



红日资本有限公司  
RED SUN CAPITAL LIMITED

1 August 2025

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

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**(1) FOURTH SUPPLEMENTAL 2019 FACILITY AGREEMENT  
IN RELATION TO THE GRANT OF 2019 REVOLVING LOAN FACILITY;  
AND**

**(2) SECOND SUPPLEMENTAL 2021 FACILITY AGREEMENT  
IN RELATION TO THE GRANT OF 2021 REVOLVING LOAN FACILITY**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Fourth Supplemental 2019 Facility Agreement, the proposed 2019 Revolving Loan Facility Annual Caps and the transactions contemplated under the Fourth Supplemental 2019 Facility Agreement; and (ii) the Second Supplemental 2021 Facility Agreement, the proposed 2021 Revolving Loan Facility Annual Caps and the transactions contemplated under the Second Supplemental 2021 Facility Agreement, and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular of the Company dated 1 August 2025 (the “**Circular**”). Unless otherwise specified, terms defined in the Circular have the same meanings in this letter.

References are made to the announcements of the Company dated 3 September 2019, 16 September 2022, 18 September 2023 and 30 May 2024 and the circulars of the Company dated 15 October 2019, 12 October 2022, 11 October 2023 and 23 July 2024, in relation to (i) the grant of the 2019 Revolving Loan Facility of up to HK\$100 million to PCL pursuant to the 2019 Facility Agreement; and (ii) the variation of certain terms of the 2019 Facility Agreement pursuant to the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement.

References are also made to the announcements of the Company dated 20 April 2021 and 30 May 2024 and the circulars of the Company dated 12 May 2021 and 23 July 2024, in the relation to (i) the grant of the 2021 Revolving Loan Facility of up to HK\$100 million to PCL pursuant to the 2021 Facility Agreement; and (ii) the variation of certain terms of the 2021 Facility Agreement pursuant to the First Supplemental 2021 Facility Agreement.

Pursuant to the Third Supplemental 2019 Facility Agreement and the First Supplemental 2021 Facility Agreement, (i) the Interest Rate was varied to 8.0% per annum from and including 31 May 2024; (ii) the 2019 Revolving Loan Facility Repayment Date was varied to 31 October 2025; and (iii) the 2021 Revolving Loan Facility Repayment Date was varied to 30 May 2025.

On 30 May 2025 (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into the Fourth Supplemental 2019 Facility Agreement pursuant to which the parties have conditionally agreed to further vary the terms of the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement). Save for the variations contained in the Fourth Supplemental 2019 Facility Agreement, the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Fourth Supplemental 2019 Facility Agreement.

On 30 May 2025, (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into the Second Supplemental 2021 Facility Agreement, pursuant to which the parties have conditionally agreed to vary the terms of the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement). Save for the variations contained in the Second Supplemental 2021 Facility Agreement, the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Second Supplemental 2021 Facility Agreement.

#### **THE INDEPENDENT BOARD COMMITTEE**

The Board currently consists of seven Directors, namely Mr. Cheng Jerome as the executive Director and chairman, Mr. Sun Jun as the executive Director, Ms. Hu Qing and Ms. Liu Jingyan as the non-executive Directors, Mr. Wong Chi Keung, Mr. Ip Wai Lun, William and Mr. Chan Chi Keung, Alan as the independent non-executive Directors.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Ip Wai Lun, William and Mr. Chan Chi Keung, Alan, has been established to advise the Independent Shareholders in relation to (i) the Fourth Supplemental 2019 Facility Agreement, the proposed 2019 Revolving Loan Facility Annual Caps and the transactions contemplated thereunder; and (ii) the Second Supplemental 2021 Facility Agreement, the proposed 2021 Revolving Loan Facility Annual Caps and the transactions contemplated thereunder. We have been appointed by the Company as the

Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

## LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, PCL's entire issued share capital is owned as to 47.23% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment. Pointsea Holdings is owned as to 80% by Treasure Ease and 20% by Easylink. Treasure Ease is owned as to 50.1% by the Company, 30% by Fin-Tech and 19.9% by Chance Talent. The Board considers that PCL is a subsidiary of the Company through its power to control the board of directors of PCL. CIH, being a substantial shareholder of the Company, holds the entire issued share capital of Fin-Tech. PCL is therefore a connected person of the Company under Rule 14A.16 of the Listing Rules and the grant of the 2019 Revolving Loan Facility and the grant of the 2021 Revolving Loan Facility constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In view of that the transactions contemplated under the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement are similar in nature, and both of them were entered into between the Company and PCL, the transactions contemplated under the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement are aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement (collectively the **"2025 Supplemental 2019 and 2021 Facility Agreements"**), both when calculated individually and when aggregated, exceed 5%, the transactions contemplated under the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement, circular, Independent Shareholders' approval, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

## OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company or any relevant parties in connection with the 2025 Supplemental 2019 and 2021 Facility Agreements, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the 2025 Supplemental 2019 and 2021 Facility Agreements and the transactions contemplated thereunder. In the previous two years, save for our appointments as the independent financial adviser for (i) the continuing connected transaction of the Company in relation to the second supplemental facility agreement in relation to the grant of revolving loan facility, the circular of which was dated 11 October 2023; (ii) the connected transaction of the Company in relation to the issue of convertible bonds under specific mandate, the circular of which was dated 15 March 2024; and (iii) the continuing connected transactions of the Company in relation to (a) the third supplemental facility agreement in relation to the grant of 2019 revolving loan facility

and (b) the supplemental 2021 facility agreement in relation to the grant of 2021 revolving loan facility, the circular of which was dated 23 July 2024, there was no engagement between the Company and Red Sun Capital Limited.

Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

## **BASIS AND ASSUMPTIONS OF THE ADVICE**

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular. In addition, pursuant to the relevant Listing Rules, we have taken reasonable steps to enable ourselves to reach an informed view so as to provide a reasonable basis for our opinion, which included, among others (i) obtained the 2019 Facility Agreement, the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement, the Third Supplemental 2019 Facility Agreement and the Fourth Supplemental 2019 Facility Agreement and reviewed the terms thereunder; (ii) obtained the 2021 Facility Agreement, the First Supplemental 2021 Facility Agreement and the Second Supplemental 2021 Facility Agreement and reviewed the terms thereunder; (iii) obtained and reviewed the Announcement; (iv) reviewed the contents as set out in the Circular, including the reasons for and benefits of the 2019 and 2021 Revolving Loan Facilities; (v) reviewed the information as set out in the 2024 annual report of the Company (the “**2024 Annual Report**”) for our analysis on the background and historical financial performance of the Group; and (vi) conducted market research and obtained sampled transactions on the similar transactions involving the provision of loan to connected person(s) with a fixed interest rate for the purpose of our fairness and reasonableness analysis of the terms of the 2025 Supplemental 2019 and 2021 Facility Agreements.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group, and, where applicable, their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. Shareholders will be informed of any material change of information and the representations made or referred to in the Circular as soon as practicable up to the date of the EGM.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the continuing connected transactions in relation to the grant of revolving loan facility, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

#### **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION FOR THE FOURTH SUPPLEMENTAL 2019 FACILITY AGREEMENT AND THE SECOND SUPPLEMENTAL 2021 FACILITY AGREEMENT**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

### **1. BACKGROUND INFORMATION**

#### **1.1. Background of the Company and the Group**

As set out in the Letter from the Board, the Group is principally engaged in the development and operations of the digital point business and electronic trading 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.

## 1.2. Financial information of the Group

Set out below is a summary of the financial information of the Group as extracted from the 2024 Annual Report, details of which are as follows:

### *Summary of the consolidated statement of profit or loss extracted from 2024 Annual Report*

	For the year ended 31 December	
	2023	2024
	RMB'000 (audited)	RMB'000 (audited)
Revenue	226,751	180,708
Cost of sales	(187,477)	(141,437)
Gross profit	39,274	39,271
Loss for the year	(38,616)	(18,165)
Loss attributable to the equity Shareholders	(37,562)	(19,516)

### *Financial performance for the year ended 31 December 2024*

According to the 2024 Annual Report, the Group's revenue decreased from approximately RMB226.8 million for the year ended 31 December 2023 to approximately RMB180.7 million for the year ended 31 December 2024, representing a decrease of approximately 20.3%. In the context of the unstable economic environment, the revenue decreased due to the impact of business partners compressing the total amount of "points" used. Since costs are incurred for business partners of Changyou Platform to issue "points" to their customers, the business partners will implement certain control over the issuance and consumption of points based on their own business conditions in terms of points management.

Although a decrease in revenue of the Group was recorded, the gross profit of the Group remained stable at approximately RMB39.3 million for the year ended 31 December 2023 and 2024, respectively. The Group has optimised its supply chain of Changyou Platform, focusing on concentrated product categories and combining point redemption with other business promotions. This has improved user conversion rates, enhanced the effective use of traffic, and increased the comprehensive profitability of the Group's business.

The loss for the year decreased from approximately RMB38.6 million for the year ended 31 December 2023 to approximately RMB18.2 million for the year ended 31 December 2024. Such decrease in loss was mainly attributable to (i) the decrease in finance costs of approximately RMB13.5 million; (ii) the decrease in research and development costs of approximately RMB2.2 million; and (iii) the deferred tax assets recognised of approximately RMB5.2 million.

*Summary of the consolidated statement of financial position of the Group  
extracted from 2024 Annual Report*

	As at 31 December	
	2023	2024
	RMB'000	RMB'000
	(audited)	(audited)
Current assets	146,053	131,148
Total assets	149,547	138,824
Current liabilities	(301,654)	(185,140)
Total liabilities	(302,866)	(293,185)
Net current liabilities	(155,601)	(53,992)
Total equity attributable to the equity Shareholders	234,688	232,697
Cash and cash equivalents	25,415	8,230

*Financial position as at 31 December 2023*

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

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

As at 31 December 2023, the Group recorded total equity attributable to the Shareholders of approximately RMB234.7 million.

*Financial position as at 31 December 2024*

As at 31 December 2024, the Group recorded total assets of approximately RMB138.8 million, which mainly comprised (i) trade and other receivables of approximately RMB122.7 million, and (ii) cash and cash equivalents of approximately RMB8.2 million.

As at 31 December 2024, the Group recorded total liabilities of approximately RMB293.2 million, which mainly comprised (i) trade and other payables of approximately RMB127.4 million; (ii) convertible bonds of approximately RMB108.0 million; and (iii) loans from an equity Shareholder of approximately RMB55.8 million.

As at 31 December 2024, the Group recorded total equity attributable to the Shareholders of approximately RMB232.7 million.

### 1.3. Economic overview

#### *The PRC*

We noted from the 2024 Annual Report that the revenue of the Group under the International Changyou Platform is generated in the PRC. Accordingly, we set out below the respective economic data of the PRC below as reference.

	2020	2021	2022	2023	2024
Year-on-year (“YoY”) change of real GDP (%)	2.3	8.6	3.1	5.4	5.0
YoY change per capita consumer spending in real terms (%)	(4.0)	12.6	(0.2)	9.0	5.1

Source: National Bureau of Statistics of the PRC

As noted from the above table, the GDP of the PRC recorded a YoY increase consistently of approximately 2.3%, 8.6%, 3.1%, 5.4% and 5.0% for 2021, 2022, 2023, 2024 and 2025, respectively. While the consumer spending per capita of the PRC rebounded sharply in 2021 with 12.6% of YoY growth but showed signs of weakening, with a contraction of 0.2% recorded in 2022. However, we noted posted modest growth in 2023 and 2024, recording 9.0% and 5.1%, respectively.

#### *Hong Kong*

As set out in the Letter from the Board, the New International Changyou Platform is being developed with a focus on international markets, including Hong Kong. Given that a portion of its future revenue is expected to be derived from the Hong Kong market, the platform’s business outlook is inherently influenced by prevailing economic conditions and market volatility within the region. Accordingly, we have conducted a review of Hong Kong’s current economic environment below as reference.

	2020	2021	2022	2023	2024
YoY change of real GDP (%)	(6.5)	6.5	(3.7)	3.2	2.5
YoY change of private consumption expenditure (%)	(10.6)	5.6	(2.2)	6.8	(0.7)

Source: [www.hkeconomy.gov.hk](http://www.hkeconomy.gov.hk)

Based on the economic indicators as presented in 2024 Economic background and 2025 prospects report issued by The Hong Kong Economy, Hong Kong’s economy has undergone a volatile trajectory over the past five years.



