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ARCHOSAUR GAMES INC.

祖龙娱乐有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9990)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Archosaur Games Inc. (the “**Company**”) hereby announces the consolidated annual results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020 (the “**Results Announcement**”), as below.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended		
	31 December		
	2020	2019	Change
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(%)</i>
Revenue	1,208.8	1,067.2	13.3%
Cost of revenue	<u>(282.9)</u>	<u>(177.6)</u>	<u>59.3%</u>
Gross profit	925.9	889.6	4.1%
Research and development expenses	(540.4)	(389.2)	38.8%
Selling and marketing expenses	(161.0)	(114.5)	40.6%
Administrative expenses	(138.3)	(53.0)	160.9%
Net impairment losses on financial assets	(1.8)	(4.2)	(57.1)%
Other income	10.8	14.1	(23.4)%
Other (losses)/gains, net	<u>(12.1)</u>	<u>24.1</u>	<u>(150.2)%</u>
Operating profit	83.1	366.9	(77.4)%
Finance income	12.4	8.6	44.2%
Finance costs	(13.4)	(17.9)	(25.1)%
Finance costs, net	(1.0)	(9.3)	(89.2)%
Fair value changes on convertible redeemable preferred shares	(856.9)	(212.5)	303.2%
Share of results of investments accounted for using the equity method	<u>(0.5)</u>	<u>–</u>	<u>N/A</u>
(Loss)/Profit before income tax	(775.3)	145.1	(634.3)%
Income tax credit/(expense)	<u>16.3</u>	<u>(24.7)</u>	<u>(166.0)%</u>
(Loss)/Profit for the year	<u>(759.0)</u>	<u>120.4</u>	<u>(730.4)%</u>
Non-IFRSs measure:			
Adjusted net profit ⁽¹⁾	218.8	354.5	(38.3)%

Note:

- (1) We define adjusted net profit as net (loss)/profit for the year adjusted by adding back fair value changes on convertible redeemable preferred shares, share-based compensation expenses, interest expenses accrued from redemption liability and listing expenses. We eliminate the impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-cash items or non-recurring expenses. In particular, fair value changes on convertible redeemable preferred shares, interest expenses accrued from redemption liability and listing expenses will not recur after the Listing. Fair value changes on convertible redeemable preferred shares will not recur after the Listing as convertible redeemable preferred shares have been converted into ordinary shares upon the Listing. Interest expenses accrued from redemption liability will not recur after the Listing because the redemption liability is in relation to a put option that was extinguished and ceased to have effect upon the Listing.

CHAIRMAN'S STATEMENT

Dear Shareholders,

2020 was a year of milestone significance for the Group. On 15 July 2020, our initial public offering on the Stock Exchange was a success. As a public listed company, we have unveiled a new chapter of opportunities and challenges in the capital market. On behalf of the Board, I am pleased to present the consolidated annual results of the Group for the year ended 31 December 2020.

Whole-year review and outlook

Archosaur Games is a leading mobile gaming company in China with more than twenty years of research and development experience. Our mission is to be a top-class gaming company in the world, serving global game players by continuously creating industry-leading games of various genres with excellent online entertainment experience. As at 31 December 2020, we have launched 15 mobile games with over 70 regional versions available in more than 170 regional markets in 14 languages. The gross billings of six of them exceeded RMB100 million in the first month. The cumulative gross billings of five games exceeded RMB1 billion, among which three games exceeded RMB3 billion. The Group recorded total revenue of RMB1,208.8 million in 2020, representing a year-on-year increase of 13.3%, realizing a healthy and continuous revenue growth.

Maintenance of MMORPG advance to achieve breakthrough and iteration of SLG genres, thereby laying out a diversified pipeline of multiple game genres

In 2020, following our successful launch of Dragon Raja (龍族幻想) in mainland China, we had successfully launched four new regional versions of Dragon Raja (龍族幻想) in Europe and the Americas, Japan, Southeast Asia and Vietnam with outstanding results. In particular, the Japanese version became the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play in Japan. Once again, this reflected our core competitiveness in the MMORPG genre. In the future, we will continue to provide mobile MMORPG with multiple styles, including OPEN WORLD (開放大世界) and turn-based mobile MMORPG. Launched by the Group in October 2020, Under the Firmament (鴻圖之下) was our first attempt to make inroads into the new genre of SLG from our MMORPG products with competitive advantage. The successful launch of Under the Firmament (鴻圖之下) made possible an important move to expand our SLG genre, with the unanimous endorsement and acclaims of the gaming industry. In the future, the Group plans to maintain the core competitive edge of our MMORPG products on this foundation, upon which we will enrich and extend the array of products and genres, including SLG, female-oriented and other genres to facilitate our sustainable launch of high-quality games.

Continuous research and development input to build a solid foundation for future products development

The Group counts on its industry-leading research and development capabilities as a driving force to propel us forward, along with constant technology upgrades, continuous enrichment and expansion of product genres and our core advantage of integrating operation and research and development to enhance our industry reputation. In 2020, 458 new employees joined the Group, approximately 85% of them being research and development personnel, and our total full-time employees increased from approximately 900 in 2019 to approximately 1,200. The employees in research and development center accounted for approximately 87% of the total employees as at 31 December 2020. In 2021, the Group will continue to enlarge inputs on research and development personnel, which includes offering competitive salaries and different forms of employee incentives, in order to recruit and retain research and development personnel as the foundation for expanding our professional team steadily and continually. In terms of the regional layout of research and development talents, aside from Beijing, Chengdu and Changchun, a new research and development center was established in Shanghai at the end of 2020, encompassing the eastern part of China as a core city and the peripheral regions of Jiangsu, Zhejiang and Anhui, to attract high-end gaming talents in order to further reinforce our gaming research and development strengths. Presently, Beijing is the epicenter of the Group's regional spread of research and development talents. We will gradually expand our recruitment to various parts of China and will continuously do so to absorb high-end technical personnel. On the whole, our constant inputs in research and development will provide us with a strong manpower pool for our new business endeavours. In 2020, the successful publishing of new game genre like the SLG product, Under the Firmament (鴻圖之下), could be credited to our sustainable research and development inputs, along with efforts to raise our research and development capabilities, deepen technology innovations and extension of our line of product genres. In the future, we will inject fresh energy and dynamism into the development of other gaming genres and products, including the mobile MMORPG, Noah's Heart (諾亞之心) characterized by OPEN WORLD (開放大世界) with a "Seamless Sphere-Shaped Map" ("球形無縫大地圖") gaming experience as well as female-oriented products, which are noted for fashion diversity and fashionwear by veteran artist to perfection. We expect to launch three new games in 2021, including The New World (夢想新大陸) which was launched in January 2021, covering the genres of MMORPG and SLG. We have the confidence and stamina to build our next-generation games pipeline with constant efforts to boost our research and development strengths.

Strong IP creation and operating strengths to attract international IPs and enhance global presence

We rely on strong IP creation and operational capabilities to strategically support our future layout, actively accelerate expanding our IP reserve and attract world-renowned IPs from international IP holders. As at 31 December 2020, the Group had seven original IP mobile games and four licensed IP mobile games in operation. Reinforcing the original IPs, new game products such as The New World (夢想新大陸) that was launched in early 2021 and Noah's Heart (諾亞之心), which is scheduled to be launched in the near future highlight our continuous exploring in original IPs. Deepening our involvement in authorized IPs, we have taken a further step to establish a longer-term collaborative relationship with the IP holder of Dragon Raja (龍族幻想), which has been widely endorsed and supported by global game players since it was launched, and we have obtained exclusive right to adapt the entire dragon product series for the production of MMORPGs for a seven-year period. With regard to attracting international IPs, we will collaborate with a movie production company of blockbusters with a box office record of over US\$1.5 billion to launch a new mobile MMORPG. The production and development of this game is in steady progress. Without doubt, it is expected to mark another important milestone in our global market drive and significantly accelerate the global presence.

Positive outcomes of self-publishing and continuous layout and expansion based on the integrated mode of research and operation

One of our key strategies is to integrate research and operation as one into our self-publishing system to support global publishing in a swift, viral and expansionary manner. Dragon Raja (龍族幻想) and World of Kings (萬王之王) were among the products we have self-published overseas with outstanding results. More specifically, Dragon Raja (龍族幻想) has achieved remarkable results and World of Kings (萬王之王) has a stable long-term performance in the genre of MMORPG of the markets outside of mainland China. In 2020, we won the Top Publisher Awards (年度中國廠商出海收入飛躍獎) issued by App Annie. In addition, we are still strengthening our self-publishing system domestically with a view to form a team with excellent capabilities for self-publishing home and abroad, and striving to achieve great results in 2021. Currently, the Group continuously undertakes the effort to expand and improve the self-publishing team and its publishing capabilities in order to provide a succession of high-quality products to game players from different countries and regions and build the brand of Archosaur Games globally, so as to build our widespread reputation in the global market.

