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ARCHOSAUR GAMES INC.

祖龙娱乐有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9990)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the “**Board**”) of directors (the “**Directors**”) of Archosaur Games Inc. (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2023 (the “**Results Announcement**”), as below.

The interim results of the Group for the six months ended 30 June 2023 have been reviewed by the Audit Committee and by PricewaterhouseCoopers, the independent auditor of the Company, in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the six months ended 30 June		Change %
	2023 RMB million (Unaudited)	2022 RMB million (Unaudited)	
Revenue	402.3	329.8	22.0%
Cost of revenue	(104.6)	(87.0)	20.2%
Gross profit	297.7	242.8	22.6%
Research and development expenses	(299.2)	(367.1)	(18.5)%
Selling and marketing expenses	(164.4)	(117.4)	40.0%
Administrative expenses	(51.8)	(53.8)	(3.7)%
(Allowance)/reversal of impairment on financial assets	(0.6)	0.1	(700.0)%
Other income	3.4	1.5	126.7%
Other losses, net	(27.0)	(10.2)	164.7%
Operating loss	(241.9)	(304.1)	(20.5)%
Finance income	23.4	7.3	220.5%
Finance costs	(2.6)	(3.4)	(23.5)%
Finance income, net	20.8	3.9	433.3%
Share of results of investments accounted for using the equity method	(12.5)	(6.9)	81.2%
Loss before income tax	(233.6)	(307.1)	(23.9)%
Income tax credit/(expense)	0.6	(1.8)	(133.3)%
Loss for the period	(233.0)	(308.9)	(24.6)%
Non-IFRS measure:			
Adjusted net loss ⁽¹⁾	(214.9)	(279.8)	(23.2)%

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, female-oriented, shooting, strategy cards and other genres. Our proven capabilities in developing high-quality mobile games and the focus on continuous deep-engagement in core game experience genre have won excellent market reputation.

As at the date of this Results Announcement, we have deployed our industrial talents in different locations of the country, and our overall staffing structure continues to be upgraded in an iterative manner. We have adopted an open attitude in attracting high-value talents in the industry while practicing cost reduction and efficiency enhancement.

In terms of technological innovation, we have conducted in-depth research on Unreal Engine 5 and have greatly improved and optimized high-frame-rate game screens and the logical sense of objects utilizing its virtualized micro-polygon geometry system, while significantly improving the efficiency of art production as well as operation and maintenance with the use of the technology, running at the forefront of the Unreal Engine 5 technology applications field. In addition, we are actively exploring the application and expansion of artificial intelligence in game products by combining our strong technologies and R&D advantages, including the combination of the Procedural Content Generation (PCG) in Unreal Engine 5 and artificial intelligence. Through the application and in-depth training of different artificial intelligence tools, we have accurately grasped the spontaneity and creativity characteristics of artificial intelligence in upgrading our game products in multiple dimensions such as algorithm models, content design, art creation, and intelligent interaction, and the natural language system built by the deep application of artificial intelligence technology is used to create NPCs with independent personality and memories, enhancing the player's sense of reality and immersion in the virtual world.

In terms of globalized strategic layout, we continue to export high quality products in different countries and regions, conduct in-depth analysis of players and users in each market, and build more targeted product promotion strategies and publishing models that focus on user needs. The excellent global performance of Life Makeover (以閃亮之名) has fully demonstrated the great importance we attach to the globalized strategy and the strength of Archosaur Games in multiple national and regional markets. In addition, our top IP products in cooperation with internationally renowned manufacturers have enhanced the influence of Archosaur Games on a global scale. The smooth progress of the Avatar mobile game project Avatar: Reckoning (阿凡達: 重返潘多拉) signifies the recognition of the internationally renowned manufacturers in the research and development and operation of high-quality games of Archosaur Games, and enables us to further explore different national and regional markets with solid confidence.

Our Existing Games

We mainly focus on the development of mobile MMORPGs, SLGs, female-oriented, shooting and strategy card games and other genres, and offer a high-quality and diversified mobile games portfolio with excellent market reputation. As at 30 June 2023, we had launched 19 high-quality mobile games with multiple regional versions in 14 languages available in more than 170 regional

markets. The cumulative number of global registered players of 13 mobile games in operation had surpassed 150 million, among which (i) the global cumulative gross billings generated by a 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 in mainland China generated by 8 mobile games had exceeded RMB100 million in the first month after they were launched.

