

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

2022
Interim Report
中 期 報 告



Contents

	Page
Definitions	2
Corporate Information	6
Financial Performance Highlights	8
Management Discussion and Analysis	9
Other Information	24
Report on Review of Interim Financial Information	32
Interim Condensed Consolidated Statement of Profit or Loss	33
Interim Condensed Consolidated Statement of Comprehensive Income	34
Interim Condensed Consolidated Balance Sheet	35
Interim Condensed Consolidated Statement of Changes In Equity	37
Interim Condensed Consolidated Statements of Cash Flows	39
Notes to the Interim Condensed Consolidated Financial Information	41



Definitions

In this interim report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Adoption Date”	5 February 2021, being the date on which the Share Option Scheme was adopted by the Shareholders at the extraordinary general meeting of the Company held on Friday, 5 February 2021
“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“China” or “PRC”	the People’s Republic of China
“Company” or “Archosaur Games”	Archosaur Games Inc. 祖龙娱乐有限公司, 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
“Eligible Employee”	any full-time employee (excluding any director) of the Company and any subsidiary
“Eligible Participant(s)”	any Eligible Employee who may be invited by the Board to take up Options
“EVA”	EVANGELION, a Japanese mecha anime television series
“Exercise Price”	the price per Share at which a Grantee may subscribe for the Shares on the exercise of an Option
“Global Offering”	the initial public offering of the Shares for subscription by the public and the institutional, professional, corporate and other investors
“Grantee”	any Eligible Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or (where the context so permits) his Personal Representative(s) who is/are entitled to any Option in consequence of the death of the original Grantee

Definitions

“Group”, “we” or “us”	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted for as the subsidiaries of the Company by virtue of certain contractual arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 15 July 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“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
“Macao”	the Macao Special Administrative Region of the PRC
“MMO”	massively multiplayer online game, a genre of online games in which a player interacts with a large number of other players
“MMORPG”	massively multiplayer online role-playing game, a genre of games that combine role-playing games and massively multiplayer online games in which a large number of players interact with one another within a virtual world
“Model Code”	the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
“Offer”	an offer for the grant of an Option
“Option”	an option to subscribe for the Shares granted pursuant to the Share Option Scheme

Definitions

“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 Games”	Perfect World Games Co., Ltd.* (完美世界遊戲有限責任公司), a company established under the laws of the PRC with limited liability on 14 November 2008
“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 16.33% of the Shares as at 30 June 2022
“Prospectus”	the prospectus of the Company dated 30 June 2020
“Reporting Period”	the period for the six months ended 30 June 2022
“RMB”	Renminbi, the lawful currency of the PRC
“RSU Scheme”	the restricted share unit scheme of our Company in its present form or may be amended from time to time which was approved and adopted by the Board on 1 April 2020
“RSU(s)”	restricted share units granted pursuant to the RSU Scheme
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Share Option Scheme”	the share option scheme in its present form or as may be amended from time to time which was adopted by the Company on the Adoption Date
“Share(s)”	ordinary share(s) of US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“SLG”	simulation games, a genre of games that attempt to emulate various activities from real life in the game format

Definitions

“SOC”	survival, open world and crafting games, a genre of games in which players have a real survival experience and craft contents freely in a virtual open world
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	for the purpose of this 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
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Tencent”	Tencent Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be and holds 16.96% of the Shares as at 30 June 2022
“Unreal Engine 4” and “Unreal Engine 5”	game engines developed by Epic Games
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

* 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. Lu Xiaoyin

Independent Non-executive Directors

Mr. Bai Kun
Mr. Zhu Lin
Mr. Ding Zhiping

AUDIT COMMITTEE

Mr. Zhu Lin (*Chairman*)
Mr. Bai Kun
Mr. Ding Zhiping

REMUNERATION COMMITTEE

Mr. Bai Kun (*Chairman*)
Mr. Ding Zhiping
Mr. Li Qing

NOMINATION COMMITTEE

Mr. Li Qing (*Chairman*)
Mr. Bai Kun
Mr. Ding Zhiping

RISK MANAGEMENT COMMITTEE

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

JOINT COMPANY SECRETARIES

Ms. Hao Lili
Ms. Zhang Xiao

AUTHORIZED REPRESENTATIVES

Mr. Li Qing
Ms. Zhang Xiao

AUDITOR

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

LEGAL ADVISERS

As to Hong Kong laws
Tian Yuan Law Firm LLP
Suites 3304-3309
33/F, Jardine House
One Connaught Place
Central, Hong Kong

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

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

Corporate Information

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

Note:

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

Management Discussion and Analysis

BUSINESS REVIEW

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

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

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

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

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

Our Existing Games

We mainly focus on the development for mobile MMORPGs, SLGs, female-oriented games, shooting games and other genres, and offer a high-quality and diversified mobile games portfolio with excellent market reputation. As at 30 June 2022, we had launched 17 high-quality mobile games with over 70 regional versions in 14 languages available in more than 170 regional markets, including Hong Kong, Macao, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. The cumulative number of global registered players of 12 mobile games in operation had surpassed 140 million, among which (i) the global cumulative gross billings generated by 1 mobile game had exceeded RMB4 billion; (ii) the global cumulative gross billings generated by 3 mobile games had exceeded RMB3 billion; (iii) the global cumulative gross billings generated by 6 mobile games had exceeded RMB1 billion; and (iv) the gross billings generated by 7 mobile games had exceeded RMB100 million in the first month after they were launched.

Management Discussion and Analysis

Dragon Raja (龍族幻想) is the first next generation real 3D mobile MMORPG developed by Unreal Engine 4 in China. The game had been a huge success in mainland China and had performed exceptionally well outside of mainland China. Through continuous version updates, effective market promotion, collaboration with international IP “EVA”, the game maintained a stable long-term performance during two years after its launch in Europe and the Americas and Southeast Asia. As at 30 June 2022, the cumulative gross billings of the game had exceeded RMB4 billion and the cumulative number of global registered players of the game was more than 41.6 million.

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

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

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

Management Discussion and Analysis

Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, 10 game products are expected to be launched globally over the period from the second half of 2022 to 2024, covering the genres of MMORPG, SLG, female-oriented games, shooting games, strategy card games and others.

As at the date of this interim report, the table below sets out certain information regarding our new games which are expected to be launched for the periods indicated, including title, genre, IP source, development stage, expected launch year and major markets.

Title ⁽¹⁾	Genre ⁽¹⁾	IP source ⁽¹⁾	Development stage as at the date of this interim report ⁽¹⁾	Expected launch year ⁽¹⁾	Major markets ^{(1) (5)}
2022					
Avatar: Reckoning	MMORPG + Shooting	Licensed IP	Game Production	2022	Worldwide
Life Makeover (以閃亮之名) ⁽²⁾	Female Oriented Game	Original IP	Game Production	2022	Worldwide
Age of Chaos ⁽³⁾	SLG	Original IP	Game Production	2022	Worldwide
2023					
Sango Heroes (三國群英傳)	SLG	Licensed IP	Game Production	2023	Asia
Project Code: IM ⁽⁴⁾	Strategy Card Game	Original IP	Game Production	2023	Asia
Project Code: SE ⁽⁴⁾	Strategy Card Game +	Original IP	Game Production	2023	Worldwide
2024					
Project D ⁽⁴⁾	MMORPG	- ⁽⁴⁾	Game Proposal	2024	Worldwide
Project Code: Reborn ⁽⁴⁾	Open World Role-Playing Game +	Original IP	Game Production	2024	Worldwide
Project E ⁽⁴⁾	Strategy Card Game	Licensed IP	Game Proposal	2024	Worldwide
Project Code: Seed ⁽⁴⁾	SOC	- ⁽⁴⁾	Game Production	2024	Worldwide

Notes:

- (1) The game pipeline is for indicative purpose only as at the date of this interim report. The title, genre, expected launch year, major markets, IP source and other information of each game in the pipeline may be subject to further changes according to their respective development plans and pre-approval status.
- (2) The English title of Glamorous Secrets (以閃亮之名) has been changed to "Life Makeover". Life Makeover (以閃亮之名) has been launched on 28 July 2022 in Hong Kong, Macao, Taiwan, Singapore and Malaysia, and is expected to be released successively in mainland China and Japan in the second half of 2022.
- (3) The original project code: Sigmar has now been determined to be Age of Chaos.
- (4) The game title or IP status, as applicable, of the respective game is pending as at the date of this interim report.
- (5) The major markets refer to target publishing markets. The games will be launched successively in different regions according to their respective publishing plans.

