
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).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.

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) CONTINUING CONNECTED TRANSACTION
SECOND SUPPLEMENTAL FACILITY AGREEMENT
IN RELATION TO
THE GRANT OF REVOLVING LOAN FACILITY
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 16 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 17 to 18 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 38 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 Tuesday, 31 October 2023 at 11:00 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.

11 October 2023

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	6
Letter from the Independent Board Committee	17
Letter from the Independent Financial Adviser	19
Appendix – General Information	I-1
Notice of Extraordinary General Meeting	EGM-1

DEFINITIONS

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

“2019 Conditions Fulfilment Date”	the date on which the Company (as lender) was satisfied that all the conditions described in clause 5 of the 2019 Facility Agreement had been fulfilled or specifically waived in writing by the Company, pursuant to the 2019 Facility Agreement
“2019 Facility Agreement”	the facility agreement dated 3 September 2019 and entered into between the Company as the lender and PCL as borrower in relation to the Revolving Loan Facility, the details of which are set out in the Company’s announcement dated 3 September 2019 and the Company’s circular dated 15 October 2019
“2021 Facility Agreement”	the facility agreement dated 20 April 2021 and entered into between the Company (as lender) and PCL (as borrower) in relation to the 2021 Revolving Loan Facility
“2021 Revolving Loan Facility”	an unsecured revolving loan facility of a total principal amount not exceeding HK\$100 million on the terms and conditions set out in the 2021 Facility Agreement, the details of which are set out in the Company’s announcement dated 20 April 2021 and the Company’s circular dated 12 May 2021
“Announcement”	the Company’s announcement dated 18 September 2023 in respect of the Second Supplemental Facility Agreement (including the proposed Annual Cap) and the transactions contemplated thereunder
“Annual Cap”	the maximum annual amount in relation to the transactions contemplated under the Second Supplemental Facility Agreement, as required under Rule 14A.53 of the Listing Rules
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general business in Hong Kong

DEFINITIONS

“Chance Talent”	Chance Talent Management Limited, a business company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned special purpose vehicle of CCB International (Holdings) Limited
“CIH”	Century Investment (Holding) Limited, a company incorporated in the British Virgin Islands with limited liability, and a substantial shareholder of the Company. It is wholly-owned by Ms. Pun Tang
“Company”	Changyou Alliance Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Drawdown Date”	the date of the first drawdown of the Loan by PCL
“Eastern E-Commerce”	China Eastern Airlines E-Commerce Co., Ltd. (東方航空電子商務有限公司), a company established in the PRC and a wholly-owned subsidiary of China Eastern Airlines Corporation Limited
“Easylink”	Easylink Payment Network (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of China UnionPay Merchant Services Company Limited
“EGM”	an extraordinary general meeting of the Company to be convened and held on Tuesday, 31 October 2023 at 11:00 a.m. to consider, and if thought fit, approve, among other things, the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder
“Extra Step”	Extra Step Investments Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited
“Facility Period”	the five-year period from and including the 2019 Conditions Fulfilment Date

DEFINITIONS

“Fin-Tech”	Fin-Tech Company Limited, a company incorporated in the Cayman Islands with limited liability, and a wholly-owned subsidiary of CIH
“First Supplemental Facility Agreement”	the supplemental facility agreement dated 16 September 2022 and entered into between the Company (as lender) and PCL (as borrower) pursuant to which the parties have agreed to vary the terms of the 2019 Facility Agreement, the details of which are set out in the Company’s announcement dated 16 September 2022 and the Company’s circular dated 12 October 2022
“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 People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Ip Wai Lun William and Mr. Chan Chi Keung Alan, established to advise and give recommendations to the Independent Shareholders in relation to the Second Supplemental Facility Agreement (including the proposed Annual Cap) and the transactions contemplated thereunder
“Independent Financial Adviser” or “Red Sun Capital Limited”	Red Sun Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders other than CIH and its associates
“Interest Payment Date”	(i) each 30 June and 31 December of each year, commencing on the relevant Drawdown Date in respect of each Loan; and (ii) the Repayment Date
“Joy Empire”	Joy Empire Holdings Ltd., a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Bank of China Group Investment Limited

DEFINITIONS

“Latest Practicable Date”	6 October 2023, 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
“Loan”	a loan made or to be made under the Revolving Loan Facility or the total principal amount outstanding from time to time of the loan(s) advanced to PCL pursuant to the Revolving Loan Facility under the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement
“PCL”	Pointsea Company Limited, a company incorporated in the Cayman Islands with limited liability, and an indirect non-wholly owned subsidiary of the Company
“PCL Group”	PCL and its subsidiaries
“Pointsea Holdings”	Pointsea Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability, and an indirect non-wholly owned subsidiary of the Company
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Repayment Date”	the date falling on the expiry of the Facility Period or such later date as may be agreed between PCL and the Company in writing, being the date for the repayment of all Loan(s) (together with all interest accrued thereon) in full
“Revolving Loan Facility”	an unsecured revolving loan facility of a total principal amount not exceeding HK\$100 million on the terms, and subject to the conditions, set out in the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement
“SaaS”	software as a service

DEFINITIONS

“Second Supplemental Facility Agreement”	the conditional supplemental facility agreement dated 18 September 2023 and entered into between the Company (as lender) and PCL (as borrower) pursuant to which the parties have agreed to further vary the terms of the 2019 Facility Agreement
“Senran Investment”	Senran Investment HK Company Limited (森然投資(香港)有限公司), a company incorporated in Hong Kong with limited liability and is ultimately beneficially owned by Ms. Yang Xiangru and Ms. Yuan Beiling, who are third parties independent of the Company and its connected persons (as defined in the Listing Rules)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of par value US\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Treasure Ease”	Treasure Ease Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, and a direct non-wholly owned subsidiary of the Company
“Zhongjin Qizhi”	Zhongjin Qizhi (Shanghai) Equity Investment Centre (Limited Partnership)* (中金祺智(上海)股權投資中心(有限合夥)), a limited partnership established in the PRC and a subsidiary of an equity investment fund managed by CICC Capital (Cayman) Limited, which is in turn a wholly-owned subsidiary of China International Capital Corporation Limited
“%”	per cent.

* For identification purposes only

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. Ip Wai Lun William

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

11 October 2023

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION
SECOND SUPPLEMENTAL FACILITY AGREEMENT
IN RELATION TO
THE GRANT OF REVOLVING LOAN FACILITY
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement.

On 3 September 2019 (after trading hours), the Company (as lender) and PCL (as borrower) entered into the 2019 Facility Agreement, pursuant to which the Company agreed to grant the Revolving Loan Facility of up to HK\$100 million to PCL (as borrower), an indirect non-wholly owned subsidiary of the Company, for a term of three years from and including the date on which the Company is satisfied that all the conditions precedent of the 2019 Facility Agreement have been fulfilled or specifically waived in writing by the Company. Accordingly, the Repayment Date was on 31 October 2022.

LETTER FROM THE BOARD

Pursuant to the First Supplemental Facility Agreement, the Company (as lender) and PCL (as borrower) agreed to vary (i) the facility period of the Revolving Loan Facility to four years from and including the date on which the Company is satisfied that all the conditions precedent of the 2019 Facility Agreement have been fulfilled or specifically waived in writing by the Company, and (ii) the Repayment Date to 31 October 2023.

On 18 September 2023 (after trading hours), the Company (as lender) and PCL (as borrower) entered into the Second Supplemental Facility Agreement pursuant to which the parties have conditionally agreed to further vary the terms of the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement).

The purpose of this circular is to provide you with, among other things, (a) further information on the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder; (b) a letter from the Independent Board Committee to the Independent Shareholders containing the recommendations in relation to the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder; (c) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder; (d) a notice convening the EGM; and (e) other information required under the Listing Rules.