Increased overseas revenue ratio from games to drive our global strategy continually

The overseas revenue ratio of our games continued to increase in 2020. Compared with 2019, the revenue of our games generated from overseas in 2020 increased by 129.1%. With regard to revenue segment by geography, our overseas revenue accounted for 65.2% of our total revenue for the year 2020. Our overseas revenue have increased by a large margin, which greatly bolsters our confidence in overseas self-publishing while accelerating our pace of global business. The Europe and the Americas, Japan and Southeast Asia versions of Dragon Raja (龍族幻想) and the Europe and the Americas version of World of Kings (萬王之王) in 3D have contributed significantly to our overseas revenue. It is noteworthy that, aside from the traditional overseas regions like Hong Kong, Macau, Taiwan, Southeast Asia and South Korea where our games are published, we have also entered markets with higher barriers such as Europe, the Americas and Japan. Through high-quality products such as Dragon Raja (龍族幻想) and World of Kings (萬王之王), we have successfully made it to these more challenging markets that come with a higher revenue potential. Continual increases in our overseas revenue are attributable to the on-screen visual quality of our next-generation games that compares well to that of console gaming product in one respect. In the meanwhile, our research and development team have customized gaming products according to regional variations to make them a success in overseas markets. Our operational team has also continually raised our self-publishing and long-term operating capacities. Given the above-mentioned core advantages, we have strengthened our influence in the overseas gaming market and we will be more proactive in this area in 2021.

Continually deepening advantages derived from Unreal Engine 4 to move gradually towards Unreal Engine 5

Following our major success with our Unreal Engine 4 collaboration initiative, we have reached a more long-term and indepth partnership agreement with the game engine developer Epic Games on the issue of Unreal Engine 5 authorization. Through this partnership renewal, we have become one of the earliest game developers allowed to research and utilize Unreal Engine 5 and extend application of the game engine to our multiple game products. As a cutting-edge game engine, Unreal Engine 5 has greatly facilitated workflow excellence to achieve technology and product breakthroughs. Based on the successful experience of using Unreal Engine 4 to develop mega mobile games, we will deploy frontier technologies like Unreal Engine 5 to conduct gaming research and development as part of strategic planning going forward. We have the confidence to draw on the new technology to achieve innovations, explore and develop high-quality, cross-platform new products, and implement major breakthroughs in technology and product offerings.

Deepening up-and-downstream collaboration across the industry value chain

We will continue to deepen our strategic partnerships with businesses both up-and-downstream like Epic Games and Tencent, closely monitor and evaluate market feedback for gaming products and conduct timely updates and improvement measures on games as we maximise efforts to ensure success for our game products. To achieve higher cost efficiency and harness more advanced technologies, we have, as earlier mentioned, to establish a deeper partnership with Epic Games on Unreal Engine 5 usage. As for game publishing in collaboration with third parties, we have entrusted Tencent in mainland China with the exclusive publishing of Under the Firmament (鴻圖之下) launched in 2020 and The New World (夢想新大陸) launched in January 2021. Tencent has been given exclusive publishing rights, including the future launch of Noah's Heart (諾亞之心) in mainland China. In addition, we have also formed a partnership with Tencent on mobile MMORPG projects developed from international IP agreements as mentioned above for global publishing. As one of the world's large-scale gaming companies, Tencent holds the capacity to integrate game players' resource globally. We believe the product will benefit from the combined advantages of "IP-R&D-Publishing" to become an influential game to offer global players an excellent online gaming experience.

Future opportunities and challenges

Since the outbreak of coronavirus disease ("COVID-19") in different parts of the world in early 2020, the Group has done its best in pandemic prevention and control, actively fulfilled its social responsibilities and strengthened cost control with improved management of receivables. We have worked assiduously to minimize impact of the pandemic on the Group. We have also contributed to the fight against the disease by administering stringent control and regulation measures to safeguard employee health and safety.

2020 was a critical year that led the gaming industry to the next decade of developments, as new technologies like 5G and Unreal Engine 5 will subject it to continuous upgrades and changes. Faced with the new opportunities and challenges, we will invest more resources in talents grooming and management, research and development and improvement of operational capabilities, with a focus on the Group's long-term value growth rather than the pursuit of profit increase over the short haul.

The positive development trend in the mobile game industry will remain unchanged. We are optimistic towards our new strategic layout for the future and our long-term value growth. We also believe that, under the leadership of the Board and collective hard work of our management team and employees, we will be able to maintain a competitive edge in research and development and operations and create value for investors. Once again, I would like to thank our investors and people from all sectors for the enormous support and assistance they have given us. I hope that my message here could let everybody understand the Group better and enable them to make their independent investment decisions.

Li Qing

Chairman of the Board

Archosaur Games Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Our mission is to be a top-class gaming company in the world, serving global game players by continuously creating industry-leading games of various genres with excellent online entertainment experience.

We are a pioneer in China's mobile game industry focusing on developing high-quality mobile MMORPGs, SLGs and other genres, with proven capabilities in developing high-quality mobile games with excellent market reception.

Our Existing Games

We mainly focus on the development for mobile MMORPG, SLG and other genres, and offer a mature and strategically selective portfolio of top-rated mobile games with excellent market reception globally. As at 31 December 2020, we had launched 15 mobile games with over 70 regional versions in 14 languages available in more than 170 regional markets, such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas.

In 2020, we launched two games based on licensed IP and original IP, Dragon Raja (龍族幻想) international version and Under the Firmament (鴻圖之下), covering the genres of MMORPG and SLG. The games have achieved remarkable results since they were launched.

Dragon Raja (龍族幻想), a next generation real 3D mobile MMORPG powered by Unreal Engine 4, has been launched in Europe and the Americas, Southeast Asia and Vietnam through self-publishing in 2020, after launched in mainland China in 2019. As at 31 December 2020, the global cumulative gross billings generated by Dragon Raja (龍族幻想) had exceeded RMB3 billion and the cumulative number of globally registered players had surpassed 32 million, although being launched for no longer than 18 months. In both the developed gaming markets overseas and traditional oversea markets for Chinese games, we have achieved outstanding self-publishing results. With regard to overseas publishing, Dragon Raja (龍族幻想) became the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play in Japan through third-party publishing by Tencent.

Under the Firmament (鴻圖之下), the first SLG grand strategy mobile game powered by Unreal Engine 4, won the only UE Best Chinese Game of the Year (虛幻引擎中國年度最佳遊戲作品) award at UOD (Unreal Open Day) in November 2020. Under the Firmament (鴻圖之下) was launched in the S2 and S3 seasons successively, with continuous improvements made in quality, gaming method, scenario and interactiveness, and received acclaim from players. Tencent published on our behalf the mainland China version exclusively and on the first day of launch, the game topped the Top Free Games Chart and maintained top ten among Top Grossing Games Chart for eight consecutive days after launch. The game will also be launched in countries and regions including Japan, Southeast Asia, South Korea, Europe and the Americas by primarily our self-publishing team in 2021.

During the period from 1 January 2021 to the date of this Results Announcement, we launched a new game, The New World (夢想新大陸), which is the first turn-based mobile MMORPG developed by Unreal Engine 4. On the first day of launch, the game topped the Top Free Games Chart of iOS App Store in mainland China. With the use of Unreal Engine 4, the game creates unique scenes including islands, forests and undersea views, deploying high-light direction modification technology to enable PBR (Physically-Based Rendering) to spotlight the turn-based aerial perspective to heighten the material texture better.

Our existing games achieved a number of “firsts” in China’s mobile game industry: Loong Craft (六龍爭霸／六龍御天) as one of the first real 3D mobile MMORPG grand strategy wargames, Dragon Raja (龍族幻想) as China’s first next generation real 3D mobile MMORPG powered by Unreal Engine 4, and Fantasy Zhuxian (夢幻誅仙) as one of the pioneering real 3D turn-based mobile MMORPGs. Under the Firmament (鴻圖之下) is the first mobile SLG developed by Unreal Engine 4. For the year ended 31 December 2020, we have kept a sustainable growth or performance for the games we are operating. For example, as at the end of 2020, we have three games with total gross billings of more than RMB3 billion, 5 games with total gross billings of more than RMB1 billion, and 6 games with first-month gross billings of more than RMB100 million (including Under the Firmament (鴻圖之下)). Furthermore, we will also publish Under the Firmament (鴻圖之下) in markets outside of mainland China including Japan, Southeast Asia, Hong Kong, Macau and Taiwan, South Korea, Europe and the Americas.

Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, six mobile games are expected to be launched domestically and globally over the period from 2021 to 2022, covering the genres of MMORPG, SLG and others (excluding a turn-based mobile MMORPG, The New World (夢想新大陸) which was launched in January 2021). As at 31 December 2020, the table below sets out certain information regarding our new games which are expected to be launched for the periods indicated, including title, genre, IP source, development stage, expected launch date and major markets.

