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CHANGYOU ALLIANCE GROUP LIMITED

暢由聯盟集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

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

INTRODUCTION

References are made to the announcement of the Company dated 29 July 2020 and the circular of the Company dated 17 September 2020 in respect of the connected transaction in relation to the issue of the 2020 Convertible Bonds by the Company to the Subscriber at the aggregate principal amount of HK\$126,000,000 under a specific mandate.

Reference is also made to the announcement of the Company dated 19 October 2023 in relation to the updates on the 2020 Convertible Bonds. The 2020 Convertible Bonds matured on 19 October 2023.

SUBSCRIPTION OF 2024 CONVERTIBLE BONDS

On 26 January 2024 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the 2024 Convertible Bonds in an aggregate principal amount of HK\$126,000,000 due on the date falling three (3) years after the Issue Date. The initial Conversion Price is HK\$0.42 per Conversion Share, subject to adjustments set out in the 2024 Convertible Bonds.

The 2024 Convertible Bonds carry conversion rights to convert into the Conversion Shares at the Conversion Price of HK\$0.42 per Conversion Share (subject to adjustments). As at the date of this announcement, the Company has a total of 1,810,953,272 Shares in issue. Assuming (i) the conversion rights under the 2024 Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the date of this announcement to the date of exercise in full of the conversion rights under the 2024 Convertible Bonds, a total of 300,000,000 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 16.57% of the total number of issued Shares as at the date of this announcement and approximately 14.21% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. No net proceeds will be received by the Company from the issue of the 2024 Convertible Bonds.

The conversion of the 2024 Convertible Bonds is subject to, among others, that the conversion and the issue of the Conversion Shares will not result in a mandatory general offer obligation being triggered under the Takeovers Code, unless either (a) such Bondholder and parties acting in concert with it comply with the Takeovers Code and make a mandatory general offer to the Shareholders to acquire all the Shares not already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the Independent Shareholders and is granted by the Executive before the date of completion of the conversion.

Completion of the Subscription is subject to the fulfilment or waiver (as the case may be) of the conditions precedent set out in the Subscription Agreement.

IMPLICATIONS UNDER THE LISTING RULES

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

GENERAL

The EGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

The Subscriber and its associates are interested in 670,252,818 Shares, representing approximately 37.01% of the issued share capital of the Company as at the date of this announcement. As the Subscriber has material interest in the Subscription Agreement and the transaction contemplated thereunder, the Subscriber and its associates shall abstain from voting on the resolution(s) in respect of the Subscription, the transaction contemplated thereunder and the grant of the Specific Mandate at the EGM.

The Independent Board Committee has been established by the Board to advise the Independent Shareholders in relation to the Subscription Agreement 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.

A circular containing, among other things, (i) details of the Subscription Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder; and (iv) the notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 20 February 2024 as additional time is required for the preparation of the relevant information for inclusion in the circular.

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

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

INTRODUCTION

References are made to the announcement of the Company dated 29 July 2020 and the circular of the Company dated 17 September 2020 in respect of the connected transaction in relation to the issue of the 2020 Convertible Bonds by the Company to the Subscriber at the aggregate principal amount of HK\$126,000,000 under a specific mandate.

Reference is also made to the announcement of the Company dated 19 October 2023 in relation to the updates on the 2020 Convertible Bonds. The 2020 Convertible Bonds matured on 19 October 2023.

THE SUBSCRIPTION AGREEMENT

On 26 January 2024 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the 2024 Convertible Bonds in an aggregate principal amount of HK\$126,000,000 due on the date falling three (3) years after the Issue Date. The initial Conversion Price is HK\$0.42 per Conversion Share, subject to adjustments set out in the 2024 Convertible Bonds.

Principal terms of the Subscription Agreement are set out below:

Date

26 January 2024 (after trading hours)

Parties

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

Subject matter

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the 2024 Convertible Bonds in the aggregate principal amount of HK\$126,000,000 on the Completion Date.