SECOND SUPPLEMENTAL FACILITY AGREEMENT

The major terms of the Second Supplemental Facility Agreement are set out below:

Date:	18 September 2023 (after trading hours)
Parties:	(i) the Company, as lender; and (ii) PCL, as borrower
Facility Period:	The Facility Period shall be varied to five years from and including the 2019 Conditions Fulfilment Date, and the Repayment Date shall be varied to 31 October 2024.

LETTER FROM THE BOARD

Conditions precedent: The obligations of the parties to the Second Supplemental Facility Agreement are conditional upon the Company having complied with all applicable requirements of the Listing Rules and other regulatory provisions in connection with the Second Supplemental Facility Agreement and the transactions contemplated thereunder including the Independent Shareholders having approved the variations of the Facility Period and the Repayment Date as set forth in the Second Supplemental Facility Agreement at the EGM.

If these conditions have not been fulfilled on or before 30 November 2023 or on such later date as may be agreed between the parties to the Second Supplemental Facility Agreement, then the Second Supplemental Facility Agreement shall automatically terminate (other than in respect of the surviving provisions). In such event, neither party shall have any claim under the Second Supplemental Facility Agreement of any nature whatsoever against the other party except in respect of any rights and liabilities which have accrued before termination or under any of the surviving provisions.

Other terms: Subject only to the variations contained in the Second Supplemental Facility Agreement and such other alterations (if any) as may be necessary to render the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement) consistent with the Second Supplemental Facility Agreement, the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Second Supplemental Facility Agreement.

Other than the extension of the Facility Period and the variation of the Repayment Date, the Board is not aware of any other alterations to the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement).

2019 FACILITY AGREEMENT

The other major terms of the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement) are set out below:

LETTER FROM THE BOARD

- Security: None
- Interest:
- (i) PCL shall pay interest on the outstanding principal amount of each Loan at the rate of 6.5% per annum (on the basis of a 365-day year); and
 - (ii) Interest shall accrue daily, calculated on the basis of the actual number of days elapsed from (and including) the date of the Drawdown Date and shall be payable on each Interest Payment Date.
- Voluntary prepayment: PCL may, at any time after a Loan has been advanced and prior to the Repayment Date, prepay such Loan in whole or in part (together with all interest accrued thereon), without any penalty.
- Reborrowing: PCL may reborrow any part of the Revolving Loan Facility which has been prepaid or repaid, in accordance with the terms of the 2019 Facility Agreement, provided that (i) no event of default as set out in the 2019 Facility Agreement has occurred, and (ii) the aggregate outstanding principal amount of all Loan(s) shall not exceed HK\$100 million at any during the Facility Period.

The loan amount granted to PCL in any point of time has never exceeded the annual caps under the 2019 Facility Agreement. As at the Latest Practicable Date, PCL has settled all accrued interest from the Revolving Loan Facility in accordance with the interest payment schedule under the 2019 Facility Agreement.

PROPOSED ANNUAL CAP OF THE SECOND SUPPLEMENTAL FACILITY AGREEMENT

The proposed Annual Cap in respect of the Revolving Loan Facility under the Second Supplemental Facility Agreement during the Facility Period shall not exceed HK\$100 million. The proposed Annual Cap was determined by reference to the following:

- (i) the maximum principal amount of the Loan(s) to be granted by the Company to PCL pursuant to the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement. As the proposed Annual Cap in respect of the Revolving Loan Facility under the Second Supplemental Facility Agreement has not been increased, there would not be additional financing cost to the Company; and
- (ii) the operations and developments of the “Changyou” business of the Group which is conducted through the PCL Group. In order to enable PCL to continue to maintain a sufficient level of liquidity and to avoid the risk of discontinuance of the operations of the PCL Group, it is necessary to extend the Facility Period with the proposed Annual Cap.

As at the Latest Practicable Date, the Revolving Loan Facility has been fully utilised.

LETTER FROM THE BOARD

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 principally engaged in the development and operations of the electronic trading platform, “Changyou”, 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 interchangeable and redeemable globally as virtual assets and credit on the “Changyou” platform 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.

INFORMATION ON PCL

PCL is an investment holding company incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, PCL’s entire issued share capital is owned as to approximately 47.23% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment.

Pointsea Holdings is owned as to 80% by Treasure Ease and 20% by Easylink. Treasure Ease is owned as to 50.1% by the Company, 30% by Fin-Tech and 19.9% by Chance Talent. Fin-Tech is a wholly-owned subsidiary of CIH, the substantial shareholder of the Company and is wholly-owned by Ms. Pun Tang. Chance Talent is an indirect wholly-owned subsidiary of CCB International (Holdings) Limited, which is a wholly-owned subsidiary of China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (Stock Code: 939). Easylink is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of China UnionPay Merchant Services Company Limited* (銀聯商務股份有限公司) (“**China UnionPay MSC**”). To the Company’s best knowledge and information, (i) China UnionPay MSC is a company established in the PRC and is owned as to approximately 55.5% by Shanghai Lianyin Venture Investment Company Limited* (上海聯銀創業投資有限公司) (“**Shanghai Lianyin**”) and 22 other corporate shareholders; (ii) Shanghai Lianyin is a company established in the PRC and is a wholly-owned subsidiary of China UnionPay Holding Company Limited* (中國銀聯股份有限公司) (“**China UnionPay Holding**”); (iii) China UnionPay Holding is a company established in the PRC and is owned by 75 corporate shareholders, with the single largest shareholder being China Banknote Printing and Minting Group Company Limited* (中國印鈔造幣集團有限公司) (“**China Banknote Printing and Minting**”), holding approximately 7.0% of its total issued shares; and (iv) China Banknote Printing and Minting is a company established in the PRC and is wholly-owned by The People’s Bank of China, being one of the ministries and commissions under the State Council of the PRC.

Joy Empire is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Bank of China Group Investment Limited, which is in turn a wholly-owned subsidiary of Bank of China Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3988).

LETTER FROM THE BOARD

Extra Step is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited. China Mobile (Hong Kong) Group Limited is a wholly-owned subsidiary of China Mobile Communications Group Co., Ltd., which is a state-owned enterprise in the PRC.

Eastern E-Commerce is a company established in the PRC and a wholly-owned subsidiary of China Eastern Airlines Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 670).

Zhongjin Qizhi is a limited partnership established in the PRC and a subsidiary of China International Capital Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3908).

Senran Investment is a company incorporated in Hong Kong with limited liability and is ultimately beneficially owned by Ms. Yang Xiangru and Ms. Yuan Beiling, who are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Save for Treasure Ease and Fin-Tech, the remaining ultimate beneficial owners of PCL are independent third parties of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE REVOLVING LOAN FACILITY

The “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group. The day-to-day operations of the “Changyou” business 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 maintain its technology infrastructure and feature new financial technologies such as blockchain 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 in the future. As such, it is important to maintain a sufficient level of liquidity and financial flexibility in order to maintain the current level of performance and user network of the “Changyou” platform.

With the development of blockchain technology, digital assets have received increasing attention from the industry and transactions by way of digital assets are developing towards better compliance and legalisation. Leveraging advanced technologies such as blockchain and big data analysis, the business operations of Changyou Alliance aims to develop a global financial platform for the issuance, circulation, storage and payment settlement of block chain tokenisation of assets. Over the years, the “Changyou” platform has increased the number of both members and users, and more diversified products and services, and optimised the business models and consumption scenarios. As at 31 December 2022, the total number of registered users on the “Changyou” platform was approximately 150.2 million, representing an increase of approximately 53.5 million registered users compared to the total number as at 31 December 2021. For the year ended 31 December 2022, the total

LETTER FROM THE BOARD

transaction volume of the Changyou Alliance business amounted to approximately RMB236.0 million, which representing an increase of approximately RMB78.7 million (approximately 50.0%) over the same period last year.