Title⁽¹⁾	Mobile game genre⁽¹⁾	IP source⁽¹⁾	Development stage as at 31 December 2020⁽¹⁾	Expected launch year⁽¹⁾	Major markets⁽¹⁾
2021					
Noah's Heart (諾亞之心)	MMORPG	Original IP	Game Production	2021	Worldwide
Project C ⁽²⁾	SLG	– ⁽²⁾	Game Production	2021	Worldwide
2022					
Project A ⁽²⁾⁽³⁾	Others	Original IP	Game Production	2022	Worldwide
Sango Heroes (三國群英傳)	SLG	Licensed IP	Game Proposal	2022	Worldwide
Project B ⁽²⁾	MMORPG	Licensed IP	Game Production	2022	Worldwide
Project D ⁽²⁾	MMORPG	– ⁽²⁾	Game Proposal	2022	Worldwide

Notes:

- (1) The game pipeline is indicative as at 31 December 2020. The title, genre, expected launch date, major markets and other information of each game in the pipeline may be subject to further changes according to their respective development and pre-approval status.
- (2) The game title or IP status, as applicable, of the respective game is pending.
- (3) We plan to integrate female-oriented game design in the game.

We recorded revenue of RMB1,208.8 million for the year ended 31 December 2020, representing an increase of 13.3% as compared with RMB1,067.2 million for the year ended 31 December 2019, which was primarily attributable to an increase in revenue generated from integrated game publishing and operation.

Impact of COVID-19

Since the worldwide outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been issued and continued to be implemented across China and other countries in the world.

The foremost priority for the Group is to provide our employees with a safe and healthy working environment during the COVID-19 pandemic, maintaining a firm grasp of all applicable obligations (whether mandated or voluntary). The Group has adopted precautionary measures including online meetings and work from home for our staff to minimise the risk of transmission of COVID-19.

Due to the nature of the gaming industry and benefiting from the Company's sufficient hygiene measures and stable relationships with our suppliers and customers, the COVID-19 outbreak did not have any material adverse impact on our business operations, financial performance or working capital of our Company.

Financial Review

Revenue

The following table sets forth the breakdown of our revenue by business segment for the years indicated:

	For the year ended 31 December			
	2020		2019	
	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)
Development and licensing	597.3	49.4%	821.5	77.0%
– Revenue share	563.7	46.6%	739.8	69.3%
– Non-refundable fixed licensing fees	33.6	2.8%	81.7	7.7%
Integrated game publishing and operation	611.5	50.6%	245.7	23.0%
Total	1,208.8	100.0%	1,067.2	100.0%

For the year ended 31 December 2020, our revenue from development and licensing was RMB597.3 million, representing a decrease of 27.3% from RMB821.5 million for the year ended 31 December 2019, and our revenue from integrated game publishing and operation was RMB611.5 million, representing an increase of 148.9% from RMB245.7 million for the year ended 31 December 2019.

The following table sets forth the breakdown of our revenue segment by geography for the years indicated:

	For the year ended 31 December			
	2020		2019	
	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)
Domestic	420.5	34.8%	723.1	67.8%
Overseas	788.3	65.2%	344.1	32.2%
Total	1,208.8	100.0%	1,067.2	100.0%

For the year ended 31 December 2020, our revenue generated from markets outside mainland China accounted for 65.2% of our total revenue, representing an increase of 129.1%, which is in line with our strategy and aim of introducing excellent games to more people across different regions. For domestic market, the decrease in our revenue was primarily due to the delay of launching of two games: Under the Firmament (鴻圖之下) and The New World (夢想新大陸).

Cost of Revenue

The following table sets forth a breakdown of our cost of revenue by nature in absolute amounts and as percentages of our cost of revenue for the years indicated:

	For the year ended 31 December			
	2020		2019	
	(RMB million)	(%)	(RMB million)	(%)
Commissions charged by distribution channels and payment channels	183.8	65.0%	83.8	47.2%
Revenue share to IP holders	62.8	22.2%	70.1	39.5%
Bandwidth and servers custody fee	17.9	6.3%	7.6	4.3%
Employee benefit expenses	7.2	2.5%	6.0	3.4%
Depreciation and amortization charges	7.6	2.7%	7.3	4.1%
Others	3.6	1.3%	2.8	1.5%
Total	282.9	100.0%	177.6	100.0%

Our cost of revenue primarily consists of (i) commissions charged by distribution channels and payment channels, and (ii) revenue share to IP holders. Our cost of revenue increased to RMB282.9 million for the year ended 31 December 2020 as compared with RMB177.6 million for the year ended 31 December 2019, which was mainly attributable to an increase in commissions charged by distribution channels and payment channels and an increase in bandwidth and servers custody fee. The growing trend was in line with the increase in revenue generated from integrated game publishing and operation business.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2020, the gross profit of the Group increased by 4.1% to RMB925.9 million as compared with RMB889.6 million for the year ended 31 December 2019, maintaining a stable performance. The gross profit margin of the Group decreased to 76.6% for the year ended 31 December 2020 from 83.4% for the year ended 31 December 2019, mainly attributable to an increase in revenue generated from integrated game publishing and operation business as a percentage to our total revenue, taking into consideration that cost associated with integrated game publishing and operation business as a percentage to revenue from integrated game publishing and operation business is generally higher than cost associated with development and licensing business as a percentage to revenue from development and licensing business.

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefit expenses; (ii) outsourced technical services; and (iii) depreciation and amortization charges. For the year ended 31 December 2020, our research and development expenses increased by 38.8% to RMB540.4 million as compared with RMB389.2 million for the year ended 31 December 2019, mainly attributable to an increase in employee benefit expenses, including share-based compensation expenses, and an increase in outsourced technical services to satisfy our business expansion.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses; and (ii) employee benefit expenses. For the year ended 31 December 2020, our selling and marketing expenses increased by 40.6% to RMB161.0 million as compared with RMB114.5 million for the year ended 31 December 2019, mainly attributable to an increase in promotion and advertising expenses.

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses; (ii) share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares; (iii) listing expenses; and (iv) other professional consulting fees. For the year ended 31 December 2020, our administrative expenses increased by 160.9% to RMB138.3 million as compared with RMB53.0 million for the year ended 31 December 2019, mainly attributable to (i) the occurrence of share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares and listing expenses, which are either non-cash items or non-recurring in nature; and (ii) an increase in employee benefit expenses, including share-based compensation expenses.

Other Income

For the year ended 31 December 2020, our other income decreased by 23.4% to RMB10.8 million as compared with RMB14.1 million for the year ended 31 December 2019, due to a decrease in government grants.

Finance Costs, Net

Finance income represents interest income from bank deposits, including bank balance and term deposits. Finance costs primarily consist of interest expenses accrued from our redemption liability and lease liabilities. For the year ended 31 December 2020, our net finance costs decreased by 89.2% to RMB1.0 million as compared with RMB9.3 million for the year ended 31 December 2019, mainly attributable to an increase in interest income from bank balance and a decrease in interest expenses accrued from our redemption liability.

Other (Losses)/Gains, Net

Our other (losses)/gains primarily consist of (i) gains on financial assets at fair value through profit or loss; and (ii) net foreign exchange (losses)/gains. For the year ended 31 December 2020, our net other (losses)/gains decreased by 150.2% to net other losses of RMB12.1 million as compared with net other gains of RMB24.1 million for the year ended 31 December 2019, mainly attributable to foreign exchange losses.

Income Tax Credit/(Expense)

Our income tax credit/(expense) consists of current income tax and deferred income tax, and we incurred total income tax credit of RMB16.3 million for the year ended 31 December 2020, compared with income tax expense of RMB24.7 million for the year ended 31 December 2019. The decrease was mainly due to a reversal of current income tax of RMB11.8 million from Huai'an Loong, one of the Company's subsidiaries. Huai'an Loong qualified as a High and New Technology Enterprise for a three-year period under the Enterprise Income Tax (EIT) Law since 2018 and was entitled to a preferential income tax rate of 15%. Under the Announcement No. 29 of 2020 issued by Ministry of Finance and State Administration of Taxation on 29 May 2020, Huai'an Loong qualified as a "Software Enterprise" for 2019 and 2020. Accordingly, Huai'an Loong is entitled to a two-year EIT exemption period, followed by a three-year period with 50% reduction in the applicable income tax rate, commencing from the first year of profitable operation after offsetting tax losses generating from prior years. The first year of EIT exemption for Huai'an Loong was 2019. As a result, a reversal of current income tax of RMB11.8 million to reflect the first year of EIT exemption of Software Enterprise was recorded in the consolidated statement of profit or loss for the year ended 31 December 2020.

