红日资本有限公司
RED SUN CAPITAL LIMITED

23 July 2024

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS
(1) THIRD SUPPLEMENTAL 2019 FACILITY AGREEMENT IN RELATION TO THE GRANT OF 2019 REVOLVING LOAN FACILITY;
AND
(2) SUPPLEMENTAL 2021 FACILITY AGREEMENT IN RELATION TO THE GRANT OF 2021 REVOLVING LOAN FACILITY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Third Supplemental 2019 Facility Agreement, the proposed 2019 Revolving Loan Facility Annual Cap and the transactions contemplated under the Third Supplemental 2019 Facility Agreement; and (ii) the Supplemental 2021 Facility Agreement, the proposed 2021 Revolving Loan Facility Annual Cap and the transactions contemplated under the Supplemental 2021 Facility Agreement, 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 23 July 2024 (the "**Circular**"). Unless otherwise specified, terms defined in the Circular have the same meanings in this letter.

References are made to the Company's announcements dated 3 September 2019, 16 September 2022 and 18 September 2023 and the Company's circulars dated 15 October 2019, 12 October 2022 and 11 October 2023, in relation to (i) the grant of the 2019 Revolving Loan Facility of up to HK$100 million to PCL pursuant to the 2019 Facility Agreement; and (ii) the variation of certain terms of the 2019 Facility Agreement pursuant

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to the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement. Pursuant to the Second Supplemental 2019 Facility Agreement, the 2019 Revolving Loan Facility Repayment Date was varied to 31 October 2024.

References are also made to the announcement of the Company dated 20 April 2021 and the Company's circular dated 12 May 2021, in the relation to the grant of the 2021 Revolving Loan Facility of up to HK$100 million to PCL pursuant to the 2021 Facility Agreement. Under the 2021 Facility Agreement, the 2021 Revolving Loan Facility Repayment Date was 30 May 2024.

On 30 May 2024 (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into the Third Supplemental 2019 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 2019 Facility Agreement and Second Supplemental 2019 Facility Agreement). Save for the variations contained in the Third Supplemental 2019 Facility Agreement, the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Third Supplemental 2019 Facility Agreement.

On 30 May 2024 (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into Supplemental 2021 Facility Agreement pursuant to which the parties have conditionally agreed to vary the terms of the 2021 Facility Agreement. Save for the variations contained in the Supplemental 2021 Facility Agreement, the 2021 Facility Agreement remains in full force and effect and shall be read and construed in conjunction and as one document with the Supplemental 2021 Facility Agreement.

THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of eight Directors, namely Mr. Cheng Jerome as the executive Director and chairman of the Company, Mr. Yuan Weitao as the executive Director, Ms. Hu Qing and Ms. Liu Jingyan as the non-executive Directors, Mr. Wong Chi Keung, Mr. Ip Wai Lun, William and 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 and Mr. Chan Chi Keung, Alan, has been established to advise the Independent Shareholders in relation to (i) the Third Supplemental 2019 Facility Agreement, the proposed 2019 Revolving Loan Facility Annual Cap and the transactions contemplated thereunder; and (ii) the Supplemental 2021 Facility Agreement, the proposed 2021 Revolving Loan Facility 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 was owned as to 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. 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 2019 and 2021 Revolving Loan Facilities constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Having considered that the transactions contemplated under the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement are similar in nature, and both of them were entered into between the Company and PCL, the transactions contemplated under the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement are aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement (collectively the "**New Supplemental 2019 and 2021 Facility Agreements**"), both when calculated individually and when aggregated, exceed 5%, the transactions contemplated under the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement constitute non-exempt continuing connected transactions of the Company, and are subject to the reporting, announcement, circular, Independent Shareholders' approval, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

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 New Supplemental 2019 and 2021 Facility Agreements, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the New Supplemental 2019 and 2021 Facility Agreements and the transactions contemplated thereunder. In the previous two years, save for our appointments as the independent financial adviser for (i) the continuing connected transaction 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; (ii) the continuing connected transaction of the Company in relation to the second supplemental facility agreement in relation to the grant of revolving loan facility, the circular of which was dated 11 October 2023; and (iii) the connected transaction of the Company in relation to the issue of convertible bonds under specific mandate, the circular of which was dated 15 March 2024, there was no engagement between the Company and Red Sun Capital Limited.

