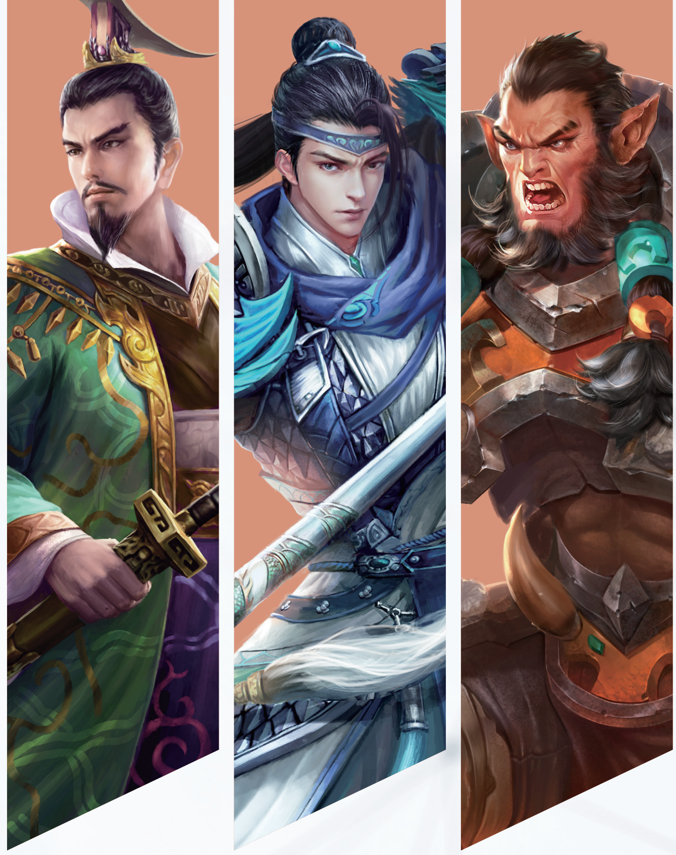
祖龙娱乐 ARCHOSAUR GAMES

祖龙娱乐有限公司
Archosaur Games Inc.

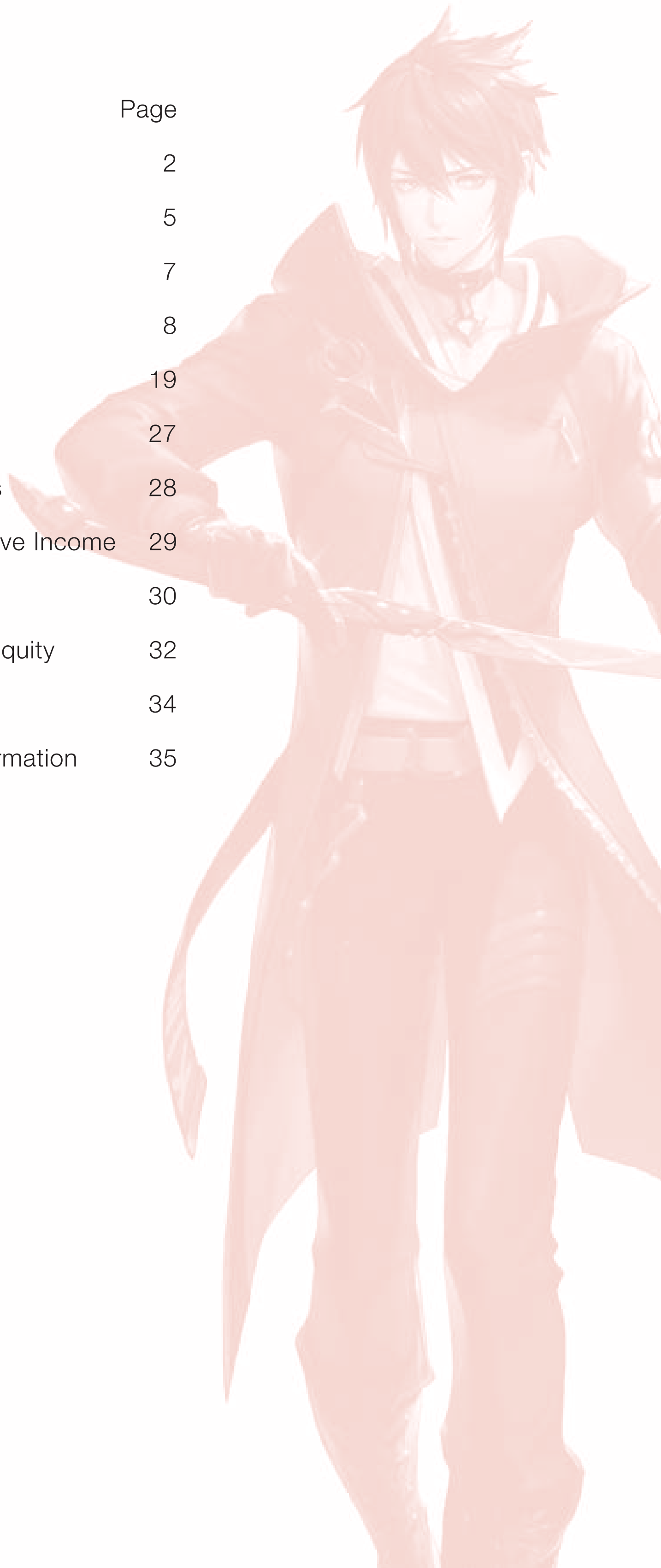
(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號 : 9990



INTERIM REPORT **2020** 中期報告

Contents



Definitions

In this interim report, 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
"Capitalization Issue"	the issue 497,959,184 Shares to be made upon the capitalization of part of the sum standing to the credit of the share premium account of our Company referred to in the section headed "Statutory and General Information – A. Further information about our Group – 4. Resolutions in writing of the shareholders of our Company passed on 24 June 2020" in Appendix IV to the Prospectus
"China" or "PRC"	the People's Republic of China, which unless otherwise stated, for the purpose of this interim report, excludes the Hong Kong, the Macau Special Administrative Region and Taiwan
"Company"	Archosaur Games Inc. 祖龙娱乐有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability whose Shares are listed and traded on the Main Board of the Stock Exchange (stock code: 9990)
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"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
"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

Definitions

"Huai'an Loong"	Huai'an Loong Technology Co., Ltd* (淮安祖龍科技有限公司), a company established under the laws of the PRC with limited liability on 19 August 2016, and by virtue of certain contractual arrangements, accounted for as our subsidiary
"IFRS"	the International Financial Reporting Standards
"Listing Date"	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 15 July 2020
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Listing"	listing of the Shares on the Main Board of the Stock Exchange
"LuckQ"	LuckQ Technology Limited, a BVI business company incorporated under the laws of the BVI with limited liability and one of the controlling Shareholders of the Company
"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
"Nomination Committee"	the nomination committee of the Company
"Perfect World"	Perfect World Co., Ltd.* (完美世界股份有限公司), a company established in the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002624)
"Perfect World Group"	Perfect World and/or its respective affiliate(s) and/or subsidiaries
"Perfect World Holding"	Perfect World Holding Group Co., Ltd.* (完美世界控股集團有限公司), a company established under the laws of the PRC with limited liability on 14 August 2013
"Perfect World Holding Group"	Perfect World Holding and/or its respective affiliate(s)
"Perfect World Interactive"	Perfect World Interactive Entertainment Co., Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability and holds 16.99% of the Shares as at the date of this interim report
"Prospectus"	the prospectus of the Company dated 30 June 2020
"Remuneration Committee"	the remuneration committee of the Company
"Reporting Period"	the period for the six months ended 30 June 2020

Definitions

"Risk Management Committee"	the risk management committee of the Company
"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
"Series C-1 Preferred Share(s)"	has the meaning ascribed to it in Note 23 to the interim condensed consolidated financial information of this interim report
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"Share(s)"	ordinary share(s) of US$0.00001 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed to it in the Listing Rules
"subsidiary(ies)"	for the purpose of this interim report, has the meaning ascribed to it in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and includes companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements
"Tencent"	Tencent Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be and holds 12.88% of the Shares as at the date of this interim report
"Tianjin Loong"	Tianjin Loong Technology Co., Ltd* (祖龍(天津)科技股份有限公司), a company established under the laws of the PRC with limited liability on 15 April 2015, and by virtue of some contractual arrangements, accounted for as our subsidiary
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent

* *For identification purpose only in this interim report*

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Qing *(Chairman and chief executive officer)*
Mr. Bai Wei

Non-executive Directors

Ms. Liu Ming
Mr. Yan Xinguang

Independent Non-executive Directors

Mr. Ge Xuan
Mr. Zhu Lin
Mr. Ding Zhiping

AUDIT COMMITTEE

Mr. Zhu Lin *(Chairman)*
Mr. Ge Xuan
Mr. Ding Zhiping

REMUNERATION COMMITTEE

Mr. Ge Xuan *(Chairman)*
Mr. Ding Zhiping
Mr. Li Qing

NOMINATION COMMITTEE

Mr. Li Qing *(Chairman)*
Mr. Ge Xuan
Mr. Ding Zhiping

RISK MANAGEMENT COMMITTEE

Mr. Ding Zhiping *(Chairman)*
Mr. Li Qing
Mr. Zhu Lin

JOINT COMPANY SECRETARIES

Ms. Hao Lili
Ms. Fok Po Yi

AUTHORIZED REPRESENTATIVES

Mr. Li Qing
Ms. Fok Po Yi

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
and Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

COMPLIANCE ADVISER

Red Solar Capital Limited
Unit 402B, 4/F, China Insurance Group Building
No. 141 Des Voeux Road Central
Central, Hong Kong

LEGAL ADVISERS

As to Hong Kong laws
William Ji & Co. LLP
in Association with
Tian Yuan Law Firm Hong Kong Office
Suite 702, 7/F
Two Chinachem Central
26 Des Voeux Road Central
Central, Hong Kong