The “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group. For the six months ended 30 June 2023, the Group had net loss of approximately RMB14.5 million and net cash used in operating activities of approximately RMB45,000, and had net liabilities of approximately RMB135.0 million as at 30 June 2023. The cash balance held by the PCL Group amounted to approximately RMB16.3 million as at 30 June 2023. As at the Latest Practicable Date, an aggregate sum of approximately HK\$174.0 million under the Revolving Loan Facility and the 2021 Revolving Loan Facility have been utilised by PCL. It is therefore necessary for the Company and PCL to vary the terms of the Revolving Loan Facility to further extend the Facility Period from four years to five years, in order to enable PCL to continue to maintain a sufficient level of liquidity and to avoid the risk of discontinuance of the operations of the PCL Group.

PCL has been considering other financing opportunities in order to meet its financing needs. PCL had approached certain banks and non-banking financial institutions to discuss the feasibility of debt financing in the short term, and had considered the feasibility of other sources of fundraising activities for the development and expansion of the “Changyou” business of the Group in the long term. However, based on the discussions with the relevant banks and non-banking financial institutions, due to PCL’s loss-making performance for the year ended 31 December 2022, it is not feasible for PCL to obtain loan facilities on favourable terms and conditions (such as interest rate and requirements for the provision of charges and/or other security to secure such loan facilities) from them. PCL has also considered the feasibility of equity financing from private equity firms. However, despite the fact that economic activities are normalising globally post COVID-19 pandemic, the economy is facing macro-financial challenges amid rising interest rates, it is therefore likely that private equity firms will be cautious in making investment decisions, impeding the equity fund raising exercise by PCL. As such, PCL has not approached any private equity firms for the purpose of equity fund raising possibility.

As the “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group, the “Changyou” business is generally financed by the Group, and since the other shareholders of PCL are strategic investors, they have not provided loans to PCL.

In order to enable PCL to continue to maintain a sufficient level of liquidity, the Board considers the Revolving Loan Facility to PCL to be efficient, beneficial and in the interest of PCL and its shareholders as a whole, having considered the time and costs that may be incurred by PCL for other means of fund raising, the infeasibility of equity financing, and that the variations to the Facility Period and the Repayment Date under the Second Supplemental Facility Agreement will not create any additional external financing cost to be incurred by the Group. At the same time, PCL considers the Revolving Loan Facility to be a flexible, viable and preferred option for PCL as and when it has to obtain finance for its working capital requirements during the Facility Period.

LETTER FROM THE BOARD

In 2023, relying on the continuous development of the merchant ecosystem in 2022, the “Changyou” platform will continue to optimise its products and strengthen its penetration into quality scenarios of SaaS digital points service, target-oriented service and corporate services, prompting steady growth of the user size and continuous improvement in business revenue and operating profits on a month-on-month basis. For example, seizing the opportunities in the economic recovery period at the beginning of 2023, the Group has tapped into specific scenarios of small-value, high-volume digital points. At the same time, the Group strove for technological innovation, combined with emerging technologies such as blockchain, data centre, and artificial intelligence, and integrated them into the Group’s SaaS digital points service, target-oriented services, and corporate services. Going forward, the Group will also continue to develop supermarket membership benefits for the Changyou general population, and steadily worked with its partners to promote hotel benefit membership, focusing on the creation of special products for private sector operations. The offerings of more diversified products and services and the optimisation of consumption scenarios have led to the steady increase in the number of members and users on the “Changyou” platform over the years. As at 30 June 2023, the “Changyou” platform’s total number of registered users reached approximately 182.8 million, representing an increase of approximately 32.6 million newly registered users compared to the total number of registered users as at 31 December 2022. In addition, the Group is developing the new international “Changyou” platform to expand its digital points business into the Hong Kong and overseas markets so as to, among others, capture a richer and more diversified source of points and increase the number of users. Based on the above, it is expected that the Company’s financial performance will continue to improve in the future.

The Revolving Loan Facility is unsecured. Although PCL is a non-wholly owned subsidiary of the Company, more than half of the directors of PCL are appointed and nominated by the Company. With such structure of the board of directors of PCL, the Company can actively monitor the operations and management decision of PCL. The Company has control power over PCL so as to monitor and secure the usage of any capital of the PCL Group including but not limited to the Revolving Loan Facility and the 2021 Revolving Loan Facility. Having considered (a) the Company’s control power over PCL as aforementioned; (b) the release of the tranches of the Revolving Loan Facility was subject to the Company’s satisfaction of the assessment of the then and expected financial performance and position of the PCL Group; and (c) the “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group, the Board is of the view that (i) the default risk of PCL is justifiable; and (ii) the grant of the Revolving Loan Facility without additional collateral or guarantee is fair and reasonable.

In order to monitor the drawdown of the Revolving Loan Facility and mitigate the default risk associated with the Revolving Loan Facility granted under the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement, the Company has taken the following internal control measures, and considers that such measures are adequate and sufficient to safeguard its assets:

- (i) the senior management of the Company will conduct continuous monitoring of the operations of the PCL Group through fostering and maintaining regular communication and active interaction between the parties;

LETTER FROM THE BOARD

- (ii) the designated staff of the accounting department of the Company will closely monitor the aggregated outstanding Loan balances and report the latest status to the chief financial officer/financial controller of the Company on a monthly basis to ensure that it does not exceed the Annual Cap;
- (iii) the chief financial officer/financial controller of the Company will report to the Board on half-yearly basis in relation to the transaction status;
- (iv) the Company will set an alert alarm when the aggregated outstanding Loan balances is about to reach HK\$90 million. In case that the aggregated principal amount of the Loan is expected to exceed the Annual Cap, the Company could timely re-comply with the requirements under Chapter 14A of the Listing Rules; and
- (v) the internal control department and relevant personnel of the Company will monitor and ensure all transactions contemplated under the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement) are carried out pursuant to its terms.

The Directors (including the members of the Independent Board Committee, having considered the advice from the Independent Financial Adviser) are of the view that the entering into of the Second Supplemental Facility Agreement is not in the ordinary and usual course of business of the Group, but on normal commercial terms, and that the terms of the Second Supplemental Facility Agreement (including the proposed Annual Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As at the Latest Practicable Date, PCL's entire issued share capital is owned as to approximately 47.23% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment. Pointsea Holdings is owned as to 80% by Treasure Ease and 20% by Easylink. Treasure Ease is owned as to 50.1% by the Company, 30% by Fin-Tech and 19.9% by Chance Talent. Fin-Tech is a wholly-owned subsidiary of CIH, the substantial shareholder of the Company and is wholly-owned by Ms. Pun Tang. The Board considers that PCL is a subsidiary of the Company through its power to control the board of directors of PCL. CIH, being a substantial shareholder of the Company, holds the entire issued share capital of Fin-Tech. PCL is therefore a connected person of the Company under Rule 14A.16 of the Listing Rules and the grant of the Revolving Loan Facility constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the grant of the Revolving Loan Facility is more than 5%, the Second Supplemental Facility Agreement and the grant of the Revolving Loan Facility are subject to the reporting, announcement, Independent Shareholders' approval, circular, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

APPROVAL BY THE BOARD

As at the Latest Practicable Date, none of the Directors had a material interest in the transactions contemplated under the Second Supplemental Facility Agreement and was required to abstain from voting on the relevant board resolution(s) to approve the Second Supplemental Facility Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee has been established to advise and give recommendations to the Independent Shareholders in relation to the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder. Red Sun Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 Tuesday, 31 October 2023 at 11:00 a.m. to consider and, if thought fit, approve the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder. The voting on such resolution(s) 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, CIH and its associates were interested in 670,252,818 Shares, representing approximately 37.01% of the issued share capital of the Company and as it had a material interest in the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder, it is required to abstain from voting on the resolution(s) at the EGM to approve the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder.

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 Tuesday, 31 October 2023 at 11:00 a.m. 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). 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.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 26 October 2023 to Tuesday, 31 October 2023 (both days inclusive), for the purpose of determining the Shareholders' entitlement to attend and vote at the EGM to be held on Tuesday, 31 October 2023 at 11:00 a.m. During this period, no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer forms and the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Wednesday, 25 October 2023.

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 Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder set out on pages 17 to 18 of this circular; and (ii) the letter from 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 Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder set out on pages 19 to 38 of this circular.