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 2019 Facility Agreement and reviewed the terms thereunder; (iii) obtained the Second Supplemental 2019 Facility Agreement and reviewed and terms thereunder; (iv) obtained the Third Supplemental 2019 Facility Agreement and reviewed the terms thereunder; (v) obtained the 2021 Facility Agreement and reviewed the terms thereunder; (vi) obtained the Supplemental 2021 Facility Agreement and reviewed the terms thereunder; (vii) reviewed the Announcement; (viii) reviewed the contents as set out in the Circular, including the reasons for and benefits of the 2019 and 2021 Revolving Loan Facilities; (ix) reviewed the information as set out in the 2023 annual report of the Company (the "**2023 Annual Report**") for our analysis on the background and historical financial performance of the Group; and (x) conducted market research and obtained sampled transactions on the similar transactions involving the provision of loan to a connected person with a fixed interest rate for the purpose of our fairness and reasonableness analysis of the terms of the New Supplemental 2019 and 2021 Facility Agreements.

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 THIRD SUPPLEMENTAL 2019 FACILITY AGREEMENT AND THE SUPPLEMENTAL 2021 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 principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are the development and operation of an electronic trading platform to promote and facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the People's Republic of China ("**PRC**") in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions and other trading business.

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 2023 (the "**2023 Annual Report**"), details of which are as follows:

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

	For the year ended 31 December	
	2022	**2023**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Revenue	215,038	226,751
Cost of sales	(186,766)	(187,477)
Gross profit	28,272	39,274
Loss for the year	(48,742)	(38,616)
Loss for the year attributable to the Shareholders	(34,725)	(37,562)

Financial performance for the year ended 31 December 2022 and the year ended 31 December 2023

According to the 2023 Annual Report, the Group's revenue increased from approximately RMB215.0 million for the year ended 31 December 2022 to approximately RMB226.8 million for the year ended 31 December 2023, representing an increase of approximately 5.5%. Such increase was mainly attributable to the Group's increase in operating income of its existing businesses and acceleration in the expansion of new businesses that are closely linked to existing platform resources, users and supply chain resources.

The Group recorded an increase in gross profit of approximately 38.9% from approximately RMB28.3 million for the year ended 31 December 2022 to approximately RMB39.3 million for the year ended 31 December 2023. Such increase was due to the change in the Group's business strategy to providing their products to customers with higher profit margins.

The loss for the year of the Group decreased from approximately RMB48.7 million for the year ended 31 December 2022 to approximately RMB38.6 million for the year ended 31 December 2023. Such decrease in loss was mainly attributable to (i) the increase in gross profit from approximately RMB28.3 million for the year ended 31 December 2022 to approximately RMB39.3 million for the year ended 31 December 2023, representing an increase of approximately RMB11.0 million or 38.9%; (ii) the decrease in administrative expenses of approximately RMB1.5 million; and (iii) the decrease in research and development costs of approximately RMB2.8 million.

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

	As at 31 December	
	2022	**2023**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Current assets	148,570	146,053
Total assets	154,406	149,547
Current liabilities	267,550	301,654
Total liabilities	270,210	302,866
Net current liabilities	(118,980)	(155,601)
Total equity attributable to the Shareholders	271,551	234,688
Cash and cash equivalents	32,974	25,415

Financial position as at 31 December 2022

As at 31 December 2022, the Group recorded total assets of 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 total equity attributable to the Shareholders of approximately RMB271.6 million.

Financial position as at 31 December 2023

As at 31 December 2023, the Group recorded total assets of approximately RMB149.5 million, which mainly comprised of (i) trade and other receivables of approximately RMB120.3 million, and (ii) cash and cash equivalents of approximately RMB25.4 million.

As at 31 December 2023, the Group recorded total liabilities of approximately RMB302.9 million, which mainly comprised (i) trade and other payables of approximately RMB134.1 million; (ii) convertible bonds of approximately RMB115.0 million; and (iii) loans from an equity shareholder of the Company of approximately RMB50.8 million.

As at 31 December 2023, the Group recorded total equity attributable to the Shareholders of approximately RMB234.7 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 was owned as to 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 an indirect 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"**). We were noted from the Management that, (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). Joy Empire is a connected person at the subsidiary level only because of its connection with PCL under the Listing Rules.

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. Extra Step is a connected person at the subsidiary level only because of its connection with PCL under the Listing Rules.

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). Eastern E-Commerce is a connected person at the subsidiary level only because of its connection with PCL under the Listing Rules.

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, Fin-Tech, Joy Empire, Extra Step and Eastern E-Commerce, the remaining ultimate beneficial owners of PCL are independent third parties to the Company and its connected persons (as defined in the Listing Rules).

