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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Archosaur Games Inc. (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022 (the “**Results Announcement**”), as below.

The interim results of the Group for the six months ended 30 June 2022 have been reviewed by the Audit Committee and by PricewaterhouseCoopers, the independent auditor of the Company, in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the six months ended 30 June		Change %
	2022 RMB million (Unaudited)	2021 RMB million (Unaudited)	
Revenue	329.8	553.8	(40.4)%
Cost of revenue	(87.0)	(112.7)	(22.8)%
Gross profit	242.8	441.1	(45.0)%
Research and development expenses	(367.1)	(337.3)	8.8%
Selling and marketing expenses	(117.4)	(159.8)	(26.5)%
Administrative expenses	(53.8)	(43.5)	23.7%
Reversal of impairment losses on financial assets	0.1	0.7	(85.7)%
Other income	1.5	4.4	(65.9)%
Other (losses)/gains, net	(10.2)	6.7	(252.2)%
Operating loss	(304.1)	(87.7)	246.8%
Finance income	7.3	12.4	(41.1)%
Finance costs	(3.4)	(4.4)	(22.7)%
Finance income, net	3.9	8.0	(51.3)%
Share of results of investments accounted for using the equity method	(6.9)	(3.1)	122.6%
Loss before income tax	(307.1)	(82.8)	270.9%
Income tax expense	(1.8)	(3.0)	(40.0)%
Loss for the period	(308.9)	(85.8)	260.0%
Non-IFRS measure:			
Adjusted net loss ⁽¹⁾	(279.8)	(47.1)	494.1%

Note:

- (1) We define adjusted net loss as loss for the period adjusted by adding back share-based compensation expenses. We eliminate the impact of the item that our management does not consider it to be indicative of our operating performance as it is non-cash in nature.

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.

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, Japan, South Korea 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.

Going forward, on the basis of continuously accumulating overseas publishing experience, we will actively develop and strategize a business system of conducting independent research and development and integrating research and operation in the vertical field.

Our Existing Games

We mainly focus on the development for mobile MMORPGs, SLGs, female-oriented games, shooting games and other genres, and offer a high-quality and diversified mobile games portfolio with excellent market reputation. As at 30 June 2022, we had launched 17 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, South Korea, Japan, Europe and the Americas. The cumulative number of global registered players of 12 mobile games in operation had surpassed 140 million, among which (i) the global cumulative gross billings generated by 1 mobile game had exceeded RMB4 billion; (ii) the global cumulative gross billings generated by 3 mobile games had exceeded RMB3 billion; (iii) the global cumulative gross billings generated by 6 mobile games had exceeded RMB1 billion; and (iv) 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. The game had been a huge success in mainland China and had performed exceptionally well outside of mainland China. Through continuous version updates, effective market promotion, collaboration with international IP “EVA”, the game maintained a stable long-term performance during two years after its launch in Europe and the Americas and Southeast Asia. As at 30 June 2022, the cumulative gross billings of the game had exceeded RMB4 billion and the cumulative number of global registered players of the game was more than 41.6 million.

Under the Firmament (鴻圖之下) as our first mobile SLG developed by Unreal Engine 4 has gained stable long-term performance since its launch in mainland China. It has been successively published in Japan, Southeast Asia, Hong Kong, Macao, Taiwan, Europe and the Americas in 2021. In Japan, it reached the top five on the Top Free Games Chart of the iOS App Store and was recommended by Google Play. It also had been recommended by Google Play for many times in Europe, the Americas and Vietnam. The game topped the Top Free Games Chart of the iOS App Store in Hong Kong, Macao and Taiwan on the first day of launch. On 20 January 2022, we published the game in South Korea and it ranked 4th on the Top Free Games Chart and 11th on the Bestsellers Chart of Google Play within ten days of launch. As at 30 June 2022, the cumulative gross billing of Under the Firmament (鴻圖之下) was over RMB1.3 billion, and the number of accumulated registered players reached more than 6.7 million.

Noah’s Heart (諾亞之心) was launched in mainland China on 13 April 2022, and topped the Top Free Games Chart of the iOS App Store on the first day of launch. Tencent is the publisher of the game in mainland China. The game is an innovative blend of card game on top of traditional MMO mobile games, providing players with more open options. In late July 2022, the Company launched the game successively in South Korea, Japan, Europe and the Americas by way of self-publishing. The game topped two games charts (i.e. iOS App Store and Google Play Games Download Charts) within two days of its launch in South Korea, topped the Top Free Games Chart of the iOS App Store during the pre-download period in Japan, and reached the top three on the Top Free Games Chart of the iOS App Store on the first day of its launch in many countries of Europe and the Americas.