The Directors (including the members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) consider that the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder 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 the Independent Financial Adviser) recommend that all Independent Shareholders to vote in favour of the resolution(s) proposed at the EGM to approve the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

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

* *For identification purposes only*

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)

11 October 2023

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION
SECOND SUPPLEMENTAL FACILITY AGREEMENT
IN RELATION TO
THE GRANT OF REVOLVING LOAN FACILITY**

We refer to the circular of the Company to the Shareholders dated 11 October 2023 (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 Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder 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 16 of the Circular and the letter of advice from Red Sun Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders as set out on pages 19 to 38 of the Circular in relation to the Second Supplemental Facility Agreement, the proposed Annual Cap 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 the Independent Financial Adviser, we consider that (i) the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the entering into of the Second Supplemental Facility Agreement is not in the ordinary and usual

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

course of business of the Group; and (iii) the entering into of the Second Supplemental Facility Agreement is in the interests of the Company and the Independent Shareholders as a whole. We recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) in relation to the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder 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. Ip Wai Lun William
Mr. Chan Chi Keung Alan
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders regarding the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

Room 310, 3/F.,
China Insurance Group Building,
141 Des Voeux Road Central,
Hong Kong

Tel: (852) 2857 9208

Fax: (852) 2857 9100

11 October 2023

*To: The Independent Board Committee and the Independent Shareholders
of Changyou Alliance Group Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTION SECOND SUPPLEMENTAL FACILITY AGREEMENT IN RELATION TO THE GRANT OF REVOLVING LOAN FACILITY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular of the Company dated 11 October 2023 (the “**Circular**”). Unless otherwise specified, terms defined in the Circular have the same meanings in this letter.

Reference is made to the announcement of the Company dated 18 September 2023 in respect of the Second Supplemental Facility Agreement (including the proposed Annual Cap) and the transactions contemplated thereunder.

On 3 September 2019 (after trading hours), the Company (as lender) and PCL (as borrower) entered into the 2019 Facility Agreement, pursuant to which the Company agreed to grant the Revolving Loan Facility of up to HK\$100 million to PCL (as borrower), an indirect non-wholly owned subsidiary of the Company, for a term of three years from and including the date on which the Company is satisfied that all the conditions precedent of the 2019 Facility Agreement have been fulfilled or specifically waived in writing by the Company. Accordingly, the Repayment Date was on 31 October 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the First Supplemental Facility Agreement, the Company (as lender) and PCL (as borrower) agreed to vary (i) the facility period of the Revolving Loan Facility to four years from and including the date on which the Company is satisfied that all the conditions precedent of the 2019 Facility Agreement have been fulfilled or specifically waived in writing by the Company, and (ii) the Repayment Date to 31 October 2023.

On 18 September 2023 (after trading hours), the Company (as lender) and PCL (as borrower) entered into the Second Supplemental Facility Agreement pursuant to which the parties have conditionally agreed to further vary the terms of the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement).

THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of six Directors, namely Mr. Cheng Jerome and Mr. Yuan Weitao as the executive Directors, Mrs. Guo Yan as the non-executive Director, Mr. Wong Chi Keung, Mr. Ip Wai Lun William, Mr. Chan Chi Keung Alan as the independent non-executive Directors.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Ip Wai Lun William, Mr. Chan Chi Keung Alan, has been established to advise and give recommendations to the Independent Shareholders in relation to the Second Supplemental Facility Agreement (including the proposed Annual Cap) and the transactions contemplated thereunder. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, PCL's entire issued share capital is owned as to approximately 47.23% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment. Pointsea Holdings is owned as to 80% by Treasure Ease and 20% by Easylink. Treasure Ease is owned as to 50.1% by the Company, 30% by Fin-Tech and 19.9% by Chance Talent. Fin-Tech is a wholly-owned subsidiary of CIH, the substantial shareholder of the Company and is wholly-owned by Ms. Pun Tang. The Board considers that PCL is a subsidiary of the Company through its power to control the board of directors of PCL. CIH, being a substantial shareholder of the Company, holds the entire issued share capital of Fin-Tech. PCL is therefore a connected person of the Company under Rule 14A.16 of the Listing Rules and the grant of the Revolving Loan Facility constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the grant of the Revolving Loan Facility is more than 5%, the Second Supplemental Facility Agreement and the grant of the Revolving Loan Facility are subject to the reporting, announcement, Independent Shareholders' approval, circular, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company or any relevant parties in connection with the Second Supplemental Facility Agreement and we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Second Supplemental Facility Agreement and the transactions contemplated thereunder. Save for our appointment as the independent financial adviser for the continuing connected transactions of the Company in relation to the supplemental facility agreement in relation to the grant of revolving loan facility, the circular of which was dated 12 October 2022, there was no engagement between the Company and Red Sun Capital in the last two years.

Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular. In addition, pursuant to the relevant Listing Rules, we have taken reasonable steps to enable ourselves to reach an informed view so as to provide a reasonable basis for our opinion, which included, among others (i) obtained the 2019 Facility Agreement and reviewed the terms thereunder; (ii) obtained the First Supplemental Facility Agreement and reviewed the terms thereunder; (iii) obtained the Second Supplemental Facility Agreement and reviewed the terms thereunder; (iv) reviewed the announcement of the Company dated 18 September 2023; (v) reviewed the contents as set out in the Circular, including the reasons for and benefits of the Revolving Loan Facility; (vi) reviewed the information as set out in the 2022 Annual Report and the 2023 Interim Report (defined hereafter) for our analysis on the background and historical financial performance of the Group; and (vii) conducted market research and obtained sampled transactions on the similar transactions involving the provision of loans to connected person(s) with pre-fixed interest rates for the purpose of our fairness and reasonableness analysis of the terms of the Second Supplemental Facility Agreement, interest rate and term to maturity.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group, and, where applicable, their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the continuing connected transactions in relation to the grant of revolving loan facility, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION FOR THE SECOND SUPPLEMENTAL FACILITY AGREEMENT

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. BACKGROUND INFORMATION

1.1. Background of the Company and the Group

The Group is principally engaged in the development and operations of the electronic trading platform, “Changyou”, 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 membership points from various partnership entities and industries are interchangeable and redeemable globally as virtual assets and credit on the “Changyou” platform 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.

1.2. Financial information of the Group

Set out below is a summary of the financial information of the Group as extracted from the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”), details of which are as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Summary of the consolidated statement of profit or loss extracted from the 2022 Annual Report and 2023 Interim Report

	For the six months ended 30 June		For the year ended 31 December	
	2023	2022	2022	2021
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (audited)	RMB'000 (audited)
Revenue	144,920	105,446	215,038	114,211
Cost of sales	(119,092)	(90,005)	(186,766)	(101,538)
Gross profit	25,828	15,441	28,272	12,673
Loss for the period/ year	(14,472)	(22,702)	(48,742)	(124,863)
Loss for the period /year attributable to equity shareholders of the Company	(17,563)	(15,393)	(34,725)	(49,467)

Financial performance for the six months ended 30 June 2023 and the six months ended 30 June 2022

Based on the 2023 Interim Report, the Group's revenue for the six months ended 30 June 2022 and 2023 was approximately RMB105.4 million and RMB144.9 million, respectively, representing an increase of approximately 37.5%. The such increase was mainly attributable to the Group rapidly increased the operating income of its existing businesses and accelerated the expansion of new businesses that are closely linked to existing platform resources, users and supply chain resource during the six months ended 30 June 2023.

The gross profit of the Group for the six months ended 30 June 2023 increased from approximately RMB15.4 million for the six months ended 30 June 2022 to approximately RMB25.8 million for the six months ended 30 June 2023. The such increase was attributable to the increase in revenue and the increase in gross profit margin from approximately 14.6% for the six months ended 30 June 2022 to approximately 17.8% for the six months ended 30 June 2023 which was due to the Company changed its business strategy to provide its products to customers with higher profit margins since 2021.