3. REASONS FOR AND BENEFITS OF THE 2019 AND 2021 REVOLVING LOAN FACILITIES

The principal activities of the Group are the development and operation of an electronic trading platform to promote and facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions and other trading business.

As set out in the 2023 Annual Report, with an aim to integrate the digital membership points, resources and strategic advantages of the business partners in the Changyou digital point business ecosystem alliance (the "**Changyou Alliance**"), the Group has developed an electronic platform, "Changyou Platform" (the "**Changyou Platform**"). 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 which is conducted through the PCL 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.

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.

As set out in the 2023 Annual Report, with the continuous improvement of business models and consumption scenarios, Changyou Platform has undergone rapid development since its launch, with more diversified products and services, continuous expansion of scale, and increasing number of users. For the year ended 31 December 2023, the cumulative number of registered users of the Changyou Platform amounted to approximately 203.7 million, representing an increase of approximately 53.5 million or 36% as compared with the total number of approximately 150.2 million for the year ended 31 December 2022.

As set out in the Letter from the Board, 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 in 2023. For the 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. The Group is continuing to develop supermarket membership benefits for the Changyou platform target users, 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 leads to the steady increase in the number of members and users on the Existing PRC Changyou Platform over the years. As set out in the 2023 Annual Report, the total transaction volume of the Changyou Alliance business amounted to approximately RMB257.1 million for the year ended 31 December 2023, representing an increase of approximately RMB21.1 million over the same period in the previous year.

As set out in the Letter from the Board, the Group has been pressing ahead with the preparation and the launch of the New International Changyou Platform, which targets the Hong Kong and overseas markets. The New International Changyou Platform provides the functions 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 Management expected that Group will earn revenue from the sales of merchandise goods or relevant services and the Group will focus and commit more time and resources on the development of the New International Changyou Platform in coming future.

We noted from the Management that the day-to-day operations of the "Changyou" business require large amount of working capital and 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. Based on our review on the financial statements of the PCL group and discussion with the Management, we noted that (i) the PCL group recorded approximately RMB17.5 million and RMB15.6 million of selling, distribution and administrative expenses for the two years ended 31 December 2022 and 2023, respectively, in relation to, among others, (a) provide promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services; and (b) retain talented and experienced personnel and management team for the development of the Existing PRC Changyou Platform and the New International Changyou Platform; (ii) the PCL group recorded research and development costs of approximately RMB9.7 million and RMB9.0 million for the two years ended 31 December 2022 and 2023, respectively, in order to maintain its technology infrastructure and feature new financial technologies from time to time; and (iii) the Management is expected that the similar level of the abovementioned total expenses (2022: RMB27.2 million; 2023: RMB24.6 million) are required in foreseeable future in order to maintain the operation of PCL group with current scale, we concurred with the Management that the "Changyou" business requires a large amount of working capital for its development.

Having considered that the 2019 Revolving Loan Facility will expire on 31 October 2024 and the 2021 Revolving Loan Facility expired on 30 May 2024, PCL has been considering various financing opportunities in order to meet its financing needs.

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.

As set out in the Letter from the Board, 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. Based on the discussions between PCL and the relevant banks and non-banking financial institutions with considering the net liabilities situation of PCL as at 31 December 2023 and the unavailability of security, it was not feasible for PCL to obtain loan facilities from such banks and non-banking financial institutions 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).

PCL recorded net liabilities of approximately RMB237,884,000 as at 31 December 2023 as compared to approximately RMB237,991,000 as at 31 December 2022. PCL recorded a turnaround in profit from a loss for the year of approximately RMB29.4 million for the year ended 31 December 2022 to a profit for the year of approximately RMB0.1 million for the year ended 31 December 2023.

In light of the PCL's loss-making performance for the years ended 31 December 2022 and a turnaround in profit to approximately RMB0.1 million for the year ended 31 December 2023, we noted that it is still unlikely for 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. RMB200 million) timely with favourable terms.

PCL has also considered the feasibility of equity financing from private equity firms. Despite the fact that economic activities are normalising globally post COVID-19 pandemic, the economy is facing macro-financial challenges amid relative high interest rates and 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.

In light of the PCL's loss-making performance for the years ended 31 December 2023 and 2022, we noted that 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.

