channels and marketing planning support to corporate customers. The Group will use comprehensive data and consumption scenarios to conduct accurate marketing activities and will combine users' attributes and transaction data to accurately target the characteristics and requirements of platform users.

In terms of the Group's future business outlook, the Group has successfully shaken off the impact of the global pandemic on its businesses. By gradually expanding the scope of cooperation to the global level, and progressively developing international businesses with international industry leaders, the Group aims to capture a richer and more diversified source of points, increase the number of users and expand the range of products, services and types of business, as well as more consumption scenarios.

In the second half of 2017, the Group together with CCB International (Holdings) Limited, China UnionPay Merchant Services Company Limited, and invited Bank of China Group Investment Limited, China Mobile (Hong Kong) Group Limited and China Eastern Airlines Corporation Limited developed the Changyou Platform, i.e. the Changyou Digital Bonus Points Business Ecology Alliance, which aims to integrate the digital membership points, resources and strategic advantages of shareholders and business partners in the Changyou Alliance. Through the Changyou Platform, the Group is committed to building an integrated and secure aggregation portal for points from all industries and building and operating a global digital asset circulation and marketing platform for the issuance, trading, storage and payment settlement of virtual digital assets.

The Board wishes to provide the Shareholders and potential investors of the Company with an update on the business development. The Company has not yet determined the terms of any potential transactions contemplated above and there is no assurance that such transactions will materialise or eventually be consummated. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 19 July 2022

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