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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Changyou Alliance Group Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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CHANGYOU ALLIANCE GROUP LIMITED

暢由聯盟集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

**(1) CONNECTED TRANSACTION IN RELATION TO
THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 6 to 23 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 24 to 25 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 53 of this circular.

A notice convening the EGM to be held at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Wednesday, 10 April 2024 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use by the Shareholders for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). The completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

15 March 2024

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DEFINITIONS

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

“2020 Convertible Bonds”	the convertible bonds in the aggregate principal amount of HK\$126,000,000 issued by the Issuer to the Subscriber on 19 October 2020 and matured on 19 October 2023
“2024 Convertible Bonds”	the convertible bonds in the aggregate principal amount of HK\$126,000,000 due on the Maturity Date to be issued by the Company to the Subscriber
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 26 January 2024 in respect of the Subscription Agreement and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	at any time the person(s) who is (are) for the time being the registered holder(s) of the 2024 Convertible Bonds
“Business Day”	a day on which commercial banks in Hong Kong are generally open for business (other than a Saturday, Sunday, public holiday or a day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is in force in Hong Kong at any time between 9:30 a.m. and 5:30 p.m.)
“Company”	Changyou Alliance Group Limited (formerly known as Fortunet e-Commerce Group Limited), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on 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)

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Conversion Price”	HK\$0.42 per Conversion Share (subject to adjustments pursuant to the terms and conditions of the 2024 Convertible Bonds)
“Conversion Share(s)”	new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attached to the 2024 Convertible Bonds by the Bondholder(s) pursuant to the terms and conditions of the instrument constituting the 2024 Convertible Bonds
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at 11:00 a.m. on Wednesday, 10 April 2024 for the Independent Shareholders to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate
“Event(s) of Default”	has the meaning given to such term in the 2024 Convertible Bonds
“Executive”	the executive director of the corporate finance division of the SFC or any of his delegate(s)
“Existing PRC Changyou Platform”	has the meaning as set out in the section headed “INFORMATION ON THE COMPANY AND THE GROUP” of this circular
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Ip Wai Lun, William and Mr. Chan Chi Keung, Alan, established to advise and give recommendations to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Red Sun”	Red Sun Capital Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than the Subscriber and its associates and Poly Platinum who are required to abstain from voting at the EGM pursuant to the Listing Rules
“Issue Date”	the date of first issue of the 2024 Convertible Bonds
“Issue Price”	the aggregate principal amount of HK\$126,000,000
“Last Trading Day”	26 January 2024, being the last trading day of the Shares immediately before the entering into of the Subscription Agreement
“Latest Practicable Date”	11 March 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	30 April 2024 (or such other date as may be agreed between the Company and the Subscriber in writing)
“Maturity Date”	the date falling three (3) years after the Issue Date
“New International Changyou Platform”	has the meaning as set out in the section headed “INFORMATION ON THE COMPANY AND THE GROUP” of this circular

DEFINITIONS

“PRC”	the People’s Republic of China, and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws 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)”	the holder(s) of the Shares
“Specific Mandate”	the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Century Investment (Holding) Limited, a company incorporated in the British Virgin Islands with limited liability, being the controlling shareholder of the Company
“Subscription”	the subscription of the 2024 Convertible Bonds pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 26 January 2024 and entered into between the Company and the Subscriber in relation to the Subscription

DEFINITIONS

“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

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

LETTER FROM THE BOARD

CHANGYOU ALLIANCE GROUP LIMITED

暢由聯盟集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

Executive Directors:

Mr. Cheng Jerome (*Chairman*)

Mr. Yuan Weitao

Non-executive Director:

Mrs. Guo Yan

Independent non-executive Directors:

Mr. Wong Chi Keung

Mr. Ip Wai Lun, William

Mr. Chan Chi Keung, Alan

Registered Office:

Royal Bank House

3rd Floor

24 Shedden Road

P.O. Box 1586

Grand Cayman, KY1-1110

Cayman Islands

Principal place of business in Hong Kong:

Rooms 1908-1916

19/F, Sun Hung Kai Centre

30 Harbour Road

Wan Chai

Hong Kong

15 March 2024

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement.

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

The purpose of this circular is to provide you with, among other things, (a) further information on the Subscription Agreement and the transactions contemplated thereunder; (b) a letter from the Independent Board Committee to the Independent Shareholders containing the recommendations in relation to the Subscription Agreement and the transactions contemplated thereunder; (c) a letter from the Independent Financial Adviser to the

LETTER FROM THE BOARD

Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder; (d) a notice convening the EGM; and (e) other information required under the Listing Rules.

SUBSCRIPTION AGREEMENT

Principal terms of the Subscription Agreement are set out below:

Date

26 January 2024 (after trading hours of the Stock Exchange)

Parties

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

Subject matter

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

Conversion Shares

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

LETTER FROM THE BOARD

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

The Conversion Price

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

- (i) a premium of approximately 342% over the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 308% over the average closing price of approximately HK\$0.103 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 272% over the average closing price of approximately HK\$0.113 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 213% over the closing price of HK\$0.134 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 162.5% over the Group's audited consolidated net assets per Share attributable to the owners of the Company as at 31 December 2022 of approximately HK\$0.16 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group's audited consolidated net assets attributable to the owners of the Company of approximately RMB271,551,000 (equivalent to approximately HK\$298,706,100) as at 31 December 2022); and
- (vi) a premium of approximately 180.0% over the Group's unaudited consolidated net assets per Share attributable to the owners of the Company as at 30 June 2023 of approximately HK\$0.15 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group's unaudited consolidated net assets attributable to the owners of the Company of approximately RMB249,295,000 (equivalent to approximately HK\$274,224,500) as at 30 June 2023).

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

LETTER FROM THE BOARD

Redemption of the 2020 Convertible Bonds

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

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

Fee

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

Conditions precedent

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

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

LETTER FROM THE BOARD

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

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

Completion

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

PRINCIPAL TERMS OF THE 2024 CONVERTIBLE BONDS

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

LETTER FROM THE BOARD

Conversion right:

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

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

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

Conversion period:

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

Conversion Price:

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

LETTER FROM THE BOARD

- Adjustments events: The Conversion Price is subject to adjustments from time to time on the occurrence of certain events in accordance with the terms and conditions of the 2024 Convertible Bonds, including, distributions, bonus issues, alteration to nominal value, issue of Shares, share-related rights and share-related securities to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares, issue of other securities to the Shareholders and issue of share-related securities other than to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares.
- Conversion Shares to be issued under the 2024 Convertible Bonds: Upon exercise of the conversion rights under the 2024 Convertible Bonds in full at the initial Conversion Price of HK\$0.42 per Conversion Share and assuming there is no change to the total number of issued Shares from the Latest Practicable Date and the date of exercise in full of the conversion rights under the 2024 Convertible Bonds, a total of 300,000,000 Conversion Shares will be issued, representing:
- (i) approximately 16.57% of the total number of issued Shares as at the Latest Practicable Date; and
 - (ii) approximately 14.21% of the total number of issued Shares as enlarged by the issue of Conversion Shares.
- Redemption upon maturity: Any 2024 Convertible Bonds which remain outstanding on the Maturity Date shall be redeemed by the Company in full at the redemption price equal to the outstanding principal amount of such 2024 Convertible Bonds together with interest accrued thereon.
- Voluntary redemption by the Company: The 2024 Convertible Bonds may be redeemed in whole or part by the Company at any time from the Issue Date and from time to time prior to the Maturity Date at the redemption price equal to the outstanding principal amount and interest accrued thereon of the 2024 Convertible Bonds to be redeemed.

LETTER FROM THE BOARD

- Voting rights: The 2024 Convertible Bonds do not confer on the Bondholder(s) the right to vote at any general meetings of the Company.
- Listing: No application has been or will be made for the listing of the 2024 Convertible Bonds on the Stock Exchange or any other stock exchange.
- Ranking of the Conversion Shares: The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.
- Transferability: The 2024 Convertible Bonds are freely transferrable by the Bondholder(s), in whole or part, to any person without the consent from the Company, provided that no transfer shall be made to a connected person of the Company, and subject to the terms of the 2024 Convertible Bonds.
- Events of Default: Major Events of Default under the 2024 Convertible Bonds include (among other things):
- (i) non-payment of principal, interest or any other amount in respect of or in connection with the 2024 Convertible Bonds on the due date for payment thereof;
 - (ii) breach of terms of the 2024 Convertible Bonds by the Company;
 - (iii) delisting of the Shares on the Stock Exchange or steps being taken by or on behalf of the Company to effect such delisting; or
 - (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 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).

LETTER FROM THE BOARD

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) to require the Company to redeem its 2024 Convertible Bonds in full; or
- (2) (where such Event of Default is capable of being remedied) to 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 Latest Practicable Date, the relevant securities of the Company in issue comprised 1,810,953,272 Shares.

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

	As at the Latest Practicable Date		Immediately upon full conversion of the 2024 Convertible Bonds at the initial Conversion Price (<i>Note 3</i>)	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
The Subscriber (<i>Note 1</i>)	598,885,818	33.07	898,885,818	42.58
Pun Tang (<i>Note 1</i>)	71,367,000	3.94	71,367,000	3.38
Starr International Foundation (<i>Note 2</i>)	224,710,691	12.41	224,710,691	10.64
Other public Shareholders	915,989,763	50.58	915,989,763	43.40
Total	<u>1,810,953,272</u>	<u>100.00</u>	<u>2,110,953,272</u>	<u>100.00</u>

Notes:

1. The Subscriber is wholly owned by Ms. Pun Tang. As at the Latest Practicable Date, the Subscriber and Ms. Pun Tang held 598,885,818 Shares and 71,367,000 Shares, respectively.

