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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 2021

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 2021 (the “**Results Announcement**”), as below.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended 31 December		
	2021 RMB million	2020 RMB million	Change %
Revenue	920.8	1,208.8	(23.8%)
Cost of revenue	<u>(207.3)</u>	<u>(282.9)</u>	<u>(26.7%)</u>
Gross profit	713.5	925.9	(22.9%)
Research and development expenses	(705.6)	(540.4)	30.6%
Selling and marketing expenses	(247.2)	(161.0)	53.5%
Administrative expenses	(97.9)	(138.3)	(29.2%)
Net reversal/(allowance) for impairment on financial assets	2.9	(1.8)	(261.1%)
Other income	6.7	10.8	(38.0%)
Other gains/(losses), net	<u>38.2</u>	<u>(12.1)</u>	<u>(415.7%)</u>
Operating (loss)/profit	(289.4)	83.1	(448.3%)
Finance income	22.1	12.4	78.2%
Finance costs	(10.5)	(13.4)	(21.6%)
Finance income/(costs), net	11.6	(1.0)	(1,260.0%)
Fair value changes on convertible redeemable preferred shares	–	(856.9)	(100.0%)
Share of results of investments accounted for using the equity method	<u>(10.0)</u>	<u>(0.5)</u>	<u>1,900.0%</u>
Loss before income tax	(287.8)	(775.3)	(62.9%)
Income tax (expense)/credit	<u>(15.5)</u>	<u>16.3</u>	<u>(195.1%)</u>
Loss for the year	<u>(303.3)</u>	<u>(759.0)</u>	<u>(60.0%)</u>
Non-IFRS measure:			
Adjusted net (loss)/profit ⁽¹⁾	(237.7)	218.8	(208.6%)

Note:

- (1) We define adjusted net (loss)/profit as net loss for the period 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 (if applicable). 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,

On behalf of the Board, I am pleased to present the annual results of the Group for the year ended 31 December 2021.

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. We hold the vision of being 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 2021, we have launched 16 mobile games with over 70 regional versions available in more than 170 regional markets in 14 languages. Our product matrix has been extended from MMORPG to SLG, female-oriented, shooting, strategy cards and other genres.

2021 was a year of challenges. Taking into account the market and all other factors, we made a strategic decision to invest additional research and development time and resources on two games, namely Noah's Heart (諾亞之心) and Project Code: Sigmar, for fine-tuning in order to further improve the game quality and upgrade the player's experience. As a result, the launch of the two new games was delayed and could not be released as scheduled in 2021. In addition, the performance of The New World (夢想新大陸) we released at the beginning of the year did not live up to our expectations. The above circumstances would have a certain impact on the Group's financial performance in the short term. However, during the year, we had gained new knowledge and understanding of the market, had deeply thought and adjusted our game genres, and had strived to seize new opportunities in our continuous exploration and adjustment. We firmly believe that, relying on our strong technical advantages, internationalized extension, further improvement of the framework of integrating operation and research and development, and rich multi-genre product pipeline, Archosaur Games is expected to enter a new track of enterprise development and value creation going forward.

Deepening genre thinking to actively explore new tracks

In terms of the MMORPG genre, we stick to the concept of high-quality products, deepening product thinking and making prompt adjustment based on market changes, thereby continuously launching products that amaze users and the market. Avatar: Reckoning, an Avatar mobile game we announced in January 2022, is an revolutionary product combining MMORPG and shooting. With “Avatar” being the world’s top-notch IP, Archosaur Games equipped with top-notch research and development capabilities on mobile platform game, and Tencent possessing the top-notch publishing capabilities on mobile platform game, the absolute advantages of the integrated “IP-R&D-Publishing” are expected to be fully displayed and reflected in this product. The release of this product also means that Archosaur Games has made a foray into the track of multiplayer online shooting game genre. In addition, Noah’s Heart (諾亞之心) which has been intensively polished based on our deeper understanding of the market will be launched in 2022, which is expected to be our core entry point on the MMORPG track this year. We have used Unreal Engine 4 to procedurally generate an 8000*8000 “Seamless Sphere-Shaped Map” (“球形無縫大地圖”). In this seamless spherical virtual world, elements such as weather systems, day and night changes, landforms, creatures, and ecologies will rotate and transform just like the real world. Although the launch time has been delayed, the product further reflects our indepth thinking of the MMORPG genre, representing our concept of making high-quality products with ingenuity.

We will continue to deep plow on the SLG genre track. Under the Firmament (鴻圖之下), launched in October 2020, was our first SLG product. It had a long-term stable performance in mainland China over the past year, achieving our breakthroughs in this field. Multiple regional versions of Under the Firmament (鴻圖之下) had been successively launched in markets other than mainland China in 2021, with good results achieved. In addition, Project Code: Sigmar, our second SLG product, is progressing steadily and testing will be initiated overseas soon. Another game Sango Heroes (三國群英傳) which is based on licensed IP is also under development. The rapid iteration and launch of a variety of SLG products fully confirms the strong staying power of Archosaur Games on the SLG genre track.

We are more proactive than ever in terms of extending other game genres. Through indepth research on different user groups as well as massive and extensive experiences on game research and development and operations accumulated over years, we are constantly extending the direction of new genres and the planning of products. In addition to MMORPG, MMO+shooting, and SLG that have been deeply strategized, we also have a female-oriented game Glamorous Secrets (以閃亮之名) in our product pipeline that aims to meet the high-quality leisure and entertainment needs of female players around the world. This game has received high attention in the market with its highest level of game production on mobile platforms since its publicity has been launched. As at the date of this Results Announcement, its number of reservations on TapTap has broken 1.3 million people, and it has been frequently listed as an anticipated game of 2022 by third-party platforms and media. Glamorous Secrets (以閃亮之名) which is directed by the Company's new generation of female producers paired with Archosaur Games' top art and engine technical support with the aim of creating a UGC platform featuring ultra-high-quality feminine creations, is a sincere work of Archosaur Games to first extend into the female-oriented genre. Furthermore, our product pipeline also includes games of multiple genres including SOC and strategy card games. This rich product pipeline has fully reflected the firm belief and determination of Archosaur Games to actively extend into new genre tracks and enrich the matrix of high-quality games.

Developing overseas markets with significant acceleration in the globalized strategic layout

Expanding overseas markets is one of the Company's important directions for development, and we are bound to achieve it. On one hand, we rely on our advantages of integrating operation and research and development, our multi-genre and high-quality game pipeline and output of high-quality products on some genre tracks, as well as our indepth understanding and research of users in different countries and regions. On the other hand, the top IP products that we cooperate with world-renowned developers have enhanced Archosaur Games' influence on a global scale. The release of the Avatar: Reckoning has marked the recognition and confidence of the world's top-class developers in the research and development strength of Archosaur Games, which will also open up more opportunities for high-quality global cooperation.

We have strong advantages in Hong Kong, Macao, Taiwan, Southeast Asia and other Asian regions. Among which, we have achieved strong expansion in the Japanese and South Korean markets. In the European and American markets with high paying users, we have achieved relatively outstanding results, occupying a certain market share and forming a good reputation in the industry.