As at the Latest Practicable Date, an aggregate sum of approximately HK$173.9 million under the 2019 and 2021 Revolving Loan Facilities has been utilised by PCL. In order to enable PCL to continue to maintain a sufficient level of liquidity as required as described above, the Board considers the 2019 and 2021 Revolving Loan Facilities to PCL to be efficient, beneficial and in the interest of PCL and its shareholders as a whole, having considered the infeasibility of other sources of fundraising activities or equity financing as mentioned aforesaid. The Board also considers that the Interest Rate is in line with the rate of interest of the Market Comparable Transactions of the Company (defined thereafter).

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. With such structure of the board of directors of PCL, the Company can actively monitor the operations and management decision of PCL. Besides, there are adequate and sufficient internal control measures mitigate the default risk associated with the 2019 and 2021 Revolving Loan Facilities, details please refer to section headed "5. Evaluation of the terms of the Revolving Loan Facility – 5.4 Internal control". Although the 2019 and 2021 Revolving Loan Facilities are unsecured, having considered (a) the Company's control power over PCL as aforementioned; (b) the release of the tranches of the 2019 and 2021 Revolving Loan Facilities 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 and we concurred that (i) the default risk of PCL is justifiable; and (ii) the grant of the 2019 and 2021 Revolving Loan Facilities without additional collateral or guarantee is reasonable.

Having considered that (i) the "Changyou" business is the sole operating segment of the Group which is conducted through the PCL Group; (ii) the Changyou Alliance business has undergone rapid development with more diversified products and services throughout recent years and its total transaction volume was increased to approximately RMB257.1 million for the year ended 31 December 2023, representing an increase of approximately 8.9% over the previous year; (iii) there is a genuine funding need of PCL for the development and expansion of the "Changyou" business in the long term; (iv) PCL has no other available sources of fundraising with favourable terms up to the Latest Practicable Date; (v) the Company has control power over PCL and the Company can actively monitor the operations and management decision of PCL and there are adequate and sufficient internal control measures to mitigate the default risk associated with the 2019 and 2021 Revolving Loan Facilities, we concur with the Directors that (i) the entering into the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement is not in the ordinary and usual course of business of the Group, but on normal commercial terms; and (ii) the terms of the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PROPOSED ANNUAL CAPS AND HISTORICAL UTILISATION

2019 Revolving Loan Facility Annual Cap and historical utilisation

The outstanding balance and the annual utilisation rate of the 2019 Revolving Loan Facility since the grant of facility are set out below:

Date	Amount drawn down	Amount of outstanding balance	Annual utilisation rate
	HK$	*HK$*	*%*
31 December 2019	20,000,000	20,000,000	20
31 December 2020	47,000,000	67,000,000	67
31 December 2021	33,000,000	100,000,000	100
31 December 2022	–	100,000,000	100
31 December 2023	–	100,000,000	100
Latest Practicable Date	–	100,000,000	100

The proposed Annual Cap in respect of the 2019 Revolving Loan Facility for each financial year during the 2019 Revolving Loan Facility Period shall not exceed HK$100 million. The proposed 2019 Revolving Loan Facility Annual Cap was determined by reference to (i) the maximum principal amount of the 2019 Revolving Loan Facility Loan granted or to be granted by the Company to PCL pursuant to the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement) has never exceeded the annual cap under the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement); (ii) the principal amount of the 2019 Revolving Loan Facility granted under the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement) has been fully utilised; (iii) the maximum principal amount of the 2019 Revolving Loan Facility Loan has not been increased; and (iv) 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 2019 Revolving Loan Facility Period with the proposed 2019 Revolving Loan Facility Annual Cap.

As at the Latest Practicable Date, the 2019 Revolving Loan Facility has been fully utilised and all accrued interest from the 2019 Revolving Loan Facility has been fully settled in accordance with the interest payment schedule under the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement).

2021 Revolving Loan Facility Annual Cap and historical utilisation

The outstanding balance and the annual utilisation rate of the 2021 Revolving Loan Facility since the grant of facility are set out below:

Date	**Amount drawn down** *HK$*	**Amount of outstanding balance** *HK$*	**Annual utilisation rate** *%* *(Approximately)*
31 December 2021	75,000,000	75,000,000	75
31 December 2022	(1,075,376)	73,924,624	74
31 December 2023	–	73,924,624	74
Latest Practicable Date	–	73,924,624	74

The proposed 2021 Revolving Loan Facility Annual Cap for each financial year during the 2021 Revolving Loan Facility Period shall not exceed HK$100 million. The proposed 2021 Revolving Loan Facility Annual Cap was determined by reference to: (i) the maximum principal amount of the 2021 Revolving Loan Facility Loan granted or to be granted by the Company to PCL pursuant to the 2021 Facility Agreement has never exceeded the annual cap under the 2021 Facility Agreement; (ii) the maximum principal amount of the 2021 Revolving Loan Facility Loan has not been increased; and (iii) 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 2021 Revolving Loan Facility Period with the proposed 2021 Revolving Loan Facility Annual Cap.