The loss for the six months ended 30 June 2022 and 2023 was approximately RMB22.7 million and RMB14.5 million, respectively, representing a decrease in loss of approximately RMB8.2 million or 36.1%. The such decrease in loss was mainly attributable to (i) the increase in gross profit from approximately RMB15.4 million for the six months ended 30 June 2022 to approximately RMB25.8 million for the six months ended 30 June 2023, representing an increase of approximately RMB10.4 million or 67.5%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial performance for the year ended 31 December 2022 and the year ended 31 December 2021

As set out on the 2022 Annual Report, the Group's revenue for the year ended 31 December 2021 and 2022 was approximately RMB114.2 million and RMB215.0 million, respectively, representing an increase of approximately RMB 100.8 million or 88.3%. During the year ended 31 December 2022, the Group rapidly increased the operating income of its existing businesses and accelerated the expansion of new businesses that are closely linked to existing platform resources, users and supply chain resources.

The gross profit of the Group for the year ended 31 December 2021 and 2022 was approximately RMB12.7 million and RMB28.3 million, respectively, representing an increase of approximately RMB15.6 million or 122.8%. Such increase was mainly attributable to that the Group changed its business strategy to providing its products to customers with higher profit margins and the gross profit margin for the year ended 31 December 2022 was eventually increased to approximately 13.1% from approximately 11.1% for the year ended 31 December 2021.

The loss for the year ended 31 December 2021 and 2022 was approximately RMB124.9 million and RMB48.7 million, respectively, representing a decrease in loss of approximately RMB76.2 million or 61.0%. Such decrease in loss for the year was mainly attributable to (i) the increase in gross profit from approximately RMB15.6 million; (ii) the decrease in selling and distribution expenses of approximately RMB18.1 million; (iii) the decrease in administrative expenses of approximately RMB19.8 million; (iv) the decrease in research and development costs of approximately RMB26.4 million.

Summary of the consolidated statement of financial position of the Group extracted from the 2022 Annual Report and 2023 Interim Report

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Current assets	141,370	148,570
Total assets	146,195	154,406
Current Liabilities	227,451	267,550
Total Liabilities	281,164	270,210
Net current liabilities	86,081	118,980
Net deficit	134,969	115,804
Cash and cash equivalents	23,562	32,974

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial position as at 30 June 2023

As at 30 June 2023, the Group recorded total assets of approximately RMB146.2 million, which mainly comprised (i) trade and other receivables of approximately RMB117.1 million; and (ii) cash and cash equivalents of approximately RMB23.6 million.

As at 30 June 2023, the Group recorded total liabilities of approximately RMB281.2 million, which mainly comprised (i) trade and other payables of approximately RMB118.0 million; (ii) convertible bonds of approximately RMB107.3 million; and (iii) loans from an equity shareholder of the Company of approximately RMB51.7 million.

As at 30 June 2023, the Group recorded net deficit of approximately RMB135.0 million.

Financial position as at 31 December 2022

As at 31 December 2022, (i) the total assets of the Group amounted to approximately RMB154.4 million, which mainly comprised (i) trade and other receivables of approximately RMB114.8 million; and (ii) cash and cash equivalents of approximately RMB33.0 million.

As at 31 December 2022, the Group recorded total liabilities of approximately RMB270.2 million, which mainly comprised (i) trade and other payables of approximately RMB124.5 million; (ii) convertible bonds of approximately RMB90.5 million; and (iii) loans from an equity shareholder of the Company of approximately RMB50.1 million.

As at 31 December 2022, the Group recorded net deficit of approximately RMB115.8 million.

2. INFORMATION OF PCL

PCL is an investment holding company incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, PCL's entire issued share capital is owned as to approximately 47.23% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment.

Pointsea Holdings is owned as to 80% by Treasure Ease and 20% by Easylink. Treasure Ease is owned as to 50.1% by the Company, 30% by Fin-Tech and 19.9% by Chance Talent. Fin-Tech is a wholly-owned subsidiary of CIH, the substantial shareholder of the Company and is wholly-owned by Ms. Pun Tang. Chance Talent is an indirect wholly-owned subsidiary of CCB International (Holdings) Limited, which is a wholly-owned subsidiary of China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (Stock Code: 939). Easylink is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

subsidiary of China UnionPay Merchant Services Company Limited* (銀聯商務股份有限公司) (“**China UnionPay MSC**”). To the Company’s best knowledge and information, (i) China UnionPay MSC is a company established in the PRC and is owned as to approximately 55.5% by Shanghai Lianyin Venture Investment Company Limited* (上海聯銀創業投資有限公司) (“**Shanghai Lianyin**”) and 22 other corporate shareholders; (ii) Shanghai Lianyin is a company established in the PRC and is a wholly-owned subsidiary of China UnionPay Holding Company Limited* (中國銀聯股份有限公司) (“**China UnionPay Holding**”); (iii) China UnionPay Holding is a company established in the PRC and is owned by 75 corporate shareholders, with the single largest shareholder being China Banknote Printing and Minting Group Company Limited* (中國印鈔造幣集團有限公司) (“**China Banknote Printing and Minting**”), holding approximately 7.0% of its total issued shares; and (iv) China Banknote Printing and Minting is a company established in the PRC and is wholly-owned by The People’s Bank of China, being one of the ministries and commissions under the State Council of the PRC.

Joy Empire is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Bank of China Group Investment Limited, which is in turn a wholly-owned subsidiary of Bank of China Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3988).

Extra Step is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited. China Mobile (Hong Kong) Group Limited is a wholly-owned subsidiary of China Mobile Communications Group Co., Ltd., which is a state-owned enterprise in the PRC.

Eastern E-Commerce is a company established in the PRC and a wholly-owned subsidiary of China Eastern Airlines Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 670).

Zhongjin Qizhi is a limited partnership established in the PRC and a subsidiary of China International Capital Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3908).

Senran Investment is a company incorporated in Hong Kong with limited liability and is ultimately beneficially owned by Ms. Yang Xiangru and Ms. Yuan Beiling, who are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Save for Treasure Ease and Fin-Tech, the remaining ultimate beneficial owners of PCL are independent third parties of the Company and its connected persons.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. REASONS FOR AND BENEFITS OF THE SECOND SUPPLEMENTAL FACILITY AGREEMENT

As set out in the Letter from the Board, the “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group. The day-to-day operations of the “Changyou” business 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 maintain its technology infrastructure and feature new financial technologies such as blockchain 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 in the future. As such, it is important to maintain a sufficient level of liquidity and financial flexibility in order to maintain the current level of performance and user network of the “Changyou” platform.

With the development of blockchain technology, digital assets have received increasing attention from the industry and transactions by way of digital assets are developing towards better compliance and legalisation. Leveraging advanced technologies such as blockchain and big data analysis, the business operations of Changyou Alliance aims to develop a global financial platform for the issuance, circulation, storage and payment settlement of block chain tokenisation of assets. Over the years, the “Changyou” platform has increased the number of both members and users, and more diversified products and services, and optimised the business models and consumption scenarios. As at 31 December 2022, the total number of registered users on the “Changyou” platform was approximately 150.2 million, representing an increase of approximately 53.5 million registered users compared to the total number as at 31 December 2021. For the year ended 31 December 2022, the total transaction volume of the Changyou Alliance business amounted to approximately RMB236.0 million, which representing an increase of approximately RMB78.7 million (approximately 50.0%) over the same period last year.