Clifford Chance
27/F, Jardine House
One Connaught Place
Hong Kong

Corporate Information

REGISTERED OFFICE IN CAYMAN ISLANDS

Harneys Fiduciary (Cayman) Limited
4/F, Harbour Place
103 South Church Street, P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

HEADQUARTERS

4/F, No. 8 Hangxing Science Park
No.11 HePingLi East Street
Dongcheng District, Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Sunlight Tower
248 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Fiduciary (Cayman) Limited
4/F, Harbour Place
103 South Church Street, P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

China Merchants Bank Co., Ltd.
Tianjin Wuqing Branch
Basement Shop No. 695, Jiafeng Building
Yongyang West Road
Yangcun Town
Wuqing District, Tianjin
PRC

China Everbright Bank Co., Ltd
Deshengmen Branch
11th Floor, Beiguang Plaza
23 Huangsi Street
Xicheng District, Beijing
PRC

Industrial Bank Co., Ltd.
Beijing Haidian Branch
1st Floor, Beijing Aerospace CPMIEC Building
Haidian District, Beijing
PRC

Standard Chartered Bank (Hong Kong) Limited
3/F, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

COMPANY WEBSITE

www.zulong.com

STOCK CODE

9990

Financial Performance Highlights

	For the six months ended 30 June		
	2020	2019	Change
	RMB million	RMB million	%
	(Unaudited)	(Unaudited)	
Revenue	**601.9**	317.5	89.6%
Cost of revenue	**(148.5)**	(47.4)	213.3%
Gross profit	**453.4**	270.1	67.9%
Research and development expenses	**(227.6)**	(193.0)	17.9%
Selling and marketing expenses	**(98.7)**	(52.1)	89.4%
Administrative expenses	**(81.3)**	(21.7)	274.7%
Other income	**5.6**	5.7	(1.8%)
Other gains, net	**18.4**	4.9	275.5%
Operating profit	**69.8**	13.9	402.2%
Finance income	**2.2**	3.3	(33.3%)
Finance costs	**(9.0)**	(6.8)	32.4%
Finance costs, net	**(6.8)**	(3.5)	94.3%
Fair value changes on convertible redeemable preferred shares	**(856.9)**	(101.1)	747.6%
Loss before income tax	**(793.9)**	(90.7)	775.3%
Income tax credit/(expense)	**6.7**	(4.8)	(239.6%)
Loss for the period	**(787.2)**	(95.5)	724.3%
Non-IFRS measure:			
Adjusted net profit[(1)]	**151.6**	11.7	1,195.7%

Note:

(1) We define adjusted net profit as net (loss)/profit 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. 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.

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 across a diverse array of genres.

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

Our Existing Games

We mainly focus on mobile MMORPG development and offer a mature and strategically selective portfolio of top-rated mobile games with excellent market reception globally. As at the date of this interim report, we had launched 14 mobile games with over 60 regional versions in 14 languages available in more than 170 regional markets, such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. Our existing games achieved a number of "firsts" in China's mobile game industry: Loong Craft (六龍爭霸／六龍御天) as one of the first real 3D mobile MMORPG grand strategy wargames, Dragon Raja (龍族幻想) as China's first next generation real 3D mobile MMORPG powered by Unreal Engine 4, and Fantasy Zhuxian (夢幻誅仙) as one of the pioneering real 3D turn-based mobile MMORPGs. For the first half of 2020, we have kept a sustainable growth or performance for the games we are operating. For example, World of Kings (萬王之王3D) has been on a stable situation with good performance in revenue and ranking upon self-publishing one year ago in Europe and the Americas. Furthermore, we had successfully launched three new regional versions of Dragon Raja (龍族幻想) in Europe, the Americas, Japan and Southeast Asia and a new regional version of such game in Vietnam is expected to be launched in the second half of 2020. As at the date of this interim report, Dragon Raja (龍族幻想) contributed to our revenue growth and has achieved the following:

- It ranked first among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States and sat among the top ten mobile games based on iOS App Store downloads in eight regional markets in Europe.

- It notched a top 40 entry on the Top Grossing Chart of the iOS App Store in the United States within three months after launch in the Americas.

- It is the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014.

- It topped the Top Free Games Charts of both iOS App Store and Google Play in Thailand for eight consecutive days as well as the Top Free Games Chart of Google Play in Singapore for nine consecutive days.

Management Discussion and Analysis

Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, we expect to launch 8 mobile games domestically and globally over the period from 2020 to 2022, covering the genres of MMORPG, SLG and others. As at the date of this interim report, the table below sets out certain information regarding our new games expected to be launched for the periods indicated, including title, genre, IP source, development stage, expected launch date and major markets.

Title(1)	Mobile game genre(1)	IP source(1)	Development stage as at the date of this interim report(1)	Expected launch date(1)	Major markets(1)
2020					
Under the Firmament (鴻圖之下)	SLG	Original IP	Game Production	Q4, 2020	Mainland China and East Asia
The New World (夢想新大陸)	MMORPG	Original IP	Game Production	Q4, 2020	Mainland China
2021					
Noah's Heart (諾亞之心)	MMORPG	Original IP	Game Production	Q1, 2021	Worldwide
Sango Heroes (三國群英傳)	SLG	Licensed IP	Game Proposal	Q4, 2021	Worldwide
ProjectC(2)	SLG	–(2)	Game Production	Q4, 2021	Worldwide
2022					
ProjectA(2)(3)	Others	Original IP	Game Production	Q1, 2022	Worldwide
ProjectB(2)	MMORPG	Licensed IP	Game Production	Q1, 2022	Worldwide
ProjectD(2)	MMORPG	–(2)	Market Research and Game Proposal	Q4, 2022	Worldwide

Notes:

(1) The game pipeline is indicative as at the date of this interim report. The title, genre, expected launch date, major markets and other information of each game in the pipeline may be subject to further changes according to their respective development and preapproval status.

(2) The game title or IP status, as applicable, of the respective game is pending.

(3) We plan to integrate female-oriented game design in the game.

Management Discussion and Analysis

We recorded revenue of RMB601.9 million for the six months ended 30 June 2020, representing an increase of 89.6% as compared with RMB317.5 million for the corresponding period in 2019, which primarily attributable to (i) the growth in revenue generated from integrated game publishing and operation business, which was mainly brought by the growth of the existing games and the performance of the Group's featured new self-published games in overseas markets in the first half of 2020; and (ii) the fact that popular games of the Group which generated more profit for the year ended 31 December 2019 were mainly launched in the second half of 2019. Our games continued to achieve strong operating results and recorded outstanding performance. Since the Coronavirus disease ("**COVID-19**") outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and other countries in the world. However, due to the nature of the gaming industry and benefiting from the Company's sufficient hygiene measures and stable relationships with our suppliers and customers, the COVID-19 outbreak did not have any material adverse impact on our business operations, financial performance or working capital of our Company.

FINANCIAL REVIEW

REVENUE

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

	For the six months ended 30 June			
	2020 RMB million (Unaudited)	**% of total revenue**	2019 RMB million (Unaudited)	% of total revenue
Development and licensing	**291.0**	**48.3%**	250.8	79.0%
– Revenue share	**267.9**	**44.5%**	224.7	70.8%
– Non-refundable fixed licensing fees	**23.1**	**3.8%**	26.1	8.2%
Integrated game publishing and operation	**310.9**	**51.7%**	66.7	21.0%
Others[1]	**–**	**–**	0.0	0.0%
Total	**601.9**	**100.0%**	317.5	100.0%

Note:

(1) Others represent online game technology support and upgrade services we provided to other game developers.

Management Discussion and Analysis

For the six months ended 30 June 2020, our revenue from development and licensing was RMB291.0 million, representing an increase of 16.0% from RMB250.8 million for the corresponding period in 2019, and our revenue from integrated game publishing and operations was RMB310.9 million, representing an increase of 366.1% from RMB66.7 million for the corresponding period in 2019.

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

	For the six months ended 30 June			
	2020 RMB million (Unaudited)	**% of total revenue**	2019 RMB million (Unaudited)	% of total revenue
Domestic	**195.4**	**32.5%**	208.4	65.6%
Overseas	**406.5**	**67.5%**	109.1	34.4%
Total	**601.9**	**100.0%**	317.5	100.0%

For the six months ended 30 June 2020, for domestic market, the games in operation have been maintaining a stable performance, especially for Dragon Raja (龍族幻想), Fantasy Zhuxian (夢幻誅仙) and Love & Sword (御劍情緣); our revenue generated from markets outside mainland China accounted for 67.5% of our total revenue, representing an increase of 272.6%, which is in line with our shifted focus of integrated game publishing and operation business from mainland China to markets outside of mainland China.

Management Discussion and Analysis

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				
	2020		2019		Change
	RMB million	**%**	RMB million	%	(%)
	(Unaudited)		(Unaudited)		
Commissions charged by distribution channels and payment channels	**95.4**	**64.2%**	26.1	55.1%	265.5%
Revenue share to IP holders	**34.3**	**23.1%**	11.2	23.6%	206.3%
Bandwidth and servers custody fee	**9.8**	**6.6%**	2.8	5.9%	250.0%
Employee benefit expenses	**3.2**	**2.2%**	3.2	6.8%	0.0%
Depreciation and amortization charges	**3.9**	**2.6%**	3.5	7.4%	11.4%
Others	**1.9**	**1.3%**	0.6	1.2%	216.7%
Total	**148.5**	**100.0%**	47.4	100.0%	213.3%

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 increased to RMB148.5 million for the six months ended 30 June 2020 as compared with RMB47.4 million for the corresponding period in 2019, which was mainly attributable to an increase in commissions charged by distribution channels and payment channels as a result of the increase in revenue generated from integrated game publishing and operation business and revenue share to IP holders, which was in line with the increase in gross billings generated from games with licensed IP.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended 30 June 2020, the gross profit of the Group increased by 67.9% to RMB453.4 million as compared with RMB270.1 million for the corresponding period in 2019, mainly attributable to the growth in revenue. The gross margin of the Group decreased to 75.3% for the six months ended 30 June 2020 from 85.1% for the corresponding period in 2019, mainly attributable to an increase in revenue from integrated game publishing and operation as a percentage of our total revenue, taking into consideration that cost associated with integrated game publishing and operation business as a percentage to revenue from integrated game publishing and operation business is generally higher than cost associated with development and licensing business as a percentage to revenue from development and licensing business.