We pay attention to the market performance of our products overseas. Years of exploration and accumulation of experience have enabled us to have a deeper understanding of user preferences in different countries and regions, so that we can build more targeted user promotion strategies and product publishing models. We believe that the role and value of Archosaur Games' prospective layout and continuous expansion in overseas markets will gradually emerge from 2022, thereby further solidifying our foundation for globalized development.

Strategizing the layout of talents on a considerable scale with increasing inputs in research and development and publishing resources

In 2021, the Group's research and development personnel and publishing and operation personnel increased by 158 staff and 86 staff respectively. As at 31 December 2021, the total number of full-time staff increased from approximately 1,200 in 2020 to approximately 1,500, of which the staff in the research and development center and the staff in the publishing and operation center accounted for approximately 82% and approximately 12% of the total respectively. In 2021, we continued to enlarge inputs on research and development as well as publishing to offer competitive remuneration and different forms of employee incentive policies in order to recruit and retain talents. At the same time, we further adjusted the personnel structure to open up development channels for professionals, focus on personnel diversity, increase the proportion of senior talents, encourage innovation, and further improve work efficiency and production capacity by optimizing personnel combination and organizational structure.

In terms of regional talents layout, in addition to the Shanghai Research and Development Center added at the end of 2020, we also incorporated a subsidiary in Guangzhou in 2021 to actively expand oversea publishing channels. As at the date of this Results Announcement, we had industry talents laid out in Beijing, Shanghai, Guangzhou, Chengdu and Changchun, forming a gradually improving organic model of integrating operation and research and development with Beijing working as the center, gradually expanding to regions nationwide where the game industry is relatively developed, and continuously attracting high-end industry talents by drawing upon the experience gained on key points. In overseas markets, aside from the traditional regions such as Hong Kong, Macao, Taiwan and Southeast Asia, which continue to maintain their existing advantages, and the high-paying user regions such as the European and American markets that have occupied a certain share, we have made greater efforts to target the Japanese and South Korean markets, and have established a self-publishing team with rich experience. In particular, the team responsible for game publishing in South Korea is a team of high expertise and name recognition in the industry, with proven record in a number of successful publishing in the South Korean region. The good performance of Under the Firmament (鴻圖之下) achieved in the first month of launch in South Korea has verified the initial results of our self-publishing talents layout.

Facilitating Archosaur Games to set sail with technology as the oar

Continuous breakthroughs in technology have always been the engine of our progress. In terms of technology, our technologies accumulated over the years and our continuous exploration of advanced engine technologies have helped us to stay at the forefront of the industry. As one of the first developers to successfully launch MMORPG and SLG products using Unreal Engine 4 in mainland China, we know well that only by continuously upgrading the game quality and presenting a higher art quality and a highly simulated world can we win in the tough competition for mid-core and hardcore games in long term. Over the past year, we had made great progress on the research and use of the Unreal Engine. Currently, we have successfully applied the latest version of Unreal Engine 4 to our products that are under development. This version has better performance in terms of weather system, terrain, water effect and special effects.

We have made further in-depth cooperation with Epic Games. Given the issue of full-platform authorization on Unreal Engine 5, we have started researching Unreal Engine 5 and using the engine for game development. We firmly believe that Archosaur Games will become one of the first companies in the industry to launch successful cutting-edge products using Unreal Engine 5, making full use of advanced technology to provide players with an excellent gaming experience.

Enriching the top-level IP reserve to maintain strong IP creation capabilities

As at the date of this Results Announcement, we already had a number of authorized global first-class and even top IPs, including Avatar, Dragon (龍族) (series of novels) and Sango Heroes, covering genres including MMORPG, SLG, shooting, etc. At the same time, we also had a wealth of original IPs accumulated, including Loong Craft (六龍爭霸), Love & Sword (御劍情緣), etc. Going forward, our product line will also cover multiple game works with original IP, and we will continue to enrich our original IP resources.

Adhering to the concept of long-term value investment, Archosaur Games formulates longer-term follow-up development plans for continuous deep plowing with respect to IP of successful products such as World of Kings (萬王之王) and Dragon (龍族). At the same time, we attach importance to the incubation of original IPs to prolong the life of original IPs, and further enhance the value of IPs through the continuous iteration of high-quality products, forming a sustainable development trend in which a deep integration of IPs and products feeding back each other and spiraling upward.

Future opportunities and challenges

In 2022, we expect that the upcoming Noah's Heart (諾亞之心), Avatar: Reckoning, Glamorous Secrets (以閃亮之名) and Project Code: Sigmar will perform well. With stricter supervision of the game industry in mainland China in recent years, coupled with the increasingly tough competition in the industry, taking the "high quality" route with content as the king has become a development trend, and exploring the "multi-genre" track to meet the differentiated needs of users and expediting the pace of "going global" to expand the "globalized" layout has become the key to success. We also believe that attaching importance to overseas markets and long-term exploration and strategizing will help Archosaur Games to open a new chapter of globalization in the next few years. At the same time, leveraging cooperation with the world's top IPs and relying on our strengths in research and development and operation leading in the industry, we expect that the brand influence of Archosaur Games will be further enhanced on a global scale.

The Board would like to take this opportunity to express our heartfelt gratitude to all our managers and employees for their dedicated efforts in 2021, as well as to our investors and people from all sectors. Looking ahead, we are full of confidence in the Company's future strategic layout and long-term development. We will never forget our original aspiration in moving forward. I also look forward that Archosaur Games will enter into a fruitful new year with you all.

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. We have proven capabilities in developing high-quality mobile games with excellent market reputation.

We incorporated a subsidiary in Guangzhou in 2021 to actively expand oversea publishing channels. As at the date of this Results Announcement, we had industry talents laid out in Beijing, Shanghai, Guangzhou, Chengdu and Changchun, forming a gradually improving organic model of integrating operation and research and development with Beijing working as the center, gradually expanding to regions nationwide where the game industry is relatively developed, and continuously attracting high-end industry talents in all areas by drawing upon the experience gained on key points.

In terms of globalized strategic layout, we have expedited the pace of “going global” to consolidate our strong advantages in Asian regions and markets such as Hong Kong, Macao, Taiwan and Southeast Asia. Among which, we have achieved strong expansion in the Japanese and South Korean markets. In the European and American markets with high paying users, we have achieved relatively outstanding results. At the same time, our top IP products in cooperation with internationally renowned manufacturers have enhanced the influence of Archosaur Games on a global scale. The release of the Avatar mobile game project Avatar: Reckoning signifies the recognition and confidence of the world's top manufacturers in the research and development strengths of Archosaur Games, as a result of which more opportunities for global high-quality cooperation will also be opened up.

Our Existing Games

We mainly focus on the development for mobile MMORPGs, SLGs, female-oriented games and other genres, and offer a mature and selective portfolio of top-rated mobile games with excellent market reputation. As at 31 December 2021, we had launched 16 high-quality mobile games with over 70 regional versions in 14 languages available in more than 170 regional markets, including Hong Kong, Macao, Taiwan, Southeast Asia, Korea, Japan, Europe and Americas. As at 31 December 2021, the cumulative number of global registered players of 11 mobile games in operation had surpassed 130 million, among which (i) the global cumulative gross billings generated by 3 mobile games had exceeded RMB3 billion; (ii) the global cumulative gross billings generated by 6 mobile games had exceeded RMB1 billion; and (iii) the gross billings generated by 7 mobile games had exceeded RMB100 million in the first month after they were launched.