Conversion Shares

The 2024 Convertible Bonds carry the conversion rights to convert into the Conversion Shares at the initial Conversion Price of HK\$0.42 per Conversion Share (subject to adjustments). As at the date of this announcement, the Company has a total of 1,810,953,272 Shares in issue. Assuming (i) the conversion rights under the 2024 Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the date of this announcement to the date of exercise in full of the conversion rights under the 2024 Convertible Bonds, a total of 300,000,000 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 16.57% of the total number of issued Shares as at the date of this announcement and approximately 14.21% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares.

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

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

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

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the 2024 Convertible Bonds.

The Conversion Price

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

- (i) a premium of approximately 342% over the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 308% over the average closing price of approximately HK\$0.103 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 272% over the average closing price of approximately HK\$0.113 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 342% over the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the date of this announcement;
- (v) a premium of approximately 162.5% over the Group's audited consolidated net assets per Share attributable to the owners of the Company as at 31 December 2022 of approximately HK\$0.16 (based on a total of 1,810,953,272 Shares as at the date of this announcement and the Group's audited consolidated net assets attributable to the owners of the Company of approximately RMB271,551,000 (equivalent to approximately HK\$298,706,100) as at 31 December 2022); and
- (vi) a premium of approximately 180.0% over the Group's unaudited consolidated net assets per Share attributable to the owners of the Company as at 30 June 2023 of approximately HK\$0.15 (based on a total of 1,810,953,272 Shares as at the date of this announcement and the Group's unaudited consolidated net assets attributable to the owners of the Company of approximately RMB249,295,000 (equivalent to approximately HK\$274,224,500) as at 30 June 2023).

The Conversion Price of HK\$0.42 per Conversion Share was determined after arm's length negotiations among the Company and the Subscriber with reference to, among others, the conversion price of the conversion shares under the 2020 Convertible Bonds, the prevailing market price of the Shares and the financial position of the Company. The Directors (other than the independent non-executive Directors who will take into consideration of the advice of the Independent Financial Adviser before making recommendation as to the fairness and reasonableness of the Subscription) consider that the Conversion Price is fair and reasonable as a whole.

Redemption of the 2020 Convertible Bonds

Simultaneously upon Completion, the 2020 Convertible Bonds shall be redeemed and the outstanding amount of the principal under the 2020 Convertible Bonds shall be set off against all amounts owed by the Subscriber to the Company in respect of the Issue Price under or in connection with the Subscription Agreement.

The Company's obligations as the issuer of the 2020 Convertible Bonds shall be deemed to have been completed and satisfied, and the Subscriber unconditionally and irrevocably waives all rights and claims (if any) it has against the Company under the 2020 Convertible Bonds.

Fee

The Company shall pay to the Subscriber a fee at a rate of 3.5% per annum of the Issue Price, which shall accrue on a daily basis based on the number of days elapsed on the basis of 365-day year for the period from and including 20 October 2023 up to and including the day preceding the date of Completion and be payable on the Completion Date.

Conditions precedent

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

- (a) the passing by the Independent Shareholders of relevant resolutions at the EGM in compliance with the requirements of the Listing Rules approving (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the issue of the 2024 Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares in accordance with the terms of the Subscription Agreement;
- (b) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares, and such approval not having been revoked prior to Completion;
- (c) all approvals which are necessary and required under all applicable laws and all other agreements, instruments or other documents in connection with the Subscription Agreement and the transactions contemplated thereunder and all other matters incidental thereto having been obtained by the Subscriber and the Company and remaining in full force and effect;
- (d) each of the warranties given by the Company remaining true and accurate and not misleading, in each case as at the Completion Date with the same force and effect as if repeated throughout the period between the date of the Subscription Agreement and up to and including the Completion Date;

- (e) each of the warranties given by the Subscriber remaining true and accurate and not misleading, in each case as at the Completion Date with the same force and effect as if repeated throughout the period between the date of the Subscription Agreement and up to and including the Completion Date;
- (f) no governmental authority of any competent jurisdiction having enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that has the effect of making the Subscription Agreement and the transactions contemplated thereunder illegal or otherwise prohibiting consummation of the Subscription Agreement and the transactions contemplated thereunder; and
- (g) no material adverse change in respect of the Group having occurred since the date of the Subscription Agreement and up to and including the Completion Date.