Life Makeover (以閃亮之名) is an ultra-free fashionable female-oriented game which was developed by new generation of female production and planning team of the Company and has attained the ultra-high level on the mobile platform both in terms of on-screen precision and material texture complexity. The game was launched in Hong Kong, Macao and Taiwan District of PRC, Singapore, Malaysia and Japan in 2022, and officially launched in mainland China in March 2023. The game topped the Top Free Games Chart of the iOS App Store in mainland China on its first day of launch and dominated the chart for four consecutive days, and entered top 10 of the Bestsellers Games Chart of the iOS App Store in mainland China on the next day of its launch. From April to June 2023, events “Moonlight Banquet” (月下盛筵), “Ocean’s Promise” (海之音誓), “Rose Fantasy” (夜薔綺想) and “Snow Dance” (浮世雪舞) were launched successively in mainland China, and won the 5th, 5th, 8th and 3rd of the Bestsellers Games Chart of the iOS App Store in mainland China respectively on the first day of launch. With regular in-game events, Life Makeover (以閃亮之名) continues to enrich the game’s playability, attracting a large number of players to participate in each event and entering the front of the Bestsellers Games Chart of the iOS App Store each time. The events have greatly enhanced user stickiness while bringing in waves of revenue. The game was launched on 10 May 2023 in Europe, the Americas, Thailand, Indonesia and Vietnam and other regions. On the first day of launch, the game topped the Top Free Games Chart of the iOS App Store in Thailand, Indonesia and Vietnam, and gained the 2nd of the Top Free Games Chart of the iOS App Store in the United States. At the same time, the Company is actively developing the game’s PC version to make the PC version’s screen more exquisite and the experience more optimized. The PC version is planed to be launched in mainland China in September. The game has built up an excellent reputation and attracted a large number of fans with its ultra-high-level quality. With the expansion of multiple platforms and the continuous release of new gameplay, such a good development model will certainly form a healthy game ecology, which will become a strong driving force for the development of the business and bring positive and considerable long-term revenue to the Company.

Dragon Raja (龍族幻想) is the first next generation real 3D mobile MMORPG developed through Unreal Engine 4 in China. The game had been a huge success in mainland China and had performed exceptionally well outside of mainland China. The game maintained a stable long-term performance through activities such as anniversary celebration and version update. As at 30 June 2023, the cumulative gross billings of the game had exceeded RMB4.3 billion and the cumulative number of global registered players of the game was more than 43 million.

Under the Firmament (鴻圖之下) is our first mobile SLG developed through Unreal Engine 4. We launch updated seasons on an ongoing basis. As at 30 June 2023, the cumulative gross billings of Under the Firmament (鴻圖之下) was over RMB1.5 billion, and the number of accumulated registered players reached more than 7 million.

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) had a relatively stable performance and continued to make contributions to the Group’s revenue.

Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, 9 game products are expected to be launched over the period from the second half of 2023 to 2025, covering the genres of MMORPG, SLG, card RPG games, shooting games, strategy card games and others.

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

Title ⁽¹⁾	Genre ⁽¹⁾	IP source ⁽¹⁾	Development stage as at the date of this Results Announcement ⁽¹⁾	Expected launch year ⁽¹⁾	Major markets ^{(1) (2)}
Second half of 2023					
Avatar: Reckoning (阿凡達: 重返潘多拉)	MMORPG + Shooting	Licensed IP	Game Testing	2023	Southeast Asia
Sango Heroes: The Hegemony (三國群英傳: 鴻鵠霸業) ⁽³⁾	SLG	Licensed IP	Game Testing	2023	Asia
Madtale: Idle RPG	Card RPG Game	– ⁽⁴⁾	– ⁽⁴⁾	2023	Europe, the Americas, Southeast Asia
2024					
Project Code: IM ⁽⁵⁾	Card RPG Game	Original IP	Game Testing	2024	Asia
Avatar: Reckoning (阿凡達: 重返潘多拉)	MMORPG + Shooting	Licensed IP	Game Testing	2024	Worldwide (excluding Southeast Asia)
Madtale: Idle RPG	Card RPG Game	– ⁽⁴⁾	– ⁽⁴⁾	2024	Asia (excluding Southeast Asia)
Project E ⁽⁵⁾	Strategy Card Game	Licensed IP	Game Testing	2024	Worldwide
2025					
Project Code: Reborn ⁽⁵⁾	Open World Role – Playing Game +	Original IP	Game Production	2025	Worldwide
Project F ⁽⁵⁾	MMORPG+	– ⁽⁵⁾	Game Proposal	2025	Worldwide
Project G ⁽⁵⁾	MMORPG + Action	– ⁽⁵⁾	Game Proposal	2025	Worldwide
Project H ⁽⁵⁾	MMORPG + Shooting	– ⁽⁵⁾	Game Proposal	2025	Worldwide

Notes:

- (1) The game pipeline is for indicative purpose only as at the date of this Results Announcement. The title, genre, expected launch year, major markets, IP source and other information of each game in the pipeline may be subject to further changes according to their respective development plans and pre-approval status.
- (2) The major markets refer to target publishing markets. The games will be launched successively in different regions according to their respective publishing plans.
- (3) Sango Heroes (三國群英傳) has been officially named Sango Heroes: The Hegemony (三國群英傳: 鴻鵠霸業).
- (4) Madtale: Idle RPG is a game published by Archosaur Games, which has been launched in Europe, the Americas and Southeast Asia on 12 July 2023.
- (5) The game title or IP status, as applicable, of the respective game is pending as at the date of this Results Announcement.