Management Discussion and Analysis

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 2020, our research and development expenses increased by 17.9% to RMB227.6 million as compared with RMB193.0 million for the corresponding period in 2019, mainly attributable to the increase in employee benefit expenses, including share-based compensation expenses, and 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 six months ended 30 June 2020, our selling and marketing expenses increased by 89.4% to RMB98.7 million as compared with RMB52.1 million for the corresponding period in 2019, mainly attributable to an increase in promotion and advertising expenses in line with the launch schedule of self-published games.

ADMINISTRATIVE EXPENSES

Our administrative expenses primarily consisted of (i) employee benefit expenses; (ii) share-based compensation expenses arising from the re-designation of ordinary shares into Series C-1 Preferred Shares; and (iii) listing expenses. For the six months ended 30 June 2020, our administrative expenses increased by 274.7% to RMB81.3 million as compared with RMB21.7 million for the corresponding period in 2019, mainly attributable to the occurrence of share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares and listing expenses, which is either non-cash items or non-recurring in nature.

OTHER INCOME

For the six months ended 30 June 2020, our other income decreased by 1.8% to RMB5.6 million as compared with RMB5.7 million for the corresponding period in 2019.

Management Discussion and Analysis

FINANCE 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 redemption liability and lease liabilities. For the six months ended 30 June 2020, our net finance costs increased by 94.3% to RMB6.8 million as compared with RMB3.5 million for the corresponding period in 2019, mainly attributable to the interest expenses accrued from lease liabilities.

OTHER GAINS, NET

Our other (losses)/gains primarily consist of (i) gains on financial assets at fair value through profit or loss; (ii) net foreign exchange (losses)/gains; and (iii) donation incurred. For the six months ended 30 June 2020, our net other gains of the Group increased by 275.5% to RMB18.4 million as compared with RMB4.9 million for the corresponding period in 2019, mainly attributable to an increase in foreign exchange gains for the six months ended 30 June 2020. Also a donation of RMB10.0 million was made during the corresponding period in 2019 which was non-recurring in nature.

INCOME TAX CREDIT/(EXPENSE)

Our income tax credit/(expense) consists of current income tax and deferred tax, and we incurred total income tax credit of RMB6.7 million for the six months ended 30 June 2020, compared with income tax expense of RMB4.8 million for the corresponding period in 2019. The management considered there were uncertainties regarding the future interpretation and implementation for the criteria as a Software Enterprise under the EIT law, therefore, a preferential income tax rate of 15% as a High and New Technology Enterprise was estimated for Huai'an Loong in 2019. According to the relevant tax circular updated by Ministry of Finance and State Administration of Taxation on 29 May 2020, Huai'an Loong qualified as a Software Enterprise for 2019 and 2020 and is in its first year of a two-year period of income tax exemption in 2019. As a result, a reversal of income tax of RMB11.8 million to reflect the first year of tax exemption of Software Enterprise was recorded for the six months ended 30 June 2020.

ADJUSTED NET PROFIT

The adjusted net profit for the six months ended 30 June 2020 increased by 1,195.7% to RMB151.6 million as compared with RMB11.7 million for the corresponding period in 2019. Such increase was primarily attributable to (i) the growth in revenue generated from integrated game publishing and operation business, which was mainly brought by the growth of the existing games and the performance of the Group's featured new self-published games in overseas markets for the six months ended 30 June 2020; and (ii) the fact that popular games of the Group which generated more profit for the year ended 31 December 2019 were mainly launched in the second half of 2019. Due to the fair value changes on convertible redeemable preferred shares based on the application of International Financial Reporting Standards, loss was recorded for the six months ended 30 June 2020. The Company believes that adjusted net profit for the six months ended 30 June 2020, as compared with the loss recorded by the Group based on the application of International Financial Reporting Standards, provides more useful information to Shareholders and potential investors in understanding and evaluating the operating results of the Group.

Management Discussion and Analysis

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 Company, and the net proceeds from the Listing, and after diligent and careful investigation, the Directors are of the view that the Group have sufficient working capital required for the Group's operations at present.

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

	For the six months ended 30 June		
	2020	2019	Change
	RMB million	RMB million	(%)
	(Unaudited)	(Unaudited)	
Net cash generated from operating activities	**277.9**	110.2	152.2%
Net cash used in investing activities	**(12.2)**	(176.9)	(93.1%)
Net cash used in financing activities	**(244.8)**	(10.2)	2,300.0%
Net increase/(decrease) in cash and cash equivalents	**20.9**	(76.9)	(127.2%)
Cash and cash equivalents at the beginning of the period	**728.3**	588.4	23.8%
Exchange gains on cash and cash equivalents	**4.3**	1.0	330.0%
Cash and cash equivalents at the end of the period	**753.5**	512.5	47.0%

Operating Activities

For the six months ended 30 June 2020, net cash generated from operating activities was RMB277.9 million, compared with RMB110.2 million for the corresponding period in 2019, representing an increase of 152.2%. The increase was mainly attributable to the subsequent collection of trade receivables as at 31 December 2019.

Investing Activities

For the six months ended 30 June 2020, net cash used in investing activities was RMB12.2 million, compared with RMB176.9 million for the corresponding period in 2019, representing a decrease of 93.1%. The decrease was mainly attributable to the proceeds from maturity of term deposits and fewer purchases of intangible assets during the six months ended 30 June 2020.

Financing Activities

For the six months ended 30 June 2020, net cash used in financing activities was RMB244.8 million, compared with RMB10.2 million for the corresponding period in 2019, representing an increase of 2,300.0%. The increase was mainly attributable to a declaration and payment of dividend, which is offset by the proceeds received from issuance of convertible redeemable preferred shares.

Management Discussion and Analysis

GEARING RATIO

As at 30 June 2020, our gearing ratio, which is calculated as total debt divided by total assets, was 163.4%, as compared with 91.1% as at 31 December 2019.

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 2020 and 2019, total capital expenditure amounted to RMB6.2 million and RMB19.4 million respectively, representing a decrease of 68.0%. The decrease was mainly attributable to fewer purchases of intangible assets during the six months ended 30 June 2020.

SIGNIFICANT INVESTMENTS HELD/FUTURE PLANS FOR SIGNIFICANT INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2020, there was no significant investment held by the Group or future plans for significant investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2020, there was no material acquisitions or disposal of subsidiaries, associates and joint ventures.

CHARGE ON ASSETS

As at 30 June 2020, no property, plant and equipment was pledged.

CONTINGENT LIABILITIES

As at 30 June 2020, we did not have any unrecorded significant contingent liabilities against us.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, we employed approximately 1,001 full-time staff in total. Substantially all of our employees are based in China, primarily at our headquarters in Beijing, with the remainder in Chengdu and Changchun.

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 on 1 April 2020. For details, please see "RSU Scheme" under the section "OTHER INFORMATION" in this interim report.

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 2020, most of transactions of the Group and our cash and cash equivalents were denominated in RMB and US$. 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 2020, the Group has not incurred any significant foreign currency exchange losses in its operations. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Management Discussion and Analysis

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. As at the date of this interim report, 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 THE REPORTING PERIOD

(1) 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. Immediately preceding the Listing, the Company has issued and allotted additional 497,959,184 Shares to then shareholders credited as fully paid at par value pursuant to the Capitalization Issue. The net proceeds from the Global Offering, after deduction of the underwriting commissions and other listing expenses which are incremental costs directly attributable to the issuance of the new shares, has increased net assets of the Group.

Upon the Listing, 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.

(2) 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.

Save as disclosed above, as at the date of this interim report, the Group did not have any significant events after the Reporting Period.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As the Company was not listed on the Stock Exchange as at 30 June 2020, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as at 30 June 2020.

As at the date of this interim report, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director or chief executive	Nature of interest	Number of Shares interested[(1)]	Approximate percentage of the Company's issued share capital[(2)]
Mr. Li Qing[(3)]	Interest in a controlled corporation	278,329,802	34.13%
Mr. Bai Wei[(4)]	Interest in a controlled corporation	15,447,304	1.89%

Notes:

(1) All interest stated are long positions.

(2) 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 percentages represented the number of Shares over the total issued share capital of the Company as at the date of this interim report of 815,510,000 Shares.

(3) These Shares were held by LuckQ which was wholly-owned by Mr. Li Qing. Accordingly, Mr. Li Qing was deemed to be interested in such Shares held by LuckQ for the purpose of Part XV of the SFO.

(4) These Shares were held by Wade Data Services Limited ("**Wade Data**") which was wholly-owned by Mr. Bai Wei. Accordingly, Mr. Bai Wei was deemed to be interested in such Shares held by Wade Data for the purpose of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As the Company was not listed on the Stock Exchange as at 30 June 2020, Divisions 2 and 3 of Part XV of the SFO and section 366 of the SFO were not applicable to the substantial shareholders of the Company as at 30 June 2020.

Other Information

So far as our Directors are aware, as at the date of this interim report, the following persons (other than Directors and chief executive of the Company) have interests or a short positions in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name of substantial shareholders	Nature of interest	Number of Shares interested[(1)]	Approximate percentage of the Company's issued share capital[(2)]
Cresc Chorus[(3)]	Beneficial owner	278,329,802	34.13%
LuckQ[(3)]	Interest in a controlled corporation	278,329,802	34.13%
Perfect World Interactive[(4)]	Beneficial owner	138,593,999	16.99%
Perfect Game Speed Company Limited[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Perfect Freedom Company Limited[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Beijing Perfect World Software Technology Development Co., Ltd.[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Perfect World Games Co., Ltd. (完美世界遊戲有限責任公司) ("**Perfect World Games**")[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Perfect World[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Mr. Chi Yufeng[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Image Frame[(5)]	Beneficial owner	105,077,999	12.88%
Tencent[(5)]	Interest in controlled corporation	105,077,999	12.88%
GIC Private Limited	Beneficial owner	53,793,000	6.60%
Green Particle	Beneficial owner	48,598,200	5.96%

Notes:

(1) All interests stated are long positions.