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

Completion

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

PRINCIPAL TERMS OF THE 2024 CONVERTIBLE BONDS

Issuer:	the Company
Principal amount:	HK\$126,000,000
Issue price:	100% of the principal amount of the 2024 Convertible Bonds
Interest rate:	8.0% per annum accrued on a daily basis of a 365-day year and payable semi-annually in arrears.
Maturity date:	The date falling three (3) years after the Issue Date.

Conversion right: The Bondholder shall have the right, at any time during the conversion period, to elect to convert the whole or part of the 2024 Convertible Bonds for the time being outstanding into Conversion Shares at the Conversion Price.

The Bondholder shall not exercise any of its right to convert the 2024 Convertible Bonds into Conversion Shares to an extent that would result in:

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

Conversion period: The Bondholder(s) shall have the right to convert the whole or part of the outstanding principal amount of the 2024 Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to (i) 5:00 p.m. on the day falling five (5) Business Days before the Maturity Date; and (ii) if the 2024 Convertible Bonds have been called for an early redemption in full before the Maturity Date, 5:00 p.m. on the day which is one (1) Business Day before the date of such redemption.

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

Adjustments events:	The Conversion Price is subject to adjustments from time to time on the occurrence of certain events in accordance with the terms and conditions of the 2024 Convertible Bonds, including distributions, bonus issues, alteration to nominal value, issue of Shares, share-related rights and share-related securities to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares, issue of other securities to the Shareholders and issue of share-related securities other than to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares.
Conversion Shares to be issued under the 2024 Convertible Bonds:	<p>Upon exercise of the conversion rights under the 2024 Convertible Bonds in full at the initial Conversion Price of HK\$0.42 per Conversion Share and assuming there is no change to the total number of issued Shares from the date of this announcement and the date of exercise in full of the conversion rights under the 2024 Convertible Bonds, a total of 300,000,000 Conversion Shares will be issued, representing:</p> <ul style="list-style-type: none"> (i) approximately 16.57% of the total number of issued Shares as at the date of this announcement; and (ii) approximately 14.21% of the total number of issued Shares as enlarged by the issue of Conversion Shares.
Redemption upon maturity:	Any 2024 Convertible Bonds which remain outstanding on the Maturity Date shall be redeemed by the Company in full at the redemption price equal to the outstanding principal amount of such 2024 Convertible Bonds together with interest accrued thereon.
Voluntary redemption by the Company:	The 2024 Convertible Bonds may be redeemed in whole or part by the Company at any time from the Issue Date and from time to time prior to the Maturity Date at the redemption price equal to the outstanding principal amount and interest accrued thereon of the 2024 Convertible Bonds to be redeemed.
Voting rights:	The 2024 Convertible Bonds do not confer on the Bondholder(s) the right to vote at any general meetings of the Company.
Listing:	No application has been or will be made for the listing of the 2024 Convertible Bonds on the Stock Exchange or any other stock exchange.