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

Avatar: Reckoning (阿凡達: 重返潘多拉) is an innovative product from Archosaur Games that combines MMORPG and shooting for worldwide players. The game combines the player-vs-environment (PvE) and player-vs-player (PvP), allowing players to freely choose professions as well as single player, team and other modes and enjoy a smooth shooting experience while leveling up their Avatar character. Through Unreal Engine 4, Avatar: Reckoning (阿凡達: 重返潘多拉) authentically presents the vibrant world of Avatar, allowing players to explore the amazing planet of Pandora. At present, the game has completed three overseas un-paid tests, one overseas paid test and two domestic technical tests, and we have steadily improved the quality of the game through the continuous analysis of previous test data. The development team has delivered improvements to the shooting and action gameplay, and has significantly improved the graphics, game performance and compatibility with and operation on different hardware.

Madtale: Idle RPG is a card placement RPG game, which has been launched on 12 July 2023 in Europe, the Americas and Southeast Asia. The game takes the familiar fairy tales as the background, and adopts a vertical half-screen auto-battle gameplay, presenting a half-screen map background and a half-screen battlefield. Based on the cartoon style framework, the game combines elements of fairy tale reversal, which is extremely immersive and exploratory. In the first week of its launch, the game entered the Top 10 of the Top Free Games Chart of the iOS App Store in France, Germany, Thailand and other countries, and ranked as high as the 7th place of the Top Free Games Chart of the iOS App Store in the United States.

Sango Heroes: The Hegemony (三國群英傳: 鴻鵠霸業) is a SLG game developed on the basis of IP Sango Heroes (三國群英傳), inheriting the core strengths of Under the Firmament (鴻圖之下) while enriching the differentiated gameplay to create a more diverse battle strategy and battle experience.

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

Project E is a strategy card game powered by Unreal Engine 4 and adapted and developed according to the Dragon Raja (龍族) series of novel and animation. On the basis of restoring the original settings, the character setting and artwork of the game are elaborately produced, and innovative gameplay is designed to improve the battle experience.

During the Reporting Period, we recorded revenue of RMB402.3 million, representing an increase of 22.0% as compared with RMB329.8 million for the same period in 2022, which was primarily attributable to the launch of Life Makeover (以閃亮之名) in regions including mainland China, Europe, America and Southeast Asia during the Reporting Period. In the future, with the expansion of our product genres from MMORPGs, SLGs and female-oriented to shooting, strategy cards 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.

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			
	2023		2022	
	RMB million (Unaudited)	% of total revenue	RMB million (Unaudited)	% of total revenue
Development and licensing	100.8	25.1%	137.7	41.8%
– Revenue share	85.1	21.2%	118.4	35.9%
– Non-refundable fixed licensing fees	15.7	3.9%	19.3	5.9%
Integrated game publishing and operation	301.2	74.9%	192.1	58.2%
Others	0.3	0.0%	–	–
Total	402.3	100.0%	329.8	100.0%

For the six months ended 30 June 2023, our revenue from development and licensing was RMB100.8 million, representing a decrease of 26.8% from RMB137.7 million for the corresponding period in 2022, and our revenue from integrated game publishing and operation was RMB301.2 million, representing an increase of 56.8% from RMB192.1 million for the corresponding period in 2022.

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

	For the six months ended 30 June			
	2023		2022	
	RMB million (Unaudited)	% of total revenue	RMB million (Unaudited)	% of total revenue
Mainland China	238.3	59.2%	104.3	31.6%
Areas outside mainland China	164.0	40.8%	225.5	68.4%
Total	402.3	100.0%	329.8	100.0%

For the six months ended 30 June 2023, our revenue generated from market in mainland China was RMB238.3 million, representing an increase of 128.5%, from RMB104.3 million for the corresponding period in 2022, and our revenue generated from areas outside mainland China was RMB164.0 million, representing a decrease of 27.3%, from RMB225.5 million for the corresponding period in 2022.

The increase in total revenue was mainly attributable to the launch of Life Makeover (以閃亮之名) in regions including mainland China, Europe, America and Southeast Asia during the Reporting Period.

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			
	2023		2022	
	RMB million	% of cost of	RMB million	% of cost of
	(Unaudited)	revenue	(Unaudited)	revenue
Commissions charged by distribution channels and payment channels	76.1	72.8%	59.6	68.5%
Revenue share to IP holders	8.2	7.8%	11.1	12.8%
Bandwidth and servers custody fee	10.3	9.8%	7.5	8.6%
Employee benefit expenses	6.4	6.1%	5.9	6.8%
Depreciation and amortization charges	1.1	1.1%	1.1	1.3%
Others	2.5	2.4%	1.8	2.0%
Total	<u>104.6</u>	<u>100.0%</u>	<u>87.0</u>	<u>100.0%</u>

Our cost of revenue primarily consisted of (i) commissions charged by distribution channels and payment channels; (ii) bandwidth and servers custody fee; and (iii) revenue share to IP holders. Our cost of revenue increased to RMB104.6 million for the six months ended 30 June 2023 as compared with RMB87.0 million for the corresponding period in 2022, which was mainly attributable to the increase in commissions charged by distribution channels and payment channels in relation to the integrated game publishing and operation business.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended 30 June 2023, the gross profit of the Group increased by 22.6% to RMB297.7 million as compared with RMB242.8 million for the corresponding period in 2022, which was mainly attributable to the increase in revenue due to the launch of Life Makeover (以閃亮之名) in regions including mainland China, Europe, America and Southeast Asia during the Reporting Period. The gross profit margin of the Group increased to 74.0% for the six months ended 30 June 2023 from 73.6% for the corresponding period in 2022, which was basically the same during these two comparable periods.