(2) 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 percentages represented the number of Shares over the total issued share capital of the Company as at the date of this interim report of 815,510,000 Shares.

(3) Based on the latest disclosure of interest form filed by each of Cresc Chorus, LuckQ and Mr. Li Qing, Cresc Chorus was owned as to 81.96% by LuckQ, which was in turn wholly owned by Mr. Li Qing. Accordingly, each of LuckQ and Mr. Li Qing was deemed to be interested in all the Shares held by Cresc Chorus by virtue of the SFO.

(4) Based on the latest disclosure of interest form filed by each of Perfect World Interactive, Perfect Game Speed Company Limited, Perfect Freedom Company Limited, Beijing Perfect World Software Technology Development Co., Ltd., Perfect World Games, Perfect World and Mr. Chi YuFeng. Perfect World Interactive was wholly owned by Perfect Game Speed Company Limited, which was in turn wholly owned by Perfect Freedom Company Limited, Perfect Freedom Company Limited was wholly owned by Beijing Perfect World Software Technology Development Co., Ltd., which was in turn wholly owned Perfect World Games. Perfect World Games was wholly owned by Perfect World, which was in turn owned as to 35.36% by Mr. Chi Yufeng. Accordingly, each of Perfect Game Speed Company Limited, Perfect Freedom Company Limited, Beijing Perfect World Software Technology Development Co., Ltd., Perfect World Games, Perfect World and Mr. Chi Yufeng was deemed to be interested in all the Shares held by Perfect World Interactive by virtue of the SFO.

(5) Based on the latest disclosure of interest form filed by Image Frame Investment (HK) Limited ("**Image Frame**") and Tencent, Image Frame was a wholly-owned subsidiary of Tencent. By virtue of the SFO, Tencent was deemed to be interested in all the Shares held by Image Frame.

Other Information

RSU SCHEME

On 1 April 2020, the Company adopted the RSU Scheme. As at 30 June 2020, 143 employees participated in the RSU Scheme. RSUs representing a total of 18,496,716 underlying Shares (representing approximately 2.27% of the total issued share capital of our Company as at the date of this interim report) were granted to the above participants.

The purpose of the RSU Scheme is to incentivize our Directors, senior management and employees of the Group for their contribution to our Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

Details of the RSUs granted under the RSU Scheme as at 30 June 2020 are set out below. None of the RSU participants in respect of the grant below is our Director, senior management of our Company or directors of our subsidiaries.

Position held in our Group (by department)	**Number of employees granted RSUs**	**Number of underlying Shares represented by RSUs**	**Date of grant**	**Approximate percentage of shareholding[(1)]**
Research and Development	121	13,691,580	1 April 2020	1.68%
		711,480	24 June 2020	0.09%
Publishing and Operation Center	6	635,040	1 April 2020	0.08%
Administration	16	3,458,616	1 April 2020	0.42%
Total	143	18,496,716		2.27%

Note:

(1) 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 calculation is based on the total issued share capital of the Company as at the date of this interim report of 815,510,000 Shares.

The grantees of the RSUs granted under the RSU Scheme as referred to in the table above are not required to pay for the grant of any RSU under the RSU Scheme.

Such RSUs shall (unless our Company shall otherwise determine and so notify the RSU participants in writing) vest as follows:

(i) 40% of which on the first trading day after the expiry of 12 months from the Listing Date;

(ii) 30% of which on the first trading day after the expiry of 24 months from the Listing Date; and

(iii) 30% of which on the first trading day after the expiry of 36 months from the Listing Date.

Other Information

The above RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. As of 30 June 2020, the Company did not have any share option schemes.

As of 30 June 2020, none of the RSUs so granted had been vested.

MOVEMENTS IN SHARE CAPITAL

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.

Save as disclosed above, there is no change to share capital of the Company from the Listing Date up to the date of this interim report.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the listed securities of the Company.

INTERIM DIVIDEND

The Board has resolved not to recommend payment of any interim dividend for the six months ended 30 June 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Li Qing is our executive Director, Chairman and the chief executive officer of our 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 our Group and has been instrumental to our Group's growth and business expansion since the establishment of our Group. Since Mr. Li Qing is one of the key persons for our Group's management, our 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 our Group and it is, on the contrary, beneficial to the management of our Group. In addition, the operation of the senior management of our Group and our Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Li Qing. Our 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 BY DIRECTORS

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 since the Listing Date and up to the date of this interim report.

Other Information

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to our Company and the knowledge of the Directors, our Company maintained sufficient public float during the period from the Listing Date and up to the date of this interim report.

BIOGRAPHICAL INFORMATION OF THE DIRECTORS AND SENIOR MANAGEMENT

As at the date of this interim report, biographical details of the Directors and senior management are set out below:

Executive Directors

Mr. Li Qing (李青), aged 45, is an executive Director, the chairman of the Board and the chief executive officer of our Company. He is responsible for the overall management, decision-making and strategy planning of our Group.

Mr. Li is our founder and has approximately 23 years' experience in game development. Prior to founding our Group, Mr. Li served as a chief design officer of e-Pie Entertainment & Technology Corporation (Beijing) (北京市歡樂億派科技有限公司) from August 2000 to March 2004, during which he was responsible for game development. Until September 2014, he served as a chief development officer in the Perfect World Group, during which he was responsible for game development. Mr. Li founded our Group in September 2014. He currently also holds directorships in several subsidiaries within our Group.

Mr. Li obtained a bachelor's degree in physics and a master's degree in nuclear energy science and engineering from Tsinghua University (清華大學) in Beijing in July 1997 and June 2000, respectively. In addition, Mr. Li also obtained an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.

Mr. Bai Wei (白瑋), aged 42, is an executive Director and the general manager of program center (程序中心) of our Company. He is primarily responsible for assisting in the overall management, strategic planning and decision-making of products research and development of our Group.

Mr. Bai has over 17 years of experience in the information technology and game industry. From April 2004 to January 2015, Mr. Bai was a senior management member in the Perfect World Group. Mr. Bai joined our Group in January 2015. Since March 2018, he has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Mr. Bai obtained a bachelor's degree and a master's degree in electrical engineering from Tsinghua University (清華大學) in Beijing in September 1999 and January 2002, respectively.

Non-executive Directors

Ms. Liu Ming (劉銘), aged 47, is a non-executive Director of our Company. She is primarily responsible for supervising the management of our Group.

Ms. Liu has extensive experience in the game industry. Before joining Tencent Games, she held executive positions in two other gaming companies. Ms. Liu has been working at Tencent Games, an online game platform operated by Tencent since November 2013, and currently serves as a vice president, overseeing the domestic and overseas distribution of mobile games of Tencent Games. Since March 2018, she has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Ms. Liu obtained a master's degree in pedagogy from East China Normal University (華東師範大學) in Shanghai in July 2000.

Other Information

Mr. Yan Xinguang (閆新廣), aged 46, is a non-executive Director of our Company. He is primarily responsible for supervising the management of our Group.

Mr. Yan has been working at the Perfect World Holding Group since April 2004 and currently serves as chairman at one of the subsidiaries within the Perfect World Holding Group. Since July 2018, he has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Mr. Yan obtained a bachelor's degree in auditing from Zhengzhou University (鄭州大學) in Zhengzhou in July 1997 and a master's degree in applied economics from Nankai University (南開大學) in Tianjin in December 2008. Mr. Yan is accredited as an intermediate accountant (中級會計師) by the Ministry of Finance of the PRC in May 2001 and has obtained the Board Secretary Qualification from the Shenzhen Stock Exchange (深圳證券交易所) in July 2014.

Independent non-executive Directors

Mr. Ge Xuan (葛旋), aged 48, is our independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgement.

Mr. Ge has extensive experience in the finance industry. Since June 2013, Mr. Ge has been serving as a director and general manager at Minsheng Tonghui Asset Management Co., Ltd. (民生通惠資產管理有限公司). From July 1993 to September 1998, he held different management positions in Guosen Securities Co., Ltd. (國信證券股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002736). From January 1999 to June 2000, he served as director of the trading and investment department and an assistant to the president at Bosera Asset Management Co., Limited (博時基金管理有限公司). From July 2000 to March 2002, he was an assistant to the president, director of the trading department and a member of the investment decision committee (投資決策委員會) and risk control committee at Penghua Fund Management Co., Ltd. (鵬華基金管理有限公司). From August 2002 to December 2003, he served as an investment director at Gold State Securities Co. Ltd. (金元證券股份有限公司). From December 2003 to October 2010, he served as a vice president and director at Huaxi Securities Co., Ltd. (華西證券股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002926). From September 2009 to June 2013, he held different management positions in Minsheng Life Insurance Co., Ltd. (民生人壽保險股份有限公司). From March 2014 to June 2019, he was an independent non-executive director of Ourgame International Holdings Limited (a company listed on the Stock Exchange, stock code: 6899).

Mr. Ge obtained a bachelor's degree in international trade from Shenzhen University (深圳大學) in Shenzhen in June 1993 and an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院) in Beijing in September 2010.

Mr. Zhu Lin (朱霖), aged 46, is our independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgement.

Mr. Zhu has extensive experience in accounting and financial consulting. From October 2003, he served as a senior manager at the mergers and acquisitions department of PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (Beijing Branch) (普華永道諮詢(深圳)有限公司北京分公司). Since October 2015, Mr. Zhu has been serving as a partner of Beijing Legendhouse CPAs (北京潤衡會計師事務所) and since March 2006, Mr. Zhu has been serving as a director of Beijing Legendhouse Consulting (北京潤勤諮詢有限公司).

Other Information

Mr. Zhu obtained a bachelor's degree in overseas financial accounting (會計系外國財務會計專門化) from the Central University of Finance and Finance and Economics (中央財經大學) in Beijing in June 1995. Mr. Zhu has been a member of the Chinese Institute of Certified Public Accountants since February 2000. Since March 2015, Mr. Zhu has been serving as an independent non-executive director of Tsaker Chemical Group Limited (彩客化學集團有限公司), a company listed on the Stock Exchange (stock code: 1986).