Adjusted Net Profit

The adjusted net profit for the year ended 31 December 2020 decreased by 38.3% to RMB218.8 million as compared with RMB354.5 million for the year ended 31 December 2019. Such decrease was primarily attributable to an increase in research and development expenses due to the Company's endeavor to continuously develop high-quality games for the benefit of the long-term business expansion by committing significant investments in talent resources, research and development, game technology and network infrastructure to enhancing the development capacities of the Group. Due to the fair value changes on convertible redeemable preferred shares based on the application of IFRSs, loss was recorded for the year ended 31 December 2020. The Company believes that adjusted net profit for the year ended 31 December 2020, as compared with the loss recorded by the Group based on the application of IFRSs, provides more useful information to Shareholders and potential investors in understanding and evaluating the operating results of the Group.

Liquidity and Financial Resources

We have historically funded our cash requirements principally from cash generated from operations, and to a lesser extent, equity financing. We adopt a prudent treasury management policy to ensure that our Group maintains a healthy financial position. Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, cash generated from operations and available facilities of the Group, and the net proceeds from the issuance of ordinary shares relating to the initial public offering, and after diligent and careful investigation, the Directors are of the view that the Group has sufficient working capital required for the Group's operations at present.

As at 31 December 2020, the Group has net current assets of RMB3,393.7 million and term deposits, cash and cash equivalents of RMB3,134.3 million, which were denominated in US\$, HK\$ and RMB.

As at 31 December 2020, the Group's total equity attributable to owners of the Company amounted to RMB3,549.3 million, compared with RMB170.1 million as at 31 December 2019, representing an increase of 1,986.6%. The increase was mainly attributable to (i) issuance of ordinary shares relating to the initial public offering and (ii) the conversion of convertible redeemable preferred shares and redemption liability into ordinary shares upon the Listing. And the Group's total debt amounted to RMB452.5 million, compared with RMB1,733.1 million as at 31 December 2019, representing a decrease of 73.9%. The decrease was mainly attributable to the conversion of convertible redeemable preferred shares into ordinary shares upon the Listing.

The following table sets forth our cash flows for the years indicated:

	For the year ended		
	31 December		
	2020	2019	Change
	(RMB	(RMB	
	million)	million)	(%)
Net cash generated from operating activities	456.8	100.6	354.1%
Net cash generated from investing activities	153.6	58.4	163.0%
Net cash generated from/(used in) financing activities	1,901.5	(24.1)	(7,990.0)%
Net increase in cash and cash equivalents	2,511.9	134.9	1,762.0%
Cash and cash equivalents at the beginning of the year	728.3	588.4	23.8%
Exchange (losses)/gains on cash and cash equivalents	(184.5)	5.0	(3,790.0)%
Cash and cash equivalents at the end of the year	3,055.7	728.3	319.6%

Operating Activities

For the year ended 31 December 2020, net cash generated from operating activities was RMB456.8 million, compared with RMB100.6 million for the year ended 31 December 2019, representing an increase of 354.1%. The increase was mainly attributable to the subsequent collection of trade receivables as at 31 December 2019.

Investing Activities

For the year ended 31 December 2020, net cash generated from investing activities was RMB153.6 million, compared with RMB58.4 million for the year ended 31 December 2019, representing an increase of 163.0%. The increase was mainly attributable to proceeds from maturity of term deposits purchased during the year of 2019.

Financing Activities

For the year ended 31 December 2020, net cash generated from financing activities was RMB1,901.5 million, compared with RMB24.1 million used in financing activities for the year ended 31 December 2019, representing an increase of 7,990.0%. The increase was mainly attributable to proceeds from issuance of ordinary shares relating to the initial public offering during 2020.

Gearing Ratio

As at 31 December 2020, our gearing ratio, which is calculated as total debt divided by total assets, was 11.3%, as compared with 91.1% as at 31 December 2019.

Capital Expenditure

Our capital expenditure comprises expenditures on purchase of intangible assets and purchase of property, plant and equipment. For the two years ended 31 December 2020 and 2019, total capital expenditure amounted to RMB19.6 million and RMB25.8 million respectively, representing a decrease of 24.0%. The decrease was mainly attributable to fewer purchases of intangible assets during the year of 2020.

Significant Investments Held/Future Plans for Significant Investments or Capital Assets

As at 31 December 2020, there was no significant investment held by the Group or future plans for significant investments or capital assets.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

For the year ended 31 December 2020, there was no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Charge on Assets

As at 31 December 2020, no property, plant and equipment was pledged.

Contingent Liabilities

As at 31 December 2020, we did not have any unrecorded significant contingent liabilities against us.

Employees and Remuneration Policies

As at 31 December 2020, we employed approximately 1,200 full-time staff in total, approximately 87% of whom are research and development personnel. Substantially all of our employees are based in China, primarily at our headquarters in Beijing, with the remainder in Chengdu, Changchun and Shanghai. For the year ended 31 December 2020, cost of employees' remuneration and benefit was approximately RMB483.7 million as compared with RMB359.0 million for the year ended 31 December 2019.

We are committed to establishing a competitive and fair remuneration and benefits environment for our employees. To effectively motivate our business development team through remuneration incentives and ensure that our employees receive competitive remuneration packages, we continually refine our remuneration and incentive policies through market research and comparisons with our competitors. We conduct performance evaluations of our employees quarterly to provide feedback on their performance. Remuneration for our employees typically consists of a base salary and performance-based and year-end bonuses. To incentivize our Directors, senior management and employees of the Group for their contribution to our Group, the Company adopted the RSU Scheme and the share option scheme on 1 April 2020 and 5 February 2021, respectively.

As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing provident fund, pension insurance, medical insurance, maternity insurance, work-related injury insurance and unemployment insurance.

We provide regular and specialized training tailored to the needs of our employees in different departments. We regularly organize training sessions conducted by senior employees or external consultants, covering various aspects of our business operations, including overall management, project execution and technical know-how. We constantly review the content of training and follow up with employees to evaluate the effect of such training. Through the training, we help our employees to stay up to date with both industry development, skills and technologies. We also organize workshops, from time to time, to discuss specific topics.

Foreign Currency Exchange Risks

For the year ended 31 December 2020, most of transactions of the Group and our cash and cash equivalents were denominated in RMB, US\$ and HK\$. The management team closely monitors foreign currency exchange risks to ensure that appropriate measures are implemented in a timely and effective manner. For the year ended 31 December 2020, the Group has not incurred any significant foreign currency exchange losses in its operations. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Use of Net Proceeds from Global Offering

On 15 July 2020, the Company successfully completed its initial public offering of 187,400,000 Shares at HK\$11.60 per Share, and its Shares were listed on the Main Board of the Stock Exchange. The closing price on the Listing Date is HK\$20.30 per share. On 11 August 2020, the over-allotment option described in the Prospectus was fully exercised by the Sole Global Coordinator on behalf of the International Underwriters as defined in the Prospectus in respect of an aggregate of 28,110,000 offer shares (the "**Over-allotment Shares**"). The Over-allotment Shares have been allotted and issued by the Company at HK\$11.60 per Share. The net proceeds raised from the Global Offering (after taking account of the exercise of over-allotment option), after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK\$2,358.5 million. The net price to the Company (which was calculated by dividing the net proceeds by the number of shares issued in connection with the Global Offering after taking account of the exercise of over-allotment option) was approximately HK\$10.94 per share.

The below table sets forth the proposed and actual applications of the net proceeds from the Listing Date to 31 December 2020:

Use of net proceeds	Percentage	Net proceeds from the Global Offering (after taking account of the exercise of over-allotment option) (HK\$ million)	As at 31 December 2020		Expected timeline for utilising the remaining net proceeds ⁽¹⁾
			Utilized amount (HK\$ million)	Unutilized amount (HK\$ million)	
Enhancing the development capabilities and technology and expanding our game portfolio	40%	943.5	202.5	741.0	2020.07-2023.07
Expanding game publishing and operation business, particularly in markets outside of mainland China	20%	471.7	42.5	429.2	2020.07-2023.07
Funding strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom	20%	471.7	36.9	434.8	2020.07-2022.07
Expanding the IP reserve and enriching our content offerings	10%	235.8	3.6	232.2	2020.07-2022.07
Working capital and general corporate uses	10%	235.8	35.3	200.5	N/A
Total	100%	<u>2,358.5</u>	<u>320.8</u>	<u>2,037.7</u>	

Note:

- (1) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to changes based on the current and future development of the market conditions.

Up to 31 December 2020, approximately HK\$320.8 million out of net proceeds from the Global Offering had been used. To the extent that net proceeds are not immediately used for the intended use, such proceeds are placed in short-term interest bearing instruments, such as liquid fixed-income securities, short-term bank deposits, short-term and low risk wealth management products or money market instruments with licensed commercial banks or other authorized financial institutions so long as it is deemed to be in the best interests of the Company.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Group did not have any important events after the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Since the Listing Date and up to the date of this Results Announcement, the Company has complied with all applicable code provisions as set out in the Corporate Governance Code save for the deviation from code provision A.2.1 of the Corporate Governance Code.