Dragon Raja (龍族幻想) is the first next generation real 3D mobile MMORPG developed by Unreal Engine 4 in China. Through continuous version updates, effective market promotion, collaboration with international IP “EVA” and other activities, the game maintained a stable long-term performance during a year and a half after its launch in Europe and Americas and Japan. As at 31 December 2021, the cumulative gross billings of the game had exceeded RMB3.8 billion and the cumulative number of global registered players of the game was close to 40 million.

Under the Firmament (鴻圖之下) as our first mobile SLG developed by Unreal Engine 4 has gained great long-term performance since its launch in mainland China. It has been successively published in Japan, Southeast Asia, Hong Kong, Macao, Taiwan and Europe and Americas in 2021. It was self-published in Japan on 31 March 2021 and was recommended by iOS and Google and reached the top five on the Top Free Games Chart of the iOS App Store in Japan in the first week of launch. The game was launched on 14 April 2021 and topped the Top Free Games Chart of the iOS App Store in Hong Kong, Macao and Taiwan on the first day of launch. The game was self-published in Europe and Americas in October 2021 and in Vietnam in November 2021, respectively, and have been recommended by Google for many times. On 20 January 2022, we published the game in South Korea and it ranked 4th on the Top Free Games of Google Play within ten days of launch. As of the end of 2021, the cumulative gross billing of Under the Firmament amounted to RMB1 billion, and the number of accumulated user reached more than 6.2 million.

We launched a new game in January 2021, The New World (夢想新大陸), which is the first turn-based mobile MMORPG developed by Unreal Engine 4. 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) lighting to better display materials in the turn-based aerial perspective. On the first day of launch, the game topped the Top Free Games Chart of the iOS App Store in mainland China.

In addition to the above games, games under operation, including Fantasy Zhuxian (夢幻誅仙), World of Kings (萬王之王 3D), Love & Sword (御劍情緣), and Loong Craft (六龍爭霸) had a relatively stable performance in the long term and continued to make contributions to the Group's revenue in 2021.

Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, eleven game products are expected to be launched globally over the period from 2022 to 2024, covering the genres of MMORPG, SLG, female-oriented game, shooting, strategy card game and others.

As at the date of this Results Announcement, 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 year and major markets.

Title ⁽¹⁾	Genre ⁽¹⁾	IP source ⁽¹⁾	Development stage as at the date of this Results Announcement ⁽¹⁾	Expected launch year ⁽¹⁾	Major markets ^{(1) (3)}
2022					
Noah's Heart (諾亞之心)	MMORPG	Original IP	Game Production	2022	Worldwide
AVATAR: Reckoning	MMORPG + Shooting	Licensed IP	Game Production	2022	Worldwide
Glamorous Secrets (以閃亮之名) ⁽²⁾	Female Oriented Game	Original IP	Game Production	2022	Worldwide
Project Code: Sigmar ⁽²⁾	SLG	Original IP	Game Production	2022	Worldwide
2023					
Sango Heroes (三國群英傳)	SLG	Licensed IP	Game production	2023	Asia
Project Code: IM ⁽²⁾	Strategy Card Game	Original IP	Game production	2023	Asia
Project Code: SE ⁽²⁾	Strategy Card Game +	Original IP	Game production	2023	Worldwide
2024					
Project D ⁽²⁾	MMORPG	- ⁽²⁾	Game Proposal	2024	Worldwide
Project Code: Reborn ⁽²⁾	Open World Role-Playing Game +	Original IP	Game Proposal	2024	Worldwide
Project E ⁽²⁾	Strategy Card Game	Licensed IP	Game Proposal	2024	Worldwide
Project Code: Seed ⁽²⁾	SOC	- ⁽²⁾	Game Proposal	2024	Worldwide

Notes:

- (1) The game pipeline is for indicative purpose only as at the date of this Results Announcement. The title, genre, expected launch year, 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 as at the date of this Results Announcement.
- (3) The major markets refer to target publishing markets. The games will be launched successively in different regions according to their respective publishing plans.

The introduction of several new games in our games pipeline is provided as follows:

Noah's Heart (諾亞之心) is our core product in MMORPG track in 2022 which is based on the simulated planetary world created by Unreal Engine 4 has not only drawn on the powerful performance and expressive power of Unreal Engine's technology in creating a unique seamless sphere-shaped continuous map for players. In this seamless spherical virtual world, elements such as weather systems, day and night changes, landforms, creatures, and ecologies will rotate and transform just like the real world. Noah's Heart (諾亞之心) has also broken through the traditional MMORPG restrictions on profession, making game play changeable with greater freedom experience for players. The game has been put through three rounds of close beta testing in 2021 and two rounds of paid beta testing in early 2022. Currently, the game is being further finetuned and is expected to be officially launched in 2022.

Avatar: Reckoning is an innovative product that combines MMORPG and shooting. The release of this product also means that Archosaur Games has stepped into the track of multiplayer shooting game genre. In the game, players can level up their Avatar character and equip powerful weapons. Meanwhile, they can battle through single player story missions, co-op and player-vs-player (PvP) game modes, to experience the stunning world of Pandora. With “Avatar” being the word's top-notch IP, Archosaur Games equipped with top-notch research and development capabilities on mobile platform game, and Tencent possessing the top-notch publishing capabilities on mobile platform game, the absolute advantages of the integrated “IP-R&D-Publishing” are expected to be fully displayed and reflected in this product.

Glamorous Secrets (以閃亮之名) is an ultra-free fashionable female-oriented game which was developed by new generation of female producers and has attained the top level on the mobile platform both in terms of on-screen precision and material texture complexity. The game covers a wealth of gameplay, including dress-up, make-up, face and body customization, plot advancement, home construction, etc., and is committed to organically combining the authenticity and freedom of the game, to create an ultra-high quality UGC platform featuring ultra-high-quality feminine creations, and is our sincere work to first extend into the female-oriented genre. The game has received widespread attention in the market and it is our fastest new game to obtain more than 1 million pre-orders on TapTap after the announcement in the Company's history, and the pre-orders of the game on TapTap has exceeded 1.3 million as at the date of this Results Announcement. The game is scheduled to be launched in a variety of countries and regions in 2022.

Project Code: Sigmar is another mobile SLG launched for the global market following Under the Firmament (鴻圖之下). The game is derived from original IPs of Western fantasy themes, adopting the American cartoon style which highlights its character of internationalization and broadens the target users. The game adopts a combination of management simulation, free march in large sandbox and real time strategy combat. The game is scheduled for overseas trial in 2022. We will adopt a global self-publishing approach first abroad and then at home, and various pre-launch marketing campaigns and promotions are in full swing.

Sango Heroes (三國群英傳) is a mobile SLG set in the Three Kingdoms based on a well-known IP. The game is currently on the development stage.

Project Code: IM is a mobile Chinese-style fantasy strategy card game powered by Unreal Engine 4.