As set out in the Letter from the Board, for the six months ended 30 June 2023, the Group had net loss of approximately RMB14.5 million and net cash used in operating activities of approximately RMB45,000, and had net liabilities of approximately RMB135.0 million as at 30 June 2023. The cash balance held by the PCL Group amounted to approximately RMB16.3 million as at 30 June 2023. As at the Latest Practicable Date, an aggregate sum of approximately HK\$174.0 million under the Revolving Loan Facility and the 2021 Revolving Loan Facility have been utilised by PCL. It is therefore necessary for the Company and PCL to vary the terms of the Revolving Loan Facility to further extend the Facility Period from four years to five years, in order to enable PCL to continue to maintain a sufficient level of liquidity and to avoid the risk of discontinuance of the operations of the PCL Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the Management and are given to understand that PCL has been considering other financing opportunities in order to meet its financing needs. PCL had approached certain banks and non-banking financial institutions to discuss the feasibility of debt financing in the short term, and had considered the feasibility of other sources of fundraising activities for the development and expansion of the “Changyou” business of the Group in the long term. However, based on the discussions with the relevant banks and non-banking financial institutions, due to PCL’s loss-making performance for the year ended 31 December 2022, it is not feasible for PCL to obtain loan facilities on favourable terms and conditions (such as interest rate and requirements for the provision of charges and/or other security to secure such loan facilities) from them. PCL has also considered the feasibility of equity financing from private equity firms. Despite of the fact that economic activities are normalising globally during the post COVID-19 pandemic, the economy is facing macro-financial challenges amid rising interest rates. Therefore, it is likely that private equity firms will be cautious in making investment decisions, impeding the equity fund raising exercise by PCL. As such, PCL has not approached any private equity firms for the purpose of equity fund raising possibility.

Having considered that the “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group and the Group has control over the PCL Group and the “Changyou” business is generally financed by the Group for its continuing operations and since the other shareholders of PCL are strategic investors, the Directors are of the view and we concur that the other shareholders of PCL not providing loans to PCL on similar terms of the Revolving Loan Facility on pro-rata basis to finance the operations of PCL is fair and reasonable.

In order to enable PCL to continue to maintain a sufficient level of liquidity, the Board considers the Revolving Loan Facility to PCL to be efficient, beneficial and in the interest of PCL and its shareholders as a whole, having considered the time and costs that may be incurred by PCL for other means of fund raising, the infeasibility of equity financing, and that the variations to the Facility Period and the Repayment Date under the Second Supplemental Facility Agreement will not create any additional external financing cost to be incurred by the Group. At the same time, PCL considers the Revolving Loan Facility to be a flexible, viable and preferred option for PCL as and when it has to obtain finance for its working capital requirements during the Facility Period.

In 2023, relying on the continuous development of the merchant ecosystem in 2022, the “Changyou” platform will continue to optimise its products and strengthen its penetration into quality scenarios of SaaS digital points service, target-oriented service and corporate services, prompting steady growth of the user size and continuous improvement in business revenue and operating profits on a month-on-month basis. For example, seizing the opportunities in the economic recovery period at the beginning of 2023, the Group has tapped into specific scenarios of small-value, high-volume digital points. At the same time, the Group strove for technological innovation, combined with emerging technologies such as blockchain, data centre, and artificial intelligence, and integrated them into the Group’s SaaS digital points service, target-oriented services, and corporate services. Going forward, the Group will also continue to develop

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

supermarket membership benefits for the Changyou general population, and steadily worked with its partners to promote hotel benefit membership, focusing on the creation of special products for private sector operations. The offerings of more diversified products and services and the optimisation of consumption scenarios have led to the steady increase in the number of members and users on the “Changyou” platform over the years. As at 30 June 2023, the “Changyou” platform’s total number of registered users reached approximately 182.8 million, representing an increase of approximately 32.6 million newly registered users compared to the total number of registered users as at 31 December 2022. In addition, the Group is developing the new international “Changyou” platform to expand its digital points business into the Hong Kong and overseas markets so as to, among others, capture a richer and more diversified source of points and increase the number of users. Based on the above, it is expected that the Company’s financial performance will continue to improve in the future.

The Revolving Loan Facility is unsecured. Although PCL is a non-wholly owned subsidiary of the Company, more than half of the directors of PCL are appointed and nominated by the Company. With such structure of the board of directors of PCL, the Company can actively monitor the operations and management decision of PCL. The Company has control power over PCL so as to monitor and secure the usage of any capital of the PCL Group including but not limited to the Revolving Loan Facility and the 2021 Revolving Loan Facility. Having considered (a) the Company’s control power over PCL as aforementioned; (b) the release of the tranches of the Revolving Loan Facility was subject to the Company’s satisfaction of the assessment of the then and expected financial performance and position of the PCL Group; and (c) the “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group, the Board is of the view that (i) the default risk of PCL is justifiable; and (ii) the grant of the Revolving Loan Facility without additional collateral or guarantee is fair and reasonable.

The proposed Annual Cap in respect of the Revolving Loan Facility under the Second Supplemental Facility Agreement during the Facility Period shall not exceed HK\$100 million. The proposed Annual Cap was determined by reference to the following:

- (i) the maximum principal amount of the Loan(s) to be granted by the Company to PCL pursuant to the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement. As the proposed Annual Cap in respect of the Revolving Loan Facility under the Second Supplemental Facility Agreement has not been increased, there would not be additional financing cost to the Company; and
- (ii) the operations and developments of the “Changyou” business of the Group which is conducted through the PCL Group. In order to enable PCL to continue to maintain a sufficient level of liquidity and to avoid the risk of discontinuance of the operations of the PCL Group, it is necessary to extend the Facility Period with the proposed Annual Cap.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Revolving Loan Facility has been fully utilised.

Considering various fund-raising methods to improve the financial position of the Group including long term bank borrowings, placement of Shares to independent third parties, rights issue and open offer, we noted that the ability for a company to obtain bank borrowings generally and largely depends on the Company's profitability, financial position and the then prevailing market condition and may be subject to lengthy due diligence and internal risk assessment by and negotiations with bank and usually requires pledge of assets by the borrower.

For the various fund-raising methods to improve the financial position of the PCL including long term bank borrowings, placement of shares to independent third parties, rights issue and open offer, we noted that the ability for a company to obtain bank borrowings generally and largely depends on the company's profitability, financial position and the then prevailing market condition and may be subject to lengthy due diligence and internal risk assessment by and negotiations with bank and usually requires pledge of assets by the borrower.

We noted from the letter from the Board that it is not feasible for PCL to obtain loan facilities on favourable terms and conditions (such as interest rate and requirements for the provision of charges and/ or other security to secure such loan facilities) from banks and/or non-banking financial institutions due to PCL's loss-making performance for the year ended 31 December 2022. Besides, the economy is facing macro-financial challenges amid rising interest rates, it is therefore likely that private equity firms will be cautious in making investment decisions, impeding the equity fund raising exercise by PCL.

Based on the above, we note that it is unlikely for the PCL to (i) timely generate sufficient operating cash inflow from its daily operation in order to alleviate its current financial burden; (ii) obtain additional mid-term or long-term bank loans of meaningful loan size (i.e. approximately RMB100 million) timely with favourable terms due to the reasons as discussed above.

In light of the abovementioned financial performance of the PCL for the recent financial year, it is unlikely for the PCL to raise the necessary funds by way of placing or rights issue or open offer of new Shares without a deep discount to the prevailing market price of its shares so as to attract subscription by the potential investors or Shareholders. In view of the above, we concur with the Management that the terms of the Second Supplemental Facility Agreement (including the proposed Annual Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. MAJOR TERMS OF THE SECOND SUPPLEMENTAL FACILITY AGREEMENT AND THE 2019 FACILITY AGREEMENT

On 18 September 2023 (after trading hours), the Company (as lender) and PCL (as borrower) entered into the Second Supplemental Facility Agreement pursuant to which the parties have conditionally agreed to further vary the terms of the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement).

Set out below are the summary of the major terms of the Second Supplemental Facility Agreement.