In addition to the above games, classic games under operation, including Fantasy Zhuxian (夢幻誅仙), World of Kings (萬王之王 3D), Love & Sword (御劍情緣), Loong Craft (六龍爭霸) and The New World (夢想新大陸) continued to make contributions to the Group’s revenue in the first half of 2022.

Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, 10 game products are expected to be launched globally over the period from the second half of 2022 to 2024, covering the genres of MMORPG, SLG, female-oriented game, shooting games, 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) (5)}
2022					
Avatar: Reckoning	MMORPG + Shooting	Licensed IP	Game Production	2022	Worldwide
Life Makeover (以閃亮之名) ⁽²⁾	Female Oriented Game	Original IP	Game Production	2022	Worldwide
Age of Chaos ⁽³⁾	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 ⁽⁴⁾	Strategy Card Game	Original IP	Game Production	2023	Asia
Project Code: SE ⁽⁴⁾	Strategy Card Game +	Original IP	Game Production	2023	Worldwide
2024					
Project D ⁽⁴⁾	MMORPG	– ⁽⁴⁾	Game Proposal	2024	Worldwide
Project Code: Reborn ⁽⁴⁾	Open World Role-Playing Game +	Original IP	Game Production	2024	Worldwide
Project E ⁽⁴⁾	Strategy Card Game	Licensed IP	Game Proposal	2024	Worldwide
Project Code: Seed ⁽⁴⁾	SOC	– ⁽⁴⁾	Game Production	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, IP source 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 English title of Glamorous Secrets (以閃亮之名) has been changed to “Life Makeover” and has been launched on 28 July 2022 in Hong Kong, Macao, Taiwan, Singapore and Malaysia, and is expected to be released successively in mainland China and Japan in the second half of 2022.
- (3) The original project code: Sigmar has now been determined to be Age of Chaos.
- (4) The game title or IP status, as applicable, of the respective game is pending as at the date of this Results Announcement.
- (5) 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:

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, equip weapons and complete various character development through the development of the game. Meanwhile, they can explore the stunning world of Pandora by choosing from a variety of professions for single player story missions, strategic teamwork, large battlefields and secret areas, and enjoy a shooting experience that combines player-vs-environment (PvE) and player-vs-player (PvP) modes. The game was first tested overseas in January 2022 and received a lot of positive feedback. On 27 June 2022, the game was first exposed in the mainland China market, which got a lot of media exposure and high market attention. 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.

Life Makeover (以閃亮之名) is an ultra-free fashionable female-oriented game which was developed by new generation of female producer 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 feminine creations, and is our sincere work to first extend into the female-oriented genre. The game was officially launched in Hong Kong, Macao, Taiwan, Singapore and Malaysia on 28 July 2022, and topped the Top Free Games Chart of the iOS App Store on the first day of its launch in these five regions and the Google Play Top Chart in Hong Kong, Macao and Taiwan. The game was ranked in the top two, three and four of the Bestsellers Chart of the iOS App Store respectively within a month of its launch in Hong Kong, Macao and Taiwan. As of mid-August 2022, the game has obtained pre-orders on TapTap more than 2 million, and the pre-orders of the game has exceeded 8.5 million on official website of mainland China. The game is scheduled to be launched in a variety of countries and regions in the second half of 2022.

Age of Chaos is another mobile SLG to be launched for the global market following Under the Firmament (鴻圖之下). The game is derived from an original IP 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, and introduces a deeper MMO experience in the SLG genre, making the game even more fulfilling. 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. The game has been tested three times on TapTap in mainland China and for the first time overseas, and has received a lot of positive feedback.

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 production 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.

During the Reporting Period, we recorded revenue of RMB329.8 million, representing a decrease of 40.4% as compared with RMB553.8 million for the same period in 2021, which primarily attributable to (i) some games that have been launched for a longer period of time have recorded a decrease in revenue, which were in line with the normal game lifecycles; and (ii) a new game published in mainland China in the first half of 2022 did not live up to our expectations on performance. In the future, with the expansion of our product genres from MMORPG and SLG to female-oriented, shooting games, strategy card and other more diversified games, and with a variety of styles 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 the Group.