Project Code: SE is a mobile Western style strategy card + game powered by Unreal Engine 4.

Project Code: Reborn is a multi-platform open world role-playing + product powered by Unreal Engine 5.

Project Code: Seed is a game with near-future science fiction style and next-generation graphic quality powered by Unreal Engine 5. The genre of the game is open world survival crafting game.

We recorded revenue of RMB920.8 million for the year ended 31 December 2021, representing a decrease of 23.8% as compared with RMB1,208.8 million for the year ended 31 December 2020, which primarily attributable to (i) Noah's Heart (諾亞之心) and Project Code: Sigmar were not launched in 2021 as scheduled because the Group made a strategic decision to invest additional research and development time and resources for fine-tuning in the two games in order to further improve game quality and player experience after taking into account of comprehensive factors such as the market; and (ii) a new game published in mainland China did not live up to our expectations on performance. In the future, with the expansion of our product genres from MMORPG to SLG, female-oriented, strategy card and others, and with a variety of and the continuous improvement of our organic model of integrating operation and research and development, the lifecycle of our games is expected to be further extended, which will make a more stable and sustainable contribution to the Group's revenue.

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 Group'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 Group.

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			
	2021		2020	
	<i>RMB</i>	<i>% of total</i>	<i>RMB</i>	<i>% of total</i>
	<i>million</i>	<i>revenue</i>	<i>million</i>	<i>revenue</i>
Development and licensing	472.4	51.3%	597.3	49.4%
– Revenue share	444.9	48.3%	563.7	46.6%
– Non-refundable fixed licensing fees	27.5	3.0%	33.6	2.8%
Integrated game publishing and operation	448.4	48.7%	611.5	50.6%
Total	920.8	100.0%	1,208.8	100.0%

For the year ended 31 December 2021, our revenue from development and licensing was RMB472.4 million, representing a decrease of 20.9% from RMB597.3 million for the year ended 31 December 2020, and our revenue from integrated game publishing and operation was RMB448.4 million, representing a decrease of 26.7% from RMB611.5 million for the year ended 31 December 2020.

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

	For the year ended 31 December			
	2021		2020	
	<i>RMB</i>	<i>% of total</i>	<i>RMB</i>	<i>% of total</i>
	<i>million</i>	<i>revenue</i>	<i>million</i>	<i>revenue</i>
Mainland China	385.2	41.8%	420.5	34.8%
Overseas	535.6	58.2%	788.3	65.2%
Total	920.8	100.0%	1,208.8	100.0%

For the year ended 31 December 2021, our revenue generated from market in mainland China was RMB385.2 million, representing a decrease of 8.4%, from RMB420.5 million for the year ended 31 December 2020, and our revenue generated from markets outside mainland China was RMB535.6 million, representing a decrease of 32.1%, from RMB788.3 million for the year ended 31 December 2020.

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			
	2021		2020	
	<i>RMB</i>		<i>RMB</i>	
	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>
Commissions charged by distribution channels and payment channels	132.5	63.9%	183.8	65.0%
Revenue share to IP holders	37.3	18.0%	62.8	22.2%
Bandwidth and servers custody fee	16.0	7.7%	17.9	6.3%
Employee benefit expenses	9.8	4.7%	7.2	2.5%
Depreciation and amortization charges	7.0	3.4%	7.6	2.7%
Others	4.7	2.3%	3.6	1.3%
Total	207.3	100.0%	282.9	100.0%

Our cost of revenue primarily consisted of (i) commissions charged by distribution channels and payment channels, and (ii) revenue share to IP holders. Our cost of revenue decreased to RMB207.3 million for the year ended 31 December 2021 as compared with RMB282.9 million for the year ended 31 December 2020, which was mainly attributable to a decrease in commissions charged by distribution channels and payment channels and a decrease in revenue share to IP holders. The decline was in line with the decrease in revenue.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2021, the gross profit of the Group decreased by 22.9% to RMB713.5 million as compared with RMB925.9 million for the year ended 31 December 2020, which was primarily attributable to the decrease in revenue. The gross margin of the Group increased to 77.5% for the year ended 31 December 2021 from 76.6% for the year ended 31 December 2020, mainly attributable to the proportion of the revenue generated from development and licensing business and the proportion of the revenue generated from integrated game publishing and operation business was 51.3% and 48.7% respectively for the year ended 31 December 2021, as compared with 49.4% and 50.6% respectively for the corresponding period in 2020. It represented an increase in revenue generated from development and licensing business as a percentage to our total revenue, and generally the gross profit margin of development and licensing business was higher than integrated game publishing and operation business.

Research and Development Expenses

Our research and development expenses primarily consisted of (i) employee benefit expenses; (ii) outsourced technical services; and (iii) depreciation and amortization charges. For the year ended 31 December 2021, our research and development expenses increased by 30.6% to RMB705.6 million as compared with RMB540.4 million for the year ended 31 December 2020, mainly attributable to the increase in (i) employee benefit expenses, and (ii) outsourced technical services to satisfy our business expansion.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consisted of (i) promotion and advertising expenses; and (ii) employee benefit expenses. For the year ended 31 December 2021, our selling and marketing expenses increased by 53.5% to RMB247.2 million as compared with RMB161.0 million for the year ended 31 December 2020, mainly attributable to the increase in (i) promotion and advertising expenses and (ii) employee benefit expenses. We self-published SLG products in several countries and regions successively in mid-2021, which was the main investment and growth stage of the game. Meanwhile, we set up a subsidiary in Guangzhou to actively expand overseas publishing channels.

Administrative Expenses

Our administrative expenses primarily consisted of (i) employee benefit expenses; (ii) other professional consulting fees and (iii) utilities and office expenses. For the year ended 31 December 2021, our administrative expenses decreased by 29.2% to RMB97.9 million as compared with RMB138.3 million for the year ended 31 December 2020, mainly attributable to elimination of non-recurring expenses, i.e. share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares as defined in the Prospectus and listing expenses, compared with the corresponding period in 2020.

Other Income

For the year ended 31 December 2021, our other income decreased by 38.0% to RMB6.7 million as compared with RMB10.8 million for the year ended 31 December 2020, due to a decrease in government grants.

Other Gains/(Losses), Net

Our net other gains/(losses) primarily consisted of (i) gains on financial assets at fair value through profit or loss; and (ii) net foreign exchange gains/(losses). For the year ended 31 December 2021, our net other gains amounted to RMB38.2 million as compared with net other losses of RMB12.1 million for the year ended 31 December 2020, mainly attributable to the (i) gains on financial assets at fair value through profit or loss and (ii) foreign exchange gains during the Reporting Period.

Finance Income/(Costs), Net

Finance income represented interest income from bank deposits, including bank balance and term deposits. Finance costs primarily consisted of interest expenses accrued from our lease liabilities. For the year ended 31 December 2021, net finance income amounted to RMB11.6 million as compared with net finance costs of RMB1.0 million for the year ended 31 December 2020, mainly attributable to (i) an increase in interest income from term deposit and (ii) the elimination of non-recurring expenses, i.e. interest expenses accrued from our redemption liability, compared with the corresponding period in 2020.