Management Discussion and Analysis

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

Avatar: Reckoning is an innovative product that combines MMORPG and shooting. The release of this product also means that Archosaur Games has stepped into the track of multiplayer online shooting game genre. In the game, players can level up their Avatar character, equip weapons and complete various character development through the development of the game. Meanwhile, they can explore the stunning world of Pandora by choosing from a variety of professions for single player story missions, strategic teamwork, large battlefields and secret areas, and enjoy a shooting experience that combines player-vs-environment (PvE) and player-vs-player (PvP) modes. The game was first tested overseas in January 2022 and received a lot of positive feedback. On 27 June 2022, the game was first exposed in the mainland China market, which obtained a lot of media exposure and high market attention. With “Avatar” being the world’s top-notch IP, Archosaur Games equipped with top-notch research and development capabilities on mobile platform game, and Tencent possessing the top-notch publishing capabilities on mobile platform game, the absolute advantages of the integrated “IP-R&D-Publishing” are expected to be fully displayed and reflected in this product.

Life Makeover (以閃亮之名) is an ultra-free fashionable female-oriented game which was developed by new generation of female producer and has attained the top level on the mobile platform both in terms of on-screen precision and material texture complexity. The game covers a wealth of gameplay, including dress-up, make-up, face and body customization, plot advancement, home construction, etc., and is committed to organically combining the authenticity and freedom of the game, to create an ultra-high quality UGC platform featuring feminine creations, and is our sincere work to first extend into the female-oriented genre. The game was officially launched in Hong Kong, Macao, Taiwan, Singapore and Malaysia on 28 July 2022, and topped the Top Free Games Chart of the iOS App Store on the first day of its launch in these five regions and the Google Play Top Chart in Hong Kong, Macao and Taiwan. The game was ranked in the top two, three and four of the Bestsellers Chart of the iOS App Store respectively within a month of its launch in Hong Kong, Macao and Taiwan. As at mid-August 2022, the game has obtained more than 2 million pre-orders on TapTap, and the pre-orders of the game has exceeded 8.5 million on official website of mainland China. The game is scheduled to be successively launched in a variety of countries and regions in the second half of 2022.

Age of Chaos is another mobile SLG to be launched for the global market following Under the Firmament (鴻圖之下). The game is derived from an original IP of Western fantasy themes, adopting the American cartoon style which highlights its character of internationalization and broadens the target users. The game adopts a combination of management simulation, free march in large sandbox and real time strategy combat, and introduces a deeper MMO experience in the SLG genre, making the game even more fulfilling. We will adopt a global self-publishing approach first abroad and then at home, and various pre-launch marketing campaigns and promotions are in full swing. The game has been tested three times on TapTap in mainland China and for the first time overseas, and has received a lot of positive feedback.

Management Discussion and Analysis

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

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

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

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

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

During the Reporting Period, we recorded revenue of RMB329.8 million, representing a decrease of 40.4% as compared with RMB553.8 million for the same period in 2021, which was primarily attributable to (i) some games that had been launched for a longer period of time have recorded a decrease in revenue, which were in line with the normal game lifecycles; and (ii) a new game published in mainland China in the first half of 2022 did not live up to our expectations on performance. In the future, with the expansion of our product genres from MMORPG and SLG to female-oriented, shooting games, strategy card and other more diversified games, and with a variety of styles and the continuous improvement of our organic model of integrating operation and research and development, the lifecycle of our games is expected to be further extended, which will make a more stable and sustainable contribution to the Group's revenue.

Management Discussion and Analysis

Impact of COVID-19

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

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

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

FINANCIAL REVIEW

REVENUE

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

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

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

Management Discussion and Analysis

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

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

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

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

COST OF REVENUE

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

	For the six months ended 30 June			
	2022 RMB million (Unaudited)	% of cost of revenue	2021 RMB million (Unaudited)	% of cost of revenue
Commissions charged by distribution channels and payment channels	59.6	68.5%	71.8	63.7%
Revenue share to IP holders	11.1	12.8%	22.3	19.8%
Bandwidth and servers custody fee	7.5	8.6%	8.5	7.5%
Employee benefit expenses	5.9	6.8%	4.4	3.9%
Depreciation and amortization charges	1.1	1.3%	3.4	3.0%
Others	1.8	2.0%	2.3	2.1%
Total	87.0	100.0%	112.7	100.0%

Our cost of revenue primarily consisted of (i) commissions charged by distribution channels and payment channels, and (ii) revenue share to IP holders. Our cost of revenue decreased to RMB87.0 million for the six months ended 30 June 2022 as compared with RMB112.7 million for the corresponding period in 2021, which was mainly attributable to a decrease in commissions charged by distribution channels and payment channels and a decrease in revenue share to IP holders. The decline was in line with the decrease in revenue.

Management Discussion and Analysis

GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended 30 June 2022, the gross profit of the Group decreased by 45.0% to RMB242.8 million as compared with RMB441.1 million for the corresponding period in 2021, which was primarily attributable to the decrease in revenue. The gross profit margin of the Group decreased to 73.6% for the six months ended 30 June 2022 from 79.6% for the corresponding period in 2021, mainly attributable to the proportion of the revenue generated from development and licensing business and the proportion of the revenue generated from integrated game publishing and operation business was 41.8% and 58.2% respectively for the six months ended 30 June 2022, as compared with 56.3% and 43.7% respectively for the corresponding period in 2021. It represented a decrease in revenue generated from development and licensing business as a percentage to our total revenue, and generally the gross profit margin of development and licensing business was higher than integrated game publishing and operation business.

RESEARCH AND DEVELOPMENT EXPENSES

Our research and development expenses primarily consisted of (i) employee benefit expenses; (ii) outsourced technical services; and (iii) depreciation and amortization charges. For the six months ended 30 June 2022, our research and development expenses increased by 8.8% to RMB367.1 million as compared with RMB337.3 million for the corresponding period in 2021, mainly attributable to the increase in employee benefit expenses.

SELLING AND MARKETING EXPENSES

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

ADMINISTRATIVE EXPENSES

Our administrative expenses primarily consisted of (i) employee benefit expenses; (ii) other professional consulting fees; and (iii) utilities and office expenses. For the six months ended 30 June 2022, our administrative expenses increased by 23.7% to RMB53.8 million as compared with RMB43.5 million for the corresponding period in 2021, mainly attributable to the increase in employee benefit expenses.

Management Discussion and Analysis

OTHER INCOME

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

FINANCE INCOME, NET

Finance income represented interest income from bank deposits, including bank balance and term deposits. Finance costs primarily consisted of interest expenses accrued from our lease liabilities. For the six months ended 30 June 2022, our net finance income decreased by 51.3% to RMB3.9 million as compared with RMB8.0 million for the corresponding period in 2021, mainly attributable to the decrease in interest income from term deposits.