Financial Review

Revenue

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

	For the six months ended 30 June			
	2022		2021	
	RMB million (Unaudited)	% of total revenue	RMB million (Unaudited)	% of total revenue
Development and licensing	137.7	41.8%	312.0	56.3%
– Revenue share	118.4	35.9%	290.3	52.4%
– Non-refundable fixed licensing fees	19.3	5.9%	21.7	3.9%
Integrated game publishing and operation	192.1	58.2%	241.8	43.7%
Total	329.8	100.0%	553.8	100.0%

For the six months ended 30 June 2022, our revenue from development and licensing was RMB137.7 million, representing a decrease of 55.9% from RMB312.0 million for the corresponding period in 2021, and our revenue from integrated game publishing and operation was RMB192.1 million, representing a decrease of 20.6% from RMB241.8 million for the corresponding period in 2021.

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

	For the six months ended 30 June			
	2022		2021	
	RMB million (Unaudited)	% of total revenue	RMB million (Unaudited)	% of total revenue
Mainland China	104.3	31.6%	255.0	46.0%
Overseas	225.5	68.4%	298.8	54.0%
Total	329.8	100.0%	553.8	100.0%

For the six months ended 30 June 2022, our revenue generated from market in mainland China was RMB104.3 million, representing a decrease of 59.1%, from RMB255.0 million for the corresponding period in 2021, and our revenue generated from markets outside mainland China was RMB225.5 million, representing a decrease of 24.5%, from RMB298.8 million for the corresponding period in 2021.

The decrease in the revenue was mainly attributable to (i) some games that had been launched for a longer period of time have been recorded a decrease in revenue, which were in line with the normal game lifecycles; (ii) a new game published in mainland China in the first half of 2022 did not live up to our expectations on performance.

Cost of Revenue

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

	For the six months ended 30 June			
	2022		2021	
	RMB million	% of cost of	RMB million	% of cost of
	(Unaudited)	revenue	(Unaudited)	revenue
Commissions charged by distribution channels and payment channels	59.6	68.5%	71.8	63.7%
Revenue share to IP holders	11.1	12.8%	22.3	19.8%
Bandwidth and servers custody fee	7.5	8.6%	8.5	7.5%
Employee benefit expenses	5.9	6.8%	4.4	3.9%
Depreciation and amortization charges	1.1	1.3%	3.4	3.0%
Others	1.8	2.0%	2.3	2.1%
Total	87.0	100.0%	112.7	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 RMB87.0 million for the six months ended 30 June 2022 as compared with RMB112.7 million for the corresponding period in 2021, 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 six months ended 30 June 2022, the gross profit of the Group decreased by 45.0% to RMB242.8 million as compared with RMB441.1 million for the corresponding period in 2021, which was primarily attributable to the decrease in revenue. The gross profit margin of the Group decreased to 73.6% for the six months ended 30 June 2022 from 79.6% for the corresponding period in 2021, 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 41.8% and 58.2% respectively for the six months ended 30 June 2022, as compared with 56.3% and 43.7% respectively for the corresponding period in 2021. It represented a decrease 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 six months ended 30 June 2022, our research and development expenses increased by 8.8% to RMB367.1 million as compared with RMB337.3 million for the corresponding period in 2021, mainly attributable to the increase in employee benefit expenses.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consisted of (i) promotion and advertising expenses; and (ii) employee benefit expenses. For the six months ended 30 June 2022, our selling and marketing expenses decreased by 26.5% to RMB117.4 million as compared with RMB159.8 million for the corresponding period in 2021, mainly attributable to the decrease in promotion and advertising expenses. We published a SLG mobile game in South Korea in the Reporting Period, and the same game was self-published in Japan and Southeast Asia during the corresponding period in 2021. The decrease in promotion and advertising expenses was in line with the market size of the areas where our game was published.

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 six months ended 30 June 2022, our administrative expenses increased by 23.7% to RMB53.8 million as compared with RMB43.5 million for the corresponding period in 2021, mainly attributable to the increase in employee benefit expenses.

Other Income

For the six months ended 30 June 2022, our other income decreased by 65.9% to RMB1.5 million as compared with RMB4.4 million for the corresponding period in 2021, due to the decrease in government grants.

Finance Income, 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 six months ended 30 June 2022, our net finance income decreased by 51.3% to RMB3.9 million as compared with RMB8.0 million for the corresponding period in 2021, mainly attributable to the decrease in interest income from term deposits.

Other (Losses)/Gains, Net

Our net other (losses)/gains primarily consisted of (i) (losses)/gains on financial assets and liabilities at fair value through profit or loss; and (ii) net foreign exchange gains/(losses). For the six months ended 30 June 2022, our net other losses amounted to RMB10.2 million as compared with net other gains of RMB6.7 million for the corresponding period in 2021, mainly attributable to downward fluctuation in the fair value of some of our financial assets during the Reporting Period.

