

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

2023
中 期 報 告
Interim Report



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Definitions

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

“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“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
“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 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 the Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 15 July 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

Definitions

“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
“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)
“Offer”	an offer for the grant of an Option
“Option”	an option to subscribe for the Shares granted pursuant to the Share Option Scheme
“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 16.59% of the Shares as at 30 June 2023
“PRC”	the People’s Republic of China
“Pre-IPO RSU(s)”	restricted share units granted pursuant to the Pre-IPO RSU Scheme
“Pre-IPO RSU Scheme”	the restricted share unit scheme of the Company approved and adopted by the Board on 1 April 2020

Definitions

“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
“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 of the Company approved and adopted by the Shareholders on 5 February 2021, in its present form or as may be amended from time to time
“Share(s)”	ordinary share(s) of US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“SLG”	simulation games, a genre of games that attempt to emulate various activities from real life in the game format
“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 the 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 incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be and holds 17.23% of the Shares as at 30 June 2023

Definitions

“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

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		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 interim report, 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.

Management Discussion and Analysis

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” (夜蕾綺想) 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 actively developed the game’s PC version to make the PC version’s screen more exquisite and the experience more optimized. The PC version was launched in mainland China on 6 September 2023. 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.

Management Discussion and Analysis

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 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) (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 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 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 interim report.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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	% of total	RMB million	% of total
	(Unaudited)	revenue	(Unaudited)	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.

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			
	2023		2022	
	RMB million	% of total	RMB million	% of total
	(Unaudited)	revenue	(Unaudited)	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	104.6	100.0%	87.0	100.0%

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 2023 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.

Management Discussion and Analysis

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 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.

Management Discussion and Analysis

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

	For the six months ended 30 June		Change %
	2023 RMB million (Unaudited)	2022 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)%
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)%
Cash and cash equivalents at the end of the period	728.9	1,321.4	(44.8)%

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.

Management Discussion and Analysis

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 acquisition 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.

Management Discussion and Analysis

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 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 the 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. For details, please refer to "RSU Schemes" and "Share Option Scheme" under the section "OTHER INFORMATION" in this interim report.

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

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

FOREIGN CURRENCY EXCHANGE RISKS

For the six months ended 30 June 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.

Management Discussion and Analysis

USE OF NET PROCEEDS FROM GLOBAL OFFERING

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

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	The amount	As at 30 June 2023		Expected timeline for utilizing the remaining net proceeds ⁽¹⁾
		from the Global Offering (HK\$ million)	utilized during the Reporting Period (HK\$ million)	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.

Management Discussion and Analysis

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 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 2023, 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	282,266,802	35.31%
Mr. Bai Wei ⁽⁴⁾	Interest in controlled corporation	15,447,304	1.93%

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 799,363,630 Shares in issue as at 30 June 2023.
- (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 3,937,000 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 the Directors are aware, as at 30 June 2023, the following persons have interests or short positions in Shares or underlying Shares of the 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	Capacity/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	282,266,802	35.31%
Cresc Chorus ⁽³⁾	Beneficial owner	278,329,802	34.82%
LuckQ ⁽³⁾	Interest in controlled corporation	278,329,802	34.82%
Perfect World Interactive ⁽⁴⁾	Beneficial owner	132,593,999	16.59%
Perfect Game Speed Company Limited ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.59%
Perfect Freedom Company Limited ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.59%
Beijing Perfect World Software Technology Development Co., Ltd. ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.59%
Perfect World Games ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.59%
Perfect World ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.59%
Mr. Chi Yufeng (池宇峰) ⁽⁴⁾	Interest in controlled corporation	132,593,999	16.59%
Image Frame ⁽⁵⁾	Beneficial owner	105,077,999	13.15%
Tencent ⁽⁵⁾	Interest in controlled corporation	137,698,399	17.23%

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 2023 of 799,363,630 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 by Perfect World Holding Group as at 30 June 2023, 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 32.40% 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 2023, 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 SCHEMES

The Company adopted the Pre-IPO RSU Scheme and the RSU Scheme on 1 April 2020 and on 22 December 2022, respectively. Details of the Pre-IPO RSU Scheme are set out in the Prospectus and details of the RSU Scheme are set out in the circular of the Company dated 22 November 2022.