While real GDP rebounded sharply in 2021 with 6.5% of YoY real GDP growth and posted modest growth in 2023 and 2024, recording 3.2% and 2.5%, respectively. Nevertheless, underlying momentum remains fragile. Notably, the private consumption expenditure, considered the cornerstone of retail activity, showed signs of weakening, with a contraction of 0.7% recorded in 2024. This slowdown reflects cautious consumer sentiment and a recalibration in spending behaviour following earlier recovery spikes. Against this backdrop, retail sector expansion warrants prudence, as demand-side risks and cost pressures continue to weigh on business viability and return expectations.

## 2. INFORMATION OF PCL

As set out in the Letter from the Board, PCL is an investment holding company incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, PCL's entire issued share capital is owned as to 47.23% by Pointsea Holdings, 15.75% by Joy Empire, 15.75% by Extra Step, 15.75% by Eastern E-Commerce, 2.76% by Zhongjin Qizhi and 2.76% by Senran Investment.

As at the Latest Practicable Date, Pointsea Holdings is owned as to 80% by Treasure Ease and 20% by Easylink. Treasure Ease is owned as to 50.1% by the Company, 30% by Fin-Tech and 19.9% by Chance Talent. Fin-Tech is an indirect wholly-owned subsidiary of CIH, the substantial shareholder of the Company and is wholly-owned by Ms. Pun Tang. Chance Talent is an indirect wholly-owned subsidiary of CCB International (Holdings) Limited, which is a wholly-owned subsidiary of China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (Stock Code: 939). Easylink is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of China UnionPay Merchant Services Company Limited\* (銀聯商務股份有限公司) ("China UnionPay MSC"). As set out in the Letter from the Board, (i) China UnionPay MSC is a company established in the PRC and is owned as to approximately 55.5% by Shanghai Lianyin Venture Investment Company Limited\* (上海聯銀創業投資有限公司) ("Shanghai Lianyin") and 22 other corporate shareholders; (ii) Shanghai Lianyin is a company established in the PRC and is a wholly-owned subsidiary of China UnionPay Holding Company Limited\* (中國銀聯股份有限公司) ("China UnionPay Holding"); (iii) China UnionPay Holding is a company established in the PRC and is owned by 75 corporate shareholders, with the single largest shareholder being China Banknote Printing and Minting Group Company Limited\* (中國印鈔造幣集團有限公司) ("China Banknote Printing and Minting"), holding approximately 7.0% of its total issued shares; and (iv) China Banknote Printing and Minting is a company established in the PRC and is wholly-owned by The People's Bank of China, being one of the ministries and commissions under the State Council of the PRC. For the details of shareholding chart showing the shareholding structure of PCL, please refer to the section headed "Information on PCL" set out in the Letter from the Board.

Joy Empire is a company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Joy Empire is a wholly-owned subsidiary of Bank of China Group Investment Limited, which is in turn a wholly-owned subsidiary of Bank of

China Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3988). Joy Empire is a connected person at a subsidiary level only because of its connection with PCL under the Listing Rules.

Extra Step is a company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Extra Step is a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited and China Mobile (Hong Kong) Group Limited is a wholly-owned subsidiary of China Mobile Communications Group Co., Ltd., which is a state-owned enterprise in the PRC. Extra Step is a connected person at a subsidiary level only because of its connection with PCL under the Listing Rules.

Eastern E-Commerce is a company established in the PRC. As at the Latest Practicable Date, Eastern E-Commerce is a wholly-owned subsidiary of China Eastern Airlines Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 670). Eastern E-Commerce is a connected person at a subsidiary level only because of its connection with PCL under the Listing Rules.

Zhongjin Qizhi is a limited partnership established in the PRC and a subsidiary of China International Capital Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3908).

Senran Investment is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, Senran Investment is ultimately beneficially owned by Ms. Yang Xiangru and Ms. Yuan Beiling, who are third parties independent to the Company and its connected persons (as defined in the Listing Rules).

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

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

In 2017, the Group formed the Changyou digital point business ecosystem alliance (the “**Changyou Alliance**”) with CCB International (Holdings) Limited, China UnionPay Merchant Services Company Limited, Bank of China Group Investment Limited, China Mobile (Hong Kong) Group Limited and China Eastern Airlines Corporation Limited. The “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group. The Group operates the existing “Changyou” platform which targets the PRC market (the “**Existing PRC Changyou Platform**”), and has been developing a new digital point electronic platform which targets the Hong Kong and overseas markets (the “**New International Changyou Platform**”). Both the Existing PRC Changyou Platform and the New International Changyou Platform adopt a similar business model.

As set out in the Letter from the Board, 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 in 2024, 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. Besides, 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. In 2024, the Group has focused on developing a travel ecosystem that encompasses services such as four-wheel and two-wheel vehicle charging, subways, buses, and shared bicycles. In addition to promoting the use of reward points, the Group has aggregated high-quality green mobility benefits to encourage secondary conversions, boost user activity, and drive revenue growth. By leveraging reward points for exposure and promotion within the ecosystem, certain brands have begun exploring precise user targeting to improve conversion rates and develop customer profiles for future marketing efforts. The Group has also optimized the Changyou Platform's supply chain, focusing on specific product categories and integrating point redemption with other business promotions.

As set out in the 2024 Annual Report, the Changyou Platform has an increased in number of both members and users with provision of more diversified products and services, and optimised the business models and consumption scenarios. As at 31 December 2024, the total number of registered users on Changyou Platform was approximately 251.8 million, representing an increase of approximately 48.1 million registered users compared to the total number as at 31 December 2023. As set out in the Letter from the Board, the total transaction volume and revenue of Changyou Alliance business for the year ended 31 December 2024 amounted to approximately RMB245.4 million and approximately RMB180.7 million, respectively.

As set out in the Letter from the Board, the Group has been pressing ahead with the preparation and the launch of the New International Changyou Platform. However, notwithstanding the Group's continuous commitment and efforts in developing the New International Changyou Platform, such development has been delayed due to the challenges from both the macro and micro environments, thus hindering the progress of the development. As discussed with the Management, considering the macro-economic environment, including the recent trade tensions between the United States and the PRC earlier this year resulting in a fluctuation of prices of goods those are planned to be consumed via the New International Changyou Platform and the potential inflation in subsequent, and macro-economic environment that PCL is navigating rising operational costs and shifting client demands, which imposed an underlying threatened effect on the PCL Group's profitability and continues to present significant uncertainties and challenges, particularly in consumers' sentiment. Therefore, the Management has made the prudent decision to delay its planned business expansion, including the launching of the New International Changyou Platform. While PCL remains committed to maintain a steady and consistent growth, the Management believes it is essential to prioritise financial stability and operational resilience in light of the current challenging market conditions. This approach allows PCL to safeguard the long-term interests of its stakeholders and position the Company for stronger, more sustainable expansion when market conditions improve. The Management is closely monitoring the situation and remain fully prepared to act decisively once the environment becomes more conducive to investment. Going forward, the Group expected that it will continue to commit more resources on the development of the New International Changyou Platform.