LETTER FROM THE BOARD

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

Subsequently, on 30 July 2019, a novation deed (“**Novation Deed**”) was entered into between Mega Prime as outgoing party, Poly Platinum Enterprises Ltd (“**Poly Platinum**”) as incoming party and the Subscriber as continuing party, pursuant to which all rights, obligations and liabilities of Mega Prime under the Exchangeable Bonds Subscription Agreement were novated to Poly Platinum. Poly Platinum is wholly owned by Greater Bay Area Homeland Development Fund LP (“**GBAHD Fund**”). Greater Bay Area Homeland Development Fund (GP) Limited (“**GBAHD GP**”) is the general partner of GBAHD Fund. Greater Bay Area Development Fund Management Limited (“**GBAD Fund Management**”) is the fund manager of GBAHD Fund. Both GBAHD GP and GBAD Fund Management are wholly owned by Greater Bay Area Homeland Investments Limited (“**GBAHIL**”). To the best of the Directors’ knowledge, information and belief, GBAHIL was jointly established by international large-scale industrial institutions, financial institutions and new economic enterprises and was held by ten corporate shareholders, with seven corporate shareholders each holding approximately 12.35% of the issued share capital of GBAHIL and three corporate shareholders holding approximately 7.41%, 4.94% and 1.20%, respectively, of the issued share capital of GBAHIL as at the Latest Practicable Date. GBAHD Fund is set up by GBAHIL and covers venture capital, private equity investment, listed company investment and other investments. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owners of GBAHIL are parties independent of the Company and its connected persons (as defined in the Listing Rules).

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

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

The extension of the Exchangeable Bonds as aforesaid and the issue of the 2024 Convertible Bonds are not inter-conditional. As confirmed by the Directors, other than the charging of the Subscriber’s interest in the 2024 Convertible Bonds to Poly Platinum as disclosed above, there is no side arrangement, agreement, understanding or undertaking (whether formal or informal and whether express or implied) between the Company, the Subscriber and Poly Platinum in respect of the 2024 Convertible Bonds.

2. As at the Latest Practicable Date, Starr Investments Cayman II, Inc. and Starr Investments Cayman V, Inc. were the beneficial owners of 114,801,600 Shares and 109,909,091 Shares, respectively (being approximately 6.34% and 6.07% of the total issued Shares as at the Latest Practicable Date, respectively). Starr Investments Cayman II, Inc. is wholly owned by Starr International Cayman, Inc., which is in turn wholly owned by Starr Insurance and Reinsurance Limited. Starr Insurance and Reinsurance Limited and Starr Investments Cayman V, Inc. are wholly owned subsidiaries of Starr International Investments Limited, which is in turn wholly owned by Starr International Company Inc. Starr International Company Inc. is wholly owned by Starr International AG, which is wholly owned by Starr International Foundation, a charitable foundation established in Switzerland.
3. The 2020 Convertible Bonds held by the Subscriber matured on 19 October 2023. Simultaneously upon Completion, the 2020 Convertible Bonds shall be redeemed. As such, the shareholding structure only takes into account the shareholding of the Company immediately upon full conversion of the 2024 Convertible Bonds.

LETTER FROM THE BOARD

INFORMATION ON THE COMPANY AND THE GROUP

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

The Group is engaged in the development and operations of the digital point business and electronic platform, “Changyou”, which aims to integrate the digital membership points, resources and strategic advantages of business partners in the Changyou digital point business ecosystem alliance (the “**Changyou Alliance**”). The digital membership points from various partnership entities and industries are interchangeable and redeemable globally as virtual assets and credit on the “Changyou” platform and can be purchased, earned and used by customers for the purpose and consumption of merchandise, games and entertainment, financial services and other commercial transactions.

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

INFORMATION 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

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

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

LETTER FROM THE BOARD

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

With the development of blockchain technology, digital assets have received increasing attention from the industry and transactions by way of digital assets are developing towards better compliance and legalisation. Leveraging advanced technologies such as blockchain and big data analysis, the business operations of Changyou Alliance aim to develop a global financial platform for the issuance, circulation, storage and payment settlement of blockchain tokenisation of assets.

In 2023, relying on the continuous development of the merchant ecosystem in 2022, the Existing PRC Changyou Platform has continued to optimise its products and strengthen its penetration into quality scenarios of software as a service (“SaaS”) digital points service, target-oriented service and corporate services, prompting steady growth of the user size and continuous improvement in business revenue and operating profits on a month-on-month basis. For example, seizing the opportunities in the economic recovery period at the beginning of 2023, the Group has tapped into specific scenarios of small-value, high-volume digital points. At the same time, the Group strove for technological innovation, combined with emerging technologies such as blockchain, data centre, and artificial intelligence, and integrated them into the Group’s SaaS digital points service, target-oriented services, and corporate services. Going forward, the Group will also continue to develop supermarket membership benefits for the Changyou general population, and steadily work with its partners to promote hotel membership benefit, focusing on the creation of special products for private sector operations. The offerings of more diversified products and services and the optimisation of consumption scenarios have led to the steady increase in the number of members and users on the Existing PRC Changyou Platform over the years. As at 30 June 2023, the Existing PRC Changyou Platform’s total number of registered users reached approximately 182.8 million, representing an increase of approximately 32.6 million newly registered users compared to the total number of registered users as at 31 December 2022. For the six months ended 30 June 2023, the total transaction volume and revenue of the Changyou Alliance business amounted to approximately RMB153.9 million and approximately RMB144.9 million, respectively.

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

LETTER FROM THE BOARD

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

The day-to-day operations of the “Changyou” business are capital intensive, as a large amount of capital is required (i) to attract and retain talented and experienced personnel and management team for the development of the Existing PRC Changyou Platform and the New International Changyou Platform; (ii) for promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services provided; and (iii) to maintain its technology infrastructure and feature new financial technologies such as blockchain into the Existing PRC Changyou Platform and the New International Changyou Platform to enable effective extraction and development of big data samples, creating a precise and extensive database of consumer transactions and consumption behaviour in the future. As such, it is important to maintain a sufficient level of liquidity and financial flexibility in order to maintain the current level of performance and user network of the Existing PRC Changyou Platform and the New International Changyou Platform.

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

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

Taking into account that (a) for the six months ended 30 June 2023, the Group recorded a net loss of approximately RMB14.5 million and net cash used in operating activities of approximately RMB45,000, and had net liabilities of approximately RMB135.0 million as at 30 June 2023, (b) as at 30 June 2023, the cash and cash equivalents of the Group amounted to approximately RMB23.6 million, and (c) the issue of the 2024 Convertible Bonds is on essentially the same terms (except the interest rate) as the 2020 Convertible Bonds and the fact that the outstanding amount of the principal under the 2020 Convertible Bonds shall be set-off against all amounts payable by the Subscriber in respect of the Issue Price, the issue of the 2024 Convertible Bonds would allow the Company to settle the outstanding amount of the principal under the 2020 Convertible Bonds without immediate cash outflow as a result of its redemption of the 2020 Convertible Bonds. It would also provide flexibility to the Company’s working capital management and deployment of its financial resources to fund its business operations and development as well as the planning of its working capital requirements.

LETTER FROM THE BOARD

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

Furthermore, the Directors have considered various alternative means of financing the Group apart from the issue of the 2024 Convertible Bonds. The Company had approached certain banks and non-banking financial institutions to discuss the feasibility of debt financing in the short term, and had considered the feasibility of other sources of fundraising activities for the repayment of the outstanding amount of the principal under the 2020 Convertible Bonds, as well as the development and expansion of the “Changyou” business of the Group in the long term. However, based on the discussions with the relevant banks and non-banking financial institutions, due to the Group’s loss-making performance for the year ended 31 December 2022 and the prevailing interest rate, it is not feasible for the Company to obtain from them loan facilities on terms and conditions (such as interest rate and requirements for the provision of charges and/or other security to secure such loan facilities) more favourable than the 2024 Convertible Bonds. The Company has also considered the feasibility of equity financing from private equity firms. However, despite the fact that economic activities are normalising globally post COVID-19 pandemic, the economy is facing macro-financial challenges amid rising interest rates, it is therefore likely that private equity firms will be cautious in making investment decisions, impeding the equity fund raising exercise by the Company. As such, the Company has not approached any private equity firms for the purpose of equity fund raising possibility.

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

Having considered the above factors as a whole, the Directors (including the independent non-executive Directors 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.

LETTER FROM THE BOARD

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 Latest Practicable Date.

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.

An application has been 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 Latest Practicable Date, the Subscriber held 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 constitutes 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.