Mr. Ding Zhiping (丁治平), aged 60, is our independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgement.

Mr. Ding has over 40 years of work experience. Since April 2002, Mr. Ding has been working at Xinjiang International Industry Co., Ltd (新疆國際實業股份有限公司) where he is currently the chairman of the board of directors. From November 1995 to April 1997, he served as a senior engineer at Bank of China, Xinjiang Branch. From February 2002 to April 2002, he served as chairman of the board of directors and general manager at Xinjiang Foreign Economic and Trade Group Co., Ltd.* (新疆外經貿集團有限責任公司).

Mr. Ding obtained a bachelor's degree in computer science from the Hefei University of Technology (合肥工業大學) in Hefei in September 1987, a master's degree in business management from the Auckland Institute of Studies in Auckland, New Zealand in April 1999 and an executive master of business administration from the Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.

Senior Management

Mr. Li Qing (李青) is the chief executive officer of our Company. See the paragraph headed ''-Executive Directors'' above.

Mr. Zhang Yu (張羽), aged 43, is the chief technical officer and general manager of the engine center (引擎中心) of our Company. Mr. Zhang is responsible for leading the research and application of engine technology.

Mr. Zhang has extensive experience in the game industry. From March 2004 to January 2015, Mr. Zhang served as the program director of Studio I (工作一室) at the Perfect World Group. Mr. Zhang joined our Group in January 2015 and since then Mr. Zhang has been serving as the general manager of the engine center (引擎中心) of our Group.

Mr. Zhang obtained a bachelor's degree in electrical engineering from Tsinghua University (清華大學) in Beijing in July 2000.

Mr. Li Yi (李軼), aged 40, is the vice president and chief financial officer of our Company. Mr. Li is responsible for providing financial management and formulating financial strategies of our Group.

Mr. Li has extensive experience in accounting and financial management. From September 2001 to September 2011, Mr. Li worked at the audit department and the tax department of Ernst & Young (China) Advisory Limited Beijing Office in which his last position there was senior manager. From February 2013 to October 2015, Mr. Li served as a tax director (稅務總監) at the Perfect World Group. Mr. Li joined our Group in November 2015 and since then Mr. Li has been serving as the vice president and chief financial officer of our Group.

Other Information

Mr. Li obtained a bachelor's degree in accounting (Certified Public Accountant) from Capital University of Economics and Business (首都經濟貿易大學) in Beijing in July 2001. He is accredited as a Certified Tax Agent (註冊稅務師) by the Beijing Bureau of Human Resource and Social Security (北京市人力資源和社會保障局) in September 2009. He has obtained the Board Secretary Qualification from the Shenzhen Stock Exchange (深圳證券交易所) in April 2019.

Mr. Wu Shenghe (吳盛鶴), aged 38, is the executive president of our Company. He is mainly responsible for the Company's global business, project management and support, government affairs, public relationships and human resources functions.

Mr. Wu has extensive experience in global business development and organizational development. From 2005 to 2010, he served as talent and organization development manager at Kimberly-Clark (China) Co., Ltd. From 2010 to 2015, he served as senior human resources director at Perfect World (Beijing) Network Technology Co., Ltd. (完美世界（北京）網路技術有限公司). From 2013 to 2015, he served as general manager at Perfect World (Beijing) Network Technology Co., Ltd., Shanghai Branch. From 2015 to September 2020, he served as vice president of general management in our Company.

Mr. Wu obtained a bachelor's degree in Environmental Engineering from Beijing Forestry University (北京林業大學) in July 2005. He is also a certified coach of the International Coaching Federation.

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 interim report, the Audit Committee consists of three members, namely Mr. Zhu Lin, Mr. Ge Xuan and Mr. Ding Zhiping. Mr. Zhu Lin is the chairman of the Audit Committee.

REVIEW OF THE INTERIM REPORT

The Audit Committee has reviewed the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 and the interim report of the Group for the six months ended 30 June 2020. The Audit Committee has no disagreement with the accounting treatment in the unaudited interim financial statements and this interim report. In addition, the independent auditor of the Company, PricewaterhouseCoopers, has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2020.

By order of the Board
Mr. Li Qing
Chairman

Beijing, China, 28 August 2020

Report on review of Interim Financial Information

To the Board of Directors of Archosaur Games Inc.
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 68, which comprises the interim condensed consolidated balance sheet of Archosaur Games Inc. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2020 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

OTHER MATTER

The comparative information for the interim condensed consolidated balance sheet is based on the audited financial statements as at 31 December 2019. The comparative information for the interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 30 June 2020 has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Note	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	6	**601,945**	317,538
Cost of revenue	9	**(148,588)**	(47,441)
Gross profit		**453,357**	270,097
Research and development expenses	9	**(227,564)**	(192,980)
Selling and marketing expenses	9	**(98,656)**	(52,130)
Administrative expenses	9	**(81,311)**	(21,680)
Other income	7	**5,565**	5,669
Other gains, net	8	**18,383**	4,923
Operating profit		**69,774**	13,899
Finance income		**2,217**	3,322
Finance costs		**(9,023)**	(6,851)
Finance costs, net	10	**(6,806)**	(3,529)
Fair value changes on convertible redeemable preferred shares	23	**(856,843)**	(101,097)
Loss before income tax		**(793,875)**	(90,727)
Income tax credit/(expense)	11	**6,676**	(4,798)
Loss for the period		**(787,199)**	(95,525)
Loss attributable to:			
– Owners of the Company		**(787,199)**	(95,522)
– Non-controlling interests		**–**	(3)
		(787,199)	(95,525)
Loss per share attributable to owners of the Company for the period (in RMB/share)	12		
– Basic		**(2.46)**	(0.27)
– Diluted		**(2.46)**	(0.27)

The above interim condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Note	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Loss for the period		**(787,199)**	(95,525)
Other comprehensive income/(loss), net of tax:			
Items that may be reclassified to profit or loss			
Currency translation differences		**1,610**	47
Items that will not be reclassified to profit or loss			
Fair value changes on convertible redeemable preferred shares due to own credit risk	23	**(1,873)**	(3,102)
Total comprehensive loss for the period		**(787,462)**	(98,580)
Attributable to:			
– Owners of the Company		**(787,462)**	(98,577)
– Non-controlling interests		**–**	(3)
		(787,462)	(98,580)

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Balance Sheet

As at 30 June 2020

	Note	**As at 30 June 2020 RMB'000 (Unaudited)**	As at 31 December 2019 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	**11,522**	8,708
Right-of-use assets	16	**156,471**	41,968
Intangible assets	15	**40,001**	44,033
Prepayment, other receivables and other assets	18	**21,008**	20,261
Deferred tax assets		**8,939**	7,188
		237,941	122,158
Current assets			
Trade receivables	17	**390,187**	545,775
Prepayment, other receivables and other assets	18	**51,193**	33,318
Financial assets at fair value through profit or loss	19	**489,298**	330,968
Term deposits		**354**	142,663
Restricted cash		**2,832**	–
Cash and cash equivalents		**753,548**	728,318
		1,687,412	1,781,042
Total assets		**1,925,353**	1,903,200
Equity and liabilities			
Equity attributable to owners of the Company			
Combined capital		**–**	577,975
Share capital	20	**3**	–
Share premium	20	**2,024,241**	–
Other reserves	21	**(1,653,448)**	189,877
Accumulated losses		**(1,592,337)**	(597,750)
		(1,221,541)	170,102
Non-controlling interests		**–**	–
Total equity		**(1,221,541)**	170,102

Interim Condensed Consolidated Balance Sheet

As at 30 June 2020

	Note	**As at 30 June 2020 RMB'000 (Unaudited)**	As at 31 December 2019 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Contract liabilities		**10,619**	10,171
Lease liabilities	16	**125,300**	22,643
Convertible redeemable preferred shares	23	**2,551,964**	1,259,648
Other non-current liabilities	24	**166,038**	174,195
		2,853,921	1,466,657
Current liabilities			
Trade and other payables	25	**192,830**	156,864
Contract liabilities		**53,185**	62,375
Current income tax liabilities		**19,337**	32,582
Lease liabilities	16	**27,621**	14,620
		292,973	266,441
Total liabilities		**3,146,894**	1,733,098
Total equity and liabilities		**1,925,353**	1,903,200

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

The Interim Condensed Consolidated Financial Information on pages 28 to 68 were approved by the Board of Directors on 28 August 2020 and were signed on its behalf.

