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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)

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

2021 FACILITY AGREEMENT

On 20 April 2021 (after trading hours), the Company (as lender) and PCL (as borrower) entered into the 2021 Facility Agreement, pursuant to which the Company conditionally agreed to grant the 2021 Revolving Loan Facility of up to HK\$100 million to PCL, an indirect non-wholly-owned subsidiary of the Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, PCL's entire issued share capital is owned as to 47.24% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment. Pointsea Holdings is owned as to 80% by Treasure Ease and as to 20% by Easylink. Treasure Ease is owned as to 50.1% by the Company, 30% by Fin-Tech and 19.9% by Chance Talent. The Board considers that PCL is a subsidiary of the Company through its power to control the board of directors of PCL. CIH, being a substantial shareholder of the Company, holds the entire issued share capital of Fin-Tech. PCL is therefore a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules and the grant of the 2021 Revolving Loan Facility constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the grant of the 2021 Revolving Loan Facility is more than 5%, the 2021 Facility Agreement, the grant of the 2021 Revolving Loan Facility and the proposed Annual Caps are subject to the reporting, announcement, Independent Shareholders' approval, circular, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee has been established to advise and give recommendations to the Independent Shareholders in relation to the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder. Red Sun Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder. CIH and its associates will abstain from voting at the EGM.

A circular containing, among other things, (a) further information on the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder; (b) a letter from the Independent Board Committee to the Independent Shareholders containing the recommendations in relation to the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder; (c) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder; (d) a notice convening the EGM; and (e) other information required under the Listing Rules will be despatched to the Shareholders on or before 28 May 2021 as additional time is required for preparing the relevant information to be included in the circular.

2021 FACILITY AGREEMENT

On 20 April 2021, (after trading hours), the Company (as lender) and PCL (as borrower) entered into the 2021 Facility Agreement, pursuant to which the Company conditionally agreed to grant the 2021 Revolving Loan Facility of up to HK\$100 million to PCL, an indirect non-wholly-owned subsidiary of the Company.

The major terms of the 2021 Facility Agreement are set out below:

Date: 20 April 2021 (after trading hours)

Parties: (i) the Company, as lender; and
(ii) PCL, as borrower

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| Amount of 2021 Revolving Loan Facility: | Up to HK\$100 million |
| Purpose of 2021 Revolving Loan Facility: | For developing the digital point business of PCL's group of companies and for capital expenditure and general working capital of PCL's group of companies. |
| Facility Period: | The 3-year period from and including the date on which the Company is satisfied that all the conditions precedent of the 2021 Facility Agreement have been fulfilled or specifically waived in writing by the Company. |
| Drawdown: | <p>During the Facility Period, PCL may draw the Available Facility, in a single amount or in multiple amounts, from time to time on a Business Day after all conditions precedent of the 2021 Facility Agreement are satisfied, provided that PCL gives the Company at least two Business Days' prior written notice (or a shorter notice as the Company may agree) prior to the date on which PCL wants to draw the Available Facility.</p> <p>The amount of each drawdown shall be a minimum of HK\$1 million and in integral multiples of HK\$1 million or if the Available Facility at the time of drawing is less than HK\$1 million, the full amount of such Available Facility.</p> |
| Conditions precedent: | <p>The drawing of the Available Facility is conditional upon (i) the Independent Shareholders having approved the 2021 Facility Agreement and the transactions contemplated thereunder at the EGM; and (ii) the Company having received all the documents and evidence required in the 2021 Facility Agreement.</p> <p>If these conditions have not been fulfilled on or before the Long Stop Date, then the 2021 Facility Agreement shall automatically terminate in accordance with its terms</p> |
| Security: | None |
| Interest: | (i) PCL shall pay interest on the outstanding principal amount of each Loan at the rate of 6.5% per annum (on the basis of a 365-day year); and (ii) interest shall accrue daily, calculated on the basis of the actual number of days elapsed from (and including) the Drawdown Date and shall be payable on each Interest Payment Date. |

- Repayment Date: The date falling on the expiry of the Facility Period, or such later date as may be agreed between PCL and the Company in writing, being the date for the repayment of all Loan(s) (together with all interest accrued thereon) in full.
- Voluntary prepayment: PCL may, at any time after a Loan has been advanced and prior to the Repayment Date, prepay such Loan in whole or in part (together with all interest accrued thereon), without any penalty.
- Reborrowing: PCL may reborrow any part of the 2021 Revolving Loan Facility which has been prepaid or repaid in accordance with the terms of the 2021 Facility Agreement, provided that (i) no event of default as set out in the 2021 Facility Agreement has occurred; and (ii) the aggregate outstanding principal amount of all Loan(s) shall not exceed HK\$100 million at any time during the Facility Period.