As at the Latest Practicable Date, approximately HK$73.9 million under the 2021 Revolving Loan Facility has been utilised and all accrued interest from the 2021 Revolving Loan Facility has been fully settled in accordance with the interest payment schedule under the 2021 Facility Agreement.

Our view

Having considered (i) the operations of the "Changyou" business requires a large amount of working capital as discussed above and the genuine funding needs of the "Changyou" business, including the increasing amounts of research and development costs for continuing development and support its platforms; (ii) historical drawdown records by PCL in order to maintain its working capital sufficiency; (iii) the 2019 Revolving Loan Facility has been fully utilised; (iv) over 70% of the 2021 Revolving Loan Facility has been fully utilised; (v) the turnaround in profit for the year ended 31 December 2023 of PCL indicating the funding of loan has positively encouraged the development of the business of "Changyou" business; (vi) the genuine funding need of PCL for the continual development and expansion of the "Changyou Platform" business in the long term as discussed in this section, we are of the view that 2019 Revolving Loan Facility Annual Cap and 2021 Revolving Loan Facility Annual Cap are fair and reasonable.

4. MAJOR TERMS OF THE THIRD SUPPLEMENTAL 2019 FACILITY AGREEMENT AND THE SUPPLEMENTAL 2021 FACILITY AGREEMENT

4.1. The Third Supplemental 2019 Facility Agreement

On 30 May 2024 (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into the Third Supplemental 2019 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 2019 Facility Agreement and Second Supplemental 2019 Facility Agreement). Set out below are the summary of the major terms of the Third Supplemental 2019 Facility Agreement.

Date:	30 May 2024 (after trading hours of the Stock Exchange)
Parties	(i) the Company, as lender; and (ii) PCL, as borrower
Facility Period:	The 2019 Revolving Loan Facility Period shall be varied to six years from and including the 2019 Conditions Fulfilment Date, and the 2019 Revolving Loan Facility Repayment Date shall be varied to 31 October 2025.
Interest Rate:	The Interest Rate applicable to the outstanding principal amount of the 2019 Revolving Loan Facility Loan shall be as follows: a) from and including the Drawdown Date to, but excluding, 31 May 2024, 6.5% per annum; and b) from and including 31 May 2024, 8.0% per annum.

The Company has considered various similar transactions ("**Market Comparable Transactions of the Company**") involving the provision of loan(s) to connected person(s) with a fixed interest rate by companies listed on the Stock Exchange and the subject transaction announcements of which were announced during the period from 1 December 2023 to the date of the Third Supplemental 2019 Facility Agreement. The Market Comparable Transactions of the Company consist of two transactions conducted by two companies listed on the Stock Exchange. The interest rate charged by these companies, namely 3D Medicines, Inc. (Stock Code: 1244) and GBA Holdings Limited (Stock Code: 261) in such transactions was 8% per annum.

The revised interest rate of 8.0% per annum was determined with reference to the Market Comparable Transactions of the Company which falls within the range of interest rate of Market Comparable Transactions of the Company and represents a fair and reasonable rate in the interests of the Company and the Shareholders as a whole.

Conditions precedent: The obligations of the parties to the Third Supplemental 2019 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 Third Supplemental 2019 Facility Agreement and the transactions contemplated thereunder including the Independent Shareholders having approved at the EGM (and with regard to all applicable laws, rules and regulations, including the Codes on Takeovers and Mergers in Hong Kong and the Listing Rules, where applicable) the variations of the 2019 Revolving Loan Facility Period, the 2019 Revolving Loan Facility Repayment Date and the Interest Rate as set forth in the Third Supplemental 2019 Facility Agreement.

	If these conditions have not been fulfilled on or before 31 October 2024 or on such later date as may be agreed between the parties to the Third Supplemental 2019 Facility Agreement, then the Third Supplemental 2019 Facility Agreement shall automatically terminate (other than in respect of the surviving provisions). In such event, neither party shall have any claim under the Third Supplemental 2019 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 Third Supplemental 2019 Facility Agreement and such other alterations (if any) as may be necessary to render the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement) consistent with the Third Supplemental 2019 Facility Agreement, the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Third Supplemental 2019 Facility Agreement.