Income Tax Expense

Our income tax expense consisted of current income tax and deferred income tax, and we incurred total income tax expense of RMB1.8 million for the six months ended 30 June 2022, compared with income tax expense of RMB3.0 million for the corresponding period in 2021, representing a decrease of 40.0%. The decrease was mainly attributable to the balance of deductible losses which can be utilized against the future taxable income had been reversed before 31 December 2021 and would not have any impact on deferred income tax for the six months ended 30 June 2022.

Adjusted Net Loss

The adjusted net loss for the six months ended 30 June 2022 amounted to RMB279.8 million as compared with adjusted net loss of RMB47.1 million for the corresponding period in 2021. Such increase in the adjusted net loss was primarily attributable to the decrease in revenue and the increase in research and development expenses.

The Company believes that adjusted net loss for the six months ended 30 June 2022, as compared with loss for the six months ended 30 June 2022 as reported under the IFRS, can better reflect the underlying operating performance of the Group as well as facilitate period to period 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 six months ended 30 June 2022 and 2021 to the nearest measures prepared in accordance with IFRS:

	For the six months ended 30 June	
	2022	2021
	RMB million (Unaudited)	RMB million (Unaudited)
Reconciliation of loss for the period to adjusted net loss for the period:		
Loss for the period	(308.9)	(85.8)
Add:		
Share-based compensation expenses	29.1	38.7
Adjusted net loss for the period	<u>(279.8)</u>	<u>(47.1)</u>

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 the 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.

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

	For the six months ended 30 June		Change %
	2022 RMB million (Unaudited)	2021 RMB million (Unaudited)	
Net cash used in operating activities	(241.6)	(75.6)	219.6%
Net cash used in investing activities	(96.2)	(389.3)	(75.3)%
Net cash used in financing activities	(88.4)	(20.4)	333.3%
Net decrease in cash and cash equivalents	(426.2)	(485.3)	(12.2)%
Cash and cash equivalents at the beginning of the period	1,672.3	3,055.7	(45.3)%
Exchange gains/(losses) on cash and cash equivalents	75.3	(27.1)	(377.9)%
Cash and cash equivalents at the end of the period	<u>1,321.4</u>	<u>2,543.3</u>	<u>(48.0)%</u>

Operating Activities

For the six months ended 30 June 2022, net cash used in operating activities was RMB241.6 million, compared with RMB75.6 million used in operating activities for the corresponding period in 2021, representing an increase of 219.6%. The increase was mainly attributable to the decrease in the revenue and the increase in the employee benefit expenses.

Investing Activities

For the six months ended 30 June 2022, net cash used in investing activities was RMB96.2 million, compared with RMB389.3 million used in investing activities for the corresponding period in 2021, representing a decrease of 75.3%. The decrease was mainly attributable to proceed from maturity of term deposits.

Financing Activities

For the six months ended 30 June 2022, net cash used in financing activities was RMB88.4 million, compared with RMB20.4 million used in financing activities for the corresponding period in 2021, representing an increase of 333.3%. The increase was mainly attributable to payments for share repurchase.

Gearing Ratio

As at 30 June 2022, our gearing ratio, which is calculated as total debt divided by total assets, was 9.5%, as compared with 10.0% as at 31 December 2021.

Capital Expenditure

Our capital expenditure comprised expenditures on purchase of intangible assets and purchase of property, plant and equipment. For the six months ended 30 June 2022 and 2021, total capital expenditure amounted to RMB11.5 million and RMB51.4 million respectively, representing a decrease of 77.6%. The decrease was mainly attributable to the decrease in purchases of intangible assets.

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

During the six months ended 30 June 2022, 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 six months ended 30 June 2022, there was no material acquisitions or disposal of subsidiaries, associates and joint ventures.

Charge on Assets

As at 30 June 2022, no property, plant and equipment was pledged.

Contingent Liabilities

As at 30 June 2022, we did not have any unrecorded significant contingent liabilities against us.

Employees and Remuneration Policies

As at 30 June 2022, we employed approximately 1,469 full-time staff in total, approximately 79.44% 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 six months ended 30 June 2022, cost of employees' remuneration and benefit was approximately RMB370.9 million as compared with RMB297.7 million for the six months ended 30 June 2021.