PROPOSED ANNUAL CAPS OF THE 2021 FACILITY AGREEMENT

The proposed Annual Caps in respect of the 2021 Revolving Loan Facility under the 2021 Facility Agreement for each financial year during the Facility Period shall not exceed HK\$100 million. The proposed Annual Caps were determined by reference to (i) the maximum principal amount of the Loan(s) to be granted by the Company to PCL pursuant to the 2021 Facility Agreement; (ii) the principal amounts of the loans granted under the 2019 Facility Agreement which has been fully utilized; (iii) the annual caps for the 2019 Facility Agreement; and (iv) the operations and developments of the “Changyou” business of the Group.

INFORMATION ON THE COMPANY AND THE GROUP

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

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

INFORMATION ON PCL

PCL is an investment holding company incorporated in the Cayman Islands with limited liability. As at the date of this announcement, PCL’s entire issued share capital is owned as to 47.24% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment.

REASONS FOR AND BENEFITS OF THE 2021 REVOLVING LOAN FACILITY

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

As at the date of this announcement, the 2019 Revolving Loan Facility has been fully utilized. Under the circumstances, PCL is exploring certain financing opportunities in order to meet its financing needs.

PCL has considered the feasibility of debt financing from banks and/or non-banking financial institutions both in the short term, as well as attempted to seek other sources of fundraising activities for the development and expansion of the “Changyou” business of the Group in the long term. However, due to PCL’s loss-making performance for the year ended 31 December 2020, it is not feasible for PCL to obtain loan facilities on favourable terms and conditions (such as interest rate and requirements for the provision of charges and/or other security to secure such loan facilities) in the foreseeable term.

In comparison, the Board considers that the provision of the 2021 Revolving Loan Facility will not create any additional external financing cost to be incurred by the Group.

PCL considers the 2021 Revolving Loan Facility to be a flexible, viable and preferred option for PCL as and when it has to obtain finance for its working capital requirements during the Facility Period. The Board considers the grant of the 2021 Revolving Loan Facility to PCL to be efficient, beneficial and in the interest of PCL and its shareholders as a whole, having considered the time and costs that may be incurred by PCL for other means of fund raising.

In view of the above, the Directors (excluding the members of the Independent Board Committee, who shall form their view in the circular to be despatched to the Shareholders after considering the advice from the Independent Financial Adviser) are of the view that the terms of the 2021 Facility Agreement (including the proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the grant of the 2021 Revolving Loan Facility is more than 5%, the 2021 Facility Agreement, the grant of the 2021 Revolving Loan Facility and the proposed Annual Caps are subject to the reporting, announcement, Independent Shareholders' approval, circular, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

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EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder. CIH and its associates will abstain from voting at the EGM.

A circular containing, among other things, (a) further information on the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder; (b) a letter from the Independent Board Committee to the Independent Shareholders containing the recommendations in relation to the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder; (c) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder; (d) a notice convening the EGM; and (e) other information required under the Listing Rules will be despatched to the Shareholders on or before 28 May 2021 as additional time is required for preparing the relevant information to be included in the circular.

DEFINITIONS

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

- “2019 Facility Agreement” the facility agreement dated 3 September 2019 and entered into between the Company as the lender and PCL as borrower in relation to the 2019 Revolving Loan Facility, the details of which are set out in the announcement of the Company dated 3 September 2019 and the circular of the Company dated 15 October 2019
- “2019 Revolving Loan Facility” an unsecured revolving loan facility of a total principal amount not exceeding HK\$100 million as set out in the 2019 Facility Agreement, the details of which are set out in the announcement dated 3 September 2019 and the circular of the Company dated 15 October 2019
- “2021 Facility Agreement” the facility agreement dated 20 April 2021 and entered into between the Company (as lender) and PCL (as borrower) in relation to the 2021 Revolving Loan Facility
- “2021 Revolving Loan Facility” an unsecured revolving loan facility of a total principal amount not exceeding HK\$100 million on the terms, and subject to the conditions, set out in the 2021 Facility Agreement, the details of which are set out in the paragraph headed “2021 Facility Agreement” in this announcement