We understand from the Management that day-to-day operations of the “Changyou” business are capital intensive and a large amount of working capital are required to (i) maintain the current level of performance and user network of the Existing PRC Changyou Platform; (ii) 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; (iii) support promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services provided; and (iv) maintain its technology infrastructure and to 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.

Based on our review on the consolidated financial statements of the PCL Group and discussion with the Management, we noted that (i) the PCL Group recorded approximately RMB11.1 million of selling, distribution and administrative expenses for the year ended 31 December 2024 in relation to, among others, (a) provide promotional and marketing activities to attract and maintain customer loyalty and their participation and consumption of the products and services; and (b) retain talented and experienced personnel and management team for the development of the Existing PRC Changyou Platform and the New International Changyou Platform; (ii) the PCL Group recorded research and development costs of approximately RMB12.5 million for the year ended 31 December 2024, respectively, in order to maintain its technology infrastructure and feature new financial technologies from time to time; and (iii) the Management expected that a similar level of the abovementioned total expenses are required in foreseeable future to maintain the operation of PCL Group under current scale, we concurred with the Management that the “Changyou” business requires a large amount of working capital for its development.

Having considered that the 2019 Revolving Loan Facility will expire on 31 October 2025 and the 2021 Revolving Loan Facility have expired on 30 May 2025, PCL has been considering various financing opportunities in order to meet its financing needs.

For the various fund-raising methods to improve the financial position of the PCL including long term bank borrowings, placement of shares to independent third parties, rights issue and open offer, we noted that the ability for a company to obtain bank borrowings generally and largely depends on the company’s profitability, financial position and the then prevailing market condition and may be subject to lengthy due diligence and internal risk assessment by and negotiations with bank and usually requires pledge of assets by the borrower.

As advised by the Management and as set out in the Letter from the Board, we noted that PCL has been considering other financing opportunities to meet its financing needs. PCL had approached different banks and non-banking financial institutions to explore short term debt financing options, and had also considered the feasibility of other sources of fundraising activities to support the long-term development and expansion of the

“Changyou” business. According to the discussions between PCL and the relevant banks and non-banking financial institutions, given the net liabilities of PCL recorded as at 31 December 2024 and the prevailing interest rate of debt financing, it was not feasible for PCL to obtain loan facilities under favourable terms and conditions from such banks and non-banking financial institutions (such as interest rate and requirements for the provision of charges and/or security requirement). Besides, PCL has also considered the feasibility of equity financing from private equity firms. However, as the economy is facing macro-financial challenges and the equity and debt markets are experiencing notable volatility and mixed performance due to ongoing trade tensions, economic uncertainty and recent monetary policy decisions, it is likely that private equity firms will be cautious in making investment decisions, impeding the equity fund raising exercise by PCL. As such, PCL has not approached any private equity firms for the purpose of equity fund raising possibility.

Based on our review of the consolidated financial statements of the PCL Group, the PCL Group recorded net liabilities of approximately RMB237.5 million as at 31 December 2024 and profit for the year of approximately RMB0.4 million for the year ended 31 December 2024. In light of the minimal profit-making performance of the PCL Group for the year ended 31 December 2024 and the financial position of the PCL Group as at 31 December 2024, we noted that it is unlikely for the PCL to (i) timely generate sufficient operating cash inflow from its daily operation in order to alleviate its current financial burden or to allocate sufficient capital/resources for the development of the New International Changyou Platform should the market condition improves; (ii) obtain additional mid-term or long-term bank loans of meaningful loan size (i.e. RMB200 million) timely with favourable terms; (iii) raise the necessary funds by way of placing or rights issue or open offer of new shares of PCL without material dilution impact on the shareholding interests of the Company; and (iv) timely generate sufficient operating cash inflow from its daily operation in order to settle the outstanding principal amounts drawn under the 2019 and 2021 Revolving Loan Facilities.

As at the Latest Practicable Date, an aggregate sum of approximately HK\$173.9 million under the 2019 and 2021 Revolving Loan Facilities has been utilised by PCL. To ensure that PCL is able to maintain a sufficient level of liquidity as described above, the Board considers the 2019 and 2021 Revolving Loan Facilities to PCL to be efficient, beneficial and in the interest of PCL and its shareholders as a whole, having considered the infeasibility of other sources of fundraising activities or equity financing as mentioned aforesaid. The Board has also considered various recent transactions with similar nature, involving the provision of loans to connected persons with a fixed interest rate by companies listed on the Stock Exchange and the subject transaction announcements of which were announced during the period from 1 November 2024 to the dates of the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement, and is of the view that the Interest Rate is in line with the rate of interest of the market comparable transactions.

PCL is a non-wholly owned subsidiary of the Company and more than half of the directors of PCL are appointed and nominated by the Company. With such structure of the board of directors of PCL, the Company can actively monitor the operations and management decision of PCL. Besides, there are adequate and sufficient internal control

measures to mitigate the default risk associated with the 2019 and 2021 Revolving Loan Facilities, details please refer to section headed “5. Evaluation of the terms of the Revolving Loan Facility – 5.4 Internal control” in this letter. Although the 2019 and 2021 Revolving Loan Facilities are unsecured, having considered (i) the Company’s control power over PCL as aforementioned; (ii) the release of the tranches of the 2019 and 2021 Revolving Loan Facilities was subject to the Company’s satisfaction of the assessment of the then and expected financial performance and position of the PCL Group; and (iii) the “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group, the Board is of the view and we concurred that (i) the default risk of PCL is justifiable; and (ii) the grant of the 2019 and 2021 Revolving Loan Facilities without additional collateral or guarantee is reasonable.