- Ranking of the Conversion Shares: The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.
- Transferability: The 2024 Convertible Bonds are freely transferrable by the Bondholder(s), in whole or part, to any person without the consent from the Company, provided that no transfer shall be made to a connected person of the Company, and subject to the terms of the 2024 Convertible Bonds.
- Events of Default: Major Events of Default under the 2024 Convertible Bonds include (among other things):
- (i) non-payment of principal, interest or any other amount in respect of or in connection with the 2024 Convertible Bonds on the due date for payment thereof;
 - (ii) breach of terms of the 2024 Convertible Bonds by the Company;
 - (iii) delisting of the Shares on the Stock Exchange or steps being taken by or on behalf of the Company to effect such delisting;
 - (iv) suspension or halt of the trading in the Shares on the Stock Exchange for 30 consecutive trading days, except where such suspension or halt is (a) in relation to any circumstances under Chapter 14 and/or Chapter 14A of the Listing Rules or under the Takeovers Code (to the extent relevant to a suspension in the case of a takeover); or (b) any voluntary suspension of trading in the Shares on the Stock Exchange by the Company.

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

- (1) require the Company to redeem its 2024 Convertible Bonds in full; or
- (2) (where such Event of Default is capable of being remedied) require the Company to pay an additional default interest at a compound rate of 1.5% per month to the Bondholder from the date of occurrence of such Event of Default to the date on which such Event of Default has been fully remedied in the opinion of the Bondholder.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the relevant securities of the Company in issue comprise 1,810,953,272 Shares.

Set out below is the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately upon full conversion of the 2024 Convertible Bonds at the initial Conversion Price of HK\$0.42 per Share:

	As at the date of this announcement		Immediately upon full conversion of the 2024 Convertible Bonds at the initial Conversion Price (Note 3)	
	Number of Shares	Approx. %	Number of Shares	Approx. %
The Subscriber (Note 1)	598,885,818	33.07	898,885,818	42.58
Pun Tang (Note 1)	71,367,000	3.94	71,367,000	3.38
Starr International Foundation (Note 2)	224,710,691	12.41	224,710,691	10.65
Other public Shareholders	915,989,763	50.58	915,989,763	43.39
Total	<u>1,810,953,272</u>	<u>100.00</u>	<u>2,110,953,272</u>	<u>100.00</u>

Notes:

1. The Subscriber is wholly owned by Ms. Pun Tang. The Subscriber and Ms. Pun Tang currently hold 598,885,818 Shares and 71,367,000 Shares, respectively.

On 18 April 2019, a subscription agreement (“**Exchangeable Bonds Subscription Agreement**”) was entered into between the Subscriber and Mega Prime Development Limited (“**Mega Prime**”), pursuant to which the Subscriber issued exchangeable bonds (“**Exchangeable Bonds**”) to Mega Prime, which are exchangeable into 220,000,000 Shares. Such underlying Shares are currently owned by the Subscriber. Subsequently, on 30 July 2019, a novation deed (“**Novation Deed**”) was entered into between Mega Prime as outgoing party, Poly Platinum Enterprises Ltd (“**Poly Platinum**”) as incoming party and the Subscriber as continuing party, pursuant to which all rights, obligations and liabilities of Mega Prime under the Exchangeable Bonds Subscription Agreement were novated to Poly Platinum. Poly Platinum is wholly owned by Greater Bay Area Homeland Development Fund LP (“**GBAHD Fund**”). Greater Bay Area Homeland Development Fund (GP) Limited (“**GBAHD GP**”) is the general partner of GBAHD Fund. Greater Bay Area Development Fund Management Limited (“**GBAD Fund Management**”) is the fund manager of GBAHD GP. Both GBAHD GP and GBAD Fund Management are wholly owned by Greater Bay Area Homeland Investments Limited.

On 28 July 2022, the Subscriber and Poly Platinum agreed to vary the terms of the Exchangeable Bonds. The underlying shares of the Exchangeable Bonds increased from 220,000,000 Shares to 300,000,000 Shares. On 28 July 2022, the Subscriber charged to Poly Platinum its interest in the 2020 Convertible Bonds.

The Exchangeable Bonds matured on 2 August 2023. On 25 January 2024, the Subscriber and Poly Platinum agreed to, among the others, further extend the maturity date of the Exchangeable Bonds. The underlying shares of the Exchangeable Bonds remain unchanged at 300,000,000 Shares. On 25 January 2024, the Subscriber charged to Poly Platinum its interest in 60,000,000 Shares. Additionally, subject to the issuance of the 2024 Convertible Bonds, the Subscriber will charge to Poly Platinum its interest therein.