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| “Annual Caps” | the maximum annual amount in relation to the transactions contemplated under the 2021 Facility Agreement, as required under Rule 14A.53 of the Listing Rules |
| “associates” | has the meaning ascribed to it under the Listing Rules |
| “Available Facility” | the total principal amount of the 2021 Revolving Loan Facility available for drawing from time to time pursuant to the 2021 Facility Agreement |
| “Board” | the board of Directors |
| “Business Day” | a day (other than a Saturday or Sunday or public holiday) on which commercial banks are open for general business in Hong Kong |
| “Chance Talent” | Chance Talent Management Limited, a business company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned special purpose vehicle of CCB International (Holding) Limited |
| “CIH” | Century Investment (Holding) Limited, a company incorporated in the British Virgin Islands with limited liability, and a substantial shareholder of the Company. It is wholly-owned by Ms. Pun Tang |
| “Company” | Changyou Alliance Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange |
| “connected subsidiary(ies)” | has the meaning ascribed thereto in the Listing Rules |
| “Director(s)” | director(s) of the Company |
| “Drawdown Date” | the date of the first drawdown of each Loan by PCL |
| “Eastern E-Commerce” | China Eastern Airlines E-Commerce Co., Ltd (東方航空電子商務有限公司), a company established in the PRC and a wholly-owned subsidiary of China Eastern Airlines Corporation Limited |

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| “Easylink” | Easylink Payment Network (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of China UnionPay Merchant Services Company Limited |
| “EGM” | an extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve, among other things, the 2021 Facility Agreement, the proposed Annual Caps and the transactions contemplated thereunder |
| “Extra Step” | Extra Step Investments Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited |
| “Facility Period” | the 3-year period from and including the date on which the Company is satisfied that all the conditions precedent of the 2021 Facility Agreement have been fulfilled or specifically waived in writing by the Company |
| “Fin-Tech” | Fin-Tech Company Limited, a company incorporated in the Cayman Islands with limited liability, and a wholly-owned subsidiary of CIH |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Independent Board Committee” | the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Liu Jialin and Mr. Chan Chi Keung Alan, established to advise and give recommendations to the Independent Shareholders in relation to the 2021 Facility Agreement (including the proposed Annual Caps) and the transactions contemplated thereunder |
| “Independent Financial Adviser” | Red Sun Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and the independent financial adviser to the Independent Board Committee and the Independent Shareholders |

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| “Independent Shareholders” | Shareholders other than CIH and its associates |
| “Interest Payment Date” | (i) each 30 June and 31 December of each year, commencing on the relevant Drawdown Date in respect of each Loan; and (ii) the Repayment Date |
| “Joy Empire” | Joy Empire Holdings Ltd., a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Bank of China Group Investment Limited |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Loan” | a loan made or to be made under the 2021 Revolving Loan Facility or the total principal amount outstanding from time to time of the loan(s) advanced to PCL pursuant to the 2021 Revolving Loan Facility under the 2021 Facility Agreement |
| “Long Stop Date” | 30 September 2021 or such later date as may be agreed between the Company and PCL in writing |
| “PCL” | Pointsea Company Limited, a company incorporated in the Cayman Islands with limited liability, and an indirect non-wholly-owned subsidiary of the Company |
| “Pointsea Holdings” | Pointsea Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability, and an indirect non-wholly-owned subsidiary of the Company |
| “Repayment Date” | the date falling on the expiry of the Facility Period or such later date as may be agreed between PCL and the Company in writing, being the date for the repayment of all Loan(s) (together with all interest accrued thereon) in full |
| “Senran Investment” | Senran Investment HK Company Limited (森然投資(香港)有限公司), a company incorporated in Hong Kong with limited liability and is ultimately beneficially owned by two individuals, who are third parties independent of the Company and its connected persons (as defined in the Listing Rules) |

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| “Share(s)” | the ordinary share(s) of par value US\$0.01 each in the share capital of the Company |
| “Shareholder(s)” | the holder(s) of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “substantial shareholder” | has the meaning ascribed to it under the Listing Rules |
| “Treasure Ease” | Treasure Ease Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, and a direct non-wholly-owned subsidiary of the Company |
| “Zhongjin Qizhi” | Zhongjin Qizhi (Shanghai) Equity Investment Centre (Limited Partnership)* (中金祺智(上海)股權投資中心(有限合夥)), a limited partnership established in the PRC and a subsidiary of an equity investment fund managed by CICC Capital (Cayman) Limited, which is in turn a wholly-owned subsidiary of China International Capital Corporation Limited |
| “%” | per cent. |

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

Hong Kong, 20 April 2021

As at the date of this announcement, the executive Directors are Mr. Cheng Jerome and Mr. Yuan Weitao; the non-executive Director is Mrs. Guo Yan; and the independent non-executive Directors are Mr. Wong Chi Keung, Mr. Liu Jialin and Mr. Chan Chi Keung Alan.

* *For identification purposes only*