APPROVAL BY THE BOARD

None of the Directors had a material interest in the transactions contemplated under the Subscription Agreement and none of them had abstained from voting on the relevant board resolutions to approve the Subscription Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established to advise and give recommendations to the Independent Shareholders as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate, are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Red Sun has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

EGM

The EGM will be convened and held at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Wednesday, 10 April 2024 at 11:00 a.m to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate. The voting on such resolution will be conducted by way of poll at the EGM in accordance with Rule 13.39(4) the Listing Rules.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date, the Subscriber and its associates were interested in 670,252,818 Shares, representing approximately 37.01% of the issued share capital of the Company. As they have a material interest in the Subscription Agreement and the transactions contemplated thereunder, they are required to abstain from voting on the resolution at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date, Poly Platinum was a shareholder of the Company, holding 52,647,000 Shares, representing approximately 2.91% of the total issued Shares of the Company. As described in the paragraph "Effect on the shareholding structure of the Company" in this letter above, Poly Platinum is a holder of the Exchangeable Bonds issued by the Subscriber which are exchangeable into 300,000,000 Shares. The underlying Shares are owned by the Subscriber. Furthermore, the Subscriber charged to Poly Platinum its interest in 60,000,000 Shares, and subject to the issuance of the 2024 Convertible Bonds, the Subscriber will charge its interest in the 2024 Convertible Bonds to Poly Platinum pursuant to the terms of the Exchangeable Bonds.

Based on the foregoing, Poly Platinum has a material interest in the Subscription Agreement and the transactions contemplated thereunder. Poly Platinum held 52,647,000 Shares as at the Latest Practicable Date, representing approximately 2.91% of the total issued Shares of the Company as at the Latest Practicable Date. Poly Platinum will abstain from voting on the resolution at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate.

LETTER FROM THE BOARD

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use by the Independent Shareholders for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). The completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 5 April 2024 to Wednesday, 10 April 2024 (both days inclusive), for the purpose of determining the Shareholders' entitlement to attend and vote at the EGM to be held on Wednesday, 10 April 2024 at 11:00 a.m. During this period, no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer forms and the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Wednesday, 3 April 2024.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate, set out on pages 24 to 25 of this circular; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the fairness and reasonableness on the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate, set out on pages 26 to 53 of this circular.

The Directors (including the members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) consider that the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) recommend all Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

CHANGYOU ALLIANCE GROUP LIMITED

暢由聯盟集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

15 March 2024

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company to the Shareholders dated 15 March 2024 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular.

The Independent Board Committee has been established to advise the Independent Shareholders on whether the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 23 of the Circular and the letter of advice from Red Sun, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders as set out on pages 26 to 53 of the Circular in relation to the Subscription Agreement and the transactions contemplated thereunder.

Having taken into consideration the factors and reasons as stated in the letter from the Board, and the opinion as stated in the letter of advice from the Independent Financial Adviser, we consider that despite the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Group, (i) the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate are normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. We recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate, to be proposed at the EGM.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Yours faithfully

For and on behalf of the
Independent Board Committee of
Changyou Alliance Group Limited
Mr. Wong Chi Keung
Mr. Ip Wai Lun, William
Mr. Chan Chi Keung, Alan
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the full text of the letter received from Red Sun, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

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

Tel: (852) 2857 9208
Fax: (852) 2857 9100

15 March 2024

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

Dear Sir/Madam,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, 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 15 March 2024 (the “**Circular**”). Unless otherwise specified, terms defined in the Circular have the same meanings in this letter.

References are made to (i) the Announcement; (ii) the announcement of the Company dated 29 July 2020 and the circular of the Company dated 17 September 2020 in respect of the connected transaction in relation to the issue of the 2020 Convertible Bonds by the Company to the Subscriber at the aggregate principal amount of HK\$126,000,000 under a specific mandate; and (iii) the announcement of the Company dated 19 October 2023 in relation to the updates on the 2020 Convertible Bonds.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

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

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date, Poly Platinum was a shareholder of the Company, holding 52,647,000 Shares, representing approximately 2.91% of the total issued Shares of the Company as at the Latest Practicable Date. In addition, Poly Platinum is a holder of the Exchangeable Bonds issued by the Subscriber which are exchangeable into 300,000,000 Shares. The underlying Shares are owned by the Subscriber. For more details on the Exchangeable Bonds, please refer to the paragraph "Effect on the shareholding structure of the Company" in the Letter from the Board.

The Exchangeable Bonds matured on 2 August 2023. On 25 January 2024, the Subscriber and Poly Platinum agreed to, among the others, further extend the maturity date of the Exchangeable Bonds. The underlying shares of the Exchangeable Bonds remain unchanged at 300,000,000 Shares. On 25 January 2024, the Subscriber charged to Poly Platinum its interest in 60,000,000 Shares. Additionally, subject to the issuance of the 2024 Convertible Bonds, the Subscriber will charge its interest in the 2024 Convertible Bonds to Poly Platinum pursuant to the terms of the Exchangeable Bonds. The extension of the Exchangeable Bonds and the issue of the 2024 Convertible Bonds are not inter-conditional.

Based on the foregoing, Poly Platinum has a material interest in the Subscription Agreement and the transactions contemplated thereunder. Poly Platinum held 52,647,000 Shares as at the Latest Practicable Date, representing approximately 2.91% of the total issued Shares of the Company as at the Latest Practicable Date. Poly Platinum will abstain

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

from voting on the resolution at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate.

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 Subscription Agreement and we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement 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; and (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, 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 Subscription Agreement and reviewed the terms thereunder; (ii) reviewed the announcements of the Company dated 26 January 2024, 29 July 2020, 17 September 2020 and 19 October 2023; (iii) reviewed the contents as set out in the Circular, including the reasons for and benefits of the Subscription; (iv) reviewed the information as set out in the 2022 Annual Report (defined hereafter) and the 2023 Interim Report (defined hereafter) for our analysis on the background and historical financial performance of the Group; and (v) conducted market research and obtained sample

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

transactions on the similar transactions involving the issuance of convertible bonds/notes by companies listed on the Stock Exchange for the purpose of our fairness and reasonableness analysis of the terms of the Subscription Agreement, interest rate and term to maturity.

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 connected transaction in relation to the issue of 2024 Convertible Bonds under Specific Mandate, 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 SUBSCRIPTION 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 Company is an investment holding company incorporated in the Cayman Islands with limited liability. The Group is engaged in the development and operations of the digital point business and electronic platform, “Changyou”, which aims to integrate the digital membership points, resources and strategic advantages of business partners in the Changyou digital point business ecosystem alliance (the “**Changyou Alliance**”). The digital membership points from various partnership entities and industries are interchangeable and redeemable globally as virtual assets and credit on the “Changyou” platform and can be purchased, earned and used by customers for the purpose and consumption of merchandise, games and entertainment, financial services and other commercial transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2. Financial information of the Group

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

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

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

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

Based on the 2023 Interim Report, the Group’s revenue for the six months ended 30 June 2022 and 2023 was approximately RMB105.4 million and RMB144.9 million, respectively, representing an increase of approximately 37.4%. Such increase was mainly attributable to the rapidly increase in the operating income of the Group’s existing businesses and the acceleration of the expansion of the Group’s new businesses that are closely linked to existing platform resources, users and supply chain resource during the six months ended 30 June 2023.

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

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

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

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

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

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

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

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

Financial position as at 30 June 2023

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

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

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

Financial position as at 31 December 2022

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

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

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

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2. Information of the Subscriber

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

As at the Latest Practicable Date, the Subscriber held 598,885,818 Shares, representing approximately 33.07% of the issued share capital of the Company.

3. Reasons for and benefits of the Subscription

The Group is principally engaged in the development and operations of the electronic trading platform, “Changyou”, which aims to integrate the digital membership points, resources and strategic advantages of business partners in Changyou Alliance.

As disclosed in 2023 Interim Report, the net proceeds from the issue of the 2020 Convertible Bonds have been utilised as follows: (i) in respect of the New International Changyou Platform, (a) to fund its development; (b) to fund the set-up of a new team to support its daily operations; and (c) to fund promotional and marketing activities to attract merchants and customers and maintain their loyalty and participation; (ii) in respect of the Existing PRC Changyou Platform, (aa) to fund promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services provided thereon; (bb) to fund the staff costs and staff related expenses and the development of technology infrastructure; and (cc) to fund the fixed administrative expenses (excluding the costs set out in (ii)(aa); and (ii)(bb) above); and (iii) general working capital of the Group.

As set out in the Letter from the Board, approximately HK\$113.7 million or 91% of the net proceeds from the issue of the 2020 Convertible Bonds had been utilised as at the Latest Practicable Date and the remaining net proceeds, which were allocated to the New International Changyou Platform, will be utilised by 31 December 2024.

With the development of blockchain technology, digital assets have received increasing attention from the industry and transactions by way of digital assets are developing towards better compliance and legalisation. Leveraging advanced technologies such as blockchain and big data analysis, the business operations of Changyou Alliance aim to develop a global financial platform for the issuance, circulation, storage and payment settlement of blockchain tokenisation of assets.

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. In order to seize 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. Besides, the

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Group strove for technological innovation, combined with emerging technologies such as blockchain, data centre, and artificial intelligence, and integrated them into the Group's SaaS digital points service, target-oriented services, and corporate services. Going forward, the Group will also continue to develop supermarket membership benefits for the Changyou general population, and steadily work with its partners to promote hotel membership benefit, focusing on the creation of special products for private sector operations. The offerings of more diversified products and services and the optimisation of consumption scenarios have led to the steady increase in the number of members and users on the Existing PRC Changyou Platform over the years. As at 30 June 2023, the Existing PRC Changyou Platform's total number of registered users reached approximately 182.8 million, representing an increase of approximately 32.6 million newly registered users compared to the total number of registered users as at 31 December 2022. For the six months ended 30 June 2023, the total transaction volume and revenue of the Changyou Alliance business amounted to approximately RMB153.9 million and approximately RMB144.9 million, respectively.