Pre-IPO RSU Scheme

Details of movements of the Pre-IPO RSUs granted under the Pre-IPO RSU Scheme during the six months ended 30 June 2023 are set out below:

Participants	Date of grant	Vesting period	Exercise price per Share (HK\$)	Exercise cancelled Pre-IPO RSUs (HK\$)	Number of outstanding Pre-IPO RSUs at 1 January 2023	Number of Pre-IPO RSUs granted during the Reporting Period	Number of Pre-IPO RSUs vested during the Reporting Period	Number of Pre-IPO RSUs exercised during the Reporting Period	Weighted average closing price	Number of Pre-IPO RSUs cancelled during the Reporting Period	Number of Pre-IPO RSUs lapsed during the Reporting Period	Number of Pre-IPO RSUs outstanding at 30 June 2023
									immediately before the dates of vesting during the Reporting Period (HK\$)			
Employee	1 April 2020 – 30 August 2022 ⁽¹⁾	3 years ⁽²⁾	-	/	5,888,780	Please refer to note (3)	665,580	2,394,501	6.30	Please refer to note (3)	321,458	4,901,742

Notes:

- (1) The dates of grant are 1 April 2020, 24 June 2020, 1 February 2021, 29 March 2021, 25 August 2021, 25 March 2022 and 30 August 2022.
- (2) The Pre-IPO RSUs are exercisable in installments from the commencement of the relevant vesting period until ten years after the grant date. For the Pre-IPO RSUs granted prior to the Listing Date, 40% of the Pre-IPO RSUs can be exercised 1 year after the Listing Date, 30% of the Pre-IPO RSUs can be exercised 2 years after the Listing Date and the remaining 30% of the Pre-IPO RSUs can be exercised 3 years after the Listing Date. Save as disclosed above and subject to the terms of the Pre-IPO RSU Scheme and conditions stated in the letter containing the offer, 40% of the Pre-IPO RSUs can be exercised 1 year after the grant date, 30% of the Pre-IPO RSUs will become exercisable 2 years after the grant date and the remaining 30% of the Pre-IPO RSUs will become exercisable 3 years after the grant date.
- (3) On 28 March 2023, 9,020,000 Pre-IPO RSUs with the exercise price of nil were granted to various employees. For the vesting period of the aforesaid 9,020,000 Pre-IPO RSUs, please refer to note (4). The closing price of the Shares immediately before the date of grant, 28 March 2023, was HK\$6.20. Due to the adjustment of the administrative arrangement of the Company, the aforesaid 9,020,000 Pre-IPO RSUs were cancelled on 6 April 2023. For further details, please refer to the announcements of the Company dated 28 March 2023 and 6 April 2023. As at 6 April 2023, none of the aforesaid 9,020,000 Pre-IPO RSUs were accepted.
- (4) Vesting in tranches within 3 years from the date of grant; each 12-month period is an evaluation period commencing from the date on which the Pre-IPO RSUs are granted to the grantee, which is a total of three evaluation periods. The grantee will receive 40% of the Pre-IPO RSUs granted to him/her upon the expiry of the first evaluation period; 30% of the Pre-IPO RSUs granted to him/her upon the expiry of the second evaluation period; the remaining 30% of the Pre-IPO RSUs granted to him/her upon the expiry of the third evaluation period.

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

Other Information

RSU Scheme

Details of movements of the RSUs granted under the RSU Scheme during the six months ended 30 June 2023 are set out below:

Participants	Date of grant	Vesting period	Conversion price per Share (HK\$)	Conversion price of the cancelled RSUs (HK\$)	Number of outstanding RSUs at 1 January 2023	Number of RSUs granted during the Reporting Period ⁽³⁾	Number of RSUs vested during the Reporting Period	Number of RSUs converted during the Reporting Period	Weighted average closing price	Number of RSUs cancelled during the Reporting Period	Number of RSUs lapsed during the Reporting Period	Number of outstanding RSUs at 30 June 2023
									immediately before the dates of vesting during the Reporting Period (HK\$)			
Employee	6 April 2023 ⁽¹⁾	3 years ⁽²⁾	-	/	/	9,020,000	-	-	-	-	-	9,020,000