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 2023, our research and development expenses decreased by 18.5% to RMB299.2 million as compared with RMB367.1 million for the corresponding period in 2022, mainly attributable to cost control in employee benefit expenses and outsourced technical services.

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 2023, our selling and marketing expenses increased by 40.0% to RMB164.4 million as compared with RMB117.4 million for the corresponding period in 2022, mainly attributable to the increase in promotion and advertising expenses in relation to the integrated game publishing and operation business in the Reporting Period.

ADMINISTRATIVE EXPENSES

Our administrative expenses primarily consisted of (i) employee benefit expenses; (ii) utilities and office expenses; and (iii) auditors' remuneration and other professional consulting fees. For the six months ended 30 June 2023, our administrative expenses decreased by 3.7% to RMB51.8 million as compared with RMB53.8 million for the corresponding period in 2022, basically stable during these two comparable periods.

OTHER INCOME

For the six months ended 30 June 2023, our other income increased by 126.7% to RMB3.4 million as compared with RMB1.5 million for the corresponding period in 2022, due to the increase 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 lease liabilities. For the six months ended 30 June 2023, our net finance income increased by 433.3% to RMB20.8 million as compared with RMB3.9 million for the corresponding period in 2022, mainly attributable to an increase in interest income arising from the balance of US\$ term deposits and bank balance.

OTHER LOSSES, NET

Our other losses primarily consisted of (i) net foreign exchange (losses)/gains; and (ii) losses on financial assets and liabilities at fair value through profit or loss. For the six months ended 30 June 2023, our net other losses increased by 164.7% to RMB27.0 million as compared with RMB10.2 million for the corresponding period in 2022, mainly attributable to foreign exchange losses.

INCOME TAX CREDIT/(EXPENSE)

Our income tax credit/(expense) consisted of current income tax and deferred income tax. For the six months ended 30 June 2023, our income tax credit was RMB0.6 million, as compared with our income tax expense of RMB1.8 million for the corresponding period in 2022, mainly attributable to the reversal of deferred income tax liabilities in relation to financial assets at fair value through profit or loss.

ADJUSTED NET LOSS

The adjusted net loss for the six months ended 30 June 2023 amounted to RMB214.9 million as compared with adjusted net loss of RMB279.8 million for the corresponding period in 2022. Such decrease in adjusted net loss was primarily attributable to (i) an increase in revenue due to the launch of Life Makeover (以閃亮之名) in regions including mainland China, Europe, America and Southeast Asia during the Reporting Period; (ii) an increase in interest income arising from the balance of US\$ term deposits and bank balance; and (iii) cost control in research and development which resulted in reduction of related expenses.

The Company believes that adjusted net loss for the six months ended 30 June 2023, 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 2023 and 2022 to the nearest measures prepared in accordance with IFRS:

	For the six months ended 30 June	
	2023	2022
	RMB million (Unaudited)	RMB million (Unaudited)
Reconciliation of loss for the period to adjusted net loss for the period:		
Loss for the period	(233.0)	(308.9)
Add:		
Share-based compensation expenses	<u>18.1</u>	<u>29.1</u>
Adjusted net loss for the period	<u>(214.9)</u>	<u>(279.8)</u>

LIQUIDITY AND FINANCIAL RESOURCES

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

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

	For the six months ended 30 June		Change (%)
	2023	2022	
	RMB million (Unaudited)	RMB million (Unaudited)	
Net cash used in operating activities	(160.6)	(241.6)	(33.5)%
Net cash used in investing activities	(336.5)	(96.2)	249.8%
Net cash used in financing activities	(22.4)	(88.4)	(74.7)%
	<hr/>	<hr/>	
Net decrease in cash and cash equivalents	(519.5)	(426.2)	21.9%
Cash and cash equivalents at the beginning of the period	1,233.0	1,672.3	(26.3)%
Exchange gains on cash and cash equivalents	15.4	75.3	(79.5)%
	<hr/>	<hr/>	
Cash and cash equivalents at the end of the period	<u>728.9</u>	<u>1,321.4</u>	<u>(44.8)%</u>

Operating Activities

For the six months ended 30 June 2023, net cash used in operating activities was RMB160.6 million, compared with RMB241.6 million for the corresponding period in 2022, representing a decrease of 33.5%. The decrease was mainly attributable to (i) the increase in total revenue, and (ii) the decrease in employee benefit expenses.

Investing Activities

For the six months ended 30 June 2023, net cash used in investing activities was RMB336.5 million, compared with RMB96.2 million for the corresponding period in 2022, representing an increase of 249.8%. The increase was mainly attributable to the purchase of term deposits in the Reporting Period.

Financing Activities

For the six months ended 30 June 2023, net cash used in financing activities was RMB22.4 million, compared with RMB88.4 million for the corresponding period in 2022, representing a decrease of 74.7%. The decrease was mainly attributable to less payments for share repurchase compared with the corresponding period in 2022.