In 2023, the Group and the Subscriber have been pressing ahead with the preparation and the launch of the New International Changyou Platform, including building up business alliances with existing and new business partners from Hong Kong and overseas markets to supply new goods and services for the New International Changyou Platform (such as home appliances, electronic goods, food and beverages, cosmetic and health products, maternity and children's products, auto accessories, sportswear and equipment, mobile phones, cinema tickets and entertainment, electronic gift cards and coupons, and others), games and entertainment, financial services and other commercial transactions. Users can use digital points, cash, or a combination of both, to purchase goods and services offered on the New International Changyou Platform and the Existing PRC Changyou Platform, or to participate in games, rewards and other entertainment services. The New International Changyou Platform will also allow certain business partners to sell their products in return for an agency fee or commission payable to the Group. The Group will generate revenue from the sales of merchandise goods or relevant services. Going forward, the Group will focus and commit more time and resources on the development of the New International Changyou Platform, and will strive to launch the same in 2024.

As set out in the Letter from the Board, the day-to-day operations of the "Changyou" business are capital intensive, as a large amount of capital is required (i) to attract and retain talented and experienced personnel and management team for the development of the Existing PRC Changyou Platform and the New International Changyou Platform; (ii) for promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services provided; and (iii) to maintain its technology infrastructure and feature new financial technologies such as blockchain into the Existing PRC Changyou Platform and the New International Changyou Platform to enable effective extraction and development of big data samples, creating a precise and extensive database of consumer transactions and consumption behaviour in the future. As such, a sufficient level of liquidity and financial flexibility is necessary to maintain the current level of performance and user network of the Existing PRC Changyou Platform and to develop the New International Changyou Platform.

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As disclosed in the announcement of the Company dated 19 October 2023 and the Letter from the Board, the 2020 Convertible Bonds matured on 19 October 2023. Owing to the current market circumstances and the fact that the conversion price of the 2020 Convertible Bonds (being HK\$0.42 per conversion Share) is significantly higher than the market price per Share (the closing price of HK\$0.147 and HK\$0.095 per Share on 19 October 2023 and the date of the Announcement, respectively), the Subscriber did not exercise the conversion rights attached thereto. At the same time, as disclosed in the announcement of the Company dated 19 October 2023, the Subscriber confirmed that it would not require the Company to redeem the 2020 Convertible Bonds in full on the maturity date, and the Company would not be in breach of any terms of the 2020 Convertible Bonds as a result thereof.

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

As set out in the Letter from the Board, the Directors have compared the interest rate of the 2024 Convertible Bonds of 8.0% per annum with the rates of convertible securities issued or to be issued to connected persons by companies listed on the Stock Exchange, based on the initial announcements published by companies during the six months prior to the date of the Subscription Agreement. The Directors noted that the interest rates of such convertible securities and the 2024 Convertible Bonds are comparable. Accordingly, the Directors are of the view that the interest rate of the 2024 Convertible Bonds is fair and reasonable. In addition, the Directors noted that the shareholding in the Company held by the public Shareholders would be diluted from approximately 50.58% to approximately 43.39% immediately after the allotment and issue of the Conversion Shares upon full conversion of the 2024 Convertible Bonds at the initial Conversion Price.

Having taken into account (i) the principal terms of the Subscription Agreement (such as the Conversion Price and the interest rate of the 2024 Convertible Bonds) are fair and reasonable; (ii) the reasons for and benefits of the Subscription as mentioned above; (iii) the above research result of interest rates of 2024 Convertible Bonds performed by the Directors; and (iv) our analysis on the Conversion Price and the interest rate of the 2024 Convertible Bonds under the section headed “5. Evaluation of principal terms of the 2024 Convertible Bonds” in this letter, the Directors consider and we concur that (a) the interest rate of the 2024 Convertible Bonds is fair and reasonable; and (b) the aforesaid dilution effect on the shareholding of public Shareholders is justifiable.

As set out in the Letter from the Board, the Directors have considered various alternative means of financing the Group apart from the issue of the 2024 Convertible Bonds. The Company had approached certain banks and non-banking financial institutions to discuss the feasibility of debt financing in the short term, and had considered the feasibility of other sources of fundraising activities for the repayment of the outstanding amount of the principal under the 2020 Convertible Bonds, as well as the development and expansion of the “Changyou” business of the Group in the long

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term. However, based on the discussions with the relevant banks and non-banking financial institutions, due to the Group's loss-making performance for the year ended 31 December 2022 and the prevailing interest rate, it is not feasible for the Company to obtain from them loan facilities on terms and conditions (such as interest rate and requirements for the provision of charges and/or other security to secure such loan facilities) more favourable than the 2024 Convertible Bonds. The Company has also considered the feasibility of equity financing from private equity firms. However, despite the fact that economic activities are normalising globally post COVID-19 pandemic, the economy is facing macro-financial challenges amid rising interest rates, it is therefore likely that private equity firms will be cautious in making investment decisions, impeding the equity fund raising exercise by the Company. As such, the Company has not approached any private equity firms for the purpose of equity fund raising possibility.

Having considered that (a) the Group recorded a net loss of approximately RMB14.5 million and net cash used in operating activities of approximately RMB45,000 for the six months ended 30 June 2023 and had net liabilities of approximately RMB135.0 million as at 30 June 2023; (b) the Group recorded cash and cash equivalents amounted to approximately RMB23.6 million as at 30 June 2023 which is considered as insufficient to settle the outstanding amount of the principal under 2020 Convertible Bonds; (c) the issue of the 2024 Convertible Bonds is on essentially the same terms (except the interest rate) as the 2020 Convertible Bonds and the fact that the outstanding amount of the principal under the 2020 Convertible Bonds shall be set-off against all amounts payable by the Subscriber in respect of the Issue Price and the issue of the 2024 Convertible Bonds would allow the Company to settle the outstanding amount of the principal under the 2020 Convertible Bonds without immediate cash outflow as a result of its redemption of the 2020 Convertible Bonds; (d) the day-to-day operations of the "Changyou" business are capital intensive and a large amount of capital is necessary to maintain the current level of performance and user network of the Existing PRC Changyou Platform and to develop the New International Changyou Platform; (e) the restrictions of the alternative fund-raising methods based on the current financial position of the Group and there is no alternative fund-raising method which considered as more favourable than the 2024 Convertible Bonds; (f) the issue of 2024 Convertible Bonds would also provide flexibility to the Company's working capital management and deployment of its financial resources to fund its business operations and development as well as the planning of its working capital requirements; (g) the aforesaid reasons for and benefits of the Subscription; and (h) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, the Directors are of the view and we concur that the Subscription and the grant of the Specific Mandate is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4. Major terms of the Subscription Agreement

On 26 January 2024 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the 2024 Convertible Bonds in an aggregate principal amount of HK\$126,000,000 due on the

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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 Subscription Agreement.

Set out below are the summary of the major terms of the Subscription Agreement.

THE SUBSCRIPTION AGREEMENT

Issuer:	The Company
Principal amount:	HK\$126,000,000
Issue price:	100% of the principal amount of the 2024 Convertible Bonds
Interest rate:	8% per annum accrued on a daily basis of a 365-day year and payable semi-annually in arrears.
Maturity Date:	The date falling three (3) years after the Issue Date.
Conversion right:	The Bondholder shall have the right, at any time during the conversion period, to elect to convert the whole or part of the 2024 Convertible Bonds for the time being outstanding into Conversion Shares at the Conversion Price.

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

- (i) a mandatory general offer obligation being triggered under the Takeovers Code in respect of such Bondholder and the parties acting in concert with it, unless either (a) such Bondholder and parties acting 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

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- (ii) the Company not meeting the Public Float Requirement immediately after the conversion.

- Conversion period: The Bondholder(s) shall have the right to convert the whole or part of the outstanding principal amount of the 2024 Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to (i) 5:00 p.m. on the day falling five (5) Business Days before the Maturity Date; and (ii) if the 2024 Convertible Bonds have been called for an early redemption in full before the Maturity Date, 5:00 p.m. on the day which is one (1) Business Day before the date of such redemption.
- Conversion Price: The Conversion Price is initially HK\$0.42 per Conversion Share, subject to adjustments provision as summarised below.
- Adjustment events: The Conversion Price is subject to adjustments from time to time on the occurrence of certain events in accordance with the terms and conditions of the 2024 Convertible Bonds, including distributions, bonus issues, alteration to nominal value, issue of Shares, share-related rights and share-related securities to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares, issue of other securities to the Shareholders and issue of share-related securities other than to the Shareholders at a price per Share which is less than 80% of the then market price of the Shares.
- Conversion Shares to be issued under the 2024 Convertible Bonds: Upon exercise of the conversion rights under the 2024 Convertible Bonds in full at the initial Conversion Price of HK\$0.42 per Conversion Share and assuming there is no change to the total number of issued Shares from the Latest Practicable Date and the date of exercise in full of the conversion rights under the 2024 Convertible Bonds, a total of 300,000,000 Conversion Shares will be issued, representing:
- (i) approximately 16.57% of the total number of issued Shares as at the Latest Practicable Date; and

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- (ii) approximately 14.21% of the total number of issued Shares as enlarged by the issue of Conversion Shares.
- Redemption upon maturity: Any 2024 Convertible Bonds which remain outstanding on the Maturity Date shall be redeemed by the Company in full at the redemption price equal to the outstanding principal amount of such 2024 Convertible Bonds together with interest accrued thereon.
- Voluntary redemption by the Company: The 2024 Convertible Bonds may be redeemed in whole or part by the Company at any time from the Issue Date and from time to time prior to the Maturity Date at the redemption price equal to the outstanding principal amount and interest accrued thereon of the 2024 Convertible Bonds to be redeemed.
- Voting rights: The 2024 Convertible Bonds do not confer on the Bondholder(s) the right to vote at any general meetings of the Company.
- Listing: No application has been or will be made for the listing of the 2024 Convertible Bonds on the Stock Exchange or any other stock exchange.
- Ranking of the Conversion Shares: The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.
- Transferability: The 2024 Convertible Bonds are freely transferrable by the Bondholder(s), in whole or part, to any person without the consent from the Company, provided that no transfer shall be made to a connected person of the Company, and subject to the terms of the 2024 Convertible Bonds.
- Events of Default: Major Events of Default under the 2024 Convertible Bonds include (among other things):
- (i) non-payment of principal, interest or any other amount in respect of or in connection with the 2024 Convertible Bonds on the due date for payment thereof;

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- (ii) breach of terms of the 2024 Convertible Bonds by the Company;
- (iii) delisting of the Shares on the Stock Exchange or steps being taken by or on behalf of the Company to effect such delisting; or
- (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 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).