The Second Supplemental Facility Agreement

Date:	18 September 2023 (after trading hours)
Parties	(i) the Company, as lender; and (ii) PCL, as borrower
Facility Period:	The Facility Period shall be varied to five years from and including the 2019 Conditions Fulfilment Date, and the Repayment Date shall be varied to 31 October 2024.
Conditions precedent:	The obligations of the parties to the Second Supplemental Facility Agreement are conditional upon the Company having complied with all applicable requirements of the Listing Rules and other regulatory provisions in connection with the Second Supplemental Facility Agreement and the transactions contemplated thereunder including the Independent Shareholders having approved the variations of the Facility Period and the Repayment Date as set forth in the Second Supplemental Facility Agreement at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If these conditions have not been fulfilled on or before 30 November 2023 or on such later date as may be agreed between the parties to the Second Supplemental Facility Agreement, then the Second Supplemental Facility Agreement shall automatically terminate (other than in respect of the surviving provisions). In such event, neither party shall have any claim under the Second Supplemental Facility Agreement of any nature whatsoever against the other party except in respect of any rights and liabilities which have accrued before termination or under any of the surviving provisions.

Other terms: Subject only to the variations contained in the Second Supplemental Facility Agreement and such other alterations (if any) as may be necessary to render the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement) consistent with the Second Supplemental Facility Agreement, the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Second Supplemental Facility Agreement.

Other than the extension of the Facility Period and the variation of the Repayment Date, the Board is not aware of any other alterations to the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement).

2019 Facility Agreement

Security: None

Interest:

- (i) PCL shall pay interest on the outstanding principal amount of each Loan at the rate of 6.5% per annum (on the basis of a 365-day year); and
- (ii) Interest shall accrue daily, calculated on the basis of the actual number of days elapsed from (and including) the date of the drawdown date and shall be payable on each Interest payment date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Voluntary prepayment: PCL may, at any time after a Loan has been advanced and prior to the Repayment Date, prepay such Loan in whole or in part (together with all interest accrued thereon), without any penalty.
- Reborrowing: PCL may reborrow any part of the Revolving Loan Facility which has been prepaid or repaid, in accordance with the terms of the 2019 Facility Agreement, provided that (i) no event of default as set out in the 2019 Facility Agreement has occurred, and (ii) the aggregate outstanding principal amount of all Loan(s) shall not exceed HK\$100 million at any during the Facility Period.

The loan amount granted to PCL in any point of time has never exceeded the annual caps under the 2019 Facility Agreement. As at the Latest Practicable Date, PCL has settled all accrued interest from the Revolving Loan Facility in accordance with the interest payment schedule under the 2019 Facility Agreement.

5. EVALUATION OF THE TERMS OF THE SECOND SUPPLEMENTAL FACILITY AGREEMENT

In order to assess the fairness and reasonableness of the terms of the Second Supplemental Facility Agreement, in view that the Revolving Loan Facility is provided by the Company to its connected subsidiary, we therefore compared the terms of the Second Supplemental Facility Agreement with that of the loans provided by the companies listed on the Stock Exchange (or through its subsidiaries) to connected person(s). In view of the feature of the Second Supplemental Facility Agreement (particularly with term to maturity of one year and the maximum principal amount of HK\$100 million), we attempted to identify loans provided by the companies listed on the Stock Exchange (or through its subsidiaries) to connected person(s) which (i) the principal amount of the individual loan is more than HK\$50 million but less than HK\$150 million; (ii) companies initially announced the loans during the 6-month period immediately before the date of the Second Supplemental Facility Agreement; and (iii) with pre-fixed interest rates as at the date of the respective agreements.

On a best effort basis and to the best of our knowledge, we have identified five transactions on an exhaustive basis (the “**Market Comparables**”) which meet the abovementioned criteria. We consider that a review period of six months is appropriate to capture the recent market practice in respect of the provision of loans to connected persons under the current market condition and sentiment and on the other hand, provide sufficient sample size for analysis purpose, and that the Market Comparables are fair and representative. We are of the view that the Market Comparables based on such review period and criteria set are meaningful references to the Independent Shareholders on the general market practice in connection with recent similar transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not the same as the Market Comparables. Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions, we consider that our comparable analysis on the terms of the Second Supplemental Facility Agreement without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders' reference. We set out our findings in the table below:

No.	Date of announcement/ agreement	Stock Code	Company Name	Maximum loan amount	Interest rate per annum (%)	Maturity (Year(s))	With Collateral/ Guarantee
1.	29-Aug-23	0616	Eminence Enterprise Limited	HK\$80 million	6.00	2.0	Yes
2.	21-Aug-23	0261	GBA Holdings Limited	HK\$70 million	7.00	4.0	No
3.	7-Aug-23	6988	Joy Spreader Group Inc.	US\$11 million (equivalent to approximately HK\$86 million) <i>(Note 2)</i>	3.00	3.0	N/A <i>(Note 3)</i>
4.	27-Jun-23	6639	Arrail Group Limited	US\$11 million (equivalent to approximately HK\$86 million) <i>(Note 2)</i>	5.50	1.5	Yes
5.	23-May-23	6808	Sun Art Retail Group Limited	RMB100 million (equivalent to approximately HK\$109 million) <i>(Note 1)</i>	3.65	1.0	N/A <i>(Note 3)</i>
				Maximum	7.00	4.0	
				Minimum	3.00	1.0	
				Median	5.50	2.0	
				Average	5.03	2.3	
	16-Sept-23	1039	The Company (based on the Second Supplemental Facility Agreement)	HK\$100 million	6.5	1.0	No

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Source: The website of the Stock Exchange (www.hkex.com.hk) and adopted from the relevant announcements.

Notes:

1. For illustration purposes only, RMB has been translated at RMB1 to HK\$1.09.
2. For illustration purposes only, USD has been translated at USD\$1 to HK\$7.85.
3. No information in relation to the collateral or the guarantee was noted in the announcement.

5.1 Interest Rate

As illustrated by the above table, the interest rate of the Market Comparables ranges from 3.0% to 7.0%, with an average of approximately 5.0% and a median of approximately 5.5% per annum. We note that the interest rate of 6.5% under the Second Supplemental Facility Agreement is higher than the average and the median, and falls within the range of the interest rate of the Market Comparables. Accordingly, we consider that the interest rate of the Second Supplemental Facility Agreement in relation to the Revolving Loan Facility is fair and reasonable.

5.2 Term to maturity

As illustrated by the above table, the term of maturity of the Market Comparables ranges from one year to four years with an average of 2.3 years and median of two years. The duration of the Second Supplemental Facility Agreement is in line with the aforesaid range of Market Comparables. Accordingly, we consider the term of maturity of the Second Supplemental Facility Agreement to be fair and reasonable.

5.3 Collateral / Guarantee

As illustrated by the above table, one out of five Market Comparables was not secured by collateral or guarantee and no information in relation to the collateral or the guarantee was noted in the announcements for the another two out of five Market Comparables. As such, it is not uncommon in the market for provision of a loan to a connected person by the listed companies in Hong Kong without collateral or guarantee.

As set out in the Letter from the Board, we noted that (i) PCL is a non-wholly owned subsidiary of the Company and more than half of the directors of PCL are appointed and nominated by the Company therefore the Company can actively monitor the operations and management decision of PCL; (ii) the Company has control power over PCL so as to monitor and secure the usage of any capital of the PCL Group including but not limited to the Revolving Loan Facility and the 2021 Revolving Loan Facility; and (iii) the release of the tranches of the Revolving Loan Facility was subject to the Company's satisfaction of the assessment of the then and expected financial performance and position of the PCL Group. Having considered (a) there is genuine financial needs for PCL to maintain a sufficient level of liquidity to operate the "Changyou" business which

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

is the sole operating segment of the Group conducted through the PCL Group; (b) the Company's control power over PCL as aforementioned; and (c) there is a Market Comparable with provision of a loan to connected person by the listed companies in Hong Kong without collateral or guarantee, the Board is of the view that and we concur that the grant of the Revolving Loan Facility without additional collateral or guarantee is fair and reasonable and on normal commercial terms.