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Li Qing is our executive Director, chairman of the Board and the chief executive officer of the Company. With extensive experience in the information technology and game industry, Mr. Li Qing is responsible for the overall management, decision-making and strategy planning of the Group and has been instrumental to the Group's growth and business expansion since the establishment of the Group. Since Mr. Li Qing is one of the key persons for the Group's management, the Board considers that vesting the roles of chairman and chief executive officer in the same person, Mr. Li Qing, would not create any potential harm to the interest of the Group and it is, on the contrary, beneficial to the management of the Group. In addition, the operation of the senior management of the Group and the Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Li Qing. The Board currently comprises two executive Directors (including Mr. Li Qing), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code since the Listing Date and up to the date of this Results Announcement.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code. As at the date of this Results Announcement, the Audit Committee consists of three members, namely Mr. Zhu Lin, Mr. Ge Xuan and Mr. Ding Zhiping. Mr. Zhu Lin is the chairman of the Audit Committee. The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2020 and this Results Announcement. The Audit Committee has no disagreement with the accounting treatment in the financial statements and this Results Announcement, and discussed auditing, risk management, internal control and financial reporting matters.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 31 December 2020.

FINAL DIVIDENDS

The Board resolved to recommend the payment of a final dividend of HK7.4 cents per share (tax inclusive) for the year ended 31 December 2020 (the "**Final Dividends**"), totaling approximately HK\$60.0 million. Subject to the approval of the Shareholders at the annual general meeting to be held on Friday, 18 June 2021 (the "**AGM**"), the Final Dividends will be paid to the Shareholders whose names appear on the register of members of the Company on Monday, 28 June 2021 on Wednesday, 18 August 2021.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Saturday, 12 June 2021 to Friday, 18 June 2021 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending the AGM, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 11 June 2021 for registration of share transfer.

For determining the entitlement to the Final Dividends for the year ended 31 December 2020, the register of members of the Company will be closed from Thursday, 24 June 2021 to Monday, 28 June 2021 (both days inclusive), during which period, no transfer of shares will be registered. In order to be qualified for the Final Dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 23 June 2021.

AUDITOR’S PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the Group’s consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2020 as set out in this Results Announcement have been agreed by the Company’s Auditor to the amounts set out in the Group’s audited consolidated financial statements for the year. The Company’s Auditor made no comments as to the reasonableness or appropriateness of those assumptions of the “Adjusted Net Profit” as presented in this Results Announcement. The work performed by the Company’s Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company’s Auditor on this Results Announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This Results Announcement is published on the websites of the Company (www.zulong.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2020 will be dispatched to the Shareholders and published on the above websites in due course.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020

		Year ended 31 December	
	<i>Note</i>	2020	2019
		RMB'000	RMB'000
Revenue	3	1,208,842	1,067,246
Cost of revenue	5	<u>(282,936)</u>	<u>(177,623)</u>
Gross profit		925,906	889,623
Research and development expenses	5	(540,433)	(389,224)
Selling and marketing expenses	5	(160,966)	(114,476)
Administrative expenses	5	(138,237)	(52,976)
Net impairment losses on financial assets	5	(1,816)	(4,249)
Other income		10,790	14,099
Other (losses)/gains, net	4	<u>(12,130)</u>	<u>24,055</u>
Operating profit		83,114	366,852
Finance income	6	12,362	8,605
Finance costs	6	<u>(13,385)</u>	<u>(17,928)</u>
Finance costs, net	6	(1,023)	(9,323)
Fair value changes on convertible redeemable preferred shares	13	(856,843)	(212,455)
Share of results of investments accounted for using the equity method		<u>(526)</u>	<u>–</u>
(Loss)/Profit before income tax		(775,278)	145,074
Income tax credit/(expense)	7	<u>16,256</u>	<u>(24,709)</u>
(Loss)/Profit for the year		(759,022)	120,365
(Loss)/Profit attributable to:			
– Owners of the Company		(759,022)	119,354
– Non-controlling interests		<u>–</u>	<u>1,011</u>
		(759,022)	120,365
(Loss)/Earnings per share attributable to owners of the Company for the year (in RMB/share)	8		
– Basic		(1.42)	0.34
– Diluted		<u>(1.42)</u>	<u>0.34</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

		Year ended 31 December	
	<i>Note</i>	2020	2019
		RMB'000	RMB'000
(Loss)/Profit for the year		<u>(759,022)</u>	<u>120,365</u>
Other comprehensive (loss)/income, net of tax:			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		<u>(25,757)</u>	<u>342</u>
<i>Items that will not be reclassified to profit or loss</i>			
Currency translation differences		(147,440)	–
Fair value changes on convertible redeemable preferred shares due to own credit risk	13	<u>(1,873)</u>	<u>(3,455)</u>
Total comprehensive (loss)/income for the year		<u><u>(934,092)</u></u>	<u><u>117,252</u></u>
Attributable to:			
– Owners of the Company		(934,092)	116,241
– Non-controlling interests		<u>–</u>	<u>1,011</u>
		<u><u>(934,092)</u></u>	<u><u>117,252</u></u>

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020

		As at 31 December	
	<i>Note</i>	2020	2019
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		18,413	8,708
Right-of-use assets		166,744	41,968
Intangible assets		37,990	44,033
Investments accounted for using the equity method		31,474	–
Prepayment, other receivables and other assets		24,509	20,261
Financial assets at fair value through profit or loss		5,000	–
Deferred tax assets		13,692	7,188
		<u>297,822</u>	<u>122,158</u>
Current assets			
Trade receivables	<i>10</i>	328,682	545,775
Prepayment, other receivables and other assets		39,955	33,318
Financial assets at fair value through profit or loss		201,039	330,968
Term deposits		78,627	142,663
Cash and cash equivalents		3,055,711	728,318
		<u>3,704,014</u>	<u>1,781,042</u>
Total assets		<u>4,001,836</u>	<u>1,903,200</u>

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020 (CONTINUED)

		As at 31 December	
	<i>Note</i>	2020	2019
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Combined capital		–	577,975
Share capital	<i>11</i>	55	–
Share premium	<i>11</i>	6,907,441	–
Other reserves		(1,794,051)	189,877
Accumulated losses		(1,564,160)	(597,750)
		<u>3,549,285</u>	<u>170,102</u>
Non-controlling interests		–	–
Total equity		<u>3,549,285</u>	<u>170,102</u>
Liabilities			
Non-current liabilities			
Contract liabilities		9,502	10,171
Lease liabilities		132,777	22,643
Convertible redeemable preferred shares	<i>13</i>	–	1,259,648
Other non-current liabilities	<i>14</i>	–	174,195
		<u>142,279</u>	<u>1,466,657</u>
Current liabilities			
Trade and other payables	<i>15</i>	206,417	156,864
Contract liabilities		65,249	62,375
Current income tax liabilities		6,540	32,582
Lease liabilities		32,066	14,620
		<u>310,272</u>	<u>266,441</u>
Total liabilities		<u>452,551</u>	<u>1,733,098</u>
Total equity and liabilities		<u>4,001,836</u>	<u>1,903,200</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Note</i>	Year ended 31 December	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities		<u>456,811</u>	<u>100,588</u>
Net cash generated from investing activities		<u>153,606</u>	<u>58,415</u>
Net cash generated from/(used in) financing activities		<u>1,901,458</u>	<u>(24,056)</u>
Net increase in cash and cash equivalents		<u>2,511,875</u>	<u>134,947</u>
Cash and cash equivalents at beginning of the year		728,318	588,391
Exchange (losses)/gains on cash and cash equivalents		<u>(184,482)</u>	<u>4,980</u>
Cash and cash equivalents at end of the year		<u><u>3,055,711</u></u>	<u><u>728,318</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Archosaur Games Inc. (the “**Company**”) was incorporated in the Cayman Islands on 2 January 2020 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the development and operating of mobile games in the People’s Republic of China (the “**PRC**”) and other countries and regions (the “**Group’s Business**”).

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 15 July 2020 (“**Listing**”, “**IPO**”).

The consolidated financial statements for the year ended 31 December 2020 are presented in Renminbi and all values are rounded to the nearest thousand (RMB’000) unless otherwise indicated. The consolidated financial statements for the year ended 31 December 2020 have been approved on 29 March 2021.

2 BASIS OF PREPARATION

(a) Compliance with IFRSs

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

(b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Standards and amendments	Effective for annual periods beginning on or after
Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020
Amendments to IFRS 3 – Definition of a Business	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform	1 January 2020
Amendment to IFRS 16 – COVID-19-Related Rent Concessions	1 June 2020 (<i>Note (i)</i>)

Note:

(i) Early application of the amendment is permitted.

Other than as explained below regarding the impact of Amendment to IFRS 16 – COVID-19-Related Rent Concessions, the adoption of other applicable new and amended standards above did not have any material effect on the Group’s consolidated financial statements.

Adoption of Amendment to IFRS 16 – COVID-19-Related Rent Concessions

The Group has early adopted Amendment to IFRS 16 – COVID-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling RMB1,883,000 have been accounted for as negative variable lease payments and recognised in the statement of profit or loss for the year ended 31 December 2020 (*Note 5*), with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

(c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	To be determined

3 SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company consider that the Group's operations are operated and managed as a single segment and no segment information is presented, accordingly.