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) to require the Company to redeem its 2024 Convertible Bonds in full; or
- (2) (where such Event of Default is capable of being remedied) to 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.

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5. EVALUATION OF PRINCIPAL TERMS OF THE 2024 CONVERTIBLE BONDS

5.1 Conversion Price

The Conversion Price is HK\$0.42 per Conversion Share. As stated in the Letter from the Board, the Conversion Price was determined after arm's length negotiations among the Company and the Subscriber with reference to, among others, the conversion price of the conversion shares under the 2020 Convertible Bonds, the prevailing market price of the Shares and the financial position of the Company.

We further noted that the Conversion Price of HK\$0.42 per Conversion Share represents:

- (i) a premium of approximately 342% over the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 308% over the average closing price of approximately HK\$0.103 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 272% over the average closing price of approximately HK\$0.113 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 213% over the closing price of HK\$0.134 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 162.5% over the Group's audited consolidated net assets per Share attributable to the owners of the Company as at 31 December 2022 of approximately HK\$0.16 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group's audited consolidated net assets attributable to the owners of the Company of approximately RMB271,551,000 (equivalent to approximately HK\$298,706,100) as at 31 December 2022); and
- (vi) a premium of approximately 180.0% over the Group's unaudited consolidated net assets per Share attributable to the owners of the Company as at 30 June 2023 of approximately HK\$0.15 (based on a total of 1,810,953,272 Shares as at the Latest Practicable Date and the Group's unaudited consolidated net assets attributable to the owners of the Company of approximately RMB249,295,000 (equivalent to approximately HK\$274,224,500) as at 30 June 2023).

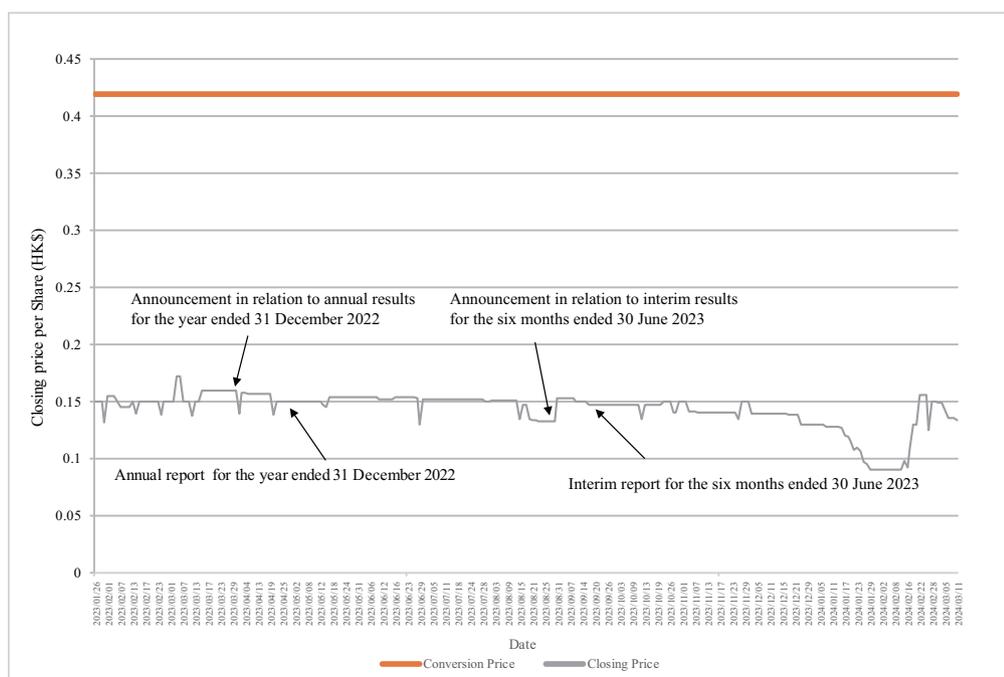
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With a view to assess the fairness and reasonableness of terms of the 2024 Convertible Bonds, we have performed review and/or analysis on (i) the daily closing price of the ordinary Shares as quoted on the Stock Exchange for a period of twelve months prior to the Last Trading Day up to and including the Latest Practicable Date; (ii) the trading volume of the ordinary Shares for a period of twelve months prior to the Last Trading Day up to and including the Latest Practicable Date; and (iii) the comparison on the issuance of convertible bonds by companies listed on the Stock Exchange.

(a) Analysis on the performance of historical closing Share price

With a view to assessing the reasonableness of the Conversion Price, we have conducted analysis on the daily closing price of the Shares as quoted on the Stock Exchange for a period of twelve months prior to the Last Trading Day up to and including the Latest Practicable Date (“Share Price Review Period”) and set out in the chart below:

Share price chart during the Share Price Review Period



Source: The website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the above chart, the closing price per Share has been on a decreasing trend in general during the Share Price Review Period from the closing price of HK\$0.15 per Share on 27 January 2023 to the closing price of HK\$0.095 per Share on the Last Trading Day, with the highest and lowest Closing price per Share being HK\$0.172 on 3 March 2023 and 6 March 2023 and HK\$0.090 during the period from 29 January 2024 to 14 February 2024.

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(b) Analysis on the trading liquidity of the Shares

As part of our assessment on the Conversion Price, we have also conducted analysis on the trading liquidity of the Shares for the Share Price Review Period and set forth below a summary of (a) the number of trading days for each month/period; (b) the average daily trading volume of Shares of each month/period; (c) the average daily trading volume as a percentage of the then total number of Shares issued of each month/period; and (d) the average daily trading volume as a percentage of the total number of Shares in public hands of each month/period:

Month/period 2023	Number of trading days	Average daily number of Shares traded	% of average daily number of Shares traded to the total number of Shares in issue (Note 1)	% of average daily number of Shares traded to the total number of Shares in the public hands (Note 2)
January (from 26 January 2023)	4	1,000	0.0001%	0.0001%
February	20	16,000	0.0009%	0.0017%
March	23	78,348	0.0043%	0.0086%
April	17	941	0.0001%	0.0001%
May	21	17,286	0.0010%	0.0019%
June	21	48,095	0.0027%	0.0053%
July	20	–	–	–
August	23	90,522	0.0050%	0.0099%
September	19	2,053	0.0001%	0.0002%
October	20	6,400	0.0004%	0.0007%
November	22	6,955	0.0004%	0.0008%
December	19	34,579	0.0019%	0.0038%
2024				
January	22	132,727	0.0073%	0.0145%
February	19	88,632	0.0049%	0.0097%
March (up to the Latest Practicable Date)	7	469,000	0.0259%	0.0512%
Average			0.037%	0.0072%
Maximum			0.0259%	0.0512%
Minimum			–	–

Source: www.hkex.com.hk

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Notes:

1. Calculated based on the total number of the Shares in issue at the end of the month/period.
2. Calculated based on the total number of the Shares held by public shareholders as set out in the Letter from the Board as at the Latest Practicable Date.

As set out in the table above, during the Share Price Review Period, the percentage of average daily trading volume of the Shares for the respective month/period were in the range from nil to the highest of approximately 0.0259% with an average of approximately 0.037% as to the total number of issued Shares.

If only Shares held by public Shareholders (the “**Free Float Shares**”) are considered in calculating the percentage of average daily trading volume of the Shares for the respective month/period under the Share Price Review Period, the average trading volume of the Free Float Shares during the Share Price Review Period ranged from nil to the highest of approximately 0.0512%, with an average daily trading volume of approximately 0.0072% of the total number of Free Float Shares.

The above statistics revealed that the trading liquidity of the Shares has been extremely low in the open market.

(c) Market comparable analysis

In order to assess the fairness and reasonableness of the terms of the Subscription Agreement, we have identified a list of convertible bonds/notes under specific mandate (the “**Comparable CBs**”) announced by companies listed on the Stock Exchange. In view of the principal amounts of the 2024 Convertible Bonds of HK\$126 million, we have attempted to identify all convertible bonds/notes announced by companies which (i) are listed on the Stock Exchange during the six-month period and including the date of the Subscription Agreement (i.e. from 27 July 2023 to 26 January 2024); and (ii) the duration of the convertible bonds/notes is not perpetual as perpetual convertible bonds/notes are considered not comparable to the 2024 Convertible Bonds in terms of the credit risk and interest rate risk incurred from the maturity of the convertible bonds/notes.