OTHER (LOSSES)/GAINS, NET

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

INCOME TAX EXPENSE

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

Management Discussion and Analysis

ADJUSTED NET LOSS

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

The Company believes that adjusted net loss for the six months ended 30 June 2022, as compared with loss for the six months ended 30 June 2022 as reported under the IFRS, can better reflect the underlying operating performance of the Group as well as facilitate period to period comparison. The use of these non-IFRS measures has limitations as an analytical tool, and one should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

The following table sets forth the reconciliations of the Group's non-IFRS financial measures for the six months ended 30 June 2022 and 2021 to the nearest measures prepared in accordance with IFRS:

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

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 the Group maintains a healthy financial position. Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, cash generated from operations and available facilities of the Group, and the net proceeds from the issuance of ordinary shares relating to the initial public offering, and after diligent and careful investigation, the Directors are of the view that the Group has sufficient working capital required for the Group's operations at present.

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

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

Operating Activities

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

Management Discussion and Analysis

Investing Activities

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

Financing Activities

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

GEARING RATIO

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

CAPITAL EXPENDITURE

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

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

During the six months ended 30 June 2022, there was no significant investment held by the Group or future plans for significant investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, we employed approximately 1,469 full-time staff in total, approximately 79.44% of whom are research and development personnel. Substantially all of our employees are based in China, primarily at our headquarters in Beijing, with the remainder in Chengdu, Changchun, Shanghai and Guangzhou. For the six months ended 30 June 2022, cost of employees' remuneration and benefit was approximately RMB370.9 million as compared with RMB297.7 million for the six months ended 30 June 2021.

Management Discussion and Analysis

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

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

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

FOREIGN CURRENCY EXCHANGE RISKS

For the six months ended 30 June 2022, most of transactions of the Group and our cash and cash equivalents were denominated in RMB, US\$ and HK\$. The management team closely monitors foreign currency exchange risks to ensure that appropriate measures are implemented in a timely and effective manner. For the six months ended 30 June 2022, the Group has not incurred any significant foreign currency exchange losses in its operations. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The Shares were listed on the Stock Exchange on 15 July 2020. The net proceeds raised from the Global Offering (after taking account of the exercise of over-allotment option), after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK\$2,358.5 million.

Management Discussion and Analysis

The below table sets forth the proposed and actual applications of the net proceeds from the Listing Date to 30 June 2022:

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

Note:

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

Management Discussion and Analysis

Since the Listing Date and up to 30 June 2022, approximately HK\$1,899.5 million out of net proceeds from the Global Offering had been used.

The original expected timeline of utilizing the remaining net proceeds in respect of (i) funding strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom; and (ii) expanding the IP reserve and enriching the Group's content offerings was July 2022. The delay in the use of such net proceeds was mainly attributable to:

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

Apart from the above-mentioned adjustments, as at the date of this 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 REPORTING PERIOD

Save as disclosed in 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 at 30 June 2022, 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 ordinary Shares interested ⁽¹⁾	Approximate percentage of the Company's issued share capital ⁽²⁾
Mr. Li Qing ⁽³⁾	Interest in controlled corporation	280,849,802	34.59%
Mr. Bai Wei ⁽⁴⁾	Interest in controlled corporation	15,447,304	1.90%

Notes:

- (1) All interest stated are long positions.
- (2) The calculation is based on the total number of 811,863,000 Shares in issue as at 30 June 2022.
- (3) 278,329,802 Shares were held through Cresc Chorus, a company owned as to 81.96% by LuckQ, which in turn is wholly-owned by Mr. Li Qing and 2,520,000 Shares were held through Pondweed Holdings Limited, a company wholly-owned by Mr. Li Qing. Accordingly, Mr. Li Qing was deemed to be interested in such Shares held by Cresc Chorus and Pondweed Holdings Limited 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.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as our Directors are aware, as at 30 June 2022, the following persons have interests or short positions in Shares or underlying Shares of our Company which will be required to be disclosed to the 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	Nature of interest	Number of Shares interested ⁽¹⁾	Approximate percentage of the Company's issued share capital ⁽²⁾
Mr. Li Qing ⁽³⁾	Interest in controlled corporation	280,849,802	34.59%
Cresc Chorus ⁽³⁾	Beneficial owner	278,329,802	34.28%
LuckQ ⁽³⁾	Interest in controlled corporation	278,329,802	34.28%
Perfect World Interactive ⁽⁴⁾	Beneficial owner	132,593,999	16.33%
Perfect Game Speed Company Limited ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.33%
Perfect Freedom Company Limited ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.33%
Beijing Perfect World Software Technology Development Co., Ltd. ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.33%
Perfect World Games ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.33%
Perfect World ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.33%
Mr. Chi Yufeng (池宇峰) ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.33%
Image Frame ⁽⁵⁾	Beneficial owner	105,077,999	12.94%
Tencent ⁽⁵⁾	Interest in controlled corporation	137,698,399	16.96%
GIC Private Limited	Beneficial owner	64,923,221	7.99%

Notes:

- (1) All interests stated are long positions.
- (2) The percentages represented the number of Shares over the total issued share capital of the Company as at 30 June 2022 of 811,863,000 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 confirmation made by Perfect World Group, as at 30 June 2022, 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 by Perfect World Games. Perfect World Games was wholly owned by Perfect World, which was in turn owned as to 34.36% 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 Tencent as at 30 June 2022, 105,077,999 Shares were held through Image Frame Investment (HK) Limited ("Image Frame"), a company wholly-owned by Tencent and 32,620,400 Shares were held through Image Flag Investment (HK) Limited ("Image Flag"), a company wholly-owned by Tencent. Accordingly, Tencent was deemed to be interested in all the Shares held by Image Frame and Image Flag by virtue of the SFO.

Other Information

RSU SCHEME

On 1 April 2020, the Company adopted the RSU Scheme. As at 30 June 2022, there were 169 participants in the RSU Scheme. RSUs representing a total of 21,123,716 underlying Shares (representing approximately 2.60% of the total issued share capital of the Company as at 30 June 2022) were granted to the above participants.

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

Position held in the Group at the time of grant (by department)	Number of grantees	Number of underlying Shares represented by granted RSUs as at 30 June 2022	Date of grant	Vesting period	Approximate percentage of shareholding ⁽¹⁾
Research and Development	139	16,391,900	April 2020-March 2022	3 years	2.02%
Publishing and Operation Center	12	946,800	April 2020-March 2022	3 years	0.12%
Administration	18	3,785,016	April 2020-March 2021	3 years	0.47%
Total	169	21,123,716			2.60%

Note:

(1) The calculation is based on the total number of issued Shares of the Company as at 30 June 2022 of 811,863,000 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. As at 30 June 2022, RSUs in respect of 7,305,919 underlying Shares had been vested. During the Reporting Period, RSUs in respect of 121,971 underlying Shares have been exercised, RSUs in respect of 411,004 underlying Shares have lapsed and none of the granted RSUs have been cancelled.

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.

Other Information

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 5 February 2021. Details of the Share Option Scheme are set out in the circular of the Company dated 19 January 2021.

The purpose of the Share Option Scheme is to provide incentive or reward to our employees (excluding any director) of the Group for their contribution to, and continuing efforts to promote the interests of, the Group, and to incentive them to remain with the Group.

On 14 April 2021, 8,155,100 Options were granted to eligible Grantees under the Share Option Scheme. In order to better motivate the Grantees, on 7 January 2022, 6,764,377 of the 8,155,100 Options which remained exercisable were cancelled and 6,764,377 new Options were granted to the then Option holders which served as replacement of the cancelled Options. For details, please refer to the announcements of the Company dated 14 April 2021 and 7 January 2022.