2. Starr Investments Cayman II, Inc. and Starr Investments Cayman V, Inc. are the beneficial owners of Shares as to 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.
3. The 2020 Convertible Bonds held by the Subscriber matured on 19 October 2023. Simultaneously upon Completion, the 2020 Convertible Bonds shall be redeemed. As such, the shareholding structure only takes into account the shareholding of the Company immediately upon full conversion of the 2024 Convertible Bonds.

INFORMATION ON THE COMPANY AND THE GROUP

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

The Group is engaged in the development and operations of the digital point business and electronic platform, “Changyou”, 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.

The “Changyou” business is the sole operating segment of the Group. The Group operates the existing “Changyou” platform which targets the PRC market (the “**Existing PRC Changyou Platform**”), and has been developing a new digital point electronic platform which targets the Hong Kong and overseas markets (the “**New International Changyou Platform**”). Both the Existing PRC Changyou Platform and the New International Changyou Platform adopt a similar business model.

INFORMATION ON THE SUBSCRIBER

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

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

As disclosed in the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”), the net proceeds from the issue of the 2020 Convertible Bonds have been utilised as follows:

- (i) in respect of the New International Changyou Platform, (a) to fund its development; (b) to fund the set-up of a new team to support its daily operations; and (c) to fund promotional and marketing activities to attract merchants and customers and maintain their loyalty and participation;
- (ii) in respect of the Existing PRC Changyou Platform, (a) to fund promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services provided thereon; (b) to fund the staff costs and staff related expenses and the development of technology infrastructure; and (c) to fund the fixed administrative expenses (excluding the costs set out in (ii)(a) and (ii)(b) above); and
- (iii) general working capital of the Group.

As at the date of this announcement, approximately HK\$113.7 million or 91% of the net proceeds from the issue of the 2020 Convertible Bonds had been utilised in the manner set out in the 2023 Interim Report. The remaining net proceeds, which were allocated to the New International Changyou Platform, will be utilised in the manner set out in the 2023 Interim Report by 31 December 2024.

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.

In 2023, relying on the continuous development of the merchant ecosystem in 2022, the Existing PRC Changyou Platform has continued to optimise its products and strengthen its penetration into quality scenarios of software as a service (“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 work with its partners to promote hotel membership benefit, 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 Existing PRC Changyou Platform over the years. As at 30 June 2023, the Existing PRC 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. For the six months ended 30 June 2023, the total transaction volume and revenue of the Changyou Alliance business amounted to approximately RMB153.9 million and approximately RMB144.9 million, respectively.

In respect of the New International Changyou Platform, its development has been delayed as a result of the impact of the COVID-19 pandemic on the global economy which has led to disruptions to many businesses across various industries. In 2023, the Group and the Subscriber have been pressing ahead with the preparation and the launch of the New International Changyou Platform, including building up business alliances with existing and new business partners from Hong Kong and overseas markets to supply new goods and services for the New International Changyou Platform (such as home appliances, electronic goods, food and beverages, cosmetic and health products, maternity and children’s products, auto accessories, sportswear and equipment, mobile phones, cinema tickets and entertainment, electronic gift cards and coupons, and others), games and entertainment, financial services and other commercial transactions. Users can use digital points, cash, or a combination of both, to purchase goods and services offered on the New International Changyou Platform and the Existing PRC Changyou Platform, or to participate in games, rewards and other entertainment services. The New International Changyou

Platform will also allow certain business partners to sell their products in return for an agency fee or commission payable to the Group. The Group will earn revenue from the sales of merchandise goods or relevant services. Going forward, the Group will focus and commit more time and resources on the development of the New International Changyou Platform, and will strive to launch the same in 2024.