On a best effort basis and to the best of our knowledge, we have identified an exhaustive list of 20 Comparable CBs on an exhaustive basis which met the said criteria and have not yet lapsed as at the Latest Practicable Date. We consider that the application of the aforementioned selection criteria allows us to (i) capture the Comparable CBs, which provide a general reference for the recent market practice in relation to the key terms of issue of convertible bonds/notes with comparable size as the 2024 Convertible Bonds under the current market condition and sentiment; and (ii) generate a sufficient sample size for the purpose of our analysis. In view of the above, we are of the view that the Comparable CBs are fair and representative.

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Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not the same as the issuers of the Comparable CBs. Nevertheless, we consider that the terms of the Comparable CBs were determined under similar market conditions and sentiment and hence, provide a general reference on the key terms for this type of transaction in Hong Kong. Therefore, we consider that the Comparable CBs are indicative in assessing the fairness and reasonableness of the key terms of the Subscription Agreement. The following table sets forth the relevant details of the Comparable CBs:

Company name	Stock code	Date of announcement	Interest rate per annum (%)	Subscribers are connected person	Maturity (year(s))	Premium/ (discount) of conversion price over/to the closing price on the respective date of the agreements as stated in the announcements of respective companies (%)	Premium/ (discount) of conversion price over/to the average closing price of respective shares for the last five consecutive trading days prior to/up to and including the date of respective agreement (%)	Latest status as at 26 January 2024	Currency	Total equity attributable to shareholders of the subject company (Note 3)	Net profit/loss attributable to equity shareholders of the subject company (Note 4)
Innovative Pharmaceutical Biotech Limited	399	27 July 2023	0.0	Yes	10.0	0.00	4.7	Circular to be despatched	HKD	(601,457,000)	(245,698,000)
Mobile Internet (China) Holdings Limited	1439	25 August 2023	2.0	No	2.0	(58.3)	(67.1)	Passed by the shareholders	RMB	(706,568,000)	(263,049,000)
Kiu Hung International Holdings Limited	381	29 August 2023	4.0	No	5.0	32.7	31.6	Passed by the shareholders	HKD	298,505,000	(59,521,000)
Wai Chun Group Holdings Limited ("Wai Chun") (Note 1)	1013	29 August 2023	1.0	Yes	4.0	0.0	(39.50)	Passed by the shareholders	HKD	(274,198,000)	(50,721,000)
Wai Chun (Note 1)	1013	29 August 2023	1.0	Yes	4.0	0.0	(39.50)	Passed by the shareholders	HKD	(274,198,000)	(50,721,000)
Hong Kong Aerospace Technology Group Limited	1725	31 August 2023	0.5	No	1.0	(8.9)	8.3	Passed by the shareholders	RMB	159,442,000	(154,290,000)
Husoke Holdings Limited	704	11 September 2023	8.0	Yes	2.0	(0.6)	0.0	Rejected by the shareholders	HKD	923,014,000	1,248,861,000

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Company name	Stock code	Date of announcement	Interest rate per annum (%)	Subscribers are connected person	Maturity (year(s))	Premium/(discount) of conversion price over/to the closing price on the respective date of the agreements as stated in the announcements of respective companies (%)	Premium/(discount) of conversion price over/to the average closing price of respective shares for the last five consecutive trading days prior to/up to and including the date of respective agreement (%)	Latest status as at 26 January 2024	Currency	Total equity attributable to shareholders of the subject company (Note 3)	Net profit/loss attributable to equity shareholders of the subject company (Note 4)
China Parenting Network Holdings Limited	1736	12 September 2023	8.0	No	0.5	0.0	2.2	Rejected by the shareholders	RMB	96,892,000	101,253,000
China Kingstone Mining Holdings Limited	1380	22 September 2023	2.0	No	3.0	(44.2)	(43.6)	Passed by the shareholders	RMB	194,715,000	(61,884,000)
Asia Television Holdings Limited	707	28 September 2023	8.0	No	2.0	177.8	122.2	Passed by the shareholders	RMB	(559,898,000)	(214,265,000)
Kasen International Holdings Limited	496	29 September 2023	5.0	No	1.5	20.0	32.8	Passed by the shareholders	RMB	3,718,649,000	68,279,000
Hatcher Group Limited	8365	06 October 2023	0.0	No	2.0	9.6	10.8	Passed by the shareholders	HKD	199,229,000	(13,829,000)
Century Entertainment International Holdings Limited	959	16 October 2023	0.0	Yes	3.0	13.3	8.5	Passed by the shareholders	HKD	(78,487,000)	(62,549,000)
Prosperity Investment Holdings Limited	310	16 November 2023	8.0	No	2.0	10.7	10.7	Passed by the shareholders	HKD	34,016,000	(4,807,000)
Zhongliang Holdings Group Company Limited	2772	20 November 2023	3.0	No	3.7	321.1	313.8	Passed by the shareholders	RMB	11,192,553,000	(1,346,384,000)
Oriental Payment Group Holdings Limited	8613	02 January 2024	12.0	Yes	4.5	0.0	4.0	Circular to be despatched	HKD	40,035,000	32,231,000

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Company name	Stock code	Date of announcement	Interest rate per annum (%)	Subscribers are connected person	Maturity (year(s))	Premium/ (discount) of conversion price over/to the closing price on the respective date of the agreements as stated in the announcements of respective companies (%)	Premium/ (discount) of conversion price over/to the average closing price of respective shares for the last five consecutive trading days prior to/up to and including the date of the respective agreement (%)	Latest status as at 26 January 2024	Currency	Total equity attributable to shareholders of the subject company (Note 3)	Net profit/loss attributable to equity shareholders of the subject company (Note 4)
Zhi Sheng Group Holdings Limited	8370	03 January 2024	0.0	No	2.0	45.3	45.3	Passed by the shareholders	RMB	37,769,000	(79,196,000)
CNC Holdings Limited ("CNC") (Note 2)	8356	15 January 2024	0.8	Yes	1.0	1,533.33	1,533.33	Circular to be despatched	HKD	(396,277,000)	(9,440,000)
CNC (Note 2)	8356	15 January 2024	0.8	Yes	1.0	1,533.33	1,533.33	Circular to be despatched	HKD	(396,277,000)	(9,440,000)
Eminence Enterprise Limited	616	23 January 2024	5.0	Yes	5.0	(4.8)	(5.8)	Circular to be despatched	HKD	3,084,011,000	58,970,000
		Maximum	12.0		10.0	1,533.3	1,533.3				
		Minimum	0.0		0.5	(58.3)	(67.1)				
		Average	3.5		3.0	179.0	173.3				
		Median	2.0		2.0	4.8	8.4				
The Company	1039	26 January 2024	8.00	Yes	3.00	342.0	308.0		RMB	249,295,000	(34,725,000)

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

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Notes:

1. As set out in the announcement of Wai Chun dated 29 August 2023, there were two convertible bonds with principal amount of HK\$152,000,000 and HK\$23,480,000, respectively, issued by Wai Chun, therefore they were separately disclosed in the table above in order not to distort the analysis.
2. As set out in the announcement of CNC dated 15 January 2024, there were two convertible bonds with principal amount of HK\$64,127,855 and HK\$16,240,000, respectively, issued by CNC, therefore they were separately disclosed in the table above in order not to distort the analysis.
3. The amount of total equity attributable to equity shareholders of the subject company is based on the respective latest annual report/results announcement or interim report/results announcement of the Comparable CBs.
4. The amount of net profit/loss attributable to equity shareholders of the subject company is adopted from the respective latest audited annual report/results announcement of the Comparable CBs.

5.2 Interest Rate

As illustrated by the above table, the interest rates of the Comparable CBs ranged from nil to 12.0%, with an average of approximately 3.5% and a median of approximately 2.0% per annum. We noted that the interest rate of 8.0% of 2024 Convertible Bonds falls within the range of the interest rates of the Comparable CBs. In addition, we noted that 10 Comparable CBs out of 20 Comparable CBs are issued under subject agreements which the subject company entered into with connected person(s) (the “**Connected Comparable CBs**”). The interest rates of the Connected Comparable CBs ranged from nil to 12.0%, with an average of approximately 3.4% and a median of approximately 1.0%. We further noted that the interest rate of 8.0% of the 2024 Convertible Bonds falls within the range of the interest rates of the Connected Comparable CBs.

Having considered that (i) the interest rate of the 2024 Convertible Bonds falls within the range of the interest rates of the Comparable CBs; (ii) the interest rate of the 2024 Convertible Bonds falls within the range of the interest rates of the Connected Comparable CBs; (iii) we have discussed with the Management and are given to understand that the Directors have considered other debt fundraising alternative for the purpose of debt fund raising possibility which the Company had approached certain banks and non-banking financial institutions, however, due to the Group’s loss-making performance for the year ended 31 December 2022 and the prevailing interest rate, it is not feasible for the Company to obtain a more favourable interest rate from certain banks and non-banking financial institutions when comparing to interest rate of the 2024 Convertible Bonds, we are of a view that other debt fundraising alternative, such as approaching other financial institutions is a less preferable option for fund raising of the Group currently; and (iv) we have further discussed with the Management and are given to understand that the Directors have considered other equity fundraising alternative, such as approaching private equity firms for the purpose of equity fund raising possibility, however, due to the economy is facing macro-financial challenges amid rising interest rates, the Directors are of the view that private

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equity firms will be cautious in making investment decisions, we are of a view that other equity fundraising alternative, such as approaching private equity firms is uncertain and subject to the then prevailing market, we consider that the interest rate of the 2024 Convertible Bonds is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5.3 Term to maturity

As illustrated by the above table, the terms to maturity of the Comparable CBs ranged from half-year to ten years with an average of 3.0 years and median of 2.0 years. Notwithstanding that the term to maturity of 2024 Convertible Bonds is longer than the median of the Comparable CBs, the term to maturity of 2024 Convertible Bonds is same as the average of Comparable CBs and in line with the aforesaid range of Comparable CBs. Accordingly, we consider the term to maturity of the 2024 Convertible Bonds to be fair and reasonable.