Li Qing
Director

Bai Wei
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Note	Combined capital RMB'000	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
(Unaudited)							
Balance at 1 January 2020		577,975	–	–	189,877	(597,750)	170,102
Comprehensive loss							
Loss for the period		–	–	–	–	(787,199)	(787,199)
Other comprehensive income/(loss)							
Items that may be reclassified to profit or loss							
Currency translation differences		–	–	–	1,610	–	1,610
Items that will not be reclassified to profit or loss							
Fair value changes on convertible redeemable preferred shares due to own credit risk	23	–	–	–	(1,873)	–	(1,873)
Total comprehensive loss		–	–	–	(263)	(787,199)	(787,462)
Transactions with owners in their capacity as owners							
Issuance of ordinary shares for Re-organization	20, 21	(577,975)	4	2,433,890	(1,855,915)	–	4
Re-designation of ordinary shares into Series C-1 Preferred Shares	20	–	(1)	(409,649)	–	–	(409,650)
Share-based compensation	22	–	–	–	16,636	–	16,636
Distribution to owners	21	–	–	–	(3,783)	3,783	–
Dividends	13	–	–	–	–	(211,171)	(211,171)
Total transactions with owners in their capacity as owners		(577,975)	3	2,024,241	(1,843,062)	(207,388)	(604,181)
Balance at 30 June 2020		–	3	2,024,241	(1,653,448)	(1,592,337)	(1,221,541)

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

		Attributable to owners of the Company					
	Note	Combined capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
(Unaudited)							
Balance at 1 January 2019		8,111	197,990	(152,240)	53,861	(1,011)	52,850
Comprehensive loss							
Loss for the period		–	–	(95,522)	(95,522)	(3)	(95,525)
Other comprehensive income/(loss)							
Items that may be reclassified to profit or loss							
Currency translation differences		–	47	–	47	–	47
Items that will not be reclassified to profit or loss							
Fair value changes on convertible redeemable preferred shares due to own credit risk	23	–	(3,102)	–	(3,102)	–	(3,102)
Total comprehensive loss		–	(3,055)	(95,522)	(98,577)	(3)	(98,580)
Transactions with owners in their capacity as owners							
Share reformation		569,864	(5,000)	(564,864)	–	–	–
Total transactions with owners in their capacity as owners		569,864	(5,000)	(564,864)	–	–	–
Balance at 30 June 2019		577,975	189,935	(812,626)	(44,716)	(1,014)	(45,730)

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cash flows from operating activities			
Cash generated from operations		**285,433**	113,258
Interest received		**1,457**	3,249
Income tax paid		**(9,039)**	(6,295)
Net cash generated from operating activities		**277,851**	110,212
Cash flows from investing activities			
Purchases of property, plant and equipment		**(3,885)**	(3,493)
Purchases of intangible assets		**(2,266)**	(15,889)
Purchases of wealth management products classified as fair value through profit or loss assets	19	**(1,598,550)**	(1,502,030)
Placements of restricted cash		**(2,832)**	–
Proceeds from maturity of wealth management products classified as fair value through profit or loss assets		**1,440,580**	1,336,110
Proceeds from maturity of term deposits		**144,231**	–
Interest income from term deposits		**1,931**	–
Investment income from wealth management products		**8,579**	8,437
Net cash used in investing activities		**(12,212)**	(176,865)
Cash flows from financing activities			
Proceeds from issuance of convertible redeemable preferred shares	23	**100,000**	–
Principal elements of lease payments	16	**(4,821)**	(9,572)
Dividends paid	13, 23, 24	**(332,500)**	–
Interest paid	16	**(2,162)**	(682)
Payment of listing expenses		**(5,295)**	–
Net cash used in financing activities		**(244,778)**	(10,254)
Net increase/(decrease) in cash and cash equivalents		**20,861**	(76,907)
Cash and cash equivalents at beginning of the period		**728,318**	588,391
Exchange gains on cash and cash equivalents		**4,369**	1,051
Cash and cash equivalents at end of the period		**753,548**	512,535

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

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").

In preparation for the initial public offering and listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group underwent a reorganization (the "Reorganization") to establish the Company as the ultimate holding company of the companies now comprising the Group which conduct the Group's Business. Details of the Group's Reorganization have been disclosed in the accountant's report (the "Accountant's Report") included in appendix I to the prospectus of the Company dated 30 June 2020 (the "Prospectus").

The Company's shares have been listed on the Stock Exchange since 15 July 2020 ("Listing").

This interim condensed consolidated financial information for the six months ended 30 June 2020 is presented in Renminbi and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated. This interim condensed consolidated financial information for the six months ended 30 June 2020 was approved on 28 August, 2020.

This interim condensed consolidated financial information for the six months ended 30 June 2020 has not been audited.

2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard ("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 combined financial statements for the three years ended 31 December 2017, 2018 and 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as set out in the Accountant's Report.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the combined financial statements of the Company for the three years ended 31 December 2017, 2018 and 2019, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below.

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

Note:

(a) Early application of the amendment is permitted.

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

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

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

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling RMB1,883,000 have been accounted for as negative variable lease payments and recognised in the statement of profit or loss for the six months ended 30 June 2020 (Note 9), with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of interim financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's combined financial statements for the three years ended 31 December 2017, 2018 and 2019.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Interim Condensed Consolidated Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Accountant's Report.

There have been no changes in the risk management policies since the latest year end.

5.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.2 Liquidity risk *(Continued)*

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At 30 June 2020 (Unaudited)					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 25)	152,038	–	–	–	152,038
Lease liabilities	34,309	34,151	103,797	–	172,257
Other non-current liabilities	–	–	192,551	–	192,551
	186,347	34,151	296,348	–	516,846
At 31 December 2019 (Audited)					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 25)	95,753	–	–	–	95,753
Lease liabilities	15,950	5,570	16,797	2,841	41,158
Other non-current liabilities	–	–	207,480	–	207,480
	111,703	5,570	224,277	2,841	344,391

As of 31 December 2019 and 30 June 2020, the maximum exposure from the redemption of capitals with preferred rights ("Preferred Shares") is the contractual redemption price, as described in Note 24.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at 31 December 2019 and 30 June 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

As at 31 December 2019 and 30 June 2020, none of the Group's financial liabilities and financial assets are measured at fair value using level 1 or level 2 inputs.

The following table presents the Group's financial assets and financial liabilities that are measured at fair value using level 3 inputs.

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Assets		
– Financial assets at fair value through profit or loss (Note 19)	**489,298**	330,968
Liabilities		
– Convertible redeemable preferred shares (Note 23)	**2,551,964**	1,259,648

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair value estimation *(Continued)*

The changes in level 3 instruments of financial assets at fair value through profit or loss and convertible redeemable preferred shares for the six months ended 30 June 2019 and 2020 have been disclosed in Note 19 and Note 23. There were no transfers among Levels 1, 2 and 3 during the periods.

The components of the level 3 instruments include investments in bank wealth management products and Preferred Shares. As these instruments are not traded in an active market, their fair values have been determined using applicable methodologies. The following table summarizes the quantitative about the significant unobservable inputs used in level 3 fair value measurement of the investments in bank wealth management products.

			Percent or ratio range		
	Valuation technique	**Significant unobservable inputs**	**As at 30 June 2020**	As at 31 December 2019	**Sensitive of fair value to the input**
Wealth management products	Discounted cash flow model	Expected rate of return	**2.70% to 4.00%**	2.78% to 3.90%	Increasing/decreasing expected rate of return by 50 basis points would increase/decrease fair value by RMB392,431, and RMB439,575 as at 31 December 2019 and 30 June 2020.

Major assumptions used in the valuation for convertible redeemable preferred shares are presented in Note 23. Fair value of convertible redeemable preferred shares is affected by changes in Tianjin Loong Technology Co., Ltd.'s (祖龍(天津)科技股份有限公司, "Tianjin Loong") equity value. If Tianjin Loong's equity value had increased/decreased by 10% with all other variables held constant, the loss for the six months ended 30 June 2019 would have been approximately RMB109,059,000 higher and RMB108,463,000 lower.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

6 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 2019 and 30 June 2020, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the six months ended 30 June 2019 and 2020 are as follows: the Group considered itself as an agent in arrangements of "development and licensing business" and "other business", and recorded revenue on a net basis; whereas, the Group considered itself as a principal in arrangements of "integrated game publishing and operation business", and recorded revenue on a gross basis.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Online game revenue		
– Development and licensing		
Revenue share	**267,874**	224,752
Non-refundable fixed licensing fees	**23,157**	26,060
– Integrated game publishing and operation	**310,914**	66,714
Others	**–**	12
	601,945	317,538
Online game revenue		
– Mobile Game	**601,945**	317,229
– PC Game	**–**	297
Others	**–**	12
	601,945	317,538
Timing of revenue recognition		
– At a point in time	**267,874**	224,764
– Over time	**334,071**	92,774
	601,945	317,538

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

6 SEGMENT INFORMATION AND REVENUE *(Continued)*

Revenues of approximately RMB243,806,000 and RMB290,774,000 for the six months ended 30 June 2019 and 2020, respective were derived from five largest single external customers.

During the six months ended 30 June 2019, revenues of approximately RMB143,987,000 and RMB55,255,000 were derived from respective single external customers each accounted for more than 10% of total revenue.

During the six months ended 30 June 2020, revenue of approximately RMB221,912,000 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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue segment by geography		
Domestic	**195,377**	208,445
Overseas	**406,568**	109,093
	601,945	317,538

7 OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants	**5,565**	5,669

Government grants received by certain subsidiaries were mainly related to their local development. Those grants are not stipulated with any specified uses, nor unfulfilled conditions or contingencies.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

8 OTHER GAINS, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gains on financial assets at fair value through profit or loss	**8,939**	13,146
Foreign exchange gains, net	**8,685**	1,788
Donation	**–**	(10,009)
Others	**759**	(2)
	18,383	4,923

9 EXPENSES BY NATURE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefit expenses	**209,043**	177,226
Share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares (Note 23)	**30,350**	–
Promotion and advertising expenses	**85,138**	43,357
Commissions charged by distribution channels and payment channels	**95,398**	26,051
Revenue share to the intellectual property ("IP") holders	**34,343**	11,231
Outsourced technical services	**32,825**	18,129
Depreciation and amortization charges (Note 14, 15, 16)	**22,786**	20,185
COVID-19-related rent concessions (Note 3, 16)	**(1,883)**	–
VAT input transfer out and tax surcharges	**2,317**	1,705
Utilities and office expenses	**5,420**	5,230
Bandwidth and servers custody fee	**9,796**	2,843
Travelling expenses	**1,975**	2,560
Provision for impairment of trade receivables	**(3,538)**	(141)
Listing expenses	**28,120**	–
Other professional consulting fees	**2,735**	2,241
Others	**1,294**	3,614
	556,119	314,231

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

10 FINANCE COSTS, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income	**2,217**	3,322
Finance costs		
Interest expenses accrued from redemption liability (Note 24)	**(6,771)**	(6,126)
Other interest expenses (Note 16)	**(2,162)**	(682)
Others	**(90)**	(43)
	(9,023)	(6,851)
Finance costs, net	**(6,806)**	(3,529)

11 INCOME TAX CREDIT/(EXPENSE)

The income tax credit/(expense) of the Group for the six months ended 30 June 2019 and 2020 is analyzed as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	**4,925**	(1,099)
Deferred tax	**1,751**	(3,699)
	6,676	(4,798)

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

11 INCOME TAX CREDIT/(EXPENSE) *(Continued)*

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

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

(b) Hong Kong Income Tax

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at rate of 16.5% on the assessable profits for the six months ended 30 June 2019 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 six months ended 30 June 2020, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong qualified as a "High and New Technology Enterprise" ("HNTE") for three years under the EIT Law in 2017 and was entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended 31 December 2017, 2018 and 2019. In 2020, Tianjin Loong is renewing its qualification as a HNTE and the management expects that Tianjin Loong will still be subject to a preferential income tax rate of 15% for the financial year.