Notes:

- (1) For details of fair value of the RSUs at the date of grant and the accounting standard and policies adopted, please refer to Note 24(b) to the consolidated financial statements on page 65 to 66 of this interim report.
- (2) Vesting in tranches within 3 years from the date of grant; each 12-month period is an evaluation period commencing from the date on which the RSUs are granted to the grantee, which is a total of three evaluation periods. The grantee will receive 40% of the RSUs granted to him/her upon the expiry of the first evaluation period; 30% of the RSUs granted to him/her upon the expiry of the second evaluation period; the remaining 30% of the RSUs granted to him/her upon the expiry of the third evaluation period.
- (3) The closing price of the Shares immediately before the date of grant, 6 April 2023, was HK\$5.91.

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.

SHARE OPTION SCHEME

The Company adopted and amended the Share Option Scheme on 5 February 2021 and on 22 December 2022, respectively. Details of the Share Option Scheme are set out in the circular of the Company dated 19 January 2021 and 22 November 2022.

Other Information

Details of the movement of Options granted under the Share Option Scheme during the six months ended 30 June 2023 are set out below:

Participants	Date of grant	Vesting period	Exercise price per Share (HK\$)	Exercise price per Share of the cancelled Options (HK\$)	Number of outstanding Options at 1 January 2023	Number of Options granted during the Reporting Period	Number of Options exercised during the Reporting Period	Weighted average closing price immediately before the dates of exercising during the Reporting Period (HK\$)	Number of Options cancelled during the Reporting Period	Number of Options lapsed during the Reporting Period	Number of outstanding Options at 30 June 2023
Employee	7-Jan-22	From 7-Jan-22 to 14-Apr-24 ⁽²⁾	8.72	/	5,354,279	-	-	/	-	597,056	4,757,223
					5,354,279	-	-	/	-	597,056	4,757,223

Notes:

- (1) For details of fair value of the Options at the date of grant and the accounting standard and policies adopted, please refer to Note 24(a) to the consolidated financial statements on page 64 to 65 of this interim report.
- (2) The Options are exercisable in installments from the commencement of the relevant vesting period until 7 January 2032. Subject to the terms of the Share Option Scheme and conditions stated in the letter containing the Offer, 40% of Options can be exercised after 14 April 2022, 30% of the Options can be exercisable after 14 April 2023 and the remaining 30% of the Options will become exercisable after 14 April 2024.

The number of Options, Pre-IPO RSUs and RSUs available for grant under the scheme mandate was 60,154,224 as at 1 January 2023 and 52,052,738 as at 30 June 2023 respectively. The number of Shares that may be issued in respect of Options and RSUs granted under all schemes of the Company during the six months ended 30 June 2023 divided by the weighted average number of Shares in issue for the six months ended 30 June 2023 is 1.72%.

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 22 to the consolidated financial statements on page 62 to this interim report.

REPURCHASE, 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>659,000</u>			<u>3,744,880</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.

Other Information

INTERIM DIVIDEND

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

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.

Other Information

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.

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 2023.

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 2022 annual report.

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 2023 and the interim report of the Group for the six months ended 30 June 2023. 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 2023.

By order of the Board

Li Qing

Chairman

Beijing, China, 25 August 2023

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 32 to 72, which comprises the interim condensed consolidated balance sheet of Archosaur Games Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2023 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 selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 August 2023