Having considered that (i) the “Changyou” business is the sole operating segment of the Group which is conducted through the PCL Group; (ii) the Group will continue to commit more resources on the development of the New International Changyou Platform; (iii) the Changyou Alliance business has undergone continuing development throughout recent years and PCL Group recorded a turnaround in profit from a loss for the year of approximately RMB29.4 million for the year ended 31 December 2022 to a profit for the year of approximately RMB0.1 million for the year ended 31 December 2023 and the profit was further improved to approximately RMB4.3 million for the year ended 31 December 2024; (iv) there is a genuine funding need of PCL for the development and expansion of the “Changyou” business in the long term; (v) PCL has no other available sources of fundraising with favourable terms up to the Latest Practicable Date; and (vi) the Company has control power over PCL and the Company can actively monitor the operations and management decision of PCL and there are adequate and sufficient internal control measures to mitigate the default risk associated with the 2019 and 2021 Revolving Loan Facilities, we concur with the Directors that the entering into of the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement is not in the ordinary and usual course of business of the Group, but on normal commercial terms, the terms of each of the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement (including both the proposed 2019 Revolving Loan Facility Annual Caps and the proposed 2021 Revolving Loan Facility Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## Proposed annual caps and historical utilisation

### *2019 Revolving Loan Facility Annual Caps and historical utilisation*

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

Date	Amount drawn down HK\$	Amount of outstanding balance HK\$	Annual utilisation rate %
31 December 2019	20,000,000	20,000,000	20
31 December 2020	47,000,000	67,000,000	67
31 December 2021	33,000,000	100,000,000	100
31 December 2022	–	100,000,000	100
31 December 2023	–	100,000,000	100
31 December 2024	–	100,000,000	100
Latest Practicable Date	–	100,000,000	100

The proposed Annual Caps in respect of the 2019 Revolving Loan Facility for each financial year during the 2019 Revolving Loan Facility Period shall not exceed HK\$100 million. The proposed 2019 Revolving Loan Facility Annual Caps was determined by reference to (i) the maximum principal amount of the 2019 Revolving Loan Facility Loan granted or to be granted by the Company to PCL pursuant to the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement) has never exceeded the annual cap under the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement); (ii) the principal amount of the 2019 Revolving Loan Facility granted under the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement) has been fully utilised; (iii) the maximum principal amount of the 2019 Revolving Loan Facility Loan has not been increased; and (iv) the operations and developments of the “Changyou” business of the Group which is conducted through the PCL Group. In order to enable PCL to continue to maintain a sufficient level of liquidity and to avoid the risk of discontinuance of the operations of the PCL Group, it is necessary to extend the 2019 Revolving Loan Facility Period with the proposed 2019 Revolving Loan Facility Annual Caps.

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

### ***2021 Revolving Loan Facility Annual Caps and historical utilisation***

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

<b>Date</b>	<b>Amount drawn down HK\$</b>	<b>Amount of outstanding balance HK\$</b>	<b>Annual utilisation rate % (Approximately)</b>
31 December 2021	75,000,000	75,000,000	75
31 December 2022	(1,075,376)	73,924,624	74
31 December 2023	–	73,924,624	74
31 December 2024	–	73,924,624	74
Latest Practicable Date	–	73,924,624	74

The proposed 2021 Revolving Loan Facility Annual Caps for each financial year during the 2021 Revolving Loan Facility Period shall not exceed HK\$100 million. The proposed 2021 Revolving Loan Facility Annual Caps was determined by reference to: (i) the maximum principal amount of the 2021 Revolving Loan Facility Loan granted or to be granted by the Company to PCL pursuant to the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement) has never exceeded the annual cap under the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement); (ii) the maximum principal amount of the 2021 Revolving Loan Facility Loan has not been increased; and (iii) the operations and developments of the “Changyou” business of the Group which is conducted through the PCL Group. In order to enable PCL to continue to maintain a sufficient level of liquidity and to avoid the risk of discontinuance of the operations of the PCL Group, it is necessary to extend the 2021 Revolving Loan Facility Period with the proposed 2021 Revolving Loan Facility Annual Caps.

As at the Latest Practicable Date, approximately HK\$73.9 million under the 2021 Revolving Loan Facility has been utilised and all accrued interest from the 2021 Revolving Loan Facility has been fully settled in accordance with the interest payment under the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement). As discussed with Management, it is estimated that approximately HK\$10.0 million from the 2021 Loan Facility will be allocated toward general working capital requirements associated with the launch of the New International Changyou Platform. This includes funding for approximately HK\$3.0 million for marketing initiatives, approximately HK\$5.0 million for setting up a team to support the daily operations of the New International Changyou Platform and approximately HK\$2.0 million for development of the technology infrastructure of the New International Changyou Platform. In addition, the remaining HK\$16.1 million from the utilised portion of the 2021 Loan Facility is designated as a strategic buffer to support potential development opportunities and safeguard against operational disruptions that may affect the ongoing activities of the PCL Group.



Although there was approximately HK\$26.1 million of unutilised 2021 Revolving Loan Facility as at the Latest Practicable Date and no drawdown record has been noted since 31 December 2022, having considered that (i) the PCL Group recorded net liabilities of approximately RMB237.5 million as at 31 December 2024 and minimal profit for the year of approximately RMB0.4 million for the year ended 31 December 2024; (ii) it is unlikely for the PCL to timely generate sufficient operating cash inflow from its daily operation in order to (a) alleviate its current financial burden; (b) allocate sufficient capital/resources for the development of the New International Changyou Platform should the market condition improves; or (c) to repay the outstanding balances of 2019 Revolving Loan Facility and 2021 Revolving Loan Facility when they fall due; (iii) a buffer is necessary to be included when determining the 2021 Revolving Loan Facility Annual Caps to cater for any potential development opportunities and avoid any undue disruption and detriment to the business operations of the PCL Group if the annual caps are to be further revised and re-approved by the Independent Shareholders; and (vi) PCL's intention to continue developing the New International Changyou Platform in the future, the Management is of the view and we concur that PCL has an imminent need to extend the 2021 Revolving Loan Facility and maintain the 2021 Revolving Loan Facility Annual Caps at the same amount.