5.4 Internal control

In order to monitor the drawdown of the Revolving Loan Facility and mitigate the default risk associated with the Revolving Loan Facility granted under the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement, the Company has taken the following internal control measures, and considers that such measures are adequate and sufficient to safeguard its assets:

- (i) the senior management of the Company will conduct continuous monitoring of the operations of the PCL Group through fostering and maintaining regular communication and active interaction between the parties;
- (ii) the designated staff of the accounting department of the Company will closely monitor the aggregated outstanding Loan balances and report the latest status to the chief financial officer/financial controller of the Company on a monthly basis to ensure that it does not exceed the Annual Cap;
- (iii) the chief financial officer/financial controller of the Company will report to the Board on half yearly basis in relation to the transaction status;
- (iv) the Company will set an alert alarm when the aggregated outstanding Loan balances is about to reach HK\$90 million. In case that the aggregated principal amount of the Loans is expected to exceed the Annual Cap, the Company could timely re-comply with the requirements under Chapter 14A of the Listing Rules; and
- (v) the internal control department and relevant personnel of the Company will monitor and ensure all transactions contemplated under the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement and the Second Supplemental Facility Agreement) are carried out pursuant to its terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the effectiveness of the Company's internal control measures to monitor the drawdown of Loan under the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement and mitigate the default risk associated, we have reviewed the past internal control records of the Group, including (i) the status reports for the outstanding Loan balances reviewed by the Board; (ii) the internal reports prepared by finance manager of the Company, reviewed by financial controller of the Company, and approved by the chief financial officer of the Company in relation to the status of the outstanding Loan balances; and (iii) the letters issued by the independent auditors for conducting annual review of the continuing connected transactions, including but not limited to the drawdown of the Loan under the Revolving Loan Facility for the year ended 31 December 2022 and 2021, respectively, to assess whether such transactions have been carried out in accordance with the relevant terms of the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement.

Besides, we have confirmed with the Management that (a) the release of the tranches of the Revolving Loan Facility was subject to the Company's satisfaction of the assessment of the then and expected financial performance and position of the PCL Group; (b) there is no default record for the drawdown of Loan under the 2019 Facility Agreement; and (c) the Company's control power over PCL and able to assess and review the financial position of PCL.

Based on the above and having considered that (i) the Company monitors the aggregated Loan amounts against the approved annual caps to ensure the compliance of the terms and policy under the 2019 Facility Agreement as amended by the First Supplemental Facility Agreement; (ii) the Company has adequate internal control procedures as aforementioned; and (iii) the Company's control power over PCL, we consider that the internal control measures are sufficient to safeguard Shareholders' interest in conducting the Second Supplemental Facility Agreement and the transactions contemplated thereunder. Accordingly, we are of the view that the internal control procedures are in place, adequate and in compliance with the internal measures as mentioned above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that although the entering into of the Second Supplemental Facility Agreement is not in the ordinary and usual course of business of the Group, it is on normal commercial terms, and the Second Supplemental Facility Agreement and the proposed Annual Cap are (i) fair and reasonable so far as the Independent Shareholders are concerned, and (ii) in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Second Supplemental Facility Agreement.

Yours faithfully
For and on behalf of
Red Sun Capital Limited
Robert Siu
Managing Director

Mr. Robert Siu is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in the corporate finance industry.

* *for identification purposes only*

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, 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 THE 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)
Pun Tang ^(Note 1)	Beneficial interest	71,367,000 (L)	3.94%
	Interest of controlled corporation	1,196,885,818 (L)	66.09%
		600,000,000 (S)	33.13%
CIH ^(Note 1)	Beneficial interest	1,196,885,818 (L)	66.09%
		600,000,000 (S)	33.13%

Name of Shareholder	Nature of interest	Interest in Shares	Approximate percentage of interest ^(Note 7)
Greater Bay Area Homeland Investments Limited ^(Note 2)	Interest of controlled corporation	652,647,000 (L)	36.04%
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	144,853,000 (L)	8.00%
Taiping Trustees Limited ^(Note 6)	Trustee	138,888,000 (L)	7.67%

L = Long position; S = Short position

Notes:

1. *Long position*

CIH is wholly-owned by Ms. Pun Tang. As at the Latest Practicable Date, Ms. Pun Tang held 71,367,000 Shares (being approximately 3.94% of the total issued Shares of the Company as at the Latest Practicable Date). CIH held 1,196,885,818 Shares, which comprised (i) a 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) 298,000,000 new Shares upon the exercise in full of the warrants issued by the Company to CIH on 18 September 2018; (iii) 300,000,000 new Shares that may be issued upon conversion in full of the convertible bonds issued by the Company to CIH on 19 October 2020.

Short position

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

Subsequently, on 30 July 2019, a novation deed was entered into between Mega Prime as outgoing party, Poly Platinum Enterprises Ltd. (“**Poly Platinum**”) as incoming party and CIH 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.

On 28 July 2022, CIH and Poly Platinum agreed to vary the terms of the Exchangeable Bonds, pursuant to which the number of Shares exchangeable was varied from 220,000,000 Shares to 300,000,000 Shares, and CIH agreed to charge to Poly Platinum its interest in the convertible bonds (the “**Convertible Bonds**”) issued by the Company in favour of CIH pursuant to the subscription agreement dated 29 July 2020 which are convertible into 300,000,000 Shares.

2. As at the Latest Practicable Date, Poly Platinum held 52,647,000 Shares, and was the beneficial owner of the Exchangeable Bonds, which are exchangeable into 300,000,000 Shares and the beneficial owner of the Convertible Bonds, which are convertible into 300,000,000 Shares. 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.
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 issued Shares, 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 Limited is the beneficial owner of 144,853,000 Shares, and is wholly-owned by Atlantis Capital Holdings Limited, which is in turn wholly owned by Yang Liu.
6. Taiping Trustees Limited holds 138,888,000 Shares as trustee of certain discretionary trust, of which Taiping Assets Management (HK) Company Limited is investment manager. 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 2022 (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
Red Sun Capital Limited	A corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in 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

Red Sun Capital Limited 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, Red Sun Capital Limited has not had 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, Red Sun Capital Limited has not had any direct or indirect interests in any assets which have been, since 31 December 2022 (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 2022 (being the date to which the latest published audited consolidated financial statements of the Group have been made up).

10. DOCUMENTS ON DISPLAY

Copies of the following documents are available for inspection on the website of the Company (<http://www.changyou-alliance.com>) and the website of the Stock Exchange (<http://www.hkexnews.hk>) for the period from the date of this circular up to and including the date of the EGM:

- (a) the Second Supplemental Facility Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 17 to 18 of this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 38 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

In the event of inconsistency, the English version of this circular shall prevail over the Chinese text.

NOTICE OF EGM

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 Tuesday, 31 October 2023 at 11:00 a.m. or at any adjournment thereof, to consider and, if thought fit, pass the following resolution, with or without amendments, as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the second supplemental facility agreement dated 18 September 2023 (the “**Second Supplemental Facility Agreement**”) and entered into between the Company and PCL (as defined in the circular of the Company dated 11 October 2023 (the “**Circular**”), a copy of which has been produced to the EGM and marked “A” and initialled by the chairman of the EGM for identification purposes, pursuant to which the Company has conditionally agreed to further vary the terms of the 2019 Facility Agreement (as amended by the First Supplemental Facility Agreement)(both as defined in the Circular) in relation to an unsecured revolving loan facility of a principal amount not exceeding HK\$100 million to PCL, the proposed Annual Cap (as defined in the Circular) and the transactions contemplated thereunder, be and are hereby considered, approved, confirmed and ratified; and

NOTICE OF EGM

- (b) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents 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 Second Supplemental Facility Agreement, the proposed Annual Cap and the transactions contemplated thereunder.”

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

Hong Kong, 11 October 2023

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, the first named being the senior.
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 the holding of the meeting or any adjournment thereof. The proxy form will be published on the website of the Stock Exchange.
4. The register of members of the Company will be closed from Thursday, 26 October 2023 to Tuesday, 31 October 2023 (both days inclusive), for the purpose of determining the Shareholders' entitlement to attend and vote at the EGM to be held on Tuesday, 31 October 2023 at 11:00 a.m. During this period, no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer forms and the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Wednesday, 25 October 2023.

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. Ip Wai Lun William and Mr. Chan Chi Keung Alan.