5.4 Conversion price

The Conversion Price of HK\$0.42 per Conversion Share represents (i) a premium of approximately 342% over the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) a premium of approximately 308% over the average closing price of approximately HK\$0.103 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day.

As shown in the table above, the conversion prices of the Comparable CBs ranged from (i) a discount of approximately 58.3% to a premium of approximately 1,533.3% to/over the closing prices of the respective shares on the date of the respective agreements with an average premium of approximately 179.0% (“**Comparable CBs Average Premium on LTD**”) and a median premium of approximately 4.8%; and (ii) a discount of approximately 67.1% to a premium of approximately 1,533.3% to/over the average closing prices of respective shares for the last five (5) consecutive trading days immediately prior to or up to and including the date of the respective agreements with an average premium of approximately 173.3% (“**Comparable CBs Average Premium for Five Consecutive Trading Days**”) and a median premium of approximately 8.4%.

We noted that (i) the premium of the Conversion Price of approximately 342% to the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the Last Trading Day is higher than the Comparable CBs Average Premium on LTD of approximately 179.0%; and (ii) a premium of Conversion Price of approximately 308% over the average closing price of approximately HK\$0.103 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day was higher than the Comparable CBs Average Premium for Five Consecutive Trading Days of approximately 173.3%.

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5.5 Our view

Having considered (i) the reasons for and benefits of the Subscription as set out in the section headed “3. Reasons for and benefits of the Subscription” above; (ii) the premium of the Conversion Price to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day is higher than the Comparable CBs Average Premium on LTD; (iii) a premium of Conversion Price over the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day is higher than the Comparable CBs Average Premium for Five Consecutive Trading Days; (iv) the interest rate of the 2024 Convertible Bonds falls within the range of the interest rate of the Comparable CBs; and (v) the term to maturity of 2024 Convertible Bonds is same as the median of the Comparable CBs and in line with the range of Comparable CBs, we are of the view that the terms of the 2024 Convertible Bonds under the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms.

6. Possible financial effects of the Subscription

The financial effects as a result of the Subscription set out below are purely for illustrative purposes only and do not reflect the future financial position of the Company or the Group after the completion of the Subscription.

Effect on net assets value and gearing ratio

As the outstanding amount of the principal under the 2020 Convertible Bonds shall be set-off against all amounts owed by the Subscriber in respect of the Issue Price, no net proceeds will be received by the Company from the issue of the 2024 Convertible Bonds. Therefore, it is expected that the 2024 Convertible Bonds will not have an immediate material impact on the net asset value and gearing ratio of the Group.

7. Effect on the shareholding structure of the Company

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

	As at the Latest Practicable Date		Immediately upon full conversion of the 2024 Convertible Bonds at the initial Conversion Price (Note 3)	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
The Subscriber (Note 1)	598,885,818	33.07	898,885,818	42.58
Pun Tang (Note 1)	71,367,000	3.94	71,367,000	3.38
Starr International Foundation (Note 2)	224,710,691	12.41	224,710,691	10.64
Other public Shareholders	<u>915,989,763</u>	<u>50.58</u>	<u>915,989,763</u>	<u>43.40</u>
Total	<u>1,810,953,272</u>	<u>100.00</u>	<u>2,110,953,272</u>	<u>100.00</u>

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Notes:

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

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

Subsequently, on 30 July 2019, a novation deed (“**Novation Deed**”) was entered into between Mega Prime as outgoing party, Poly Platinum Enterprises Ltd (“**Poly Platinum**”) as incoming party and the Subscriber as continuing party, pursuant to which all rights, obligations and liabilities of Mega Prime under the Exchangeable Bonds Subscription Agreement were novated to Poly Platinum. Poly Platinum is wholly owned by Greater Bay Area Homeland Development Fund LP (“**GBAHD Fund**”). Greater Bay Area Homeland Development Fund (GP) Limited (“**GBAHD GP**”) is the general partner of GBAHD Fund. Greater Bay Area Development Fund Management Limited (“**GBAD Fund Management**”) is the fund manager of GBAHD GP. Both GBAHD GP and GBAD Fund Management are wholly owned by Greater Bay Area Homeland Investments Limited (“**GBAHIL**”). To the best of the Directors’ knowledge, information and belief, GBAHIL was jointly established by international large-scale industrial institutions, financial institutions and new economic enterprises and was held by ten corporate shareholders, with seven corporate shareholders each holding approximately 12.35% of the issued share capital of GBAHIL and three corporate shareholders holding approximately 7.41%, 4.94% and 1.20%, respectively, of the issued share capital of GBAHIL as at the Latest Practicable Date. GBAHD Fund is set up by GBAHIL and covers venture capital, private equity investment, listed company investment and other investments. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owners of GBAHIL are parties independent of the Company and its connected persons (as defined in the Listing Rules).

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

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

The extension of the Exchangeable Bonds as aforesaid and the issue of the 2024 Convertible Bonds are not inter-conditional. As confirmed by the Directors, other than the charging of the Subscriber’s interest in the 2024 Convertible Bonds to Poly Platinum as disclosed above, there is no side arrangement, agreement, understanding or undertaking (whether formal or informal and whether express or implied) between the Company, the Subscriber and Poly Platinum in respect of the 2024 Convertible Bonds.

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2. As at the Latest Practicable Date, Starr Investments Cayman II, Inc. and Starr Investments Cayman V, Inc. were the beneficial owners of 114,801,600 Shares and 109,909,091 Shares, respectively (being approximately 6.34% and 6.07% of the total issued Shares as at the Latest Practicable Date, respectively). Starr Investments Cayman II, Inc. is wholly owned by Starr International Cayman, Inc., which is in turn wholly owned by Starr Insurance and Reinsurance Limited. Starr Insurance and Reinsurance Limited and Starr Investments Cayman V, Inc. are wholly-owned subsidiaries of Starr International Investments Limited, which is in turn wholly owned by Starr International Company Inc. Starr International Company Inc. is wholly owned by Starr International AG, which is wholly owned by Starr International Foundation, a charitable foundation established in Switzerland.
3. The 2020 Convertible Bonds held by the Subscriber matured on 19 October 2023. Simultaneously upon Completion, the 2020 Convertible Bonds shall be redeemed. As such, the shareholding structure only takes into account the shareholding of the Company immediately upon full conversion of the 2024 Convertible Bonds.

As at the Latest Practicable Date, the relevant securities of the Company in issue comprised 1,810,953,272 Shares.

According to the terms of 2024 Convertible Bonds, the Bondholder shall have the right, at any time during the conversion period, to elect to convert the whole or part of the 2024 Convertible Bonds for the time being outstanding into Conversion Shares at the Conversion Price. The Bondholder shall not exercise any of its right to convert the 2024 Convertible Bonds into Conversion Shares to an extent that would result in: (i) a mandatory general offer obligation being triggered under the Takeovers Code in respect of such Bondholder and the parties acting in concert with it, unless either (a) such Bondholder and parties acting in concert with it comply with the Takeovers Code and make a mandatory general offer to acquire for 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. Therefore, the exercise of 2024 Convertible Bonds will be subject to the above restrictions and the minimum public shareholding requirement under Listing Rules shall not be affected.

Having considered that (i) the principal terms of the 2024 Convertible Bonds are fair and reasonable as discussed above; (ii) any form of non-pro rata fund raising activities would also have dilution effect to all Shareholders; and (iii) if the Company satisfies future funding needs through the issue of consideration shares and/or other convertible securities, such issue will still have dilution effect to all existing Shareholders, we are of the view that the dilution effect of the 2024 Convertible Bonds to the shareholding interests of the existing public Shareholders is reasonable.

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RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Group, it is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and 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 Subscription Agreement.

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

Mr. Robert Siu is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 26 years of experience in the corporate finance industry.

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES PURSUANT TO THE SFO

As at the Latest Practicable Date, none of the Directors, chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS PURSUANT TO THE SFO

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Nature of interest	Interest in Shares	Approximate percentage of interest <i>(Note 7)</i>
Pun Tang ^(Note 1)	Beneficial interest	71,367,000 (L)	3.94%
	Interest of controlled	898,885,818 (L)	49.64%
	corporation	660,000,000 (S)	36.44%
The Subscriber ^(Note 1)	Beneficial interest	898,885,818 (L)	49.64%
		660,000,000 (S)	36.44%

Name of Shareholder	Nature of interest	Interest in Shares	Approximate percentage of interest (Note 7)
Greater Bay Area Homeland Investments Limited ^(Note 2)	Interest of controlled corporation	712,647,000 (L)	39.35%
Starr International Foundation ^(Note 3)	Interest of controlled corporation	224,710,691 (L)	12.41%
Beijing Enterprises Real Estate (HK) Limited ^(Note 4)	Beneficial interest	151,515,000 (L)	8.37%
Yang Liu ^(Note 5)	Interest of controlled corporation	144,853,000 (L)	7.99%
Taiping Trustees Limited ^(Note 6)	Beneficial interest	138,888,000 (L)	7.67%

L = Long position; S = Short position

Notes:

1. *Long position*

The Subscriber is wholly owned by Ms. Pun Tang. As at the Latest Practicable Date, (a) Ms. Pun Tang held 71,367,000 Shares (being approximately 3.94% of the total issued Shares of the Company as at the Latest Practicable Date), and (b) the Subscriber held 898,885,818 Shares (being approximately 49.64% of the total shareholding of the Company as at the Latest Practicable Date), of which 300,000,000 Shares are the underlying Shares of the 2024 Convertible Bonds.