Huai'an Loong Technology Co., Ltd. (淮安祖龍科技有限公司, "Huai'an Loong") qualified as a HNTE for three years under the EIT Law since 2018 and was entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended 31 December 2018 and 2019. Pursuant to the relevant tax circular in 2019, an entity that qualifies as a "Software Enterprise" is entitled to a two-year EIT exemption period, followed by a three-year period with 50% reduction in the applicable income tax rate, commencing from the first year of profitable operation after offsetting tax losses generating from prior years before 31 December 2018. As the first year of profitable operation of Huai'an Loong was 2019 and the management considered there were uncertainties regarding the future interpretation and implementation for the criteria as a Software Enterprise under the EIT law, a preferential income tax rate of 15% as a HNTE was estimated for Huai'an Loong in 2019. According to the relevant tax circular updated by Ministry of Finance and State Administration of Taxation on 29 May 2020, Huai'an Loong qualified as a Software Enterprise for 2019 and 2020 and is in its first year of a two-year period of income tax exemption in 2019. As a result, a reversal of income tax of RMB11.8 million to reflect the first year of tax exemption of Software Enterprise was recorded in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2020.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

11 INCOME TAX CREDIT/(EXPENSE) *(Continued)*

(c) PRC Enterprise Income Tax ("EIT") *(Continued)*

Horgos Loong Technology Development Co., Ltd. (霍爾果斯祖龍科技發展有限公司, "Horgos Loong") was incorporated in a special economic development zone under relevant PRC laws and regulations in 2017 and is entitled to a tax concession of exemption from EIT, which was deregistered on 1 April 2020.

12 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the Group's loss attributable to owners of the Company by the weighted average number of outstanding ordinary shares in issue during the periods. The weighted average number of ordinary shares for the purpose of calculating basic loss per share for both periods has been retrospectively adjusted for the Capitalization Issue (Note 29(a)).

	Six months ended 30 June	
	2020 **(Unaudited)**	2019 (Unaudited)
Loss attributable to owners of the Company (RMB'000)	**(787,199)**	(95,522)
Weighted average number of ordinary shares in issue (in thousands)	**320,267**	354,767
Basic loss per share (in RMB/share)	**(2.46)**	(0.27)

(b) Diluted loss per share

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. The Company has two categories of dilutive potential ordinary shares: Preferred Shares and the restricted share units ("RSUs"). As the Group incurred losses for the six months ended 30 June 2019 and 2020, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the six months ended 30 June 2019 and 2020 were the same as basic loss per share of the respective periods.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

13 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends declared and paid by Tianjin Loong to its then shareholders	**211,171**	–

Notes:

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

(b) The amount presented above does not include the dividends paid to the holders of convertible redeemable preferred shares of RMB106,400,000 (Note 23) and the shareholder with a put option of RMB14,929,000 (Note 24).

14 PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	**Furniture RMB'000**	**Leasehold improvements RMB'000**	**Total RMB'000**
Six months ended 30 June 2020 (Unaudited)				
Opening net book amount	**7,281**	**141**	**1,286**	**8,708**
Additions	**2,619**	**3**	**2,721**	**5,343**
Disposals	**–**	**–**	**–**	**–**
Depreciation charge	**(1,478)**	**(26)**	**(1,025)**	**(2,529)**
Closing net book amount	**8,422**	**118**	**2,982**	**11,522**
Six months ended 30 June 2019 (Unaudited)				
Opening net book amount	6,672	154	2,840	9,666
Additions	1,693	46	701	2,440
Disposals	–	–	–	–
Depreciation charge	(1,554)	(40)	(1,360)	(2,954)
Closing net book amount	6,811	160	2,181	9,152

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

15 INTANGIBLE ASSETS

	Software RMB'000	Copyrights and game licenses RMB'000	Trademark and domain names RMB'000	Total RMB'000
Six months ended 30 June 2020 (Unaudited)				
Opening net book amount	**18,917**	**24,992**	**124**	**44,033**
Additions	**1,872**	**–**	**–**	**1,872**
Amortisation charge	**(2,691)**	**(3,383)**	**(18)**	**(6,092)**
Currency translation differences	**188**	**–**	**–**	**188**
Closing net book amount	**18,286**	**21,609**	**106**	**40,001**
Six months ended 30 June 2019 (Unaudited)				
Opening net book amount	8,623	24,857	159	33,639
Additions	13,943	1,946	–	15,889
Amortisation charge	(2,414)	(3,169)	(18)	(5,601)
Closing net book amount	20,152	23,634	141	43,927

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

16 LEASES

(a) Amounts recognised in the interim condensed consolidated balance sheet

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Right-of-use assets		
Properties	**155,349**	41,527
Vehicles	**1,122**	441
	156,471	41,968

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Lease liabilities		
Current	**27,621**	14,620
Non-current	**125,300**	22,643
	152,921	37,263

Additions to the right-of-use assets during the year ended 31 December 2019 and six months ended 30 June 2020 were RMB26,922,000 and RMB128,668,000, respectively.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

16 LEASES *(Continued)*

(b) Amounts recognised in the interim condensed consolidated statement of profit or loss

The statement of profit or loss show the following amounts relating to leases:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation charge of right-of-use assets		
Properties	**13,700**	10,749
Vehicles	**465**	881
	14,165	11,630

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses (included in finance cost)	**2,162**	682
Expense relating to short-term leases (included in cost of revenue, research and development expenses, selling and marketing expenses and administrative expenses)	**100**	245
COVID-19-related rent concessions	**(1,883)**	–
	379	927

The total cash outflow for leases in the six months ended 30 June 2019 and 2020 was RMB10,254,000 and RMB6,983,000, respectively.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices and vehicles. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Extension options

Extension options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held are exercisable only by the Group and not by the respective lessor.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

17 TRADE RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	393,986	553,112
Less: allowance for impairment of trade receivables	(3,799)	(7,337)
Trade receivables – net	390,187	545,775

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Related parties (Note 27(c))	221,216	424,168
Third parties	172,770	128,944
	393,986	553,112

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
RMB	178,005	473,782
United States Dollar ("US$")	187,995	74,223
Hong Kong Dollar ("HK$")	27,986	5,107
	393,986	553,112

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

17 TRADE RECEIVABLES *(Continued)*

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 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Up to 3 months	**246,467**	230,963
3 to 6 months	**114,234**	282,397
6 months to 1 year	**31,780**	39,463
Over 1 year	**1,505**	289
	393,986	553,112

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
At beginning of the period	**(7,337)**	(3,088)
Provision for impairment	**(397)**	(283)
Reversal of impairment	**3,935**	424
At end of the period	**(3,799)**	(2,947)

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the interim condensed 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.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

18 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Included in non-current assets		
Prepaid revenue share to IP holders (Note (a))	**10,865**	18,868
Rental deposits	**9,224**	–
Others	**919**	1,393
	21,008	20,261
Included in current assets		
Recoverable value-added tax	**10,717**	3,633
Contract fulfilment costs	**13,797**	13,406
Prepaid revenue share to IP holders	**4,152**	176
Rental deposits	**120**	6,825
Interest receivable	**312**	1,485
Prepaid advertising expenses	**1,335**	8
Prepayment for listing expenses	**9,402**	1,289
Others	**11,358**	6,496
	51,193	33,318

Note:

(a) Prepaid revenue share to IP holders will be amortized to cost when the gross billings generated from games meet the pre-agreed threshold.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Investments in wealth management products (Note (a))	**489,298**	330,968

Movements in financial assets at fair value through profit or loss during the six months ended 30 June 2019 and 2020 are as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
At beginning of the period	**330,968**	531,197
Addition	**1,598,550**	1,502,030
Disposal	**(1,449,159)**	(1,344,547)
Realized and unrealized gains	**8,939**	13,146
At end of the period	**489,298**	701,826
Unrealized gains recognized in the interim condensed consolidated statement of profit or loss included in the above balance	**3,328**	6,197

Note:

(a) The Group purchased certain wealth management products issued by certain major commercial banks in the PRC. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on expected return of each wealth management products held by the Group.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

20 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares (Thousands)	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2020	–	–	–	–
Issuance of ordinary shares for Reorganization (Note (a))	60,335	4	2,433,890	2,433,894
Re-designation of ordinary shares into Series C-1 Preferred Shares (Note (b))	(9,000)	(1)	(409,649)	(409,650)
At 30 June 2020 (Unaudited)	51,335	3	2,024,241	2,024,244

Notes:

(a) On 2 January 2020, as part of the Reorganization, the Company was incorporated with an authorized share capital of US$50,000 divided into 5,000,000,000 shares with a par value of US$0.00001 each. On the same day, following the Company's issue of one share to Harneys Fiduciary (Cayman) Limited, an independent third party, which was subsequently transferred to Cresc Chorus Limited ("Cresc Chorus"), the Company was owned as to (i) 56,335,000 ordinary shares by Cresc Chorus; (ii) 8,265,000 ordinary shares by Green Particle Limited; and (iii) 5,000,000 shares by Smooth Ebony Limited ("Smooth Ebony"). Smooth Ebony acts as the holding company to hold the shares on trust under the restricted shares unit scheme ("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 (Note 24).