Income Tax (Expense)/Credit

Our income tax (expense)/credit consisted of current income tax and deferred income tax, and we incurred total income tax expense of RMB15.5 million for the year ended 31 December 2021, compared with income tax credit of RMB16.3 million for the year ended 31 December 2020. The income tax expense for the year ended 31 December 2021 was primarily attributable to the reversal of deferred tax assets mainly due to a decrease in the deductible losses, which can be utilized against the future taxable income by certain subsidiaries, while the income tax credit for the corresponding period in 2020 was mainly attributable to the reversal made due to the change in the applicable tax rate as the uncertainties regarding the interpretation and implementation for criteria as a Software Enterprise was eliminated then.

Adjusted Net (Loss)/Profit

The adjusted net loss for the year ended 31 December 2021 amounted to RMB237.7 million as compared with adjusted net profit of RMB218.8 million for the year ended 31 December 2020. Such loss was primarily attributable to (i) the decrease in revenue, which was mainly due to the fact that the new game published in mainland China during the Reporting Period did not performed as well as the new game published in the corresponding period in 2020; (ii) the increase in research and development expenses to satisfy the Group's business expansion needs; and (iii) the increase in selling and marketing expenses, which was primarily brought by the increase in promotion and advertising expense and building up overseas publishing team.

The Company believes that adjusted net loss for the year ended 31 December 2021, as compared with loss for the year ended 31 December 2021 as reported under the IFRS, can better reflect the underlying operating performance of the Group as well as facilitate year to year comparison. The use of these non-IFRS measures has limitations as an analytical tool, and one should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

The following table sets forth the reconciliations of the Group's non-IFRS financial measures for the year ended 31 December 2021 and 2020 to the nearest measures prepared in accordance with IFRS.

	For the year ended	
	31 December	
	2021	2020
	RMB	RMB
	million	million
Reconciliation of net loss for the year to adjusted net (loss)/profit for the year:		
Loss for the year	(303.3)	(759.0)
Add:		
Fair value change on convertible redeemable preferred shares	–	856.9
Share-based compensation expenses	65.6	81.2
Interest expenses accrued from redemption liability	–	7.2
Listing expenses	–	32.5
	<hr/>	<hr/>
Adjusted net (loss)/profit for the year	(237.7)	218.8

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 2021, the Group has net current assets of RMB2,722.4 million and cash and cash equivalents, term deposits and restricted cash of RMB2,282.2 million, which were mainly denominated in US\$, RMB and HK\$.

As at 31 December 2021, the Group's total equity attributable to owners of the Company amounted to RMB3,166.4 million, compared with RMB3,549.3 million as at 31 December 2020, representing a decrease of 10.8%. The decrease was mainly attributable to net loss for the year end of 31 December 2021 and payment of dividends declared for the year ended 31 December 2020 during the Reporting Period.

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

	For the year ended		
	31 December		
	2021	2020	Change
	RMB	RMB	
	million	million	%
Net cash (used in)/generated from operating activities	(151.7)	456.8	(133.2%)
Net cash (used in)/generated from investing activities	(1,086.6)	153.6	(807.4%)
Net cash (used in)/generated from financing activities	(114.8)	1,901.5	(106.0%)
Net (decrease)/increase in cash and cash equivalents	(1,353.1)	2,511.9	(153.9%)
Cash and cash equivalents at the beginning of the year	3,055.7	728.3	319.6%
Exchange losses on cash and cash equivalents	(30.3)	(184.5)	(83.6%)
Cash and cash equivalents at the end of the year	<u>1,672.3</u>	<u>3,055.7</u>	<u>(45.3%)</u>

Operating Activities

For the year ended 31 December 2021, net cash used in operating activities was RMB151.7 million, compared with RMB456.8 million generated from operating activities for the year ended 31 December 2020, representing a decrease of 133.2%. The decrease was mainly attributable to (i) an increase in cash used in game development and publishing activities and (ii) a decrease in revenue in the Reporting Period.

Investing Activities

For the year ended 31 December 2021, net cash used in investing activities was RMB1,086.6 million, compared with RMB153.6 million generated from investing activities for the year ended 31 December 2020, representing a decrease of 807.4%. The decrease was mainly attributable to the fact that the Group utilized its temporarily free bank balance to purchase term deposit, wealth management products, and invest in other financial assets at fair value through profit or loss for financial returns in the Reporting Period.

Financing Activities

For the year ended 31 December 2021, net cash used in financing activities was RMB114.8 million, compared with RMB1,901.5 million generated from financing activities for the year ended 31 December 2020, representing a decrease of 106.0%. The decrease was mainly attributable to proceeds from issuance of ordinary shares relating to the initial public offering during 2020.

Gearing Ratio

As at 31 December 2021, our gearing ratio, which is calculated as total debt divided by total assets, was 10.0%, as compared with 11.3% as at 31 December 2020.

Capital Expenditure

Our capital expenditure comprised expenditures on purchases of intangible assets and purchases of property, plant and equipment. For the year ended 31 December 2021 and 2020, total capital expenditure amounted to RMB120.1 million and RMB19.6 million respectively, representing an increase of 512.8%. The increase was mainly attributable to (i) more purchases of the copyrights and software and (ii) leasehold improvements during the Reporting Period.

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

As at 31 December 2021, 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 2021, there was no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Charge on Assets

As at 31 December 2021, no property, plant and equipment was pledged.

Contingent Liabilities

As at 31 December 2021, we did not have any unrecorded significant contingent liabilities against us.

Employees and Remuneration Policies

As at 31 December 2021, we employed 1,485 full-time staff in total, approximately 81.5% 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, Shanghai and Guangzhou. For the year ended 31 December 2021, cost of employees' remuneration and benefit was approximately RMB644.8 million as compared with RMB483.7 million for the year ended 31 December 2020.

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 2021, most of transactions of the Group and our cash and cash equivalents were denominated in US\$, RMB 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 2021, 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. 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 below table sets forth the proposed and actual applications of the net proceeds from the Listing Date to 31 December 2021:

Use of net proceeds	Percentage	Net proceeds from the Global Offering <i>HK\$ million</i>	The amount utilized during the year ended 31 December 2021 <i>HK\$ million</i>	As at 31 December 2021		Expected timeline for utilizing the remaining net proceeds ⁽¹⁾
				Utilized amount <i>HK\$ million</i>	Unutilized Amount <i>HK\$ million</i>	
Enhancing the development capabilities and technology and expanding our game portfolio	40%	943.5	605.0	807.5	136.0	2022.01-2023.07
Expanding game publishing and operation business, particularly in markets outside of mainland China	20%	471.7	255.4	297.9	173.8	2022.01-2023.07
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	99.5	136.4	335.3	2022.01-2022.07
Expanding the IP reserve and enriching our content offerings	10%	235.8	154.0	157.6	78.2	2022.01-2022.07
Working capital and general corporate uses	10%	235.8	72.9	108.2	127.6	N/A
Total	100%	<u>2,358.5</u>	<u>1,186.8</u>	<u>1,507.6</u>	<u>850.9</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.