For details of major terms in relation to 2019 Facility Agreement, the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement, please refer to the section headed "Major terms of 2019 Facility Agreement and subsequent supplemental agreements" in the Letter from the Board of the Circular".

As set out in the Letter from the Board, other than the variations of the 2019 Revolving Loan Facility Period, the 2019 Revolving Loan Facility Repayment Date and the Interest Rate, the Board is not aware of any other alterations to the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement and the Second Supplemental 2019 Facility Agreement).

4.2. The Supplemental 2021 Facility Agreement

On 30 May 2024, (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into the Supplemental 2021 Facility Agreement, pursuant to which the parties have conditionally agreed to vary the terms of the 2021 Facility Agreement. Set out below are the summary of the major terms of the Supplemental 2021 Facility Agreement.

Date:	30 May 2024 (after trading hours of the Stock Exchange)
Parties	(i) the Company, as lender; and (ii) PCL, as borrower
Facility Period:	The 2021 Revolving Loan Facility Period shall be varied to four years from and including the 2021 Conditions Fulfilment Date, and that the 2021 Revolving Loan Facility Repayment Date shall be varied to 30 May 2025.
Interest Rate:	The Interest Rate applicable to the outstanding principal amount of the 2021 Revolving Loan Facility Loan shall be as follows: a) from and including the Drawdown Date to, but excluding, 31 May 2024, 6.5% per annum; and b) from and including 31 May 2024, 8.0% per annum. The Company has considered Market Comparable Transactions of the Company and the subject transaction announcements of which were announced during the period from 1 December 2023 to the date of the Supplemental 2021 Facility Agreement. The Market Comparable Transactions of the Company consist of two transactions conducted by two companies listed on the Stock Exchange. The interest rate charged by these companies, namely 3D Medicines, Inc. (Stock Code: 1244) and GBA Holdings Limited (Stock Code: 261) in such transactions was 8% per annum. The revised interest rate of 8.0% per annum was determined with reference to the Market Comparable Transactions of the Company which falls within the range of interest rate of Market Comparable Transactions of the Company and represents a fair and reasonable rate in the interests of the Company and the Shareholders as a whole.

Conditions precedent:	The obligations of the parties to the Supplemental 2021 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 Supplemental 2021 Facility Agreement and the transactions contemplated thereunder including the Independent Shareholders having approved at the EGM (and with regard to all applicable laws, rules and regulations, including the Codes on Takeovers and Mergers in Hong Kong and the Listing Rules, where applicable) the variations of the 2021 Revolving Loan Facility Period, the 2021 Revolving Loan Facility Repayment Date and the Interest Rate as set forth in the Supplemental 2021 Facility Agreement. If these conditions have not been fulfilled on or before 31 October 2024 or on such later date as may be agreed between the parties to the Supplemental 2021 Facility Agreement, then the Supplemental 2021 Facility Agreement shall automatically terminate (other than in respect of the surviving provisions). In such event, neither party shall have any claim under the Supplemental 2021 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 Supplemental 2021 Facility Agreement and such other alterations (if any) as may be necessary to render the 2021 Facility Agreement consistent with the Supplemental 2021 Facility Agreement, the 2021 Facility Agreement (as amended by the Supplemental 2021 Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Supplemental 2021 Facility Agreement.

For details of major terms in relation to 2021 Facility Agreement please refer to the section headed "Major terms of 2021 Facility Agreement and subsequent supplemental agreement" in the Letter from the Board of the Circular".

As set out in the Letter from the Board, other than the variations of the 2021 Revolving Loan Facility Period, the 2021 Revolving Loan Facility Repayment Date and the Interest Rate, the Board is not aware of any other alterations to the 2021 Facility Agreement.

5. EVALUATION OF THE TERMS OF THE REVOLVING LOAN FACILITY

The transactions contemplated under the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement are similar in nature, and both of them were entered into between the Company and PCL. In order to assess the fairness and reasonableness of the terms of the New Supplemental 2019 and 2021 Facility Agreements, in view that the 2019 and 2021 Revolving Loan Facilities are provided by the Company to its connected subsidiary, we have based on the following criteria identified a list of similar transactions involving the provision of loan(s) to connected person(s) with a fixed interest rate by companies listed on the Stock Exchange and the subject transaction announcement of which was announced during the period from 1 December 2023 to the date of the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement (the "**Review Period**"), being approximately six-month period prior to the date of the New Supplemental 2019 and 2021 Facility Agreements, which was considered to be sufficient for the purpose of our analysis set out hereunder as we are of the view that the transactions to be representative of similar historical transactions.