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 six months ended 30 June 2022, most of transactions of the Group and our cash and cash equivalents were denominated in RMB, US\$ and HK\$. The management team closely monitors foreign currency exchange risks to ensure that appropriate measures are implemented in a timely and effective manner. For the six months ended 30 June 2022, 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

The Shares were listed on the Stock Exchange on 15 July 2020. 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 30 June 2022:

Use of net proceeds	Percentage	Net proceeds from the Global Offering (HK\$ million)	The amount utilized during the Reporting Period (HK\$ million)	As at 30 June 2022		Expected timeline for utilizing the remaining net proceeds ⁽¹⁾
				Utilized amount (HK\$ million)	Unutilized Amount (HK\$ million)	
Enhancing the development capabilities and technology and expanding our game portfolio	40%	943.5	136.0	943.5	–	
Expanding game publishing and operation business, particularly in markets outside of mainland China	20%	471.7	123.4	421.3	50.4	2022.07-2023.07
Funding strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom	20%	471.7	45.1	181.5	290.2	2022.07-2023.07
Expanding the IP reserve and enriching our content offerings	10%	235.8	9.6	167.2	68.6	2022.07-2023.07
Working capital and general corporate uses	10%	235.8	77.8	186.0	49.8	N/A
Total	100%	2,358.5	391.9	1,899.5	459.0	

Note:

- (1) The expected timeline for utilising 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 30 June 2022, approximately HK\$1,899.5 million out of net proceeds from the Global Offering had been used.

The original expected timeline of utilizing the remaining net proceeds in respect of (i) 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; and (ii) expanding the IP reserve and enriching the Group's content offerings was July 2022. The delay in the use of such net proceeds was mainly attributable to:

- (i) longer time required for and the more cautious approach taken by the Group in locating and assessing suitable acquisition and investment targets, in view of the more stringent policies and supervision imposed by the regulatory authorities in the pan-entertainment, technology, media, telecom businesses; and
- (ii) the postponement of securing IPs for future mobile game adaptations and development, as the development of game pipeline was generally prolonged due to the strategic decision of the Group to invest additional research and development time and resources for fine-tuning the games to be introduced in 2022.

Apart from the above-mentioned adjustments, 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.

EVENTS AFTER REPORTING PERIOD

Save as disclosed in this Results Announcement, the Group did not have any significant 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 Part 2 of Appendix 14 to the Listing Rules. During the six months ended 30 June 2022, The Company has complied with all applicable code provisions as set out in the Corporate Governance Code save for the deviation from code provisions C.2.1 and C.5.7 of the Corporate Governance Code.

Code provision C.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Li Qing is 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 the Group's management, the Board considers that vesting the roles of chairman and chief executive officer in the same person, Mr. Li Qing, would not create any potential harm to the interest of the Group and it is, on the contrary, beneficial to the management of the Group. In addition, the operation of the senior management of the Group and the Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Li Qing. The Board currently comprises two executive Directors (including Mr. Li Qing), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

The Board will continue to review the effectiveness of the corporate governance structure in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

Code provision C.5.7 stipulates that if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. During the six months ended 30 June 2022, the Board approved the continuing connected transactions in respect of a licensing agreement in relation to game adaptation rights entered into between the Group and an entity controlled by Tencent, by way of circulation of written resolutions in lieu of physical board meeting on 18 June 2022, for which Ms. Liu Ming, a non-executive Director and an employee of Tencent Group, was regarded as having material interests therein. The Board considered that that (i) the terms of the aforesaid transaction are fair and reasonable, are on normal commercial terms or better and are in the ordinary and usual course of business of the Company and are in the interests of the Company and the shareholders of the Company as a whole; (ii) Ms. Liu Ming had abstained from voting on the relevant written resolutions of the Board in approving the aforesaid transaction; (iii) prior to the official signing on the written resolution, related directors had thoroughly discussed the aforesaid transaction through digital methods; and (iv) the adoption of written resolutions would facilitate and maximize the effectiveness of decision-making and implementation.

The Board shall nevertheless review its board meeting arrangement from time to time to ensure appropriate arrangement is being taken to comply with the requirements under the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code during the six months ended 30 June 2022.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with 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 has reviewed the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2022 and this Results Announcement. The Audit Committee has no disagreement with the accounting treatment in the unaudited interim financial statements and this Results Announcement.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the six months ended 30 June 2022, 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 4,497,000 Shares on the Stock Exchange at a total consideration of HK\$32,598,640 of which 419,000 repurchased Shares were yet to be 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 <i>HK\$</i>	Lowest price paid per Share <i>HK\$</i>	Total purchase price paid <i>HK\$</i>
January 2022	776,000	9.30	8.87	7,062,330
March 2022	87,000	7.58	7.45	656,020
April 2022	945,000	8.50	7.32	7,531,620
May 2022	1,518,000	7.25	6.19	10,270,760
June 2022	<u>1,171,000</u>	6.60	5.58	<u>7,077,910</u>
Total	<u>4,497,000</u>			<u>32,598,640</u>

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.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022.