Details of the movement of Options granted under the Share Option Scheme during the six months ended 30 June 2022 are as follows:

Participants	Date of grant	Vesting period	Exercise Price per Share (HK\$)	Closing price immediately before the date of grant (HK\$)	Number of Options outstanding 1 January 2022	Number of Options granted during the Reporting Period	Number of Options lapsed during the Reporting Period	Number of Options cancelled during the Reporting Period	Number of Options exercised during the Reporting Period	Number of Options outstanding at 30 June 2022
Employees	14-Apr-21	3 years ⁽¹⁾	14.756	14.320	7,102,876	-	338,499	6,764,377	-	-
Employees	7-Jan-22	From 7-Jan-22 to 14-Apr-24	8.720	8.650	-	6,764,377	567,100	-	-	6,197,277
					<u>7,102,876</u>	<u>6,764,377</u>	<u>905,599</u>	<u>6,764,377</u>	<u>-</u>	<u>6,197,277</u>

Note:

- (1) The Options are exercisable in installments from the commencement of the relevant vesting period until 14 April 2031. Subject to the terms of the Share Option Scheme and conditions stated in the letter containing the Offer, 40% of the Options can be exercised at the date of 14 April 2022, 30% of the Options will become exercisable at the date of 14 April 2023 and the remaining 30% of the Options will become exercisable at the date of 14 April 2024.

Other Information

MOVEMENTS IN SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in Note 21 to the consolidated financial statements on page 63 to this interim report.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2022, the Board considered the repurchases of Shares could enhance the net value of the Group and improve the return on equity and will benefit the Company and the Shareholders as a whole, thus the Company repurchased a total of 4,497,000 Shares on the Stock Exchange at a total consideration of HK\$32,598,640 of which 419,000 repurchased Shares were yet to be cancelled as at the date of August 26, 2022.

Details of the aforementioned repurchases are set out as follows:

Month of repurchase	Total number of Shares repurchased	Highest price paid per Share HK\$	Lowest price paid per Share HK\$	Total purchase price paid HK\$
January 2022	776,000	9.30	8.87	7,062,330
March 2022	87,000	7.58	7.45	656,020
April 2022	945,000	8.50	7.32	7,531,620
May 2022	1,518,000	7.25	6.19	10,270,760
June 2022	1,171,000	6.60	5.58	7,077,910
Total	4,497,000			32,598,640

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

Other Information

INTERIM DIVIDEND

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code contained in Part 2 of Appendix 14 to the Listing Rules. During the six months ended 30 June 2022, The Company has complied with all applicable code provisions as set out in the Corporate Governance Code save for the deviation from code provisions C.2.1 and C.5.7 of the Corporate Governance Code.

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

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

Other Information

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and the knowledge of the Directors, the Company maintained sufficient public float during the six months ended 30 June 2022.

CHANGES IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE

The Company is not aware of any changes in the Directors' information which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules since the date of the 2021 annual report.

Other Information

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Corporate Governance Code. As at the date of this interim report, the Audit Committee consists of three members, namely Mr. Zhu Lin, Mr. Bai Kun and Mr. Ding Zhiping. Mr. Zhu Lin is the chairman of the Audit Committee.

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 2022 and the interim report of the Group for the six months ended 30 June 2022. The Audit Committee has no disagreement with the accounting treatment in 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 2022.

By order of the Board

Li Qing

Chairman

Beijing, China, 26 August 2022

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 33 to 74, which comprises the interim condensed consolidated balance sheet of Archosaur Games Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2022 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 notes, comprising significant accounting policies and other explanatory information. 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”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 August 2022

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

	Note	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	6	329,834	553,781
Cost of revenue	9	(87,059)	(112,643)
Gross profit		242,775	441,138
Research and development expenses	9	(367,118)	(337,346)
Selling and marketing expenses	9	(117,354)	(159,801)
Administrative expenses	9	(53,812)	(43,503)
Reversal of impairment losses on financial assets	9	69	711
Other income	7	1,538	4,449
Other (losses)/gains, net	8	(10,215)	6,696
Operating loss		(304,117)	(87,656)
Finance income	10	7,284	12,374
Finance costs	10	(3,413)	(4,381)
Finance income, net	10	3,871	7,993
Share of results of investments accounted for using the equity method	17	(6,877)	(3,096)
Loss before income tax		(307,123)	(82,759)
Income tax expense	11	(1,734)	(3,076)
Loss for the period		(308,857)	(85,835)
Loss attributable to:			
– Owners of the Company		(308,857)	(85,835)
– Non-controlling interests		–	–
		(308,857)	(85,835)
Loss per share attributable to owners of the Company for the period (in RMB/share)	12		
– Basic		(0.39)	(0.11)
– Diluted		(0.39)	(0.11)

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 2022

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

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

Interim Condensed Consolidated Balance Sheet

As at 30 June 2022

	Note	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	33,634	33,667
Right-of-use assets	16	120,888	134,525
Intangible assets	15	110,167	113,339
Investments accounted for using the equity method	17	84,647	61,524
Prepayment, other receivables and other assets	19	19,451	18,797
Financial assets at fair value through profit or loss	20	303,379	192,835
Other financial assets at amortized cost		33,557	–
Deferred tax assets		1,816	1,762
		707,539	556,449
Current assets			
Trade receivables	18	145,950	155,934
Prepayment, other receivables and other assets	19	98,852	65,157
Financial assets at fair value through profit or loss	20	500,538	458,289
Term deposits		470,134	574,132
Restricted cash		37,067	35,771
Cash and cash equivalents		1,321,443	1,672,338
		2,573,984	2,961,621
Total assets		3,281,523	3,518,070
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	55	55
Share premium	21	6,940,156	6,951,009
Other reserves	22	(1,746,977)	(1,868,975)
Accumulated losses		(2,224,561)	(1,915,704)
		2,968,673	3,166,385
Non-controlling interests		–	–
Total equity		2,968,673	3,166,385

Interim Condensed Consolidated Balance Sheet

As at 30 June 2022

	Note	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Contract liabilities		17,342	10,513
Lease liabilities	16	83,178	98,780
Deferred income tax liabilities		3,949	3,132
		<u>104,469</u>	<u>112,425</u>
Current liabilities			
Trade and other payables	24	108,886	132,162
Contract liabilities		48,321	62,209
Current income tax liabilities		6,628	7,790
Financial liabilities at fair value through profit or loss		4,538	–
Lease liabilities	16	40,008	37,099
		<u>208,381</u>	<u>239,260</u>
Total liabilities		<u>312,850</u>	<u>351,685</u>
Total equity and liabilities		<u>3,281,523</u>	<u>3,518,070</u>

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

The Interim Condensed Consolidated Financial Information on pages 33 to 74 were approved by the Board of Directors on 26 August 2022 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 2022