On a best effort basis and to the best of our knowledge, we have identified seven transactions on an exhaustive basis (the "**Market Comparables**") which meet the aforementioned criteria. 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.

Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as the Market Comparables and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of 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 New Supplemental 2019 and 2021 Facility Agreements 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	Company name (stock code)	Loan principal amount	Interest rate per annum	Maturity	Collateral/ Guarantee	Connected party	Nature of the loan	Status
			Approximately HKD	*Approximately (%)*	*Approximately (years)*				*(Note 3)*
1.	24 April 2024	China Pipe Group Limited (380)	5,000,000	7.0	2.00	Yes	Yes	Fixed	Completed
2.	23 April 2024	7Road Holdings Limited (797)	3,070,000	5.0 *(Note 5)*	2.00 *(Note 4)*	No *(Note 1)*	Yes	Fixed	Completed
3.	15 April 2024	IngDan, Inc. (400)	RMB90,000,000	3.8 *(Note 5)*	3.00 *(Note 4)*	Yes	Yes	Fixed	Completed
4.	7 March 2024	Hengxin Technology Ltd (1085)	RMB250,000,000	4.9 *(Note 5)*	1.00 *(Note 4)*	Yes	Yes	Fixed	Completed
5.	15 January 2024	Central Wealth Group Holdings Limited (139)	66,000,000	7.0	3.00	Yes	Yes	Revolving	Completed
6.	4 January 2024	3D Medicines, Inc. (1244)	RMB60,000,000	8.0	0.04 *(Note 2)*	Yes	Yes	Fixed	Completed
7.	29 December 2023	GBA Holdings Limited (261)	4,500,000	8.0 *(Note 5)*	1.00 *(Note 4)*	No *(Note 1)*	Yes	Fixed	Completed

No.	Date of announcement	Company name (stock code)	Loan principal amount	Interest rate per annum	Maturity	Collateral/ Guarantee	Connected party	Nature of the loan	Status
			Approximately	*Approximately*	*Approximately*				*(Note 3)*
			HKD	*(%)*	*(years)*				
		Maximum		8.0	3.00				
		Minimum		3.8	0.04				
		Mean		6.2	1.72				
		The Company (based on the New Supplemental 2019 and 2021 Facility Agreements)		8.0 *(Note 6)*	1.0 *(Note 7)*	No			

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

Notes:

1. The Loan is unsecured.

2. According to the announcement of 3D Medicines, Inc., a non-wholly owned subsidiary of 3D Medicines, Inc. entered into the loan agreement to provide a short-term loan to a borrower for a term of 14 natural days.

3. The transactions in completed status represented that (i) the relevant resolution(s) has/have been approved by independent shareholders of the relevant companies; or (ii) the transactions were exempted from independent shareholders' approval requirements under the Listing Rules.

4. The term of maturity disclosed is calculated based on the length of the extended maturity period as set out in the respective announcement.

5. The interest rate disclosed is based on the interest rate in effect under the latest loan agreement as set out in the respective announcement.

6. The interest rate of 2019 Facility Agreement, First Supplemental 2019 Facility Agreement, Second Supplemental 2019 Facility Agreement and 2021 Facility Agreement was 6.5% per annum. According to the New Supplemental 2019 and 2021 Facility Agreements, the interest rate is 8.0% per annum respectively.

7. The facility period of 2019 Facility Agreement was three years and was varied to four years as supplemented by the First Supplemental 2019 Facility Agreement and was further varied to five years as supplemented by the Second Supplemental 2019 Facility Agreement. The facility period of 2021 Facility Agreement was three years. According to the New Supplemental 2019 and 2021 Facility Agreements, the facility period of 2019 Facility Agreement and 2021 Facility Agreement are proposed to be extended for one year.