Since the Listing Date and up to 31 December 2021, approximately HK\$1,507.6 million out of net proceeds from the Global Offering had been used. As at the date of this Results Announcement, there was no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus. To the extent that net proceeds are not immediately used for the intended use, the Company currently intends to place such proceeds 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

As at the date of this Results Announcement, 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. During the year ended 31 December 2021, 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 (which has been re-arranged as code provision C.2.1 since 1 January 2022) of the Corporate Governance Code.

Code provision A.2.1 (which has been re-arranged as code provision C.2.1 since 1 January 2022) 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 the 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 our 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

Our 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 during the year ended 31 December 2021.

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. Bai Kun and Mr. Ding Zhiping. Mr. Zhu Lin is the chairman of the Audit Committee. The Audit Committee together with the Auditor, has reviewed the consolidated financial information of the Group for the year ended 31 December 2021 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

During the year ended 31 December 2021, the Board considered the repurchases of Shares could enhance the net value of the Group and improve the return on equity and will benefit the Company and the Shareholders as a whole, thus the Company repurchased a total of 2,871,000 Shares on the Stock Exchange at a total consideration of HK\$24,637,550, of which 1,157,000 repurchased Shares were yet to be cancelled as at 31 December 2021 and had been cancelled as at the date of this Results Announcement.

Details of the aforementioned repurchases are set out as follows:

Month of repurchase	Total number of Shares repurchased	Highest price paid per Share HK\$	Lowest price paid per Share HK\$	Total purchase price paid HK\$
August 2021	1,531,000	9.11	8.65	13,575,300
September 2021	183,000	9.00	8.55	1,611,860
December 2021	1,157,000	8.70	7.59	9,450,390
Total	2,871,000	-	-	24,637,550

Save as disclosed above, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended 31 December 2021.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting to be held on Friday, 17 June 2022 (the “AGM”), the register of members of the Company will be closed from Tuesday, 14 June 2022 to Friday, 17 June 2022 (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 Monday, 13 June 2022 for registration of share transfer.

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 2021 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 (Loss)/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 2021 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 2021

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3	920,827	1,208,842
Cost of revenue	5	<u>(207,296)</u>	<u>(282,936)</u>
Gross profit		713,531	925,906
Research and development expenses	5	(705,626)	(540,433)
Selling and marketing expenses	5	(247,190)	(160,966)
Administrative expenses	5	(97,926)	(138,237)
Net reversal/(allowance) for impairment on financial assets	5	2,930	(1,816)
Other income		6,722	10,790
Other gains/(losses), net	4	38,132	<u>(12,130)</u>
Operating (loss)/profit		(289,427)	83,114
Finance income	6	22,113	12,362
Finance costs	6	(10,491)	<u>(13,385)</u>
Finance income/(costs), net	6	11,622	(1,023)
Fair value changes on convertible redeemable preferred shares		–	(856,843)
Share of results of investments accounted for using the equity method		(9,950)	<u>(526)</u>
Loss before income tax		(287,755)	(775,278)
Income tax (expense)/credit	7	(15,570)	<u>16,256</u>
Loss for the year		(303,325)	<u>(759,022)</u>
Loss attributable to:			
– Owners of the Company		(303,325)	(759,022)
– Non-controlling interests		–	–
		(303,325)	<u>(759,022)</u>
Loss per share attributable to owners of the Company for the year (in RMB/share)	8		
– Basic		(0.38)	(1.42)
– Diluted		(0.38)	<u>(1.42)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss for the year	<u>(303,325)</u>	<u>(759,022)</u>
Other comprehensive loss, net of tax:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(18,745)</u>	<u>(25,757)</u>
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	(57,792)	(147,440)
Fair value changes on convertible redeemable preferred shares due to own credit risk	<u>–</u>	<u>(1,873)</u>
Total comprehensive loss for the year	<u><u>(379,862)</u></u>	<u><u>(934,092)</u></u>
Attributable to:		
– Owners of the Company	(379,862)	(934,092)
– Non-controlling interests	<u>–</u>	<u>–</u>
	<u><u>(379,862)</u></u>	<u><u>(934,092)</u></u>

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2021

		As at 31 December	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		33,667	18,413
Right-of-use assets		134,525	166,744
Intangible assets		113,339	37,990
Investments accounted for using the equity method		61,524	31,474
Prepayment, other receivables and other assets		18,797	24,509
Financial assets at fair value through profit or loss		192,835	5,000
Deferred tax assets		1,762	13,692
		<hr/>	<hr/>
		556,449	297,822
		<hr/>	<hr/>
Current assets			
Trade receivables	<i>10</i>	155,934	328,682
Prepayment, other receivables and other assets		65,157	39,955
Financial assets at fair value through profit or loss		458,289	201,039
Term deposits		574,132	78,627
Restricted Cash		35,771	–
Cash and cash equivalents		1,672,338	3,055,711
		<hr/>	<hr/>
		2,961,621	3,704,014
		<hr/>	<hr/>
Total assets		3,518,070	4,001,836
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2021 (CONTINUED)

		As at 31 December	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	<i>11</i>	55	55
Share premium	<i>11</i>	6,951,009	6,907,441
Other reserves		(1,868,975)	(1,794,051)
Accumulated losses		(1,915,704)	(1,564,160)
		<u>3,166,385</u>	<u>3,549,285</u>
Non-controlling interests		<u>–</u>	<u>–</u>
Total equity		<u>3,166,385</u>	<u>3,549,285</u>
Liabilities			
Non-current liabilities			
Contract liabilities		10,513	9,502
Lease liabilities		98,780	132,777
Deferred income tax liabilities		3,132	–
		<u>112,425</u>	<u>142,279</u>
Current liabilities			
Trade and other payables	<i>13</i>	132,162	206,417
Contract liabilities		62,209	65,249
Current income tax liabilities		7,790	6,540
Lease liabilities		37,099	32,066
		<u>239,260</u>	<u>310,272</u>
Total liabilities		<u>351,685</u>	<u>452,551</u>
Total equity and liabilities		<u>3,518,070</u>	<u>4,001,836</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	<u>(151,752)</u>	<u>456,811</u>
Net cash (used in)/generated from investing activities	<u>(1,086,575)</u>	<u>153,606</u>
Net cash (used in)/generated from financing activities	<u>(114,768)</u>	<u>1,901,458</u>
Net (decrease)/increase in cash and cash equivalents	<u>(1,353,095)</u>	<u>2,511,875</u>
Cash and cash equivalents at beginning of the year	3,055,711	728,318
Exchange losses on cash and cash equivalents	<u>(30,278)</u>	<u>(184,482)</u>
Cash and cash equivalents at end of the year	<u>1,672,338</u>	<u>3,055,711</u>

NOTES

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 2021 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 2021 have been approved on 25 March 2022.

2 BASIS OF PREPARATION

(a) Compliance with IFRSs

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). 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.