As at 31 December 2020 and 2019, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the years ended 31 December 2020 and 2019 are as follows: the Group considered itself as an agent in arrangements of "development and licensing business" and "other business", and recorded revenue on a net basis; whereas, the Group considered itself as a principal in arrangements of "integrated game publishing and operation business", and recorded revenue on a gross basis.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Online game revenue		
– Development and licensing		
<i>Revenue share</i>	563,738	739,810
<i>Non-refundable fixed licensing fees</i>	33,618	81,739
– Integrated game publishing and operation	611,486	245,685
Others	–	12
	<u>1,208,842</u>	<u>1,067,246</u>
Online game revenue		
– Mobile Game	1,208,842	1,066,936
– PC Game	–	298
Others	–	12
	<u>1,208,842</u>	<u>1,067,246</u>
Timing of revenue recognition		
– At a point in time	563,738	763,208
– Over time	645,104	304,038
	<u>1,208,842</u>	<u>1,067,246</u>

Revenues of approximately RMB597,037,000 and RMB809,971,000 for the years ended 31 December 2020 and 2019, respectively were derived from five largest single external customers.

During the year ended 31 December 2020, revenue of approximately RMB489,998,000 was derived from a single external customer accounted for more than 10% of total revenue.

During the year ended 31 December 2019, revenue of approximately RMB586,487,000 was derived from a single external customer accounted for more than 10% of total revenue.

The amount of its revenue from external customers broken down by location of the customers is shown in the table below.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue segment by geography		
Domestic	420,498	723,070
Overseas	788,344	344,176
	<u>1,208,842</u>	<u>1,067,246</u>

4 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Gains on financial assets at fair value through profit or loss	17,354	26,639
Foreign exchange (losses)/gains, net	(30,506)	7,453
Donation	–	(10,029)
Others	1,022	(8)
	<u>(12,130)</u>	<u>24,055</u>

5 EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Employee benefit expenses	483,650	359,017
Commissions charged by distribution channels and payment channels	183,790	83,781
Promotion and advertising expenses	129,746	92,763
Outsourced technical services	89,268	39,984
Revenue share to the intellectual property (“IP”) holders	62,815	70,147
Depreciation and amortization charges	48,248	41,092
Listing expenses	32,508	4,907
Share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares	30,350	–
Bandwidth and servers custody fee	17,945	7,649
Utilities and office expenses	14,419	9,938
VAT input transfer out and tax surcharges	7,774	5,930
Other professional consulting fees	5,644	5,105
Travelling expenses	5,394	6,321
Auditors’ remuneration	4,150	71
– Audit services	3,600	71
– Non-audit services	550	–
COVID-19-related rent concessions (<i>Note 2</i>)	(1,883)	–
Provision for impairment of trade receivables	1,816	4,249
Others	8,754	7,594
	<u>1,124,388</u>	<u>738,548</u>

6 FINANCE COSTS, NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Finance income		
Interest income	<u>12,362</u>	<u>8,605</u>
Finance costs		
Interest expenses accrued from redemption liability (Note 14)	(7,233)	(16,727)
Interest expenses on lease liabilities	(5,977)	(1,097)
Others	<u>(175)</u>	<u>(104)</u>
	<u>(13,385)</u>	<u>(17,928)</u>
Finance costs, net	<u>(1,023)</u>	<u>(9,323)</u>

7 INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group for the years ended 31 December 2020 and 2019 is analyzed as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current income tax (credit)/expense	(9,752)	25,196
Deferred income tax	<u>(6,504)</u>	<u>(487)</u>
	<u>(16,256)</u>	<u>24,709</u>

(a) Cayman Islands and the British Virgin Islands (“BVI”) Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

(b) Hong Kong Income Tax

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at rate of 16.5% on the assessable profits for the years ended 31 December 2020 and 2019, based on the existing legislation, interpretations and practices in respect thereof.

(c) **PRC Enterprise Income Tax (“EIT”)**

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits for the years ended 31 December 2020 and 2019, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong Technology Co., Ltd. (祖龍(天津)科技股份有限公司) (“**Tianjin Loong**”) qualified as a “High and New Technology Enterprise” (“**HNTE**”) for a three-year period under the EIT Law in 2017 and renewed the qualification to another three-year period in October 2020. Therefore, Tianjin Loong was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2020 and 2019.

Huai’an Loong qualified as a HNTE for a three-year period under the EIT Law since 2018 and was entitled to a preferential income tax rate of 15%. Under the Announcement No.29 of 2020 issued by Ministry of Finance and State Administration of Taxation on 29 May 2020, Huai’an Loong qualified as a “Software Enterprise” for 2019 and 2020. Accordingly, Huai’an Loong is entitled to a two-year EIT exemption period, followed by a three-year period with 50% reduction in the applicable income tax rate, commencing from the first year of profitable operation after offsetting tax losses generating from prior years. The first year of EIT exemption for Huai’an Loong was 2019.

According to a policy promulgated by the State Tax Bureau of the PRC that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses in determining tax assessable profits (“**Super Deduction**”). Several PRC subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended 31 December 2020 and 2019.

8 (LOSS)/EARNINGS PER SHARE

The weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share for the years ended 31 December 2020 and 2019 has been retrospectively adjusted for the Capitalization Issue (*Note 11*).

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the Group's (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 December	
	2020	2019
(Loss)/Profit attributable to owners of the Company (RMB'000)	(759,022)	119,354
Weighted average number of ordinary shares in issue (in thousands)	<u>533,813</u>	<u>354,767</u>
Basic (loss)/earnings per share (in RMB/share)	<u>(1.42)</u>	<u>0.34</u>

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2020, the Company has two categories of dilutive potential ordinary shares: Preferred Shares (including convertible redeemable preferred shares as described in Note 13, redemption liability as described in Note 14) and the RSUs as described in Note 12.

For the year ended 31 December 2019, the Company has one category of dilutive potential ordinary shares: Preferred Shares (including convertible redeemable preferred shares as described in Note 13 and redemption liability as described in Note 14).

For the purpose of calculating diluted (loss)/earnings per share for the years ended 31 December 2020 and 2019, the Preferred Shares are assumed to have been converted into ordinary shares with a consequential reduction in net loss attributable to ordinary shareholders for the year ended 31 December 2020 and an increase in net profit attributable to ordinary shareholders for the year ended 31 December 2019 resulting from adding back the loss from the change in fair value of the convertible redeemable preferred shares and interest expenses on redemption liability. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted (loss)/earnings per share for the years ended 31 December 2020 and 2019.

For the purpose of calculating diluted loss per share for the year ended 31 December 2020, RSUs are assumed to have been converted into ordinary shares with no corresponding change in net loss attributable to ordinary shareholders. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted loss per share for the year ended 31 December 2020.

9 DIVIDENDS

A dividend in respect of the year ended 31 December 2020 of HK7.4 cents per share, amounting to a total dividend of HK\$60 million, is to be proposed at the forthcoming 2020 annual general meeting of the Company. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Dividends declared in February 2020 and paid by Tianjin Loong to its then holders of outstanding ordinary shares (<i>Note (a)</i>)	211,171	–

Note:

- (a) The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this Results Announcement.

10 TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	333,949	553,112
Less: allowance for impairment of trade receivables	(5,267)	(7,337)
Trade receivables – net	328,682	545,775

The following table sets forth the gross carrying amount of trade receivables by customer types:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Related parties	239,713	424,168
Third parties	94,236	128,944
	333,949	553,112

The gross carrying amount of the Group's trade receivables is dominated in the following currencies:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	208,635	473,782
United States Dollar ("U.S. dollars", "US\$")	115,486	74,223
Hong Kong Dollar ("HK\$")	9,828	5,107
	<u>333,949</u>	<u>553,112</u>

The Group allows a credit period of 90 – 150 days to its customers. An aging analysis of trade receivables based on revenue recognition date is as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	227,624	230,963
3 to 6 months	62,097	282,397
6 months to 1 year	44,111	39,463
Over 1 year	117	289
	<u>333,949</u>	<u>553,112</u>

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	(7,337)	(3,088)
Provision for impairment	(3,350)	(4,249)
Write off	3,886	–
Reversal of impairment	1,534	–
	<u>(5,267)</u>	<u>(7,337)</u>

The creation and release of provision for impaired receivables have been included in "Net impairment losses on financial assets" in the consolidated statement of profit or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables. The Group does not hold any collateral as security.