5.1 Interest Rate

As illustrated by the above table, the interest rate of the Market Comparables ranges from 3.8% to 8%, with a mean of approximately 6.2%. We note that the interest rate of 8.0% under the New Supplemental 2019 and 2021 Facility Agreements is higher than the mean of the interest rate of the Market Comparables, and falls within the range of the interest rate of the Market Comparables. Accordingly, we consider that the interest rate of the New Supplemental 2019 and 2021 Facility Agreements 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 14 days to 3 years with an average of approximately 1.72 years. The extension of the facility period of one year under the New Supplemental 2019 and 2021 Facility Agreements is in line with the aforesaid range of the Market Comparables and is shorter than the such average terms of repayment of the Market Comparables. Accordingly, we consider the term of maturity under the New Supplemental 2019 and 2021 Facility Agreements to be fair and reasonable.

5.3 Collateral / Guarantee

As illustrated by the above table, two out of seven Market Comparables were not secured by collateral or guarantee. As such, it is not uncommon in the market for provision of a loan to a connected person by the listed companies in Stock Exchange of Hong Kong without collateral or guarantee.

5.4 Internal Control

We were also given to understand by the Management that the Company has taken the following internal control measures in order to monitor the drawdown of the 2019 and 2021 Revolving Loan Facilities and mitigate the default risk associated with the 2019 and 2021 Revolving Loan Facilities and safeguard the Company's assets, the details of which were summarised as below:

(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 balances of the Loans 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 2019 Revolving Loan Facility Annual Cap and the 2021 Revolving Loan Facility 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 balance under the 2019 and 2021 Revolving Loan Facilities is about to reach the aggregate sum under the 2019 Revolving Loan Facility Annual Cap and the 2021 Revolving Loan Facility Annual Cap. In case that the aggregated principal amount of the Loans is expected to exceed the 2019 Revolving Loan Facility Annual Cap and the 2021 Revolving Loan Facility Annual Cap, the Company could timely re-comply with the requirements under Chapter 14A of the Listing Rules;

(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 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement) and the 2021 Facility Agreement (as amended by the Supplemental 2021 Facility Agreement) are carried out pursuant to their respective terms;

(vi) the independent non-executive Directors will conduct an annual review of the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement and confirm in the Company's annual report in relation thereto in accordance with Rule 14A.55 of the Listing Rules; and

(vii) the auditors of the Company will conduct an annual review of and report on the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement in accordance with Rule 14A.56 of the Listing Rules.

In addition to the internal control measures taken by the Company as aforesaid, the Management conduct monthly review of the management accounts of the PCL Group and regular assessment of the funding needs and cashflow position of the PCL Group for the operations of the PCL Group for the release of the tranches of the loans granted under the 2019 and 2021 Revolving Loan Facilities and prior to the repayment of the 2019 and 2021 Revolving Loan Facilities in full, as well as the then and expected financial performance and position of the PCL Group. As set out in the letter from the Board, the Directors are satisfied that, since the grant of the 2019 and 2021 Revolving Loan Facilities, the PCL Group has utilised the loans granted under the 2019 and 2021 Revolving Loan Facility for the operations of the PCL Group and that the Group has undergone continued development and expansion of scale, gradually covering a wider range of consumption scenarios and daily service business scope and increased number of users. Besides, the Directors are of the view that the internal control measures adopted by the Group set out above are effective in ensuring that the Third Supplemental 2019 Facility Agreement and Supplemental 2021 Facility Agreement shall be conducted on normal commercial terms which are fair and reasonable to the Company and the Shareholders as a whole.

In order to assess the effectiveness of the Company's internal control measures to monitor the drawdown of Loan under the 2019 and 2021 Revolving Loan Facilities and mitigate the default risk associated, we have reviewed the relevant 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 2019 and 2021 Revolving Loan Facilities for the year ended 31 December 2023, to assess whether such transactions have been carried out in accordance with the relevant terms of the 2019 and 2021 Revolving Loan Facilities.

Besides, we have confirmed with the Management that (a) the release of the tranches of the 2019 and 2021 Revolving Loan Facilities 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 and 2021 Revolving Loan Facilities; 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 and 2021 Facility Agreement as amended by the Third Supplemental 2019 Facility Agreement and the Supplemental 2021 Facility Agreement, respectively; (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 New Supplemental 2019 and 2021 Facility Agreements 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.

OPINION AND RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that although entering into the New Supplemental 2019 and 2021 Facility Agreements are not in the ordinary and usual course of business of the Group, it is on normal commercial terms, and the New Supplemental 2019 and 2021 Facility Agreements, the proposed 2019 Revolving Loan Facility Annual Cap and the proposed 2021 Revolving Loan Facility 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 New Supplemental 2019 and 2021 Facility Agreements.

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 26 years of experience in the corporate finance industry. on purposes only

* *for identification purposes only*