

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

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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

SUBSCRIPTION OF CONVERTIBLE BONDS

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

The 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 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 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. The net proceeds from the Subscription are estimated to be approximately HK\$124,400,000.

The conversion of the 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, holding approximately 33.07% of the issued share capital of the Company as at the date of this announcement, shall abstain from voting on the resolution(s) in respect of the Subscription 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. An Independent Financial Adviser will be appointed 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 11 September 2020 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.

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

THE SUBSCRIPTION AGREEMENT

Principal terms of the Subscription Agreement are set out below:

Date

29 July 2020 (after trading hours)

Parties

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

Subject matter

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

Conversion Shares

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

The Conversion Price

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

- (i) a premium of approximately 7.69% over the closing price of HK\$0.390 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 4.74% over the average closing price of approximately HK\$0.401 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 4.74% over the average closing price of approximately HK\$0.401 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 124.96% over the Group's audited consolidated net assets per Share as at 31 December 2019 of approximately HK\$0.1867 (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 RMB307,434,000 (equivalent to approximately HK\$338,177,400) as at 31 December 2019).

The Conversion Price of HK\$0.42 per Conversion Share was determined after arm's length negotiations among the Company and the Subscriber with reference to, among others, the prevailing market price of the Shares and the financial position of the Company. 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.

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 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 CONVERTIBLE BONDS

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

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

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

Conversion period:

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

Conversion Price:

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

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

Events of Default:

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

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

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

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

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

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

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

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

Notes:

1. The Subscriber is wholly owned by Ms. Pun Tang, and currently holds 598,885,818 Shares and 298,000,000 Warrants.

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

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% respectively. Starr Investments Cayman II, Inc. is wholly owned by Starr International Cayman, Inc., which is in turn wholly owned by Starr Insurance and Reinsurance Limited. Starr Insurance and Reinsurance Limited and Starr Investments Cayman V, Inc. are wholly owned subsidiaries of Starr International Investments Limited, which is in turn wholly-owned by Starr International Company Inc. Starr International Company Inc. is wholly owned by Starr International AG, which is wholly-owned by Starr International Foundation, a charitable foundation established in Switzerland.

INFORMATION ABOUT THE SUBSCRIBER

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

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

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 redeemable and can be purchased, earned and used by customers for the purpose and consumption of merchandise, games and entertainment, financial services and other commercial transactions (collectively, the “**Digital Point Business**”).

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

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

- (i) approximately HK\$100,000,000 (representing approximately 80.39% of the net proceeds) as to the development and operations of an additional new digital point electronic trading platform with Hong Kong and overseas as the target markets (the “**New International Changyou Platform**”, among which:
 - (a) approximately HK\$25,000,000 for the development of the new digital point electronic platform supported by relevant technology infrastructure which enables effective extraction and development of big data samples, creating a precise and extensive database of consumer transactions and consumption behaviour;

- (b) approximately HK\$25,000,000 for setting up a new team to support the daily operations of the New International Changyou Platform;
 - (c) approximately HK\$40,000,000 for promotional and marketing activities to attract merchants and customers into the New International Changyou Platform and maintain their loyalty and participation; and
 - (d) approximately HK\$10,000,000 for the general working capital of the New International Changyou Platform.
- (ii) approximately HK\$24,400,000 (representing approximately 19.61% of the net proceeds) as to the general working capital of the Group.

The Existing Changyou platform (the “**Existing PRC Changyou Platform**”) was jointly developed by the Group in the second half of 2017 together with other well-known and leading enterprises from various industries, such as CCB International (Holdings) Limited, China UnionPay Merchant Services Company Limited, China Mobile (Hong Kong) Group Limited, Bank of China Group Investment Limited and China Eastern Airlines Corporation Limited, and collectively formed the Changyou Alliance. The target market of the Existing PRC Changyou Platform is the PRC.