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 Existing PRC Changyou Platform and the New International 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; and (iii) to maintain its technology infrastructure and feature new financial technologies such as blockchain into the Existing PRC Changyou Platform and the New International 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 Existing PRC Changyou Platform and the New International Changyou Platform.

The 2020 Convertible Bonds matured on 19 October 2023. Owing to the current market circumstances and the fact that the conversion price of the 2020 Convertible Bonds (being HK\$0.42 per conversion Share (subject to adjustments pursuant to the terms and conditions of the 2020 Convertible Bonds)) is significantly higher than the current market price per Share, the Subscriber did not exercise the conversion rights attached thereto.

At the same time, as disclosed in the announcement of the Company dated 19 October 2023, the Subscriber confirmed that it would not require the Company to redeem the 2020 Convertible Bonds in full on the maturity date, and the Company would not be in breach of any terms of the 2020 Convertible Bonds as a result thereof.

Taking into account that (a) for the six months ended 30 June 2023, the Group recorded a 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, (b) as at 30 June 2023, the cash and cash equivalents of the Group amounted to approximately RMB23.6 million, and (c) the issue of the 2024 Convertible Bonds is on essentially the same terms (except the interest rate) as the 2020 Convertible Bonds and the fact that the outstanding amount of the principal under the 2020 Convertible Bonds shall be set-off against all amounts payable by the Subscriber in respect of the Issue Price, the issue of the 2024 Convertible Bonds would allow the Company to settle the outstanding amount of the principal under the 2020 Convertible Bonds without immediate cash outflow as a result of its redemption of the 2020 Convertible Bonds. It would also provide flexibility to the Company’s working capital management and deployment of its financial resources to fund its business operations and development as well as the planning of its working capital requirements.

As the outstanding amount of the principal under the 2020 Convertible Bonds shall be set-off against all amounts payable by the Subscriber in respect of the Issue Price, no net proceeds will be received by the Company from the issue of the 2024 Convertible Bonds.

Furthermore, the Directors have considered various alternative means of financing the Group apart from the issue of the 2024 Convertible Bonds. The Company 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 repayment of the outstanding amount of the principal under the 2020 Convertible Bonds, as well as 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 the Group’s loss-making performance for the year ended 31 December 2022 and the prevailing interest rate, it is not feasible for the Company to obtain from them loan facilities on terms and conditions (such as interest rate and requirements for the provision of charges and/or other security to secure such loan facilities) more favourable than the 2024 Convertible Bonds. The Company 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 the Company. As such, the Company has not approached any private equity firms for the purpose of equity fund raising possibility.

The Directors have also compared the interest rate of the 2024 Convertible Bonds of 8.0% per annum with the rates of convertible securities issued or to be issued to connected persons by companies listed on the Stock Exchange, based on the initial announcements published by such companies during the six months prior to the date of the Subscription Agreement. The Directors noted that the interest rates of such convertible securities and the 2024 Convertible Bonds are comparable. Accordingly, the Directors are of the view that the interest rate of the 2024 Convertible Bonds is fair and reasonable. In addition, the Directors noted that the shareholding in the Company held by the public Shareholders would be diluted from approximately 50.58% to approximately 43.39% immediately after the allotment and issue of the Conversion Shares upon full conversion of the 2024 Convertible Bonds at the initial Conversion Price. Having taken into account (i) the principal terms of the Subscription Agreement (such as the Conversion Price and the interest rate of the 2024 Convertible Bonds) are fair and reasonable; and (ii) the reasons for and benefits of the Subscription as mentioned above, the Directors consider that the aforesaid dilution effect on the shareholding of public Shareholders is justifiable.

Based on the foregoing, the Directors (other than the independent non-executive Directors whose opinion will be provided after taking into consideration of the advice from the Independent Financial Adviser) consider the terms of the Subscription Agreement to be normal commercial terms and are fair and reasonable, and the Subscription and the grant of the Specific Mandate are in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activities in the past 12 months immediately preceding the date of this announcement.