	Note	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 2022		<u>55</u>	<u>6,951,009</u>	<u>(1,868,975)</u>	<u>(1,915,704)</u>	<u>3,166,385</u>
Comprehensive loss						
Loss for the period		-	-	-	(308,857)	(308,857)
Other comprehensive loss						
<i>Items that may be reclassified to profit or loss</i>						
Currency translation differences		-	-	35,825	-	35,825
<i>Items that will not be reclassified to profit or loss</i>						
Currency translation differences		-	-	73,624	-	73,624
Total comprehensive loss		<u>-</u>	<u>-</u>	<u>109,449</u>	<u>(308,857)</u>	<u>(199,408)</u>
Transactions with owners in their capacity as owners						
Share-based compensation	23	-	-	29,068	-	29,068
Vesting of restricted share units	22	-	2,664	(2,664)	-	-
Repurchase and cancellation of shares	22, 23	-	(13,517)	(13,855)	-	(27,372)
Total transactions with owners in their capacity as owners		<u>-</u>	<u>(10,853)</u>	<u>12,549</u>	<u>-</u>	<u>1,696</u>
Balance at 30 June 2022		<u>55</u>	<u>6,940,156</u>	<u>(1,746,977)</u>	<u>(2,224,561)</u>	<u>2,968,673</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Note	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 2021		55	6,907,441	(1,794,051)	(1,564,160)	3,549,285
Comprehensive loss						
Loss for the period		-	-	-	(85,835)	(85,835)
Other comprehensive loss						
<i>Items that may be reclassified to profit or loss</i>						
Currency translation differences		-	-	(3,597)	-	(3,597)
<i>Items that will not be reclassified to profit or loss</i>						
Currency translation differences		-	-	(23,248)	-	(23,248)
Total comprehensive loss		-	-	(26,845)	(85,835)	(112,680)
Transactions with owners in their capacity as owners						
Share-based compensation	23	-	-	38,698	-	38,698
Dividends		-	-	-	(48,219)	(48,219)
Total transactions with owners in their capacity as owners		-	-	38,698	(48,219)	(9,521)
Balance at 30 June 2021		55	6,907,441	(1,782,198)	(1,698,214)	3,427,084

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 2022

	Note	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash used in operations		(248,764)	(75,333)
Interest received		4,860	2,077
Income tax returned/(paid)		2,317	(2,330)
Net cash used in operating activities		(241,587)	(75,586)
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,505)	(13,423)
Purchases of intangible assets		(4,035)	(38,022)
Purchases of other financial assets at amortized cost		(33,557)	–
Purchases of wealth management products classified as fair value through profit or loss assets	20	(788,202)	(547,000)
Payments for structured notes classified as fair value through profit or loss assets	20	(100,671)	–
Payments for preferred shares investments designated as fair value through profit or loss	20	(4,000)	(25,517)
Payments for investments in venture capital funds designated as fair value through profit or loss	20	(3,350)	(35,000)
Purchases of other fund investments classified as fair value through profit or loss	20	–	(139,202)
Payments for investments accounted for using the equity method	17	(30,000)	(40,000)
Placements of restricted cash		(14,925)	(29,871)
Purchases of term deposits		(129,670)	(152,118)
Proceeds from maturity of wealth management products classified as fair value through profit or loss assets		741,065	496,987
Receipt from maturity of restricted cash		13,629	–
Proceeds from maturity of term deposits		259,340	126,435
Interest income from term deposits		2,738	2,638
Investment income from wealth management products		2,969	4,806
Net cash used in investing activities		(96,174)	(389,287)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Note	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cash flows from financing activities			
Principal elements of lease payments	16	(18,526)	(16,556)
Interest paid	16	(3,128)	(3,879)
Payments for share repurchase		(66,790)	–
Net cash used in financing activities		(88,444)	(20,435)
Net decrease in cash and cash equivalents		(426,205)	(485,308)
Cash and cash equivalents at beginning of the period		1,672,338	3,055,711
Exchange gains/(losses) on cash and cash equivalents		75,310	(27,069)
Cash and cash equivalents at end of the period		1,321,443	2,543,334

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

1 GENERAL INFORMATION

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

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

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

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

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

2 BASIS OF PREPARATION

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) New and amended standards adopted by the Group

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

Standards and amendments	Effective for annual periods beginning on or after
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022

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

Notes to the Interim Condensed Consolidated Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory in this interim condensed consolidated financial information and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Effective for annual periods beginning on or after
IFRS 17 Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates – Amendments to IAS 8	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	1 January 2023
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	To be determined

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 source of estimation uncertainty were the same as those that applied to the 2021 Financial Statements.

Notes to the Interim Condensed Consolidated Financial Information

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 foreign exchange risk, price risk and cash flow and fair value interest rate 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 Group's financial information as set out in the 2021 Financial Statements.

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.

The table below analyzes the Group's 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 contractual cash flows RMB'000
Group					
At 30 June 2022					
(Unaudited)					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 24)	52,551	-	-	-	52,551
Financial liabilities at fair value through profit or loss	4,538	-	-	-	4,538
Lease liabilities	45,027	44,243	43,110	-	132,380
	<u>102,116</u>	<u>44,243</u>	<u>43,110</u>	<u>-</u>	<u>189,469</u>
At 31 December 2021					
(Audited)					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 24)	50,149	-	-	-	50,149
Lease liabilities	42,783	42,549	62,412	-	147,744
	<u>92,932</u>	<u>42,549</u>	<u>62,412</u>	<u>-</u>	<u>197,893</u>

Notes to the Interim Condensed Consolidated Financial Information

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 30 June 2022 and 31 December 2021 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.

The following table presents the Group's assets and liabilities that are measured at fair value as at 30 June 2022:

(Unaudited) As at 30 June 2022	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Current				
Investments in wealth management products (Note 20)	-	-	355,871	355,871
Other fund investments (Note 20)	-	-	144,667	144,667
	<u>-</u>	<u>-</u>	<u>500,538</u>	<u>500,538</u>
Non-current				
Investments in venture capital funds (Note 20)	-	-	160,421	160,421
Structured notes (Note 20)	-	-	100,290	100,290
Preferred shares investments (Note 20)	-	-	29,566	29,566
Other fund investments (Note 20)	-	-	9,658	9,658
Ordinary share investments (Note 20)	-	-	3,444	3,444
	<u>-</u>	<u>-</u>	<u>303,379</u>	<u>303,379</u>
	<u>-</u>	<u>-</u>	<u>803,917</u>	<u>803,917</u>
Liabilities				
Current				
Financial liabilities at fair value through profit or loss	-	-	4,538	4,538

Notes to the Interim Condensed Consolidated Financial Information

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

5.3 Fair value estimation *(Continued)*

The following table presents the Group's financial assets that are measured at fair value as at 31 December 2021, none of the Group's financial liabilities is measured at fair value.

(Audited)

As at 31 December 2021	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Current				
Investments in wealth management products (Note 20)	–	–	305,398	305,398
Other fund investments (Note 20)	–	–	152,891	152,891
	–	–	458,289	458,289
Non-current				
Investments in venture capital funds (Note 20)	–	–	157,078	157,078
Preferred shares investments (Note 20)	–	–	25,566	25,566
Other fund investments (Note 20)	–	–	10,191	10,191
	–	–	192,835	192,835
	–	–	651,124	651,124

The changes in level 3 instruments of financial assets at fair value through profit or loss for the six months ended 30 June 2022 and 2021 have been disclosed in Note 20. There were no transfers among Levels 1, 2 and 3 during the periods.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The net asset value of the investments;
- The latest round financing, i.e. the prior transaction price or the third-party pricing information;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

The Group has a team that manages the valuation of level 3 instruments for financial reporting purpose. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

Notes to the Interim Condensed Consolidated Financial Information

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

5.3 Fair value estimation *(Continued)*

The components of the level 3 instruments include investments in bank wealth management products, preferred shares investments, ordinary share investments, investments in venture capital funds, other fund investments, structured notes and financial liabilities at fair value through profit or loss. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques including discounted cash flow and market approach, etc.

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurement of the aforementioned instruments.