GEARING RATIO

As at 30 June 2023, our gearing ratio, which is calculated as total debt divided by total assets, was 14.7%, as compared with 12.3% as at 31 December 2022.

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 2023 and 2022, total capital expenditure amounted to RMB2.3 million and RMB11.5 million respectively, representing a decrease of 80.0%. The decrease was mainly attributable to the decrease in purchase of property, plant and equipment.

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

As at 30 June 2023, there was no significant investment held by the Group or future plans for significant investments or capital assets, and none of each individual investment held by the Group constituted 5% or above of the total assets of the Group as at 30 June 2023.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2023, there was no material acquisitions or disposal of subsidiaries, associates and joint ventures.

CHARGE ON ASSETS

As at 30 June 2023, no property, plant and equipment was pledged.

CONTINGENT LIABILITIES

As at 30 June 2023, we did not have any unrecorded significant contingent liabilities against us.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, we employed approximately 1,094 full-time staff in total, approximately 78.15% of whom are research and development personnel. For the six months ended 30 June 2023, cost of employees' remuneration and benefit was approximately RMB303.2 million as compared with RMB370.9 million for the six months ended 30 June 2022.

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 monthly performance evaluations to provide employee performance feedback, and report conduct quarterly selections to affirm and encourage outstanding employees. Remuneration to 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 Pre-IPO RSU Scheme on 1 April 2020 and the RSU Scheme on 22 December 2022, and adopted and amended the Share Option Scheme on 5 February 2021 and 22 December 2022, 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 2023, 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 2023, the Group has not incurred any significant foreign currency exchange losses in its operations. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

USE OF NET PROCEEDS FROM GLOBAL OFFERING

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

The below table sets forth the proposed and actual applications of the net proceeds from the Listing Date to 30 June 2023:

Use of net proceeds	Percentage	Net proceeds from the Global Offering (HK\$ million)	The amount utilized during the Reporting Period	As at 30 June 2023		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	–	943.5	–	–
Expanding game publishing and operation business, particularly in markets outside of mainland China	20%	471.7	–	471.7	–	–
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	–	181.5	290.2	2023.07-2024.07
Expanding the IP reserve and enriching our content offerings	10%	235.8	6.5	202.3	33.5	2023.07-2024.07
Working capital and general corporate uses	10%	235.8	–	235.8	–	–
Total	100%	2,358.5	6.5	2,034.8	323.7	

Note:

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

Since the Listing Date and up to 30 June 2023, approximately HK\$2,034.8 million out of net proceeds from the Global Offering had been used.

As disclosed in the 2022 annual report of the Company, the previous 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 2023. The further delay in the use of such net proceeds was mainly attributable to:

- (i) additional time required for and the more cautious approach taken by the Group to look for suitable acquisition and investment targets due to the slowdown in global economic growth with an increase in unstable and uncertain external factors;
- (ii) in view of the business environment being affected by the rapid changes in technology and market trends in the past few years, additional time is needed for the Group to identify and conduct business discussions for suitable IPs; and
- (iii) the postponement of IP licensing fee payable to licensors, as the launch time of some games developed with licensed IPs was generally re-scheduled due to the strategic decision of the Group to invest additional research and development time and resources for fine-tuning such games.

Apart from the above-mentioned adjustments, as at the date of this Results Announcement, there was no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

To the extent that net proceeds are not immediately used for the intended use, the Company currently intends to place such proceeds in short-term interest bearing instruments, such as liquid fixed income securities, short-term bank deposits, short-term and low risk wealth management products or money market instruments with licensed commercial banks or other authorized financial institutions so long as it is deemed to be in the best interests of the Company.

EVENTS AFTER REPORTING PERIOD

Save as disclosed in this Results Announcement, the Group did not have any significant events after the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. During the six months ended 30 June 2023, The Company has complied with all applicable code provisions as set out in the Corporate Governance Code save for the deviation from code provision C.2.1 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.

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 2023.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Corporate Governance Code. As at the date of this Results Announcement, the Audit Committee consists of three members, namely Mr. Zhu Lin, Mr. Bai Kun and Mr. Ding Zhiping. Mr. Zhu Lin is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2023 and this Results Announcement. The Audit Committee has no disagreement with the accounting treatment in the unaudited interim financial statements and this Results Announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2023, 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 659,000 Shares on the Stock Exchange at a total consideration of HK\$3,744,880.

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\$)
March 2023	<u>659,000</u>	5.72	5.63	<u>3,744,880</u>
Total	<u><u>659,000</u></u>			<u><u>3,744,880</u></u>