MANDATE TO ISSUE THE CONVERSION SHARES

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

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

IMPLICATIONS UNDER THE LISTING RULES

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

GENERAL

The EGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

The Subscriber and its associates are interested in 670,252,818 Shares, representing approximately 37.01% of the issued share capital of the Company as at the date of this announcement. As the Subscriber and its associates have material interest in the Subscription Agreement and the transaction contemplated thereunder, they shall abstain from voting on the resolution(s) in respect of the Subscription, the transaction contemplated thereunder and the grant of the Specific Mandate at the EGM.

The Independent Board Committee has been established by the Board to advise the Independent Shareholders in relation to the Subscription Agreement 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.

A circular containing, among other things, (i) details of the Subscription Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder; and (iv) the notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 20 February 2024 as additional time is required for the preparation of the relevant information for inclusion in the circular.

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

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

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

“2020 Convertible Bonds”	the convertible bonds in the aggregate principal amount of HK\$126,000,000 issued by the Issuer to the Subscriber on 19 October 2020 and matured on 19 October 2023
“2024 Convertible Bonds”	the convertible bonds in the aggregate principal amount of HK\$126,000,000 due on the Maturity Date to be issued by the Company to the Subscriber
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	at any time the person who is (are) for the time being the registered holder(s) of the 2024 Convertible Bonds
“Business Day”	a day on which commercial banks in Hong Kong are generally open for business (other than a Saturday, Sunday, public holiday or a day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is in force in Hong Kong at any time between 9:30 a.m. and 5:30 p.m.)
“Company”	Changyou Alliance Group Limited (formerly known as Fortunet e-Commerce Group Limited), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed in the Main Board of the Stock Exchange (stock code: 1039)
“Completion”	completion of the Subscription which shall take place on the Completion Date

“Completion Date”	the fifth (5th) Business Day following the date on which the conditions precedent set out in the Subscription Agreement are fulfilled or waived, as the case may be (or such other date as the Company and the Subscriber may agree in writing)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	HK\$0.42 per Conversion Share (subject to adjustments pursuant to the terms and conditions of the 2024 Convertible Bonds)
“Conversion Share(s)”	new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attached to the 2024 Convertible Bonds by the Bondholder(s) pursuant to the terms and conditions of the instrument constituting the 2024 Convertible Bonds
“Director(s)”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate
“Event(s) of Default”	has the meaning given to such term in the 2024 Convertible Bonds
“Executive”	the executive director of the corporate finance division of the SFC or any of his delegate(s)
“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 Subscription Agreement and the transactions contemplated thereunder

“Independent Financial Adviser”	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 the Subscriber and its associates who are required to abstain from voting at the EGM pursuant to the Listing Rules
“Issue Date”	the date of first issue of the 2024 Convertible Bonds
“Issue Price”	the aggregate principal amount of HK\$126,000,000
“Last Trading Day”	26 January 2024, being the last trading day of the Shares immediately before the entering into of the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 April 2024 (or such other date as may be agreed between the Company and the Subscriber in writing)
“Maturity Date”	the date falling three (3) years after the Issue Date
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Public Float Requirement”	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange shall be held by the public
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	the ordinary share(s) of par value US\$0.01 each in the share capital of the Company from time to time, and if there is a subdivision, consolidation or reclassification of those shares, the Shares resulting from it

“Shareholder(s)”	the holder(s) of the Shares
“Specific Mandate”	the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Century Investment (Holding) Limited, a company incorporated in the British Virgin Islands with limited liability, being the controlling shareholder of the Company
“Subscription”	the subscription of the 2024 Convertible Bonds pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 26 January 2024 and entered into between the Company and the Subscriber in relation to the Subscription
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC
“%”	per cent.

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

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

Hong Kong, 26 January 2024

As at the date of this announcement, 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.

In the case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.