Short position

On 18 April 2019, a subscription agreement (the “**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 (the “**Exchangeable Bonds**”) to Mega Prime, which are exchangeable into 220,000,000 Shares. Such underlying Shares are currently owned by the Subscriber. Mega Prime is wholly owned by Greater Bay Area Homeland Investments Limited.

Subsequently, on 30 July 2019, the 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 was novated to Poly Platinum.

On 28 July 2022, the Subscriber and Poly Platinum agreed to vary the terms of the Exchangeable Bonds, pursuant to which the number of Shares exchangeable was varied from 220,000,000 Shares to 300,000,000 Shares, and the Subscriber agreed to charge to Poly Platinum its interest in the 2020 Convertible Bonds which are convertible into 300,000,000 Shares. The 2020 Convertible Bonds matured on 19 October 2023. As such, the above table did not take into account the short position under the 2020 Convertible Bonds.

The Exchangeable Bonds matured on 2 August 2023. On 25 January 2024, the Subscriber and Poly Platinum agreed to, among the others, further extend the maturity date of the Exchangeable Bonds. The underlying shares of the Exchangeable Bonds remain unchanged at 300,000,000 Shares. On 25 January 2024, the Subscriber charged to Poly Platinum its interest in 60,000,000 Shares. Additionally, subject to the issuance of the 2024 Convertible Bonds, the Subscriber will charge its interest in the 2024 Convertible Bonds to Poly Platinum. The extension of the Exchangeable Bonds and the issue of the 2024 Convertible Bonds are not inter-conditional.

2. As at the Latest Practicable Date, Poly Platinum held 52,647,000 Shares. Poly Platinum is the beneficial owner of the Exchange Bonds, which are exchangeable into 300,000,000 Shares. The Exchangeable Bonds matured on 2 August 2023 and on 25 January 2024, the Subscriber and Poly Platinum agreed to, among the others, extend the maturity date of the Exchangeable Bonds. For more details, please refer to note 1 above. On 25 January 2024, the Subscriber charged to Poly Platinum its interest in 60,000,000 Shares. Additionally, subject to the issuance of the 2024 Convertible Bonds which are convertible into 300,000,000 Shares (assuming the 2024 Convertible Bonds is exercised in full), the Subscriber will charge to Poly Platinum its interest therein. As such, GBAHIL is deemed to be interested in 712,647,000 Shares. Poly Platinum is wholly owned by GBAHD Fund. GBAHD GP is the general partner of GBAHD Fund. GBAD Fund Management is the fund manager of GBAHD Fund. Both GBAHD GP and GBAD Fund Management are wholly owned GBAHIL. To the best of the Directors' knowledge, information and belief, GBAHIL is held by ten corporate shareholders, with seven corporate shareholders each holding approximately 12.35% of the issued share capital of GBAHIL and three corporate shareholders holding approximately 7.41%, 4.94% and 1.20%, respectively, of the issued share capital of GBAHIL as at the Latest Practicable Date.
3. As at the Latest Practicable Date, Starr Investments Cayman II, Inc. and Starr Investments Cayman V, Inc. are the beneficial owners of 114,801,600 Shares and 109,909,091 Shares, respectively (being approximately 6.34% and 6.07% of the total shareholding of the Company, respectively). Starr Investments Cayman II, Inc. is wholly owned by Starr International Cayman, Inc., which is in turn wholly owned by Starr Insurance and Reinsurance Limited. Starr Insurance and Reinsurance Limited and Starr Investments Cayman V, Inc. are wholly-owned subsidiaries of Starr International Investments Limited, which is in turn wholly owned by Starr International Company Inc. Starr International Company Inc. is wholly owned by Starr International AG, which is wholly owned by Starr International Foundation, a charitable foundation established in Switzerland.
4. Beijing Enterprises Real Estate (HK) Limited is wholly owned by Beijing Beikong Real Estate Co., Ltd.* (北京北控置業有限責任公司), which is in turn wholly owned by Beijing Enterprises Group Company Limited. Beijing Enterprises Group Company Limited is wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.
5. Atlantis Investment Management Limited is the beneficial owner of 144,853,000 Shares, and is wholly owned by Atlantis Capital Holdings Limited, which is in turn wholly owned by Yang Liu.
6. Taiping Trustees Limited holds 138,888,000 Shares as trustee of certain discretionary trust, of which Taiping Assets Management (HK) Company Limited is investment manager. The ultimate controlling shareholder of Taiping Trustees Limited is China Taiping Insurance Group Limited, which is ultimately controlled by the State Council of the PRC.
7. The approximate percentage is based on a total of 1,810,953,272 issued Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no other persons or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Save for Mr. Yuan Weitao, who is a director of the Subscriber, none of the Directors is a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director is materially interested and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2022 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

5. DIRECTOR'S INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) was interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

8. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert whose statements have been included in this circular:

Name	Qualification
Red Sun	A corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders

Red Sun has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, opinion and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Red Sun did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Red Sun did not have any direct or indirect interests in any assets which have been, since 31 December 2022 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

9. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Company have been made up).

10. DOCUMENTS ON DISPLAY

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

- (a) the Subscription Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 24 to 25 of this circular;

- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 26 to 53 of this circular;
- (d) the written consent referred to in the section headed “Expert’s Qualification and Consent” in this Appendix; and
- (e) this circular.

11. GENERAL

- (a) The registered office of the Company is at Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1110, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong.
- (c) The company secretary of the Company is Mr. Chan Chi Keung, Billy, who is a fellow member of the Association of Chartered Certified Accountants.
- (d) The Company’s share registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong.
- (e) In the event of inconsistency, the English version of this circular shall prevail over the Chinese text.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

CHANGYOU ALLIANCE GROUP LIMITED

暢由聯盟集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of Changyou Alliance Group Limited (“**Company**”) will be held at Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Wednesday, 10 April 2024 at 11:00 a.m. or at any adjournment thereof, to consider and, if thought fit, pass the following resolution, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the Subscription Agreement (as defined in the circular of the Company dated 15 March 2024 (the “**Circular**”)), a copy of which has been produced to the EGM and marked “A” and initialled by the chairman of the EGM for identification purposes, in relation to the subscription for the 2024 Convertible Bonds in an aggregate principal amount of HK\$126,000,000 and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds (as defined in the Circular) and the allotment and issue of the Conversion Shares (as defined in the Circular) upon conversion of the 2024 Convertible Bonds under the Specific Mandate (as defined in the Circular), be and is hereby considered, approved, confirmed and ratified;
- (b) the instrument constituting the 2024 Convertible Bonds, a copy of which has been produced to the EGM and marked “B” and initialled by the chairman of the EGM for identification purposes, and the transactions contemplated thereunder, be and are hereby considered, approved, confirmed and ratified;
- (c) subject to and conditional upon the listing committee approving the listing of, and granting the permission to deal in, the Conversion Shares, the directors of the Company (“**Directors**”) be and are hereby authorised to: (i) issue the 2024 Convertible Bonds to the Subscriber; and (ii) allot and issue the Conversion Shares on the terms and subject to the conditions of the 2024 Convertible Bonds;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) an unconditional Specific Mandate be and is hereby granted to the Directors to exercise the powers to allot, issue and deal with such number of Conversion Shares as may be required to be allotted and issued upon the exercise of the conversion rights attaching to the 2024 Convertible Bonds pursuant to the terms of the 2024 Convertible Bonds; and
- (e) any one Director be and is hereby authorised to, for and on behalf of the Company, do all such further acts and things and to sign and execute all such documents, instruments and agreements, and to take all such steps which in his/her opinion may be necessary, appropriate, desirable or expedient for the purpose of, or in connection with, implementing and/or giving effect to the Subscription Agreement and the transactions contemplated thereunder, including the issue of the 2024 Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the 2024 Convertible Bonds under the Specific Mandate.”

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

Hong Kong, 15 March 2024

Notes:

1. A member of the Company entitled to attend and vote at the EGM by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. Where there are joint holders of any share of the Company, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding, the first named being the senior.
3. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). The proxy form will be published on the website of the Stock Exchange and the website of the Company.
4. The register of members of the Company will be closed from Friday, 5 April 2024 to Wednesday, 10 April 2024 (both days inclusive), for the purpose of determining the Shareholders' entitlement to attend and vote at the EGM to be held on Wednesday, 10 April 2024 at 11:00 a.m. During this period, no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer forms and the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Wednesday, 3 April 2024.

As at the date of this notice, the executive Directors are Mr. Cheng Jerome and Mr. Yuan Weitao; the non-executive Director is Mrs. Guo Yan; and the independent non-executive Directors are Mr. Wong Chi Keung, Mr. Ip Wai Lun, William and Mr. Chan Chi Keung, Alan.