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

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This Results Announcement is published on the websites of the Company (www.zulong.com) and the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2023 will be dispatched to the Shareholders and published on the above websites in due course.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
		Unaudited	Unaudited
Revenue	4	402,256	329,834
Cost of revenue		<u>(104,519)</u>	<u>(87,059)</u>
Gross profit		<u>297,737</u>	<u>242,775</u>
Research and development expenses	6	(299,244)	(367,118)
Selling and marketing expenses	6	(164,358)	(117,354)
Administrative expenses	6	(51,817)	(53,812)
(Allowance)/reversal of impairment on financial assets	6	(633)	69
Other income		3,384	1,538
Other losses, net	5	<u>(26,996)</u>	<u>(10,215)</u>
Operating loss		<u>(241,927)</u>	<u>(304,117)</u>
Finance income		23,434	7,284
Finance costs		<u>(2,586)</u>	<u>(3,413)</u>
Finance income, net		20,848	3,871
Share of results of investments accounted for using the equity method		<u>(12,516)</u>	<u>(6,877)</u>
Loss before income tax		(233,595)	(307,123)
Income tax credit/(expense)	7	<u>572</u>	<u>(1,734)</u>
Loss for the period		<u>(233,023)</u>	<u>(308,857)</u>
Loss attributable to:			
– Owners of the Company		(233,023)	(308,857)
– Non-controlling interests		<u>–</u>	<u>–</u>
		<u>(233,023)</u>	<u>(308,857)</u>
Loss per share attributable to owners of the Company for the period (in RMB/share)	8		
– Basic		(0.30)	(0.39)
– Diluted		<u>(0.30)</u>	<u>(0.39)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		Unaudited	Unaudited
Loss for the period		<u>(233,023)</u>	<u>(308,857)</u>
Other comprehensive income, net of tax:			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		17,361	35,825
<i>Items that will not be reclassified to profit or loss</i>			
Currency translation differences		<u>51,864</u>	<u>73,624</u>
Total comprehensive loss for the period		<u>(163,798)</u>	<u>(199,408)</u>
Attributable to:			
– Owners of the Company		(163,798)	(199,408)
– Non-controlling interests		<u>–</u>	<u>–</u>
		<u>(163,798)</u>	<u>(199,408)</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2023

	<i>Note</i>	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment		22,624	29,308
Right-of-use assets		56,069	100,343
Intangible assets		131,257	128,317
Investments accounted for using the equity method		66,571	78,087
Prepayments, other receivables and other assets		12,922	15,769
Financial assets at fair value through profit or loss		244,344	288,834
Other financial assets at amortized cost		–	34,830
Deferred tax assets		1,620	1,953
		<u>535,407</u>	<u>677,441</u>
Current assets			
Trade receivables	<i>10</i>	205,143	131,348
Prepayments, other receivables and other assets		133,518	90,155
Financial assets at fair value through profit or loss		527,357	440,661
Term deposits		705,367	354,846
Restricted cash		26,905	25,906
Cash and cash equivalents		728,883	1,232,999
		<u>2,327,173</u>	<u>2,275,915</u>
Total assets		<u><u>2,862,580</u></u>	<u><u>2,953,356</u></u>

	<i>Note</i>	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		55	55
Share premium		6,933,182	6,946,624
Other reserves		(1,574,711)	(1,672,199)
Accumulated losses		(2,917,274)	(2,684,251)
		<u>2,441,252</u>	<u>2,590,229</u>
Non-controlling interests		<u>–</u>	<u>–</u>
Total equity		<u>2,441,252</u>	<u>2,590,229</u>
Liabilities			
Non-current liabilities			
Contract liabilities	4	23,603	28,595
Lease liabilities		29,035	62,797
Deferred income tax liabilities		1,322	2,786
		<u>53,960</u>	<u>94,178</u>
Current liabilities			
Trade and other payables	11	128,319	157,902
Contract liabilities	4	204,001	64,436
Current income tax liabilities		6,690	6,688
Lease liabilities		28,358	39,923
		<u>367,368</u>	<u>268,949</u>
Total liabilities		<u>421,328</u>	<u>363,127</u>
Total equity and liabilities		<u>2,862,580</u>	<u>2,953,356</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Net cash used in operating activities		<u>(160,608)</u>	<u>(241,587)</u>
Net cash used in investing activities		<u>(336,547)</u>	<u>(96,174)</u>
Net cash used in financing activities		<u>(22,365)</u>	<u>(88,444)</u>
Net decrease in cash and cash equivalents		<u>(519,520)</u>	<u>(426,205)</u>
Cash and cash equivalents at beginning of the period		1,232,999	1,672,338
Exchange gains on cash and cash equivalents		<u>15,404</u>	<u>75,310</u>
Cash and cash equivalents at end of the period		<u><u>728,883</u></u>	<u><u>1,321,443</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

The interim condensed consolidated financial information for the six months ended 30 June 2023 is 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 2023 has been approved on 25 August 2023.

This interim condensed consolidated financial information for the six months ended 30 June 2023 has not been audited.