#### *Our view*

As confirmed through discussions with Management, the aggregated drawdown of approximately HK\$175 million under the 2019 and 2021 Revolving Loan Facilities has been allocated towards general working capital requirements of the PCL Group in support of its "Changyou" operations. These funds have been utilised to cover key operating expenditures, including cost of sales, selling and distribution expenses, research and development activities, and administrative overheads. Having considered (i) the operations of the "Changyou" business requires a large amount of working capital as discussed above and the genuine funding needs of the "Changyou" business, including the increasing amounts of research and development costs for continuing development and support its platforms; (ii) historical drawdown records by PCL in order to maintain its working capital sufficiency in sufficient level; (iii) the 2019 Revolving Loan Facility has been fully utilised; (iv) over 70% of the 2021 Revolving Loan Facility has been fully utilised; (v) the turnaround in profit for the year ended 31 December 2023 and the profit for the year ended 31 December 2024 of PCL indicating the funding of loan has positively encouraged the development of the business of "Changyou" business; (vi) the genuine funding need of PCL for the continual development and expansion of the "Changyou Platform" business in the long term as discussed in this section; and (vii) a buffer is necessary to be included when determining the 2021 Revolving Loan Facility Annual Caps to cater for any potential development opportunities and avoid any undue disruption and detriment to the business operations of the PCL Group if any annual caps are to be revised and re-approved by the Independent Shareholders, we are of the view that 2019 Revolving Loan Facility Annual Caps and 2021 Revolving Loan Facility Annual Caps are fair and reasonable.

#### **4. MAJOR TERMS OF THE FOURTH SUPPLEMENTAL 2019 FACILITY AGREEMENT AND THE SECOND SUPPLEMENTAL 2021 FACILITY AGREEMENT**

##### **4.1. The Fourth Supplemental 2019 Facility Agreement**

On 30 May 2025 (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into the Fourth Supplemental 2019 Facility Agreement pursuant to which the parties have conditionally agreed to further vary the terms of the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement). Set out below are the summary of the major terms of the Fourth Supplemental 2019 Facility Agreement.

<b>Date:</b>	30 May 2025 (after trading hours of Stock Exchange)
<b>Parties:</b>	the Company, as lender; and PCL, as borrower
<b>Facility Period:</b>	The 2019 Revolving Loan Facility Period shall be varied to eight (8) years from and including the 2019 Conditions Fulfilment Date, and the 2019 Revolving Loan Facility Repayment Date shall be varied to 31 October 2027.

**Conditions precedent:** The obligations of the parties to the Fourth Supplemental 2019 Facility Agreement are conditional upon the Company having complied with all applicable requirements of the Listing Rules and other regulatory provisions in connection with the Fourth Supplemental 2019 Facility Agreement and the transactions contemplated thereunder including the Independent Shareholders having approved at the EGM (and with regard to all applicable laws, rules and regulations, including the Codes on Takeovers and Mergers in Hong Kong and the Listing Rules, where applicable) the variations of the 2019 Revolving Loan Facility Period and the 2019 Revolving Loan Facility Repayment Date as set forth in the Fourth Supplemental 2019 Facility Agreement.

If these conditions have not been fulfilled on or before 31 October 2025 or on such later date as may be agreed between the parties to the Fourth Supplemental 2019 Facility Agreement, then the Fourth Supplemental 2019 Facility Agreement shall automatically terminate (other than in respect of the surviving provisions). In such event, neither party shall have any claim under the Fourth Supplemental 2019 Facility Agreement of any nature whatsoever against the other party except in respect of any rights and liabilities which have accrued before termination or under any of the surviving provisions.

**Other terms:** Subject only to the variations contained in the Fourth Supplemental 2019 Facility Agreement and such other alterations (if any) as may be necessary to render the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement) consistent with the Fourth Supplemental 2019 Facility Agreement, the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement and the Third Supplemental 2019 Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Fourth Supplemental 2019 Facility Agreement.

As set out in the Letter from the Board, other than the variations of the 2019 Revolving Loan Facility Period and the 2019 Revolving Loan Facility Repayment Date, the Board is not aware of any other alterations to the 2019 Facility Agreement. For details of major terms in relation to 2019 Revolving Loan Facility pursuant to the Third Supplemental 2019 Facility Agreement and the Fourth Supplemental 2019 Facility Agreement, please refer to the section headed “MAJOR TERMS OF THIRD SUPPLEMENTAL 2019 FACILITY AGREEMENT AND FOURTH SUPPLEMENTAL 2019 FACILITY AGREEMENT” in the Letter from the Board of the Circular.

#### **4.2. The Second Supplemental 2021 Facility Agreement**

On 30 May 2025, (after trading hours of Stock Exchange), the Company (as lender) and PCL (as borrower) entered into the Second Supplemental 2021 Facility Agreement, pursuant to which the parties have conditionally agreed to vary the terms of the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement). Set out below are the summary of the major terms of the Second Supplemental 2021 Facility Agreement.

<b>Date:</b>	30 May 2025 (after trading hours of Stock Exchange)
<b>Parties:</b>	(i) the Company, as lender; and (ii) PCL, as borrower
<b>Facility Period:</b>	The 2021 Revolving Loan Facility Period shall be varied to six (6) years from and including the 2021 Conditions Fulfilment Date, and that the 2021 Revolving Loan Facility Repayment Date shall be varied to 30 May 2027.
<b>Conditions precedent:</b>	The obligations of the parties to the Second Supplemental 2021 Facility Agreement are conditional upon the Company having complied with all applicable requirements of the Listing Rules and other regulatory provisions in connection with the Second Supplemental 2021 Facility Agreement and the transactions contemplated thereunder including the Independent Shareholders having approved at the EGM (and with regard to all applicable laws, rules and regulations, including the Codes on Takeovers and Mergers in Hong Kong and the Listing Rules, where applicable) the variations of the 2021 Revolving Loan Facility Period and the 2021 Revolving Loan Facility Repayment Date as set forth in the Second Supplemental 2021 Facility Agreement.

If these conditions have not been fulfilled on or before 31 October 2025 or on such later date as may be agreed between the parties to the Second Supplemental 2021 Facility Agreement, then the Second Supplemental 2021 Facility Agreement shall automatically terminate (other than in respect of the surviving provisions). In such event, neither party shall have any claim under the Second Supplemental 2021 Facility Agreement of any nature whatsoever against the other party except in respect of any rights and liabilities which have accrued before termination or under any of the surviving provisions.

**Other terms:**

Subject only to the variations contained in the Second Supplemental 2021 Facility Agreement and such other alterations (if any) as may be necessary to render the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement) consistent with the Second Supplemental 2021 Facility Agreement, the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement) remains in full force and effect and shall be read and construed in conjunction and as one document with the Second Supplemental 2021 Facility Agreement.

As set out in the Letter from the Board, other than the variations of the 2021 Revolving Loan Facility Period and the 2021 Revolving Loan Facility Repayment Date, the Board is not aware of any other alterations to the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement). For details of major terms in relation to 2021 Revolving Loan Facility pursuant to the First Supplemental 2021 Facility Agreement and the Second Supplemental 2021 Facility Agreement, please refer to the section headed “MAJOR TERMS OF FIRST SUPPLEMENTAL 2021 FACILITY AGREEMENT AND SECOND SUPPLEMENTAL 2021 FACILITY AGREEMENT” in the Letter from the Board of the Circular.