11 SHARE CAPITAL AND SHARE PREMIUM

		Number of ordinary shares	Nominal value of ordinary shares USD	
Authorized				
At 1 January 2020				
Authorization of ordinary shares (<i>Note (a)</i>)		5,000,000,000	50,000	
At 31 December 2020				
		<u>5,000,000,000</u>	<u>50,000</u>	
	Number of ordinary shares	Nominal value of ordinary shares USD'000	Equivalent Nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued				
At 1 January 2020				
Issuance of ordinary shares for Reorganization (<i>Note (a)</i>)	60,334,500	1	4	2,433,890
Re-designation of ordinary shares into Series C-1 Preferred Shares (<i>Note (b)</i>)	(9,000,000)	–	(1)	(409,649)
Conversion of Preferred Shares to ordinary shares (<i>Note (c)</i>)	45,706,316	–	3	2,718,461
Capitalization Issue (<i>Note (d)</i>)	473,559,184	5	33	(33)
Issuance of ordinary shares relating to initial public offering, net of underwriting commission and other issuance costs (<i>Note (e)</i>)	<u>215,510,000</u>	<u>2</u>	<u>16</u>	<u>2,164,772</u>
At 31 December 2020	<u><u>786,110,000</u></u>	<u><u>8</u></u>	<u><u>55</u></u>	<u><u>6,907,441</u></u>

Notes:

- (a) On 2 January 2020, as part of the Reorganization, the Company was incorporated with an authorized share capital of US\$50,000 divided into 5,000,000,000 shares with a par value of US\$0.00001 each.

On the same day, following the Company's issue of one share to Harneys Fiduciary (Cayman) Limited, an independent third party, which was subsequently transferred to Cresc Chorus Limited ("**Cresc Chorus**"), the Company was owned as to (i) 56,335,000 ordinary shares by Cresc Chorus; (ii) 8,265,000 ordinary shares by Green Particle Limited ("**Green Particle**"); and (iii) 5,000,000 shares by Smooth Ebony Limited ("**Smooth Ebony**"). Smooth Ebony acts as the holding company to hold the shares on trust under RSU Scheme. Smooth Ebony was consolidated by the Company as to the Company is able to execute power over the control and management over Smooth Ebony.

On 10 March 2020, in relation to the completion of the reorganization (the "**Reorganization**"), the 4.49% of equity interests in Tianjin Loong (equivalent to 4,265,500 shares) with a put option were replaced by the issuance of the ordinary shares of the Company with the same put option as that issued by Tianjin Loong (*Note 14*).

As such, an aggregate of 60,334,500 ordinary shares in issue for Reorganization were credited as fully paid at the amount of the fair value of the Group's Business upon the completion of Reorganization.

- (b) On 4 March 2020, Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive Entertainment Co., Ltd. (“**Perfect World Interactive**”) and Image Frame Investment (HK) Limited (“**Image Frame**”), (collectively, the “**Offshore Shareholders**”) as purchaser agreed to purchase 4,500,000 ordinary shares of the Company for a consideration of RMB220.0 million each. Such shares have been re-designated into Series C-1 Preferred Shares upon closing.
- (c) Upon completion of the IPO, all Preferred Shares were converted into ordinary shares. As a result, the financial liabilities for Preferred Shares (including convertible redeemable preferred shares and redemption liability) were derecognized and recorded as share capital and share premium.
- (d) On 15 July 2020, the Company allotted and issued a total of 497,959,184 ordinary shares of US\$0.00001 each credited as fully paid at par to the shareholders on the register of members of the Company on the day preceding the date of IPO in proportion to their then existing shareholdings in the Company by capitalizing from the share premium account of the Company (“**Capitalization Issue**”). The ordinary shares allotted and issued pursuant to the above Capitalization Issue rank pari passu in all respects with the existing issued ordinary shares. Accordingly, a total of 24,400,000 ordinary shares were allotted and issued by the Company to the Smooth Ebony.
- (e) On 15 July 2020, upon completion of the IPO, the Company issued 187,400,000 new shares at par value of US\$0.00001 each for cash consideration of HK\$11.6 per share. On 11 August 2020, the Company issued additional 28,110,000 new shares with par value of US\$0.00001 each at the price of HK\$11.6 per share pursuant to the exercise of the over-allotment option. The respective share capital amount was approximately RMB16,000 and share premium arising from the issuance was approximately RMB2,164,772,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers’ fees, reporting accountant’s fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB91,251,000 were treated as a deduction against the share premium arising from the issuance.

12 SHARE-BASED PAYMENTS

On 1 April 2020, to incentivize directors, senior management and employees, a RSU Scheme was approved and adopted by the Company. Smooth Ebony was incorporated to hold 5,000,000 ordinary shares (in equivalent to 29,400,000 underlying shares upon the completion of the Capitalization Issue described in Note 11). Smooth Ebony acts as the holding company to hold the shares on trust under the RSU Scheme. Smooth Ebony was consolidated by the Company as to the Company is able to execute power over the control and management over Smooth Ebony.

On 1 April 2020 and 24 June 2020, in exchange for employee services to the Group, 3,180,700 RSUs in equivalent to 3,180,700 shares, or 18,702,516 underlying shares after taking into account the Capitalization Issue, were granted to certain eligible employees selected by the Board of Directors. Pursuant to the RSU Scheme, subject to grantee’s employment or service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 40%, 30% and 30% of the RSUs on each of the first trading day after 12, 24 and 36 months from the Listing date of the Company.

Movement in the number of underlying shares represented by RSUs after taking into account the Capitalization Issue for the year ended 31 December 2020 is as follows:

	Number of underlying shares represented by RSUs
At 1 January 2020	–
Granted	18,702,516
Forfeited	(705,600)
	<hr/>
At 31 December 2020	<u>17,996,916</u>

As the Group will receive employment or service of these employees in exchange for the grant of RSUs, share-based compensation expenses in respect of the employee services received is to be recognized as an expense over the vesting period. The total amount to be expensed is determined by the fair value of the RSUs granted at the grant date and taking into account the number of RSUs that are expected to be vested.

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and to determine the fair value of the RSUs granted as at the respective grant date. Key assumptions determined by the Group in relation to the RSUs granted on 1 April 2020 are set as below:

	As at 1 April 2020
Discount rate	17.00%
Risk-free interest rate	0.63%
Volatility	62.47%
Fair value per share after taking into account the Capitalization Issue	7.82

The fair value of the RSUs granted on 24 June 2020 was determined using the market method with reference to offering price at IPO.

For the year ended 31 December 2020, share-based compensation expenses arising from the RSUs granted by the Company have been charged to the consolidated statement of profit or loss as follows:

	Year ended 31 December 2020 RMB'000
Cost of revenue	464
Administrative expenses	9,176
Selling and marketing expenses	1,957
Research and development expenses	39,243
	<hr/>
	50,840
	<hr/> <hr/>

13 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On 10 August 2015, Tianjin Loong issued certain capital interests of RMB143,017,000 to Perfect World Games Co., Ltd. (“**Perfect World Games**”). On 11 January 2017, Tianjin Loong issued certain capital interests of RMB260,000,000 to Linzhi Lichuang Information Technology Co., Ltd. (“**Linzhi Lichuang**”). Upon the issuance of these capital interests, Perfect World Games, Linzhi Lichuang (together, “**Domestic Investors**”) and Tianjin Loong have entered into several shareholders’ agreements (“**Domestic Shareholders Agreements**”) where Perfect World Games and Linzhi Lichuang were granted certain preferred rights. Capitals with preferred rights are referred to as “Preferred Shares”.

On 4 March 2020, in contemplation of the Listing and to reflect the onshore investment by Perfect World Games and Linzhi Lichuang at the level of the Company, each of Perfect World Interactive and Image Frame (together, “**Offshore Investors**”), among others, entered into the Offshore Share Subscription Agreement and the Offshore Shareholders Agreement, pursuant to which the Company has allotted and Perfect World Interactive and Image Frame have subscribed for 18,050,000 Series A Preferred Shares and 12,350,000 Series B Preferred Shares for nominal consideration of US\$1.0, respectively.

On 4 March 2020, pursuant to the Offshore Share Purchase Agreement, Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive and Image Frame as purchaser agreed to purchase 4,500,000 ordinary shares of the Company for a consideration of RMB220.0 million each. Such shares have been re-designated into Series C-1 Preferred Shares upon closing, which would be recognised as convertible redeemable preferred shares. The consideration received by Cresc Chorus was determined based on the fair value of Series C-1 Preferred Shares. Accordingly, the Group recorded a share-based compensation cost of RMB30,350,000, which is the difference between the consideration paid by Offshore Investors and the fair value of transferred ordinary shares.

On 4 March 2020, Perfect World Interactive and Image Frame, among others, entered into the Offshore Share Subscription Agreement pursuant to which they each further subscribed for 1,020,408 Series C-2 Preferred Shares for U.S. dollars equivalent of RMB50.0 million, which would be recognised as convertible redeemable preferred shares.