2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 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 2022 (the “**2022 Financial Statements**”), which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the 2022 Financial Statements.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the current Reporting Period commencing 1 January 2023:

Standards and amendments	Effective for annual periods beginning on or after
IFRS 17 Insurance Contracts	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
Amendments to IAS 12 on International Tax Reform – Pillar Two Model Rules	1 January 2023

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

3 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
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2024
Amendments to IAS 1 on Non-current Liabilities with Covenants	1 January 2024
Amendment to IFRS 16 on Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 7 and IFRS 7 on Supplier Finance Arrangements	1 January 2024
Amendments to IAS 21 on Lack of Exchangeability	1 January 2025
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	To be determined

4 SEGMENT INFORMATION AND REVENUE

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

As at 30 June 2023 and 31 December 2022, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the six months ended 30 June 2023 and 2022 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	
	2023 RMB’000 (Unaudited)	2022 RMB’000 (Unaudited)
Online game revenue		
– Development and licensing		
<i>Revenue share</i>	85,045	118,413
<i>Non-refundable fixed licensing fees</i>	15,745	19,288
– Integrated game publishing and operation	301,135	192,133
– Others	331	–
	<u>402,256</u>	<u>329,834</u>
Timing of revenue recognition		
– At a point in time	85,376	118,413
– Over time	316,880	211,421
	<u>402,256</u>	<u>329,834</u>

4 SEGMENT INFORMATION AND REVENUE (CONTINUED)

Revenues of approximately RMB100,764,000 and RMB137,189,000 for the six months ended 30 June 2023 and 2022, respectively were derived from five largest single external customers.

During the six months ended 30 June 2023, revenue of approximately RMB67,113,000 was derived from a single external customer accounted for more than 10% of total revenue.

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.

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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue segment by geography		
Mainland China	238,245	104,365
Areas outside mainland China	164,011	225,469
	<u>402,256</u>	<u>329,834</u>

The Group has recognized the following assets and liabilities related to contracts with customers:

	As at 30 June	As at 31 December
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Contract costs		
Current		
Costs to fulfil contracts for online game revenue	47,242	17,060
Contract liabilities		
Current		
Unamortised revenue from sales of in-game virtual items	187,970	47,598
Revenue share received in advance	446	1,816
Unamortised balance of the non-refundable fixed licensing fees	15,585	15,022
	<u>204,001</u>	<u>64,436</u>
Non-Current		
Unamortised balance of the non-refundable fixed licensing fees	23,603	28,595
	<u>227,604</u>	<u>93,031</u>

4 SEGMENT INFORMATION AND REVENUE (CONTINUED)

Contract costs are mainly related to contract fulfilment costs, which primarily consist of unamortized commissions charged by the Distribution Channels. They are capitalized as contract fulfilment costs and amortized over their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

Contract liabilities primarily represented the unamortized revenue from sales of in-game virtual items in the Group's online game services, the non-refundable fixed licensing fees and revenue share received in advance from customers, which the Group continued to have obligations as at the reporting date.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current Reporting Period relates to carried-forward contract liabilities:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period</i>		
Unamortised revenue from sales of in-game virtual items	47,189	44,946
Revenue share received in advance	1,816	944
Unamortised balance of the non-refundable fixed licensing fees	5,351	9,968
	<u>54,356</u>	<u>55,858</u>

5 OTHER LOSSES, NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Losses on financial assets and liabilities at fair value through profit or loss	(8,583)	(11,879)
Foreign exchange (losses)/gains, net	(18,071)	942
Others	(342)	722
	<u>(26,996)</u>	<u>(10,215)</u>

6 EXPENSES BY NATURE

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Employee benefit expenses	303,213	370,942
Promotion and advertising expenses	128,915	67,277
Commissions charged by distribution channels and payment channels	76,105	59,575
Outsourced technical services	38,478	49,618
Depreciation and amortization charges	32,924	31,806
Utilities and office expenses	11,059	14,576
Bandwidth and servers custody fee	10,305	7,533
Revenue share to the IP holders	8,197	11,092
Other professional consulting fees	2,491	3,114
Travelling expenses	2,347	2,995
VAT input transfer out and tax surcharges	1,876	2,666
Auditors' remuneration	1,230	1,140
– Audit services	1,230	1,140
– Non-audit services	–	–
Allowance/(reversal) of impairment on financial assets (Note 10)	633	(69)
Others	2,798	3,009
	620,571	625,274
	620,571	625,274

7 INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group for the six months ended 30 June 2023 and 2022 is analyzed as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Current income tax expense	560	971
Deferred income tax	(1,132)	763
	(572)	1,734
	(572)	1,734

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

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

(b) Hong Kong Income Tax

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at rate of 16.5% on the assessable profits for the six months ended 30 June 2023 and 2022, based on the existing legislation, interpretations and practices in respect thereof.

7 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

(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 2023, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong Technology Co., Ltd. (祖龍(天津)科技股份有限公司) (“**Tianjin Loong**”) qualified as a “High and New Technology Enterprise” (“**HNTE**”) for a three-year period under the EIT law in 2017 and renewed its qualification in October 2020 for another three-year period. Tianjin Loong is entitled to a preferential income tax rate of 15% on its assessable profits for a three-year period from October 2020 to October 2023. The management has made its best estimate that Tianjin Loong will still be qualified as a HNTE for 2023 with renewed qualification.

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 November 2021 for another three-year period. Huai’an Loong is entitled to a preferential income tax rate of 15% on its assessable profits for a three-year period from November 2021 to November 2024.

Beijing Fantasy Mermaid Technology Limited (北京幻想美人魚科技有限公司) (“**Beijing Fantasy Mermaid**”) qualified as a HNTE for a three-year period since 2019 and renewed its qualification in December 2022 for another three-year period. Beijing Fantasy Mermaid is entitled to a preferential income tax rate of 15% on its assessable profits for a three-year period from December 2022 to December 2025.