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

(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 2021:

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

The group also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2018-2020 Cycle,
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12, and
- Covid-19-Related Rent Concessions beyond 30 June 2021.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 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
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
Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG5)	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
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Amendments to IAS 8 on Definition of Accounting Estimates	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 2021 and 2020, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the years ended 31 December 2021 and 2020 are as follows: the Group considered itself as an agent in arrangements of "development and licensing 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	
	2021	2020
	RMB'000	RMB'000
Online game revenue		
– Development and licensing		
<i>Revenue share</i>	444,878	563,738
<i>Non-refundable fixed licensing fees</i>	27,519	33,618
– Integrated game publishing and operation	448,430	611,486
	<u>920,827</u>	<u>1,208,842</u>
Timing of revenue recognition		
– At a point in time	444,878	563,738
– Over time	475,949	645,104
	<u>920,827</u>	<u>1,208,842</u>

Revenues of approximately RMB471,760,000 and RMB597,037,000 for the years ended 31 December 2021 and 2020, respectively were derived from five largest single external customers.

During the year ended 31 December 2021, revenue of approximately RMB397,785,000 was derived from a single external customer accounted for more than 10% of total revenue.

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.

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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue segment by geography		
Mainland China	385,221	420,498
Overseas	535,606	788,344
	<u>920,827</u>	<u>1,208,842</u>

4 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Gains on financial assets at fair value through profit or loss	25,055	17,354
Foreign exchange gains/(losses), net	11,182	(30,506)
Others	1,895	1,022
	<u>38,132</u>	<u>(12,130)</u>

5 EXPENSES BY NATURE

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	644,833	483,650
Promotion and advertising expenses	192,536	129,746
Commissions charged by distribution channels and payment channels	132,492	183,790
Outsourced technical services	115,266	89,268
Depreciation and amortization charges	59,459	48,248
Revenue share to the intellectual property (“IP”) holders	37,289	62,815
Utilities and office expenses	24,510	14,419
Bandwidth and servers custody fee	15,975	17,945
Other professional consulting fees	10,890	5,644
VAT input transfer out and tax surcharges	7,490	7,774
Travelling expenses	5,962	5,394
Auditors’ remuneration	4,000	4,150
– Audit services	4,000	3,600
– Non-audit services	–	550
Listing expenses	–	32,508
Share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares	–	30,350
COVID-19-related rent concessions	–	(1,883)
(Reversal)/allowance for impairment on financial assets (<i>Note 10</i>)	(2,930)	1,816
Others	7,336	8,754
	<u>1,255,108</u>	<u>1,124,388</u>

6 FINANCE INCOME/(COSTS), NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income	<u>22,113</u>	<u>12,362</u>
Finance costs		
Interest expenses on lease liabilities	(7,369)	(5,977)
Interest expenses accrued from redemption liability	–	(7,233)
Others	<u>(3,122)</u>	<u>(175)</u>
	<u>(10,491)</u>	<u>(13,385)</u>
Finance income/(costs), net	<u>11,622</u>	<u>(1,023)</u>

7 INCOME TAX EXPENSE/(CREDIT)

The income tax expense/(credit) of the Group for the years ended 31 December 2021 and 2020 is analyzed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax expense/(credit)	509	(9,752)
Deferred income tax	<u>15,061</u>	<u>(6,504)</u>
	<u>15,570</u>	<u>(16,256)</u>

(a) Cayman Islands and 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 2021 and 2020, 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 2021 and 2020, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong Technology Co., Ltd. (“**Tianjin Loong**”) renewed its qualification as a “High and New Technology Enterprise” (“**HNTE**”) in 2020 and it is subject to a reduced preferential EIT rate of 15% for a three-year period from 2020 to 2022 according to the preferential tax treatment applicable to the HNTE.

Huai’an Loong Technology Co., Ltd. (“**Huai’an Loong**”) qualified as a HNTE for a three-year period since 2018 and renewed its qualification in 2021 for another three-year period. Huai’an Loong is entitled to a preferential EIT rate of 15% on its assessable profits for a three-year period from 2021 to 2023.

Beijing Fantasy Mermaid Technology Limited renewed its qualification as a HNTE in 2019 and it is subject to a reduced preferential EIT rate of 15% for a three-year period from 2019 to 2021 according to the preferential tax treatment applicable to the HNTE.

Chengdu Fantasy Mermaid Technology Limited was established in Chengdu in December 2019, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

Beihai Loong Venture Capital Co., Ltd. was established in Beihai in June 2021, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

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 2021 and 2020.

8 LOSS PER SHARE

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

(a) Basic

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

	Year ended 31 December	
	2021	2020
Loss attributable to owners of the Company (RMB'000)	(303,325)	(759,022)
Weighted average number of ordinary shares in issue (in thousands)	789,415	533,813
Less: treasury shares (in thousands)	(174)	–
Weighted average number of issued ordinary shares for calculating basic loss per share	<u>789,241</u>	<u>533,813</u>
Basic loss per share (in RMB/share)	<u>(0.38)</u>	<u>(1.42)</u>

(b) Diluted

Diluted loss 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 2021, the Company has two categories of dilutive potential ordinary shares: the restricted share units (“RSUs”) and the Share Options as described in Note 12.

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

For the purpose of calculating diluted loss per share for the year ended 31 December 2021, RSUs and Share Options (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 2021.

For the purpose of calculating diluted loss per share for the years ended 31 December 2020, 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 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 per share for the years ended 31 December 2020.

9 DIVIDENDS

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends declared and paid for the year ended 31 December 2020 of HK\$7.4 cents per ordinary share (<i>Note (a)</i>)	50,022	–
Less: Dividends for shares held for the restricted share unit scheme (“ RSU Scheme ”)	(1,803)	–
Dividends declared in February 2020 and paid by Tianjin Loong to its then holders of outstanding ordinary shares	–	211,171
	<u>48,219</u>	<u>211,171</u>

Note:

- (a) The final dividend of HK\$7.4 cents per share (tax inclusive) for the year ended 31 December 2020, amounted HK\$60,347,740 as total was approved in the Company’s annual general meeting held on 18 June 2021 and paid on 18 August 2021.

The Company did not declare dividend for the year ended 31 December 2021.

10 TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	158,271	333,949
Less: allowance for impairment of trade receivables	(2,337)	(5,267)
Trade receivables – net	<u>155,934</u>	<u>328,682</u>

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

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Related parties	88,104	239,713
Third parties	70,167	94,236
	<u>158,271</u>	<u>333,949</u>

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	78,988	208,635
US\$	71,000	115,486
HK\$	8,283	9,828
	<u>158,271</u>	<u>333,949</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	
	2021	2020
	RMB'000	RMB'000
Up to 3 months	91,145	227,624
3 to 6 months	37,849	62,097
6 months to 1 year	27,853	44,111
Over 1 year	1,424	117
	<u>158,271</u>	<u>333,949</u>

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At beginning of the year	(5,267)	(7,337)
Provision for impairment	(5)	(3,350)
Write off	–	3,886
Reversal of impairment	2,935	1,534
	<u>(2,337)</u>	<u>(5,267)</u>

The creation and release of provision for impaired receivables have been included in “Net reversal/(allowance) for impairment 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 US\$
Authorized		
At 1 January and 31 December 2021	5,000,000,000	50,000
At 1 January 2020	–	–
Authorization of ordinary shares (<i>Note (a)</i>)	<u>5,000,000,000</u>	<u>50,000</u>
At 31 December 2020	<u>5,000,000,000</u>	<u>50,000</u>

	Number of ordinary shares	Nominal value of ordinary shares US\$'000	Equivalent Nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued				
At 1 January 2021	786,110,000	8	55	6,907,441
Vesting of RSUs (<i>Note (f)</i>)	7,095,279	–	–	56,225
Cancellation of treasury shares	<u>(1,714,000)</u>	<u>–</u>	<u>–</u>	<u>(12,657)</u>
At 31 December 2021	791,491,279	8	55	6,951,009
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>786,110,000</u>	<u>8</u>	<u>55</u>	<u>6,907,441</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, the Company was owned as to (i) 56,335,000 ordinary shares by Cresc Chorus; (ii) 8,265,000 ordinary shares by Green Particle; and (iii) 5,000,000 shares by 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 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.