Description	Fair value		Significant unobservable inputs	Range of inputs (probability weighted average)		Relationship of unobservable inputs to fair value
	As at 30 June 2022	As at 31 December 2021		As at 30 June 2022	As at 31 December 2021	
	RMB'000	RMB'000				
Wealth management products	355,871	305,398	Expected rate of return	0.81% to 5.68%	2.58% to 4.45%	Increasing/decreasing expected rate of return by 50 basis points would increase/decrease fair value by RMB608,203 and RMB184,226 as at 30 June 2022 and 31 December 2021.
Preferred share investments (a)	29,566	25,566	Expected volatility	48.24%	48.24%	The higher the expected volatility, the lower the fair value.
			Risk-free rate	2.58%	2.58%	The higher the risk-free rate, the higher the fair value.
			Discount for lack of marketability ("DLOM")	30.00%	30.00%	The higher the DLOM, the lower the fair value.
Ordinary share investments (a)	3,444	-	Expected volatility	47.89%	N/A	The higher the expected volatility, the lower the fair value.
			Risk-free rate	2.15%	N/A	The higher the risk-free rate, the higher the fair value.
Investments in venture capital funds (b)	160,421	157,078	N/A	N/A	N/A	N/A
Other fund investments (b)	154,325	163,082	N/A	N/A	N/A	N/A
Structured notes (b)	100,290	-	N/A	N/A	N/A	N/A
Financial liabilities at fair value through profit or loss (b)	(4,538)	-	N/A	N/A	N/A	N/A

Notes to the Interim Condensed Consolidated Financial Information

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

5.3 Fair value estimation *(Continued)*

Note:

- (a) The Group determines the fair values of preferred shares and ordinary share investments as at the reporting date based on the valuation using applicable technique.
- (b) The Group determines the fair values of investments in venture capital funds, other fund investments, structured notes and financial liabilities at fair value through profit or loss as at the reporting date based on the reported net asset values of the respective instruments as provided by fund managers or their issuers.

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

Revenue for the six months ended 30 June 2022 and 2021 are as follows: the Group considered itself as an agent in arrangements of "development and licensing business", and recorded revenue on a net basis; whereas, the Group considered itself as a principal in arrangements of "integrated game publishing and operation business", and recorded revenue on a gross basis.

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

Notes to the Interim Condensed Consolidated Financial Information

6 SEGMENT INFORMATION AND REVENUE *(Continued)*

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

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

During the six months ended 30 June 2021, revenue of approximately RMB267,142,000 was derived from a single external customer accounted for more than 10% of total revenue.

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

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

7 OTHER INCOME

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Government grants	1,538	4,449

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

8 OTHER (LOSSES)/GAINS, NET

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

9 EXPENSES BY NATURE

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Employee benefit expenses	370,942	297,783
Promotion and advertising expenses	67,277	136,842
Commissions charged by distribution channels and payment channels	59,575	71,796
Outsourced technical services	49,618	63,615
Depreciation and amortization charges (Note 14, 15, 16)	31,806	28,639
Utilities and office expenses	14,576	11,477
Revenue share to the IP holders	11,092	22,339
Bandwidth and servers custody fee	7,533	8,543
Other professional consulting fees	4,254	4,432
Travelling expenses	2,995	2,575
VAT input transfer out and tax surcharges	2,666	2,567
Reversal for impairment on financial assets	(69)	(711)
Others	3,009	2,685
	625,274	652,582

Notes to the Interim Condensed Consolidated Financial Information

10 FINANCE INCOME, NET

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Finance income		
Interest income	<u>7,284</u>	<u>12,374</u>
Finance costs		
Interest expenses on lease liabilities (Note 16)	<u>(3,128)</u>	<u>(3,879)</u>
Others	<u>(285)</u>	<u>(502)</u>
	<u>(3,413)</u>	<u>(4,381)</u>
Finance income, net	<u>3,871</u>	<u>7,993</u>

11 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current income tax expense	<u>971</u>	<u>232</u>
Deferred income tax	<u>763</u>	<u>2,844</u>
	<u>1,734</u>	<u>3,076</u>

Notes to the Interim Condensed Consolidated Financial Information

11 INCOME TAX EXPENSE *(Continued)*

(a) Cayman Islands and BVI Income Tax

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

(b) Hong Kong Income Tax

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at rate of 16.5% on the assessable profits for the six months ended 30 June 2022 and 2021, based on the existing legislation, interpretations and practices in respect thereof.

(c) PRC Enterprise Income Tax (“EIT”)

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits for the six months ended 30 June 2022, based on the existing legislation, interpretations and practices in respect thereof.

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

Huai’an Loong Technology Co., Ltd. (淮安祖龍科技有限公司) (“Huai’an Loong”) qualified as a HNTE for a three-year period since 2018 and renewed its qualification in 2021 for another three-year period. Huai’an Loong is entitled to a preferential income tax rate of 15% on its estimated assessable profits for a three-year period from 2021 to 2023.

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

Notes to the Interim Condensed Consolidated Financial Information

11 INCOME TAX EXPENSE *(Continued)*

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

Chengdu Fantasy Mermaid Technology Limited (成都幻想美人魚科技有限公司) (“Chengdu Fantasy Mermaid”) was established in Chengdu in December 2019, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

Beihai Loong Venture Capital Co., Ltd. (北海祖龍創業投資有限公司) was established in Beihai in June 2021, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

Beihai Longhao Venture Capital Co., Ltd. (北海龍灝創業投資有限公司) was established in Beihai in January 2022, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

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

12 LOSS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (RMB’000)	(308,857)	(85,835)
Weighted average number of ordinary shares in issue (in thousands)	790,192	786,110
Less: weighted average number of treasury shares (in thousands)	(1,328)	–
Weighted average number of issued ordinary shares for calculating basic loss per share	788,864	786,110
Basic loss per share (in RMB/share)	(0.39)	(0.11)

Notes to the Interim Condensed Consolidated Financial Information

12 LOSS PER SHARE *(Continued)*

(b) Diluted

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

For the six months ended 30 June 2022 and 2021, the Company has two categories of dilutive potential ordinary shares: the restricted share unit (“RSU”) and the share options as described in Note 23.

For the purpose of calculating diluted loss per share for the six months ended 30 June 2022 and 2021, RSUs and share options are assumed to have been converted into ordinary shares with no corresponding change in net loss attributable to ordinary shareholders. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted loss per share for the six months ended 30 June 2022 and 2021.

13 DIVIDENDS

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Dividends declared and paid for the year ended 31 December 2020 of HK\$7.4 cents per ordinary share (Note (a))	-	50,022
Less: Dividend for shares held for the restricted share unit scheme (“RSU Scheme”)	-	(1,803)
	<u>-</u>	<u>48,219</u>

Note:

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

No dividend has been declared or paid by the Company for the six months ended 30 June 2022.

Notes to the Interim Condensed Consolidated Financial Information

14 PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Furniture RMB'000	Leasehold improvements RMB'000	Total RMB'000
Six months ended 30 June 2022				
(Unaudited)				
Opening net book amount	21,282	196	12,189	33,667
Additions	3,417	56	1,973	5,446
Depreciation charge	(3,577)	(27)	(1,875)	(5,479)
Closing net book amount	21,122	225	12,287	33,634
Six months ended 30 June 2021				
(Unaudited)				
Opening net book amount	11,816	143	6,454	18,413
Additions	6,138	46	6,514	12,698
Depreciation charge	(2,294)	(29)	(733)	(3,056)
Closing net book amount	15,660	160	12,235	28,055

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 2022				
(Unaudited)				
Opening net book amount	39,409	73,863	67	113,339
Additions	1,929	82	-	2,011
Amortisation charge	(3,958)	(2,888)	(9)	(6,855)
Currency translation differences	1,672	-	-	1,672
Closing net book amount	39,052	71,057	58	110,167
Six months ended 30 June 2021				
(Unaudited)				
Opening net book amount	19,490	18,413	87	37,990
Additions	26,499	9,434	-	35,933
Amortisation charge	(3,898)	(2,800)	(12)	(6,710)
Currency translation differences	(103)	-	-	(103)
Closing net book amount	41,988	25,047	75	67,110

Notes to the Interim Condensed Consolidated Financial Information

16 LEASES

(a) Amounts recognised in the consolidated balance sheet

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Right-of-use assets		
Properties	120,402	133,912
Vehicles	486	613
	120,888	134,525
Lease liabilities		
Current	40,008	37,099
Non-current	83,178	98,780
	123,186	135,879

Additions to the right-of-use assets during the six months ended 30 June 2022 and year ended 31 December 2021 were RMB5,834,000 and RMB5,477,000.