Chengdu Fantasy Mermaid Technology Limited (成都幻想美人魚科技有限公司), Beihai Loong Venture Capital Co., Ltd. (北海祖龍創業投資有限公司) and Beihai Longhao Venture Capital Co., Ltd. (北海龍灝創業投資有限公司) met the requirements of the revised catalogue of industries whose development are to be encouraged in the country’s western regions. They are entitled to a preferential income tax rate of 15% on their assessable profits.

According to a policy promulgated by the State Tax Bureau of the PRC that was effective from 2023 onwards, enterprises engaging in research and development activities are entitled to claim 200% of their research and development expenses incurred as tax deductible expenses in determining tax assessable profits (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the year.

8 LOSS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Loss attributable to owners of the Company (RMB’000)	(233,023)	(308,857)
Weighted average number of ordinary shares in issue (in thousands)	783,926	790,192
Less: weighted average number of treasury shares (in thousands)	—	(1,328)
Weighted average number of issued ordinary shares for calculating basic loss per share (in thousands)	783,926	788,864
Basic loss per share (in RMB/share)	<u>(0.30)</u>	<u>(0.39)</u>

8 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 2023 and 2022, the Company has two categories of dilutive potential ordinary shares: the restricted share unit (“RSU”) and the share options.

For the purpose of calculating diluted loss per share for the six months ended 30 June 2023 and 2022, 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 2023 and 2022.

9 DIVIDENDS

No dividend has been declared or paid by the Company for the six months ended 30 June 2023 and 2022.

10 TRADE RECEIVABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade receivables	208,286	133,858
Less: allowance for impairment of trade receivables	<u>(3,143)</u>	<u>(2,510)</u>
Trade receivables – net	<u><u>205,143</u></u>	<u><u>131,348</u></u>

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Related parties	71,326	63,193
Third parties	<u>136,960</u>	<u>70,665</u>
	<u><u>208,286</u></u>	<u><u>133,858</u></u>

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
RMB	125,237	61,366
United States Dollar (“U.S. dollars”, “US\$”)	76,841	65,926
Hong Kong Dollar (“HK\$”)	6,014	6,112
Others	<u>194</u>	<u>454</u>
	<u><u>208,286</u></u>	<u><u>133,858</u></u>

10 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 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Up to 3 months	130,457	76,670
3 to 6 months	27,588	33,706
6 months to 1 year	48,464	21,158
Over 1 year	1,777	2,324
	<u>208,286</u>	<u>133,858</u>

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

	Six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Beginning of the period	(2,510)	(2,337)
Provision for impairment	(640)	(14)
Reversal of impairment	7	83
	<u>(3,143)</u>	<u>(2,268)</u>

The creation and release of provision for impaired receivables have been included in “(Allowance)/reversal of impairment on financial assets” in the consolidated statement of profit or loss.

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

11 TRADE AND OTHER PAYABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade payables	70,377	66,874
Payroll liabilities	40,452	67,195
Asset procurement	7,847	731
Tax payables	4,830	14,361
Others	4,813	8,741
	<u>128,319</u>	<u>157,902</u>

11 TRADE AND OTHER PAYABLES (CONTINUED)

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Related parties	11,559	8,634
Third parties	<u>58,818</u>	<u>58,240</u>
	<u>70,377</u>	<u>66,874</u>

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Up to 6 months	57,451	55,251
6 months to 1 year	5,045	9,275
Over 1 year	<u>7,881</u>	<u>2,348</u>
	<u>70,377</u>	<u>66,874</u>

DEFINITIONS

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

“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“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
“Director(s)”	the director(s) of the Company
“Global Offering”	the initial public offering of the Shares for subscription by the public and the institutional, professional, corporate and other investors
“Group”, “we” or “us”	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”	Hong Kong dollars, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 15 July 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Macao”	the Macao Special Administrative Region of the PRC

“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
“NPC(s)”	Non-player character(s)
“PRC”	the People’s Republic of China
“Pre-IPO RSU Scheme”	the restricted share unit scheme of the Company approved and adopted by the Board on 1 April 2020
“Prospectus”	the prospectus of the Company dated 30 June 2020
“Reporting Period”	the period for the six months ended 30 June 2023
“RMB”	Renminbi, the lawful currency of the PRC
“RSU Scheme”	the restricted share unit scheme of the Company approved and adopted by the Shareholders on 22 December 2022, in its present form or as may be 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 5 February 2021
“Share(s)”	ordinary share(s) of US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“SLG”	simulation games, which are generally designed to closely simulate aspects of a real or fictional reality
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	for the purpose of this Results Announcement, has the meaning ascribed to it in section 15 of the Companies ordinance (Chapter 622 of the Laws of Hong Kong) and includes companies whose financial results have been consolidated and accounted for as the subsidiaries of our Company by virtue of certain contractual arrangements

“Tencent”	Tencent Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be and holds 17.23% of the Shares as at 30 June 2023
“Unreal Engine 4” and “Unreal Engine 5”	game engines developed by Epic Games
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

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

Beijing, China, 25 August 2023

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