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 and Image Frame Investment (HK) Limited 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.
- (f) During the year ended 31 December 2021, 7,095,279 ordinary shares of the Company were transferred to the share awardees upon vesting of the awarded shares under the RSU Scheme (*Note 12(b)*).

12 SHARE-BASED PAYMENTS

(a) Share Option Scheme

The Company adopted the share option scheme at the extraordinary general meeting on 5 February 2021 (“**the Adoption Date**”) (“**the Share Option Scheme**”). The purpose of the Share Option Scheme is to provide incentive or reward to employees (excluding any director) of the Group for their contribution to, and continuing efforts to promote the interests of, the Group, and to incentive them to remain with the Group.

Upon the Share Option Scheme, the aggregate number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 40,775,500 shares representing 5% of the total number of shares in issue as at the Adoption Date.

On 14 April 2021, 8,155,100 Share Options were granted to eligible grantees under the Share Option Scheme. Pursuant to the Share Option Scheme, subject to grantee’s employment or service to the Group through the applicable vesting date, the Share Options shall become vested with respect to 40%, 30% and 30% of the Share Options on each of the first trading day after 12, 24 and 36 months from the grant date. Each Share Option entitles the holder to subscribe for one share upon exercise of such Share Option at an exercise price of HK\$14.756 per share.

The options may be exercised at any time after they have vested subject to the terms and conditions described in the offer letter until the last day of the 10-year period after the date of grant.

Movements in the number of Share Options granted are as follows:

	Number of Share Options
At 1 January 2021	–
Granted	8,155,100
Forfeited	(1,378,723)
	<hr/>
At 31 December 2021	6,776,377
	<hr/> <hr/>
Vested and exercisable as of 31 December 2021	–
	<hr/> <hr/>

No Share Option was expired or exercised during the year ended 31 December 2021 and the remaining contractual life of outstanding Share Options was 9.3 years as of 31 December 2021.

The Company used binomial pricing model to determine the fair value of the Share Option granted, which is to be expensed over the vesting period.

Management estimated the risk-free interest rate based on the yield of Hong Kong government bond with a maturity life equal to the life of the Share Option. Volatility was estimated at grant date based on the average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the Share Options. Dividend yield is based on management estimation at the grant date.

	As at 14 April 2021
Risk-free interest rate	1.30%
Volatility	56.00%
Dividend yield	0.52%
Fair value per Share Option (HK\$)	6.02

(b) Restricted Share Unit Scheme

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.

On 1 February 2021, 29 March 2021 and 25 August 2021, the Company granted RSUs representing an aggregate of 914,200 underlying shares to certain eligible employees 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 a certain date.

Movement in the number of underlying shares represented by RSUs for the year ended 31 December 2021 is as follows:

	Number of underlying shares represented by RSUs	Weighted average fair value per RSU (HK\$)
At 1 January 2021	17,996,916	8.684
Granted	914,200	16.376
Vested	(7,095,279)	8.729
Forfeited	(1,539,392)	9.058
	<hr/>	<hr/>
At 31 December 2021	10,276,445	9.282
At 1 January 2020	–	–
Granted	18,702,516	8.680
Forfeited	(705,600)	8.564
	<hr/>	<hr/>
At 31 December 2020	<u>17,996,916</u>	<u>8.684</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.

Prior to the completion of IPO, 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 grant date. Key assumptions, such as discount rate, risk-free interest rate and volatility, are required to be determined by the Group with best estimate.

The fair value of the RSUs granted on 1 February 2021, 29 March 2021 and 25 August 2021 was determined using the market method with reference to the grant date closing share price of the Company.

(c) Expenses arising from share-based payment transactions

For the year ended 31 December 2021, share-based compensation expenses arising from the share-based awards granted by the Company have been charged to the consolidated statement of profit or loss as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of revenue	647	464
Administrative expenses	12,051	9,176
Selling and marketing expenses	3,090	1,957
Research and development expenses	49,795	39,243
	<hr/>	<hr/>
	<u>65,583</u>	<u>50,840</u>

13 TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	37,102	95,696
Payroll liabilities	67,778	80,852
Tax payables	14,235	14,187
Listing expenses	–	403
Asset procurement	5,195	6,667
Others	7,852	8,612
	<u>132,162</u>	<u>206,417</u>

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

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Related parties	11,449	20,392
Third parties	25,653	75,304
	<u>37,102</u>	<u>95,696</u>

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

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 6 months	26,766	38,366
6 months to 1 year	9,042	29,670
Over 1 year	1,294	27,660
	<u>37,102</u>	<u>95,696</u>

14 SUBSEQUENT EVENTS

On 7 January 2022, the Company announced that it will cancel the existing 6,764,377 exercisable share options (the “**Outstanding Share Options**”) and offer to grant 6,764,377 new share options to the existing holders to subscribe for 6,764,377 ordinary shares at a lower exercise price, which are served as replacement of the cancelled Outstanding Share Options, subject to their respective acceptance, under the Share Option Scheme. The terms of the original options are otherwise the same.

On the grant date, the management will evaluate the fair value of newly granted share options and account for the incremental fair value, if any.

Except for disclosed elsewhere in this report, there are no other material subsequent events undertaken by the Company or the Group after 31 December 2021.

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
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“China” or “PRC”	the People’s Republic of China
“Company” or “Archosaur Games”	Archosaur Games Inc. 祖龍娛樂有限公司, 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
“Cresc Chorus”	Cresc Chorus Limited, a BVI business company incorporated under the laws of the BVI with limited liability and one of the controlling Shareholders of the Company
“Director(s)”	the director(s) of the Company
“EVA”	EVAGELION, a Japanese mecha anime television series
“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\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards
“Listing”	listing of the Shares on the Main Board of the Stock Exchange

“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)
“Macao”	the Macao Special Administrative Region of the PRC
“MMO”	massively multiplayer online game, a genre of online games in which a player interacts with a large number of other players
“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 the 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 2021
“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
“Share Option Scheme”	the share option scheme in its present form or as may be amended from time to time which was adopted by the Company on the Adoption Date
“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, a genre of games that attempt to emulate various activities from real life in the game format
“SOC”	Survival, open world and crafting games, a genre of games in which players have a real survival experience and craft contents freely in a virtual open world

“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 with limited liability incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be and holds 16.92% of our Shares as at 31 December 2021
“Unreal Engine 4” and “Unreal Engine 5”	game engines 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, 25 March 2022

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. Bai Kun, Mr. Zhu Lin and Mr. Ding Zhiping as Independent Non-executive Directors.