Notes to the Interim Condensed Consolidated Financial Information

16 LEASES (Continued)

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation charge of right-of-use assets		
Properties	19,345	18,746
Vehicles	127	127
	19,472	18,873
Six months ended 30 June		
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses (included in finance cost)	3,128	3,879
Expense relating to short-term leases (included in cost of revenue, research and development expenses, selling and marketing expenses and administrative expenses)	1,461	401
	4,589	4,280

The total cash outflow for leases in the six months ended 30 June 2022 and 2021 were RMB21,654,000 and RMB20,435,000.

(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 but may have extension options as described in (d) below. 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.

Notes to the Interim Condensed Consolidated Financial Information

16 LEASES (Continued)

(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.

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of investments accounted for using the equity method has changed as follows in the six months to June 2022 and 2021:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Investments in associates using equity method	<u>84,647</u>	<u>61,524</u>
	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Beginning of the period	61,524	31,474
Additions (Note (a))	30,000	40,000
Share of losses for the period	<u>(6,877)</u>	<u>(3,096)</u>
End of the period	<u>84,647</u>	<u>68,378</u>

Note:

- (a) On 7 June 2021, the Group made its first capital injection of RMB40,000,000 to acquire 41.49% equity interests in Gaoda Technology Innovation (Hubei) Private Equity Partnership Enterprise (Limited Partnership) (高達科創引領(湖北)私募基金合夥企業(有限合夥)) ("Gaoda"). On 24 February 2022, the Group made its second capital injection of RMB30,000,000 along with all other investors according to the predetermined terms. The Group holds the right to appoint one committee member out of a total of five investment committee seats in Gaoda and thereby considered to have significant influence in it. Accordingly, the investment in Gaoda was accounted for using the equity method.

As at 30 June 2022, the Group invested in two associates. In the opinion of the directors of the Company, neither of the associates is material to the Group.

Notes to the Interim Condensed Consolidated Financial Information

18 TRADE RECEIVABLES

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

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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Related parties (Note 26(c))	80,840	88,104
Third parties	67,378	70,167
	148,218	158,271

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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
RMB	76,384	78,988
United States Dollar ("U.S. dollars", "US\$")	66,533	71,000
Hong Kong Dollar ("HK\$")	5,301	8,283
	148,218	158,271

Notes to the Interim Condensed Consolidated Financial Information

18 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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Up to 3 months	93,172	91,145
3 to 6 months	35,588	37,849
6 months to 1 year	19,458	27,853
Over 1 year	–	1,424
	148,218	158,271

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Information

19 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Included in non-current assets		
Rental deposits	12,420	11,486
Prepaid revenue share to IP holders (Note (a))	3,092	3,092
Others	3,939	4,219
	<u>19,451</u>	<u>18,797</u>
Included in current assets		
Prepayments to a stock broker for share repurchase	43,754	4,336
Recoverable value-added tax	20,790	25,483
Contract fulfilment costs	14,362	16,099
Interest receivable	3,960	4,273
Prepaid advertising expenses	2,566	2,106
Others	13,420	12,860
	<u>98,852</u>	<u>65,157</u>

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

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Current		
Wealth management products (Note (a))	355,871	305,398
Other fund investments (Note (d))	144,667	152,891
	<u>500,538</u>	<u>458,289</u>
Non-current		
Investments in venture capital funds (Note (b))	160,421	157,078
Structured notes(Note (e))	100,290	–
Preferred shares investments (Note (c))	29,566	25,566
Other fund investments (Note (d))	9,658	10,191
Ordinary share investments (Note (f))	3,444	–
	<u>303,379</u>	<u>192,835</u>
	<u>803,917</u>	<u>651,124</u>

Notes to the Interim Condensed Consolidated Financial Information

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Movements in financial assets at fair value through profit or loss during the six months ended 30 June 2022 and 2021 are as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At beginning of the period	651,124	206,039
Addition-wealth management products	788,202	547,000
Addition-structured notes	100,671	–
Addition-preferred shares investments	4,000	25,517
Addition-investments in venture capital funds	3,350	35,000
Addition-ordinary share investments	125	–
Addition-other fund investments	–	139,202
Disposal	(736,214)	(501,793)
Changes in fair value	(7,341)	7,558
At end of the period	803,917	458,523
Net unrealized (losses)/gains recognized in the consolidated statement of profit or loss included in the above balance	(10,049)	3,603

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.
- (b) Investments in venture capital funds represent the Group's investment in certain venture funds as a limited partner. As the Group didn't have control or significant influence on these funds, the investments were classified as financial assets at fair value through profit or loss. These funds were established to obtain capital appreciation and investment income.
- (c) Preferred shares investments on unlisted companies represent the Group's investment in ordinary shares with preferential rights to require and demand the investee to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss.
- (d) Other fund investments represent the Group's investment in various securities funds, which were offered by several international financial institutions.
- (e) The Group purchased structured notes issued by several international financial institutions, denominated in US\$. The returns on all of these notes are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.
- (f) Ordinary share investments on unlisted companies represent the Group's investment in ordinary shares without preferential rights. As the Group didn't have control or significant influence on these companies, the investments were classified as financial assets at fair value through profit or loss.

Notes to the Interim Condensed Consolidated Financial Information

21 SHARE CAPITAL AND SHARE PREMIUM

		Number of ordinary shares	Nominal value of ordinary shares US\$	
Authorized				
At 1 January and 30 June 2022		<u>5,000,000,000</u>	<u>50,000</u>	
At 1 January and 30 June 2021		<u>5,000,000,000</u>	<u>50,000</u>	
	Number of ordinary shares	Nominal value of ordinary shares US\$'000	Equivalent Nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued				
At 1 January 2022	<u>791,491,279</u>	<u>8</u>	<u>55</u>	<u>6,951,009</u>
Vesting of RSUs (Note (a))	210,640	-	-	2,664
Cancellation of treasury shares	(1,933,000)	-	-	(13,517)
At 30 June 2022	<u>789,768,919</u>	<u>8</u>	<u>55</u>	<u>6,940,156</u>
At 1 January 2021	<u>786,110,000</u>	<u>8</u>	<u>55</u>	<u>6,907,441</u>
At 30 June 2021	<u>786,110,000</u>	<u>8</u>	<u>55</u>	<u>6,907,441</u>

Note:

- (a) During the six months ended 30 June 2022, 210,640 ordinary shares of the Company were transferred to the share awardees upon vesting of the awarded shares under the RSU Scheme.

Notes to the Interim Condensed Consolidated Financial Information

22 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 2022	(1,851,237)	5,000	259,198	(250,900)	(31,036)	(1,868,975)
Share-based compensation (Note 23)	-	-	29,068	-	-	29,068
Vesting of RSUs	-	-	(2,664)	-	-	(2,664)
Repurchase and cancellation of shares (Note (a))	-	-	-	-	(13,855)	(13,855)
Currency translation differences	-	-	-	109,449	-	109,449
At 30 June 2022 (Unaudited)	(1,851,237)	5,000	285,602	(141,451)	(44,891)	(1,746,977)
At 1 January 2021	(1,851,237)	5,000	249,840	(174,363)	(23,291)	(1,794,051)
Share-based compensation (Note 23)	-	-	38,698	-	-	38,698
Currency translation differences	-	-	-	(26,845)	-	(26,845)
At 30 June 2021 (Unaudited)	(1,851,237)	5,000	288,538	(201,208)	(23,291)	(1,782,198)

Note :

- (a) During the six months ended 30 June 2022, the Group repurchased a total of 4,497,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$32,598,640 (approximately RMB27,371,518). A total of 1,933,000 repurchased shares have been cancelled as of 30 June 2022.