PUBLICATION OF INFORMATION ON THE HKEXNEWS WEBSITE

This Results Announcement is published on the websites of the Company (www.zulong.com) and the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2022 will be dispatched to the Shareholders and published on the above websites in due course.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Six months ended 30 June	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	329,834	553,781
Cost of revenue	6	<u>(87,059)</u>	<u>(112,643)</u>
Gross profit		<u>242,775</u>	<u>441,138</u>
Research and development expenses	6	(367,118)	(337,346)
Selling and marketing expenses	6	(117,354)	(159,801)
Administrative expenses	6	(53,812)	(43,503)
Reversal of impairment losses on financial assets	6	69	711
Other income		1,538	4,449
Other (losses)/gains, net	5	<u>(10,215)</u>	<u>6,696</u>
Operating loss		<u>(304,117)</u>	<u>(87,656)</u>
Finance income		7,284	12,374
Finance costs		<u>(3,413)</u>	<u>(4,381)</u>
Finance income, net		3,871	7,993
Share of results of investments accounted for using the equity method		<u>(6,877)</u>	<u>(3,096)</u>
Loss before income tax		(307,123)	(82,759)
Income tax expense	7	<u>(1,734)</u>	<u>(3,076)</u>
Loss for the period		<u>(308,857)</u>	<u>(85,835)</u>
Loss attributable to:			
– Owners of the Company		(308,857)	(85,835)
– Non-controlling interests		<u>–</u>	<u>–</u>
		<u>(308,857)</u>	<u>(85,835)</u>
Loss per share attributable to owners of the Company for the period (in RMB/share)	8		
– Basic		(0.39)	(0.11)
– Diluted		<u>(0.39)</u>	<u>(0.11)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
<i>Note</i>	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	<u>(308,857)</u>	<u>(85,835)</u>
Other comprehensive income/(loss), net of tax:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>35,825</u>	<u>(3,597)</u>
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	<u>73,624</u>	<u>(23,248)</u>
Total comprehensive loss for the period	<u>(199,408)</u>	<u>(112,680)</u>
Attributable to:		
– Owners of the Company	(199,408)	(112,680)
– Non-controlling interests	<u>–</u>	<u>–</u>
	<u>(199,408)</u>	<u>(112,680)</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2022

	<i>Note</i>	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Assets			
Non-current assets			
Property, plant and equipment		33,634	33,667
Right-of-use assets		120,888	134,525
Intangible assets		110,167	113,339
Investments accounted for using the equity method		84,647	61,524
Prepayment, other receivables and other assets		19,451	18,797
Financial assets at fair value through profit or loss		303,379	192,835
Other financial assets at amortized cost		33,557	–
Deferred tax assets		1,816	1,762
		<u>707,539</u>	<u>556,449</u>
Current assets			
Trade receivables	9	145,950	155,934
Prepayment, other receivables and other assets		98,852	65,157
Financial assets at fair value through profit or loss		500,538	458,289
Term deposits		470,134	574,132
Restricted cash		37,067	35,771
Cash and cash equivalents		1,321,443	1,672,338
		<u>2,573,984</u>	<u>2,961,621</u>
Total assets		<u><u>3,281,523</u></u>	<u><u>3,518,070</u></u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		55	55
Share premium		6,940,156	6,951,009
Other reserves		(1,746,977)	(1,868,975)
Accumulated losses		(2,224,561)	(1,915,704)
		<u>2,968,673</u>	<u>3,166,385</u>
Non-controlling interests		<u>–</u>	<u>–</u>
Total equity		<u><u>2,968,673</u></u>	<u><u>3,166,385</u></u>