## **5. EVALUATION OF THE TERMS OF THE REVOLVING LOAN FACILITY**

The transactions contemplated under the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement are similar in nature, and both of them were entered into between the Company and PCL. In order to assess the fairness and reasonableness of the terms of the 2025 Supplemental 2019 and 2021 Facility Agreements, in view that the 2019 and 2021 Revolving Loan Facilities are provided by the Company to its connected subsidiary, we have based on the following criteria identified a list of similar transactions involving (i) the provision of loan(s) to connected person(s) with a pre-fixed interest rate by companies listed on the Main Board of the Stock Exchange; (ii) sizes of the loan being not less than HK\$10.0 million; and (iii) the subject transaction announcement of which was announced during the period from 1 December 2024 to the dates of the 2025 Supplemental 2019 and 2021 Facility Agreements, being approximately six-month period

prior to the date of the 2025 Supplemental 2019 and 2021 Facility Agreements (the “**Review Period**”), which was considered to be sufficient for the purpose of our analysis set out hereunder as we are of the view that the transactions to be representative of similar historical transactions.

On a best effort basis and to the best of our knowledge, we have identified nine transactions on an exhaustive basis (the “**Market Comparables**”) which meet the aforementioned criteria. We are of the view that the Market Comparables based on such review period and criteria set are meaningful references to the Independent Shareholders on the general market practice in connection with recent similar transactions.

Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exact the same as the Market Comparables and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the Market Comparables. Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions, we consider that our comparable analysis on the terms of the 2025 Supplemental 2019 and 2021 Facility Agreements without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders’ reference. We set out our findings in the table below:

No.	Date of announcement	Company name (stock code)	Loan principal amount <i>Approximately HKD</i>	Interest rate per annum <i>Approximately (%)</i>	Maturity <i>Approximately (years)</i>	Collateral/ Guarantee	Status <i>(Note 3)</i>
1.	30 May 2025	Yankuang Energy Group Company Limited (1171)	1,060,000,000	3.10	3.0	Yes	Completed
2.	26 May 2025	China High Speed Transmission Equipment Group Co., Ltd. (658)	265,000,000	3.00	5.0	Yes	Completed
3.	6 May 2025	Country Garden Services Holdings Company Limited (6098)	1,060,000,000	5.00	5.0	Yes	Completed
4.	28 April 2025	China Pipe Group Limited (380)	78,500,000	5.50	3.0	Yes	Completed
5.	31 March 2025	STAR CM Holdings Limited (6698)	28,000,000	5.00	1.6	N/A <i>(Note 1)</i>	Completed
6.	26 March 2025	China Evergrande New Energy Vehicle Group Limited (708)	15,435,720,000	Nil <i>(Note 2)</i>	3.0 <i>(Note 2)</i>	No	Completed

No.	Date of announcement	Company name (stock code)	Loan principal amount <i>Approximately HKD</i>	Interest rate per annum <i>Approximately (%)</i>	Maturity <i>Approximately (years)</i>	Collateral/ Guarantee	Status <i>(Note 3)</i>
7.	26 March 2025	China Evergrande New Energy Vehicle Group Limited (708)	2,173,000,000	Nil <i>(Note 2)</i>	3.0 <i>(Note 2)</i>	No	Completed
8.	10 January 2025	GCL New Energy Holdings Limited (451)	117,910,000	3.85	2.5	N/A <i>(Note 1)</i>	Completed
9.	10 January 2025	GCL New Energy Holdings Limited (451)	74,340,000	3.85	2.5	N/A <i>(Note 1)</i>	Completed

Exclude the Outliners (defined thereafter)

Maximum	5.5	5.0
Minimum	3.0	1.6
Median	3.9	3.0
Average	4.2	3.2

The Company	8.0 <i>(Note 4)</i>	2.0 <i>(Note 5)</i>	No
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Source: The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and adopted from the relevant announcements.

Notes:

- No relevant information was disclosed in the subject announcement.
- Given China Evergrande New Energy Vehicle Group Limited (“China Evergrande”) was suspended at the time and that one of the loans provided by China Evergrande to the subject connected party was as a result of a pre-existing loan prior to the proposed disposal of the subject entity by the China Evergrande group, and such loan is expected to continue after the proposed disposal, while the other loan was provided to an entity, being a connected person of a larger group which China Evergrande group owed a notably larger amount of payables to. Accordingly, these loans from China Evergrande are considered to be outliners (the “Outliners”) and were excluded from our market comparable analysis.
- The transactions in completed status represented that (i) the relevant resolution(s) has/have been approved by independent shareholders of the relevant companies; or (ii) the transactions were exempted from independent shareholders’ approval requirements under the Listing Rules.
- Both the interest rates of the 2019 Facility Agreement as amended by the Third Supplemental 2019 Facility Agreement and the 2021 Facility Agreement as amended by the First Supplemental 2021 Facility Agreement was 8.0% per annum.
- According to the Fourth Supplemental 2019 Facility Agreement, the 2019 Revolving Loan Facility Repayment Date shall be varied from 31 October 2025 to 31 October 2027, representing 2 years of the facility period to be extended. According to the Second Supplemental 2021 Facility Agreement, the 2021 Revolving Loan Facility Repayment Date shall be varied from 30 May 2025 to 30 May 2027, representing 2 years of the facility period to be extended.

### **5.1 Interest Rate**

As illustrated by the above table, the interest rate of the Market Comparables ranges from 3.0% to 5.5%, with a median of approximately 3.9%. We note that the interest rate of 8.0% on the outstanding principal amount of the 2019 Revolving Loan Facility Loan and the 2021 Revolving Loan Facility Loan is higher than the median of the interest rate of the Market Comparables and the range of the interest rate of the Market Comparables. Accordingly, we consider that the interest rate on the outstanding principal amount of the 2019 Revolving Loan Facility Loan and the 2021 Revolving Loan Facility Loan is fair and reasonable.

### **5.2 Term to maturity**

As illustrated by the above table, the term of maturity of the Market Comparables ranges from 1.6 years to five years with a median of three years. The extension of the facility period of two years under the 2025 Supplemental 2019 and 2021 Facility Agreements is in line with the aforesaid range of the Market Comparables and is shorter than the median of three years of the Market Comparables. Accordingly, we consider the term of maturity extended under the 2025 Supplemental 2019 and 2021 Facility Agreements to be fair and reasonable.