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

(b) On 4 March 2020, Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive Entertainment Co., Ltd. ("Perfect World Interactive") and Image Frame Investment (HK) Limited ("Image Frame") 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.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

21 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserve RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	**4,678**	**8,783**	**199,000**	**(1,166)**	**(21,418)**	**189,877**
Issuance of ordinary shares for Reorganization	**(1,855,915)**	**–**	**–**	**–**	**–**	**(1,855,915)**
Fair value changes of convertible redeemable preferred shares due to own credit risk (Note 23)	**–**	**–**	**–**	**–**	**(1,873)**	**(1,873)**
Share-based compensation	**–**	**–**	**16,636**	**–**	**–**	**16,636**
Distribution to owners	**–**	**(3,783)**	**–**	**–**	**–**	**(3,783)**
Currency translation differences	**–**	**–**	**–**	**1,610**	**–**	**1,610**
At 30 June 2020 (Unaudited)	**(1,851,237)**	**5,000**	**215,636**	**444**	**(23,291)**	**(1,653,448)**
At 1 January 2019	4,678	13,783	199,000	(1,508)	(17,963)	197,990
Share reformation	–	(5,000)	–	–	–	(5,000)
Fair value changes of convertible redeemable preferred shares due to own credit risk (Note 23)	–	–	–	–	(3,102)	(3,102)
Currency translation differences	–	–	–	47	–	47
At 30 June 2019 (Unaudited)	4,678	8,783	199,000	(1,461)	(21,065)	189,935

22 SHARE-BASED PAYMENTS

On 1 April 2020, to incentivize directors, senior management and employees, a RSU Scheme was approved and adopted by the Company. Smooth Ebony was incorporated to hold 5,000,000 ordinary shares (in equivalent to 29,400,000 underlying shares upon the completion of the Capitalization Issue described in the Prospectus). 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.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

22 SHARE-BASED PAYMENTS *(Continued)*

Movements in the number of RSUs granted and underlying shares represented by RSUs after taking into account the Capitalization Issue for the six months ended 30 June 2020 are as follows:

	Number of RSUs (Unaudited)	Number of underlying shares represented by RSUs (Unaudited)
At 1 January 2020	–	–
Granted	3,180,700	18,702,516
Forfeited	(35,000)	(205,800)
At 30 June 2020	3,145,700	18,496,716

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

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

	As at 1 April 2020
Discount rate	17.00%
Risk-free interest rate	0.63%
Volatility	62.47%
Fair value per RSU	45.97

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

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

22 SHARE-BASED PAYMENTS *(Continued)*

For the six months ended 30 June 2020, share-based compensation expenses arising from the RSUs granted by the Company have been charged to the interim condensed consolidated statement of profit or loss as follows:

	Six months ended 30 June 2020 RMB'000 (Unaudited)
Cost of revenue	**154**
Administrative expenses	**3,173**
Selling and marketing expenses	**648**
Research and development expenses	**12,661**
	16,636

23 CONVERTIBLE REDEEMABLE PREFERRED SHARES

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

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

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

23 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

23 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

23 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

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

	RMB'000 (Unaudited)
At 1 January 2020	**1,259,648**
Issuance of Series C-1 and C-2 Preferred Shares	**540,000**
Changes in fair value	**858,716**
Includes: change in fair value due to own credit risk	**1,873**
Dividend declared and paid	**(106,400)**
At 30 June 2020	**2,551,964**
Total unrealized gains and change in fair value for the period included in "Fair value loss of convertible redeemable preferred shares"	750,443
At 1 January 2019	1,043,738
Changes in fair value	104,199
Includes: change in fair value due to own credit risk	3,102
At 30 June 2019	1,147,937
Total unrealized gains and change in fair value for the period included in "Fair value loss of convertible redeemable preferred shares"	101,097

The offering price of the Company's shares upon Listing has been used to estimate the fair value of the Preferred Share as at 30 June 2020.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

23 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

The Group engaged a third party appraisal firm to support its determination of the fair value of Preferred Shares as of the dates of issuance and as of 30 June 2019. The discounted cash flow method was used to determine the underlying share value of Tianjin Loong/the Company and equity allocation model was adopted to determine the fair value of the Preferred Shares. Key valuation assumptions used to determine the fair value of Preferred Shares are as follows:

	As at 30 June 2019	**As at the date of issuance of Series C-1 and C-2 Preferred Shares (4 March 2020)**
Discount rate	18.00%	**17.00%**
Risk-free interest rate	2.67%	**0.75%**
Volatility	49.19%	**52.78%**

Discount rate was estimated by weighted average cost of capital as of each valuation date. Risk-free interest rate was estimated based on the yield of China Government Bond with a maturity life equal to the expected terms for an exit event as of the valuation date of 30 June 2019 and based on the yield to maturity of Hongkong Exchange Fund Bills and Notes for valuation date of 4 March 2020 with a term close to the expected IPO date. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to exit. Probability weight under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Group's projections of future performance were also factored into the determination of the fair value of Preferred Shares on the valuation date.

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

24 OTHER NON-CURRENT LIABILITIES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Redemption liability in relation to a put option granted to a shareholder (Note (a))	**166,038**	174,195

Note:

(a) On 24 August 2018, Beijing Loong and Perfect World Games entered into an equity transfer agreement, pursuant to which Perfect World Games agreed to transfer 4.49% equity interests in Tianjin Loong ("Transferred Capitals"), to Beijing Loong at a consideration of RMB157,150,000 ("Transaction Price"). After the closing of the transaction, the Transferred Capitals were held as capitals with a put option to be sold back to Tianjin Loong in the event that a QIPO shall fail to take place within the period of four years from the date of payment of the Transaction Price, at a price equivalent of the Transaction Price minus dividends received during the period the Transferred Capitals were held by Beijing Loong, plus an eight percent per annum simple interest, and any declared but unpaid dividends thereon ("Redemption Price"). Accordingly, the Group recognized such redemption liability at present value of the Redemption Price in the amount of RMB152,472,000. The difference between such amount and the fair value of the Transferred Capitals was treated as deemed capital contribution. The interests accrued on the redemption liability were recorded as finance costs (Note 10). The dividend declared and paid to Beijing Loong in relation to the redemption liability was RMB14,929,000 in 2020.

On 10 March 2020, in relation to the completion of the Reorganization, the capitals with a put option issued by Tianjin Loong were replaced by the issuance of the ordinary shares of the Company with the same put option as that issued by Tianjin Loong. On 15 July 2020, upon the successful Listing of the Company, the redemption liability of the Company was derecognized.

25 TRADE AND OTHER PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables	**122,183**	84,831
Payroll liabilities	**31,786**	51,048
Tax payables	**9,006**	10,063
Listing expenses	**17,608**	4,717
Others	**12,247**	6,205
	192,830	156,864

25 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Related parties (Note 27(c))	**27,514**	18,191
Third parties	**94,669**	66,640
	122,183	84,831

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Up to 6 months	**63,897**	72,946
6 months to 1 year	**47,616**	10,269
Over 1 year	**10,670**	1,616
	122,183	84,831

26 COMMITMENTS

(a) Capital Commitments

The Group had the following capital commitments under non-cancelable purchase agreements at the end of each reporting period.

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Intangible assets	**30,442**	29,998

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

26 COMMITMENTS *(Continued)*

(b) Operating lease commitments

The Group has non-cancelable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at 31 December 2019 and 30 June 2020 is similar to the portfolio of short-term lease to which the short-term lease expenses is disclosed in Note 16.

27 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during the periods presented.

Company	Relationship
Shenzhen Tencent Computer Systems Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Beijing Perfect World Software Technology Development Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Chengdu Perfect World Network Technology Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Tencent Cloud Computing (Beijing) Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Sixjoy Hong Kong Limited	Subsidiary of a shareholder that has significant influence on the Group

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

27 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant transactions with related parties

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Provision of services:		
Shenzhen Tencent Computer Systems Company Limited	**155,060**	143,987
Sixjoy Hong Kong Limited	**66,852**	–
	221,912	143,987

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchase of services:		
Chengdu Perfect World Network Technology Co., Ltd.	**5,792**	6,693
Beijing Perfect World Software Technology Development Co., Ltd.	**3,420**	4,569
Shenzhen Tencent Computer Systems Company Limited	**477**	1,142
Tencent Cloud Computing (Beijing) Company Limited	**1,963**	1,447
	11,652	13,851

(c) Period/year end balances with related parties

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables from related parties:		
Shenzhen Tencent Computer Systems Company Limited	**154,796**	424,168
Sixjoy Hong Kong Limited	**66,420**	–
	221,216	424,168

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

27 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Period/year end balances with related parties *(Continued)*

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and interest-free.

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Contract liabilities to related parties:		
Shenzhen Tencent Computer Systems Company Limited	**943**	2,358
Sixjoy Hong Kong Limited	**9,734**	5,244
	10,677	7,602

The contract liabilities to related parties arise from trade transactions.

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables to related parties:		
Beijing Perfect World Software Technology Development Co., Ltd.	**9,059**	6,025
Chengdu Perfect World Network Technology Co., Ltd.	**18,075**	11,944
Tencent Cloud Computing (Beijing) Company Limited	**380**	222
	27,514	18,191

Notes to the Interim Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

27 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

Key management includes executive directors and other members of the Company's senior management team. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Wages, salaries and bonuses	**3,636**	3,712
Other social security costs and housing benefits and other employee benefits	**133**	159
Pension costs – defined contribution plans	**19**	120
	3,788	3,991

28 CONTINGENCIES

The Group did not have any material contingent liabilities as at 31 December 2019 and 30 June 2020.

29 SUBSEQUENT EVENTS

Save as disclosed in the report, significant events that take place subsequent to 30 June 2020 are as follows:

(a) 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. Immediately preceding the Listing, the Company has issued and allotted additional 497,959,184 shares to then shareholders credited as fully paid at par value pursuant to the Capitalization Issue described in the Prospectus. The net proceeds from the global offering, after deduction of the underwriting commissions and other listing expenses which are incremental costs directly attributable to the issuance of the new shares, has increased net assets of the Group.

Upon the Listing, 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.

(b) 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 the offering price of HK$11.60 per share.

祖龙娱乐
ARCHOSAUR GAMES

祖龙娱乐有限公司
Archosaur Games Inc.