	<i>Note</i>	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Contract liabilities		17,342	10,513
Lease liabilities		83,178	98,780
Deferred income tax liabilities		3,949	3,132
		<u>104,469</u>	<u>112,425</u>
Current liabilities			
Trade and other payables	<i>10</i>	108,886	132,162
Contract liabilities		48,321	62,209
Current income tax liabilities		6,628	7,790
Financial liabilities at fair value through profit or loss		4,538	–
Lease liabilities		40,008	37,099
		<u>208,381</u>	<u>239,260</u>
Total liabilities		<u>312,850</u>	<u>351,685</u>
Total equity and liabilities		<u>3,281,523</u>	<u>3,518,070</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	<i>Note</i>	Six months ended 30 June	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Net cash used in operating activities		<u>(241,587)</u>	<u>(75,586)</u>
Net cash used in investing activities		<u>(96,174)</u>	<u>(389,287)</u>
Net cash used in financing activities		<u>(88,444)</u>	<u>(20,435)</u>
Net decrease in cash and cash equivalents		<u>(426,205)</u>	<u>(485,308)</u>
Cash and cash equivalents at beginning of the period		1,672,338	3,055,711
Exchange gains/(losses) on cash and cash equivalents		<u>75,310</u>	<u>(27,069)</u>
Cash and cash equivalents at end of the period		<u><u>1,321,443</u></u>	<u><u>2,543,334</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 interim condensed consolidated financial information for the six months ended 30 June 2022 are presented in Renminbi and all values are rounded to the nearest thousand (RMB’000) unless otherwise indicated. The interim condensed consolidated financial information for the six months ended 30 June 2022 have been approved on 26 August 2022.

This interim condensed consolidated financial information for the six months ended 30 June 2022 has not been audited.

2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standards (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“**IASB**”). This interim condensed consolidated financial information should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2021 (the “**2021 Financial Statements**”), which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the 2021 Financial Statements.

(a) New and amended standards adopted by the Group

The Group has applied the following standard and amendment for the first time for their annual reporting period commencing 1 January 2022:

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
Annual Improvements to IFRS Standards 2018-2020	1 January 2022

The adoption of the above amendments to IFRSs in the current period has had no material effect on the Group’s interim condensed consolidated financial information.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory in this interim condensed consolidated financial information 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
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
Definition of Accounting Estimates – Amendments to IAS 8	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	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

4 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 30 June 2022 and 31 December 2021, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the six months ended 30 June 2022 and 2021 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.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Online game revenue		
– Development and licensing		
<i>Revenue share</i>	118,413	290,323
<i>Non-refundable fixed licensing fees</i>	19,288	21,687
– Integrated game publishing and operation	192,133	241,771
	329,834	553,781
Timing of revenue recognition		
– At a point in time	118,413	290,323
– Over time	211,421	263,458
	329,834	553,781

Revenues of approximately RMB137,189,000 and RMB312,011,000 for the six months ended 30 June 2022 and 2021, respective were derived from five largest single external customers.

4 SEGMENT INFORMATION AND REVENUE (CONTINUED)

During the six months ended 30 June 2022, revenue of approximately RMB100,743,000 was derived from a single external customer accounted for more than 10% of total revenue.

During the six months ended 30 June 2021, revenue of approximately RMB267,142,000 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.

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue segment by geography		
Mainland China	104,365	254,992
Overseas	225,469	298,789
	<u>329,834</u>	<u>553,781</u>

5 OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
(Losses)/gains on financial assets and liabilities at fair value through profit or loss	(11,879)	7,558
Foreign exchange gains/(losses), net	942	(1,646)
Others	722	784
	<u>(10,215)</u>	<u>6,696</u>

6 EXPENSES BY NATURE

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Employee benefit expenses	370,942	297,783
Promotion and advertising expenses	67,277	136,842
Commissions charged by distribution channels and payment channels	59,575	71,796
Outsourced technical services	49,618	63,615
Depreciation and amortization charges	31,806	28,639
Utilities and office expenses	14,576	11,477
Revenue share to the IP holders	11,092	22,339
Bandwidth and servers custody fee	7,533	8,543
Other professional consulting fees	4,254	4,432
Travelling expenses	2,995	2,575
VAT input transfer out and tax surcharges	2,666	2,567
Reversal for impairment on financial assets	(69)	(711)
Others	3,009	2,685
	<u>625,274</u>	<u>652,582</u>

7 INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2022 and 2021 is analyzed as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax expense	971	232
Deferred income tax	763	2,844
	<u>1,734</u>	<u>3,076</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 six months ended 30 June 2022 and 2021, 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 six months ended 30 June 2022, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong Technology Co., Ltd. (祖龍(天津)科技股份有限公司) (“**Tianjin Loong**”) 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. (淮安祖龍科技有限公司) (“**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 income tax rate of 15% on its estimated assessable profits for a three-year period from 2021 to 2023.

Beijing Fantasy Mermaid Technology Limited (北京幻想美人魚科技有限公司) (“**Beijing Fantasy Mermaid**”) renewed its qualification as a HNTE for a three-year period since 2019 and is renewing its qualification in 2022. The management expects that Beijing Fantasy Mermaid will still be qualified as a HNTE for 2022. Therefore, Beijing Fantasy Mermaid was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the six months ended 30 June 2022.