The key terms of the preferred rights granted to Domestic Investors are summarized as follows:

Upon liquidation, dissolution, winding up or any other liquidation events of Tianjin Loong as defined in the Domestic Shareholders Agreements, all assets and funds legally available for distribution to the shareholders (after satisfaction of all creditors’ claims and claims that may be preferred by law) shall be distributed to the Domestic Investors prior to and in preference to all of the other shareholders of Tianjin Loong. The preferential liquidation amount shall be equal to any dividends declared and unpaid with respect to the Preferred Shares plus the higher of: (i) certain predetermined amount for Perfect World Games/Linzhi Lichuang’s accumulated investment amount in Tianjin Loong plus interest of 8% per annum simple interest for Linzhi Lichuang; (ii) an amount that the Domestic Investors would receive on an as-converted basis assuming that the assets of Tianjin Loong available for distribution to the shareholders are to be distributed to the Domestic Investors and the holders of other capital interests on a pro rata basis.

Perfect World Games and Linzhi Lichuang are entitled to require and demand the redemption of all or part of its Preferred Shares at any time from Beijing Loong Game Technology Limited (“**Beijing Loong**”), Ningbo Long Ren Enterprise Management Partnership (Limited Partnership)(“**Ningbo Longren**”), Mr. Li Qing, Mr. Xiang Nan, Mr. Zhang Yu, Mr. Bai Wei and Tianjin Loong after the occurrence of any of the following events: (i) failure of a QIPO (an initial public offering by Tianjin Loong of its shares on domestic or any other internationally recognized stock exchange, or capital transactions with listed companies through reorganizations) or sale of all or substantially all of the assets of Tianjin Loong approved by a shareholders’ resolution to take place within five years from Linzhi Lichuang Preferred Shares issue date; (ii) any material breach of the Domestic Shareholders Agreements by Beijing Loong, Ningbo Longren, Mr. Li Qing, Mr. Xiang Nan, Mr. Zhang Yu and Mr. Bai Wei; (iii) any material dishonest behavior or frauds by certain members of management. The redemption price shall be calculated equal to: (i) certain predetermined amount for Perfect World Games/ Linzhi Lichuang’s accumulated investment amount in Tianjin Loong for Linzhi Lichuang, plus (ii) an 8% per annum simple interest, and (iii) any declared but unpaid dividends thereon.

The Domestic Investors shall have the right to convert their investments in Tianjin Loong to equivalent investments in the Company.

The Domestic Shareholders Agreements were terminated on 10 March 2020 upon completion of the Reorganization. The above preferred rights were granted to the Offshore Investors with a further stipulation of conversion right under which each Preferred Share shall be converted into ordinary share upon the Listing based on the then applicable conversion ratio and conversion price (subject to adjustment).

Upon the Listing on 15 July 2020, all outstanding Preferred Shares of the Company have been converted into ordinary shares.

The movements of the convertible redeemable preferred shares are set out as below:

	<i>RMB’000</i>
At 1 January 2020	1,259,648
Issuance of Series C-1 and C-2 Preferred Shares	540,000
Changes in fair value	858,716
<i>Includes: change in fair value due to own credit risk</i>	1,873
Dividend declared and paid	(106,400)
Conversion into ordinary shares	<u>(2,551,964)</u>
At 31 December 2020	<u><u>–</u></u>
Total unrealized gains and change in fair value for the year included in “Fair value loss of convertible redeemable preferred shares”	<u>–</u>
At 1 January 2019	1,043,738
Changes in fair value	215,910
<i>Includes: change in fair value due to own credit risk</i>	<u>3,455</u>
At 31 December 2019	<u><u>1,259,648</u></u>
Total unrealized gains and change in fair value for the year included in “Fair value loss of convertible redeemable preferred shares”	<u>212,455</u>

The Group engaged a third-party appraisal firm to support its determination of the fair value of Preferred Shares. The discounted cash flow method was used to determine the underlying share value of Tianjin Loong/ the Company and equity allocation model was adopted to determine the fair value of the Preferred Shares. Key valuation assumptions used to determine the fair value of Preferred Shares are as follows:

	As at 31 December 2019	As at the date of issuance of Series C-1 and C-2 Preferred Shares (4 March 2020)
Discount rate	18.00%	17.00%
Risk-free interest rate	2.17%	0.75%
Volatility	50.12%	52.78%

Discount rate was estimated by weighted average cost of capital as of each valuation date. Risk-free interest rate was estimated based on the yield of China Government Bond with a maturity life equal to the expected terms for an exit event as of the valuation date of 31 December 2019 and based on the yield to maturity of Hong Kong Exchange Fund Bills and Notes for valuation date of 4 March 2020 with a term close to the expected IPO date. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to exit. Probability weight under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Group's projections of future performance were also factored into the determination of the fair value of Preferred Shares on the valuation date.

14 OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Redemption liability in relation to a put option granted to a shareholder (Note (a))	—	174,195

Note:

- (a) On 24 August 2018, Beijing Loong and Perfect World Games entered into an equity transfer agreement, pursuant to which Perfect World Games agreed to transfer 4.49% equity interests in Tianjin Loong (“**Transferred Capitals**”), to Beijing Loong at a consideration of RMB157,150,000 (“**Transaction Price**”). After the closing of the transaction, the Transferred Capitals were held as capitals with a put option to be sold back to Tianjin Loong in the event that a QIPO shall fail to take place within the period of four years from the date of payment of the Transaction Price, at a price equivalent of the Transaction Price minus dividends received during the period the Transferred Capitals were held by Beijing Loong, plus an eight percent per annum simple interest, and any declared but unpaid dividends thereon (“**Redemption Price**”). Accordingly, the Group recognized such redemption liability at present value of the Redemption Price in the amount of RMB152,472,000. The difference between such amount and the fair value of the Transferred Capitals was treated as deemed capital contribution. The interests accrued on the redemption liability were recorded as finance costs (Note 6). The dividend declared and paid to Beijing Loong in relation to the redemption liability was RMB14,929,000 in 2020.

On 10 March 2020, in relation to the completion of the Reorganization, the capitals with a put option issued by Tianjin Loong were replaced by the issuance of the ordinary shares of the Company with the same put option as that issued by Tianjin Loong.

On 15 July 2020, upon the successful Listing of the Company, the redemption liability of the Company was converted to ordinary shares.

15 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	95,696	84,831
Payroll liabilities	80,852	51,048
Tax payables	14,187	10,063
Listing expenses	403	4,717
Asset procurement	6,667	1,328
Others	8,612	4,877
	206,417	156,864

The following table sets forth the carrying amount of trade payables by customer types:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Related parties	20,392	18,191
Third parties	75,304	66,640
	95,696	84,831

The aging analysis of trade payables based on recognition date is as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 6 months	38,366	72,946
6 months to 1 year	29,670	10,269
Over 1 year	27,660	1,616
	95,696	84,831

16 SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Group after 31 December 2020.

DEFINITIONS

In this Results Announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company
“Board”	the board of Directors
“China” or “PRC”	the People’s Republic of China, which unless otherwise stated, for the purpose of this Results Announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	Archosaur Games Inc. 祖龙娱乐有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 9990)
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Global Offering”	the initial public offering of the Shares for subscription by the public and the institutional, professional, corporate and other investors
“Group”, “we” or “us”	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Huai’an Loong”	Huai’an Loong Technology Co., Ltd* (淮安祖龍科技有限公司), a company established under the laws of the PRC with limited liability on 19 August 2016, and by virtue of certain contractual arrangements, accounted for as our subsidiary
“IFRSs”	the International Financial Reporting Standards
“International Underwriters”	the underwriters of the International Offering
“Listing Date”	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 15 July 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“MMORPG”	massively multiplayer online role-playing game, a genre of games that combine role-playing games and massively multiplayer online games in which a large number of players interact with one another within a virtual world
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Prospectus”	the prospectus of the Company dated 30 June 2020
“Reporting Period”	the year ended 31 December 2020
“RMB”	Renminbi, the lawful currency of the PRC
“RSU Scheme”	the restricted share unit scheme of our Company approved and adopted by the Board on 1 April 2020
“Series C-1 Preferred Share(s)”	has the meaning ascribed to it in Note 11 to the consolidated financial statements of this Results Announcement
“Share(s)”	ordinary share(s) of US\$0.00001 each in the issued share capital of the Company

“Shareholder(s)”	holder(s) of Shares
“SLG”	simulation games, which are generally designed to closely simulate aspects of a real or fictional reality
“Sole Global Coordinator”	China International Capital Corporation Hong Kong Securities Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	for the purpose of this Results Announcement, has the meaning ascribed to it in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and includes companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements
“Tencent”	Tencent Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be. Tencent holds 12.88% of our Shares as of the date of this Results Announcement
“Unreal Engine 4”	a game engine developed by Epic Games
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

By order of the Board
Archosaur Games Inc.
Mr. Li Qing
Chairman and Executive Director

Beijing, China, 29 March 2021

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Li Qing as Chairman and an Executive Director, Mr. Bai Wei as an Executive Director, Ms. Liu Ming and Mr. Lu Xiaoyin as Non-executive Directors, and Mr. Ge Xuan, Mr. Zhu Lin and Mr. Ding Zhiping as Independent Non-executive Directors.