### **5.3 Collateral / Guarantee**

As illustrated by the above table, four out of nine Market Comparables were secured by collateral or guarantee and no information in relation to the collateral or the guarantee was noted in the announcement for two of the Market Comparables. Although the 2019 and 2021 Revolving Loan Facilities are unsecured, having considered (i) the Company's control power over PCL; (ii) the release of the tranches of the 2019 and 2021 Revolving Loan Facilities was subject to the Company's satisfaction of the assessment of the then and expected financial performance and position of the PCL Group; and (iii) the "Changyou" business is the sole operating segment of the Group which is conducted through the PCL Group, the Board is of the view and we concurred that (a) the default risk of PCL is justifiable; and (b) the grant of the 2019 and 2021 Revolving Loan Facilities without additional collateral or guarantee is reasonable.

### **5.4 Internal Control**

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

- (i) the senior management of the Company will conduct continuous monitoring of the operations of the PCL Group through fostering and maintaining regular communication and active interaction between the parties;



- (ii) the designated staff of the accounting department of the Company will closely monitor the aggregated outstanding balances of the Loans and report the latest status to the chief financial officer/financial controller of the Company on a monthly basis to ensure that it does not exceed the 2019 Revolving Loan Facility Annual Caps and the 2021 Revolving Loan Facility Annual Caps;
- (iii) the chief financial officer/financial controller of the Company will report to the Board on half-yearly basis in relation to the transaction status;
- (iv) the Company will set an alert alarm when the aggregated outstanding loan balance under the 2019 and 2021 Revolving Loan Facilities is about to reach the aggregate sum under the 2019 Revolving Loan Facility Annual Caps and the 2021 Revolving Loan Facility Annual Caps. In case that the aggregated principal amount of the Loans is expected to exceed the 2019 Revolving Loan Facility Annual Caps and the 2021 Revolving Loan Facility Annual Caps, the Company could timely re-comply with the requirements under Chapter 14A of the Listing Rules;
- (v) the internal control department and relevant personnel of the Company will monitor and ensure all transactions contemplated under the 2019 Facility Agreement (as amended by the First Supplemental 2019 Facility Agreement, the Second Supplemental 2019 Facility Agreement, the Third Supplemental 2019 Facility Agreement and the Fourth Supplemental 2019 Facility Agreement) and the 2021 Facility Agreement (as amended by the First Supplemental 2021 Facility Agreement and the Second Supplemental 2021 Facility Agreement) are carried out pursuant to their respective terms;
- (vi) the independent non-executive Directors will conduct an annual review of the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement and confirm in the Company's annual report in relation thereto in accordance with Rule 14A.55 of the Listing Rules; and
- (vii) the auditors of the Company will conduct an annual review of and report on the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement in accordance with Rule 14A.56 of the Listing Rules.

In addition to the internal control measures taken by the Company as aforesaid, the Management will conduct monthly review of the management accounts of the PCL Group and regular assessment of the funding needs and cashflow position of the PCL Group for the operations of the PCL Group for the release of the tranches of the loans granted under the 2019 and 2021 Revolving Loan Facilities and prior to the repayment of the 2019 and 2021 Revolving Loan Facilities in full, as well as the then and expected financial performance and position of the PCL Group. As set out in the Letter from the Board, the Directors are satisfied that, since the grant of the 2019 and 2021 Revolving Loan Facilities, the PCL Group has utilised the loans granted under the 2019

and 2021 Loan Facility for the operations of the PCL Group and that the Group has undergone continued development and expansion of scale, gradually covering a wider range of consumption scenarios and daily service business scope and increased number of users. Besides, the Directors are of the view that the internal control measures adopted by the Group set out above are effective in ensuring that the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement shall be conducted on normal commercial terms which are fair and reasonable to the Company and the Shareholders as a whole.

In order to assess the effectiveness of the Company's internal control measures to monitor the drawdown of Loan under the 2019 and 2021 Revolving Loan Facilities and mitigate the default risk associated, we have reviewed relevant historical internal control records of the Group, including (i) the status reports for the outstanding loan balances reviewed by the Board; (ii) the internal reports prepared by finance manager of the Company, reviewed by financial controller of the Company, and approved by the chief financial officer of the Company in relation to the status of the outstanding loan balances; and (iii) the letters issued by the independent auditors for conducting annual review of the continuing connected transactions of the Company, to assess whether such transactions have been carried out in accordance with the relevant terms of the 2019 and 2021 Revolving Loan Facilities.

Besides, we have confirmed with the Management that (a) the release of the tranches of the 2019 and 2021 Revolving Loan Facilities was subject to the Company's satisfaction of the assessment of the then and expected financial performance and position of the PCL Group; (b) no default record has been noted in relation to the drawdown of loans under the 2019 and 2021 Revolving Loan Facilities up to the Latest Practicable Date; and (c) the Company's control power over PCL and able to assess and review the financial position of PCL.

Based on the above and having considered that (i) the Company monitors the aggregated loan amounts against the approved annual caps to ensure the compliance of the terms and policy under the 2019 Facility Agreement and 2021 Facility Agreement as amended by the Fourth Supplemental 2019 Facility Agreement and the Second Supplemental 2021 Facility Agreement, respectively; (ii) the Company has adequate internal control procedures as aforementioned; and (iii) the Company's control power over PCL, we consider that the internal control measures are sufficient to safeguard Shareholders' interest in conducting the 2025 Supplemental 2019 and 2021 Facility Agreements and the transactions contemplated thereunder. Accordingly, we are of the view that the internal control procedures are in place, adequate and in compliance with the internal measures as mentioned above.

## OPINION AND RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that although the entering into of the 2025 Supplemental 2019 and 2021 Facility Agreements are not in the ordinary and usual course of business of the Group, it is on normal commercial terms, and the 2025 Supplemental 2019 and 2021 Facility Agreements, the proposed 2019 Revolving Loan Facility Annual Caps and the proposed 2021 Revolving Loan Facility Annual Caps are (i) fair and reasonable so far as the Independent Shareholders are concerned, and (ii) in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the 2025 Supplemental 2019 and 2021 Facility Agreements.

Yours faithfully  
For and on behalf of  
**Red Sun Capital Limited**



**Robert Siu**  
*Managing Director*

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

\* *for identification purposes only*