Notes to the Interim Condensed Consolidated Financial Information

23 SHARE-BASED PAYMENTS

(a) Share Option Scheme

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

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

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

On 7 January 2022 (“modification date”), the Company cancelled the existing 6,764,377 exercisable share options (the “Outstanding share options”) and offered to grant 6,764,377 new share options to the existing holders to subscribe for 6,764,377 ordinary shares at a lower exercise price, which are served as replacement of the cancelled Outstanding share options under the Share Option Scheme. The exercise price was reduced from HK\$14.756 to HK\$8.72. The terms of the original share options are otherwise the same. This arrangement is treated as if the original share options had been modified. As a result, the incremental fair value granted should be expensed over the new vesting period since the modification date in addition to the Company continuing to charge for the original share options over the original vesting period.

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

Notes to the Interim Condensed Consolidated Financial Information

23 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

Movements in the number of share options granted are as follows:

	Number of share options
Outstanding as of 1 January 2022	6,776,377
Vested	(2,513,714)
Forfeited	(579,100)
	<u>3,683,563</u>
Outstanding as of 30 June 2022	<u>3,683,563</u>
Outstanding as of 1 January 2021	–
Granted	8,155,100
Forfeited	(305,625)
	<u>7,849,475</u>
Outstanding as of 30 June 2021	<u>7,849,475</u>

No share option was expired or exercised during the six months ended 30 June 2022 and the weighted average remaining contractual life of outstanding share options was 9.5 years as of 30 June 2022.

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

Notes to the Interim Condensed Consolidated Financial Information

23 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

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

Key parameters and results in applying the binomial model on original grant date and modification date of share options are summarized as below:

	Grant date	Modification date	
	As at 14 April 2021	As at 7 January 2022 Before modification	After modification
Risk-free interest rate	1.30%	1.74%	1.81%
Volatility	56.00%	55.73%	55.54%
Dividend yield	0.52%	0.85%	0.85%
Fair value per share option (HK\$)	6.02	2.22	3.38

(b) Restricted Share Unit Scheme

On 1 April 2020, to incentivize directors, senior management and employees, a RSU Scheme was approved and adopted by the Company. Smooth Ebony Limited ("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). 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

23 SHARE-BASED PAYMENTS *(Continued)*

(b) Restricted Share Unit Scheme *(Continued)*

On 1 February 2021, 29 March 2021, 25 August 2021 and 25 March 2022, the Company granted RSUs representing an aggregate of 2,421,200 underlying shares to certain eligible employees pursuant to the RSU Scheme. Subject to grantee's employment or service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 40%, 30% and 30% of the RSUs on each of the first trading day after 12, 24 and 36 months from a certain date.

Movement in the number of underlying shares represented by RSUs for the six months ended 30 June 2022 and 2021 are as follows:

	Number of underlying shares represented by RSUs	Weighted average grant date fair value per RSU (HK\$)
Outstanding as of 1 January 2022	10,276,445	9.282
Granted	1,507,000	7.630
Vested	(210,640)	15.560
Forfeited	(411,004)	8.797
Outstanding as of 30 June 2022	11,161,801	8.958
Outstanding as of 1 January 2021	17,996,916	8.684
Granted	794,200	17.561
Forfeited	(376,320)	10.586
Outstanding as of 30 June 2021	18,414,796	9.028

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

Prior to the completion of IPO, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and to determine the fair value of the RSUs granted as at the grant date. Key assumptions, such as discount rate, risk-free interest rate and volatility, are required to be determined by the Group with best estimate.

The fair value of the RSUs granted on 1 February 2021, 29 March 2021, 25 August 2021 and 25 March 2022 was determined using the market method with reference to the grant date closing share price of the Company.

Notes to the Interim Condensed Consolidated Financial Information

23 SHARE-BASED PAYMENTS *(Continued)*

(c) Expenses arising from share-based payment transactions

For the six months ended 30 June 2022 and 2021, share-based compensation expenses arising from the RSUs and share options granted by the Company have been charged to the interim condensed consolidated statement of profit or loss as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of revenue	371	306
Administrative expenses	5,338	7,011
Selling and marketing expenses	1,669	1,586
Research and development expenses	21,690	29,795
	29,068	38,698

24 TRADE AND OTHER PAYABLES

	As at	As at
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Payroll liabilities	50,322	67,778
Trade payables	47,326	37,102
Tax payables	6,013	14,235
Asset procurement	1,587	5,195
Others	3,638	7,852
	108,886	132,162

Notes to the Interim Condensed Consolidated Financial Information

24 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Related parties (Note 26(c))	13,828	11,449
Third parties	33,498	25,653
	47,326	37,102

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

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

25 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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Intangible assets	25,060	23,807

(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 30 June 2022 and 31 December 2021 is similar to the portfolio of short-term lease to which the short-term lease expenses is disclosed in Note 16.

Notes to the Interim Condensed Consolidated Financial Information

26 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties. 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.

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
Tencent Technology (Shenzhen) Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Huai'an FlameDragon Entertainment Software Co., Ltd	Associate of the Group

Notes to the Interim Condensed Consolidated Financial Information

26 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant transactions with related parties

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
<i>Provision of services :</i>		
Shenzhen Tencent Computer Systems Company Limited	86,357	234,336
Sixjoy Hong Kong Limited	14,166	32,806
Tencent Technology (Shenzhen) Company Limited	220	–
Huai'an FlameDragon Entertainment Software Co., Ltd	71	–
	<u>100,814</u>	<u>267,142</u>

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
<i>Purchase of services:</i>		
Chengdu Perfect World Network Technology Co., Ltd.	2,414	12,501
Tencent Cloud Computing (Beijing) Company Limited	1,626	1,489
Beijing Perfect World Software Technology Development Co., Ltd.	1,207	1,748
	<u>5,247</u>	<u>15,738</u>

(c) Period/Year end balances with related parties

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
	<i>Trade receivables from related parties :</i>	
Shenzhen Tencent Computer Systems Company Limited	67,841	65,322
Sixjoy Hong Kong Limited	12,986	20,761
Huai'an FlameDragon Entertainment Software Co., Ltd	13	611
Tencent Technology (Shenzhen) Company Limited	–	1,410
	<u>80,840</u>	<u>88,104</u>

Notes to the Interim Condensed Consolidated Financial Information

26 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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
<i>Contract liabilities to related parties:</i>		
Shenzhen Tencent Computer Systems Company Limited	10,352	11,270
Sixjoy Hong Kong Limited	2,517	3,985
	12,869	15,255

The contract liabilities to related parties arise from trade transactions.

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
<i>Trade payables to related parties:</i>		
Chengdu Perfect World Network Technology Co., Ltd.	8,919	7,926
Beijing Perfect World Software Technology Development Co., Ltd.	4,542	3,263
Tencent Cloud Computing (Beijing) Company Limited	367	260
	13,828	11,449

Notes to the Interim Condensed Consolidated Financial Information

26 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	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Wages, salaries and bonuses	12,199	5,699
Other social security costs and housing benefits and other employee benefits	241	244
Pension costs – defined contribution plans	174	163
	12,614	6,106

27 CONTINGENCIES

The Group did not have any material contingent liabilities as at 30 June 2022 and 31 December 2021.

28 SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Group after 30 June 2022.



祖龙娱乐
ARCHOSAUR GAMES

祖龙娱乐有限公司
Archosaur Games Inc.