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

In view of (i) the increasing popularity of consumer spending with digital points; (ii) the successful experience of the Group in developing the Existing PRC Changyou Platform; and (iii) the robust performance and growth of the Existing PRC Changyou Platform, the Company intends to expand the Digital Point Business into the Hong Kong and overseas markets by developing the New International Changyou Platform, and believes that such expansion will (i) help to enhance and diversify the income sources of the Digital Point Business in the upcoming future; and (ii) enhance the attractiveness of the Existing PRC Changyou Platform by offering quality overseas products and services to be provided by the New International Changyou Platform, which will in turn increase the loyalty and participation of members and thus the revenue for the Existing PRC Changyou Platform.

The Directors (other than the independent non-executive Directors) consider that the Subscription represents an opportunity to raise capital for the Company in order to maintain a sufficient cash position of the Group to continue its expansion of the Digital Point Business (i.e. development of the New International Changyou Platform). 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, holding approximately 33.07% of the issued share capital of the Company as at the date of this announcement, shall abstain from voting on the resolution(s) in respect of the Subscription 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. An Independent Financial Adviser will be appointed 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 11 September 2020 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, the following expressions have the meanings set out below unless the context requires otherwise.

| | |
|---------------------|--|
| “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 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 Fortune 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 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 Convertible Bonds by the Bondholder(s) pursuant to the terms and conditions of the instrument constituting the Convertible Bonds |
| “Convertible Bonds” | the convertible bonds in the aggregate principal amount of HK\$126,000,000 due on the Maturity Date to be issued by the Company to the Subscriber |
| “Director(s)” | 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 allotment and issue of the Convertible Bonds and the Conversion Shares to be issued upon conversion of the Convertible Bonds under the Specific Mandate |
| “Event(s) of Default” | has the meaning given to such term in the Convertible Bonds |

| | |
|---------------------------------|---|
| “Executive” | the executive director of the corporate finance division of the SFC or any of his delegate(s) |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent board committee comprising all the independent non-executive Directors established by the Board to advise the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder |
| “Independent Financial Adviser” | the independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder |
| “Independent Shareholders” | the Shareholders, other than the Subscriber and its associates who are required to abstain from voting at the EGM pursuant to the Listing Rules |
| “Issue Date” | the date of first issue of the Convertible Bonds |
| “Last Trading Day” | 29 July 2020, being the last trading day of the Shares immediately before the entering into of the Subscription Agreement |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Long Stop Date” | 31 December 2020 (or such other date as may be agreed between the Company and the Subscriber in writing) |
| “Maturity Date” | the date falling three (3) years after the Issue Date |
| “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)” | ordinary share(s) of a par value of US\$0.01 each in the issued share capital of the Company from time to time, and if there is a subdivision, consolidation or reclassification of those shares, the Shares resulting from it |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Share Option(s)” | 72,000,000 outstanding share option(s) which may be converted into 72,000,000 Shares under the Share Option Scheme |
| “Share Option Scheme” | the share option scheme adopted by the Company on 28 June 2010 |
| “Specific Mandate” | the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscriber” or “CIH” | Century Investment (Holding) Limited, a company incorporated in the British Virgin Islands with limited liability, being the controlling shareholder of the Company |
| “Subscription” | the subscription of the Convertible Bonds pursuant to the terms of the Subscription Agreement |
| “Subscription Agreement” | the conditional subscription agreement dated 29 July 2020 and entered into between the Company and the Subscriber in relation to the Subscription |
| “Takeovers Code” | the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC |

| | |
|---------------------|---|
| “Warrants” | the 298,000,000 warrants issued by the Company to CIH pursuant to the Warrant Documents, each of which carries the right to subscribe for one Share at the strike price of HK\$1.38 per warrant (subject to adjustments) |
| “Warrant Documents” | (i) the warrant subscription agreement dated 26 March 2018 and entered into between the Company and CIH in relation to the issue and subscription of the Warrants; (ii) the warrant instrument dated 18 September 2018 executed by the Company in favour of CIH in relation to the Warrants; and (iii) the terms and conditions of the Warrants, each as may be amended, supplemented or otherwise modified from time to time |
| “%” | per cent. |

Unless specified otherwise, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.10. The exchange rates have been used, where applicable, for the purpose of illustration only and do 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, 29 July 2020

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. Liu Jialin and Mr. Chan Chi Keung Alan.

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