Chengdu Fantasy Mermaid Technology Limited (成都幻想美人魚科技有限公司) (“**Chengdu Fantasy Mermaid**”) 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. (北海祖龍創業投資有限公司) 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.

7 INCOME TAX EXPENSE (CONTINUED)

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

Beihai Longhao Venture Capital Co., Ltd. (北海龍灝創業投資有限公司) was established in Beihai in January 2022, 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.

The State Taxation Administration of the PRC in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses (“**Super Deduction**”) from 1 January 2018 to 31 December 2020, and announced in March 2021 to extend this preferential claim percentage to 31 December 2023. The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the year.

8 LOSS PER SHARE

(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 periods.

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Loss attributable to owners of the Company (RMB’000)	(308,857)	(85,835)
Weighted average number of ordinary shares in issue (in thousands)	790,192	786,110
Less: weighted average number of treasury shares (in thousands)	(1,328)	–
Weighted average number of issued ordinary shares for calculating basic loss per share	<u>788,864</u>	<u>786,110</u>
Basic loss per share (in RMB/share)	<u>(0.39)</u>	<u>(0.11)</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 six months ended 30 June 2022 and 2021, the Company has two categories of dilutive potential ordinary shares: the restricted share unit (“**RSU**”) and the share options.

For the purpose of calculating diluted loss per share for the six months ended 30 June 2022 and 2021, RSUs and share options 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 six months ended 30 June 2022 and 2021.

9 TRADE RECEIVABLES

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Trade receivables	148,218	158,271
Less: allowance for impairment of trade receivables	<u>(2,268)</u>	<u>(2,337)</u>
Trade receivables – net	<u>145,950</u>	<u>155,934</u>

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

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Related parties	80,840	88,104
Third parties	<u>67,378</u>	<u>70,167</u>
	<u>148,218</u>	<u>158,271</u>

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

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
RMB	76,384	78,988
United States Dollar (“U.S. dollars”, “US\$”)	66,533	71,000
Hong Kong Dollar (“HK\$”)	<u>5,301</u>	<u>8,283</u>
	<u>148,218</u>	<u>158,271</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 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Up to 3 months	93,172	91,145
3 to 6 months	35,588	37,849
6 months to 1 year	19,458	27,853
Over 1 year	<u>–</u>	<u>1,424</u>
	<u>148,218</u>	<u>158,271</u>

9 TRADE RECEIVABLES (CONTINUED)

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

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
At beginning of the period	(2,337)	(5,267)
Provision for impairment	(14)	(405)
Reversal of impairment	<u>83</u>	<u>1,116</u>
At end of the period	<u><u>(2,268)</u></u>	<u><u>(4,556)</u></u>

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

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

10 TRADE AND OTHER PAYABLES

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
	Payroll liabilities	50,322
Trade payables	47,326	37,102
Tax payables	6,013	14,235
Asset procurement	1,587	5,195
Others	<u>3,638</u>	<u>7,852</u>
	<u><u>108,886</u></u>	<u><u>132,162</u></u>

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

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
	Related parties	13,828
Third parties	<u>33,498</u>	<u>25,653</u>
	<u><u>47,326</u></u>	<u><u>37,102</u></u>

10 TRADE AND OTHER PAYABLES (CONTINUED)

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

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Up to 6 months	31,460	26,766
6 months to 1 year	8,277	9,042
Over 1 year	7,589	1,294
	<u>47,326</u>	<u>37,102</u>

11 DIVIDEND

No dividend has been paid or declared by the Company for the Reporting Period (30 June 2021:Nil).

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
“China” or “PRC”	the People’s Republic of China
“Company”	Archosaur Games Inc. 祖龙娱乐有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 9990)
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Global Offering”	the initial public offering of the Shares for subscription by the public and the institutional, professional, corporate and other investors
“Group”, “we” or “us”	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)

“HK\$”	Hong Kong dollars, respectively, 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 period for the six months ended 30 June 2022
“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
“RSU(s)”	restricted share units granted pursuant to the RSU Scheme
“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 5 February 2022
“Share(s)”	ordinary share(s) of US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“SLG”	simulation games, which are generally designed to closely simulate aspects of a real or fictional reality

“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 for 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, 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 17.03% of our Shares as of the date of this Results Announcement
“Unreal Engine”	game engines developed by Epic Games
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

* *For identification purpose only*

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

Beijing, China, 26 August 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.