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2023

	Note	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	6	402,256	329,834
Cost of revenue	9	(104,519)	(87,059)
Gross profit		297,737	242,775
Research and development expenses	9	(299,244)	(367,118)
Selling and marketing expenses	9	(164,358)	(117,354)
Administrative expenses	9	(51,817)	(53,812)
(Allowance)/reversal of impairment on financial assets	9	(633)	69
Other income	7	3,384	1,538
Other losses, net	8	(26,996)	(10,215)
Operating loss		(241,927)	(304,117)
Finance income	10	23,434	7,284
Finance costs	10	(2,586)	(3,413)
Finance income, net	10	20,848	3,871
Share of results of investments accounted for using the equity method	17	(12,516)	(6,877)
Loss before income tax		(233,595)	(307,123)
Income tax credit/(expense)	11	572	(1,734)
Loss for the period		(233,023)	(308,857)
Loss attributable to:			
– Owners of the Company		(233,023)	(308,857)
– Non-controlling interests		–	–
		(233,023)	(308,857)
Loss per share attributable to owners of the Company for the period (in RMB/share)	12		
– Basic		(0.30)	(0.39)
– Diluted		(0.30)	(0.39)

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 2023

	Note	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Loss for the period		(233,023)	(308,857)
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		51,864	73,624
Total comprehensive loss for the period		(163,798)	(199,408)
Attributable to:			
– Owners of the Company		(163,798)	(199,408)
– Non-controlling interests		–	–
		(163,798)	(199,408)

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

Interim Condensed Consolidated Balance Sheet

As at 30 June 2023

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	22,624	29,308
Right-of-use assets	16	56,069	100,343
Intangible assets	15	131,257	128,317
Investments accounted for using the equity method	17	66,571	78,087
Prepayments, other receivables and other assets	19	12,922	15,769
Financial assets at fair value through profit or loss	20	244,344	288,834
Other financial assets at amortized cost	21	–	34,830
Deferred tax assets		1,620	1,953
		<u>535,407</u>	<u>677,441</u>
Current assets			
Trade receivables	18	205,143	131,348
Prepayments, other receivables and other assets	19	133,518	90,155
Financial assets at fair value through profit or loss	20	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>2,862,580</u>	<u>2,953,356</u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	22	55	55
Share premium	22	6,933,182	6,946,624
Other reserves	23	(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>

Interim Condensed Consolidated Balance Sheet

As at 30 June 2023

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Contract liabilities	6	23,603	28,595
Lease liabilities	16	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	25	128,319	157,902
Contract liabilities	6	204,001	64,436
Current income tax liabilities		6,690	6,688
Lease liabilities	16	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>

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

The Interim Condensed Consolidated Financial Information on pages 32 to 72 was approved by the Board of Directors on 25 August 2023 and was 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 2023

	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 2023		<u>55</u>	<u>6,946,624</u>	<u>(1,672,199)</u>	<u>(2,684,251)</u>	<u>2,590,229</u>
Comprehensive loss						
Loss for the period		-	-	-	(233,023)	(233,023)
Other comprehensive loss						
Currency translation differences		-	-	69,225	-	69,225
Total comprehensive loss		<u>-</u>	<u>-</u>	<u>69,225</u>	<u>(233,023)</u>	<u>(163,798)</u>
Transactions with owners in their capacity as owners						
Share-based compensation	24(c)	-	-	18,135	-	18,135
Vesting of restricted share units	22, 23	-	5,083	(5,083)	-	-
Repurchase and cancellation of shares	22, 23	-	(18,525)	15,211	-	(3,314)
Total transactions with owners in their capacity as owners		<u>-</u>	<u>(13,442)</u>	<u>28,263</u>	<u>-</u>	<u>14,821</u>
Balance at 30 June 2023		<u>55</u>	<u>6,933,182</u>	<u>(1,574,711)</u>	<u>(2,917,274)</u>	<u>2,441,252</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the Six Months ended 30 June 2023

	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		55	6,951,009	(1,868,975)	(1,915,704)	3,166,385
Comprehensive loss						
Loss for the period		-	-	-	(308,857)	(308,857)
Other comprehensive loss						
Currency translation differences		-	-	109,449	-	109,449
Total comprehensive loss		-	-	109,449	(308,857)	(199,408)
Transactions with owners in their capacity as owners						
Share-based compensation	24(c)	-	-	29,068	-	29,068
Vesting of restricted share units	22, 23	-	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		-	(10,853)	12,549	-	1,696
Balance at 30 June 2022		55	6,940,156	(1,746,977)	(2,224,561)	2,968,673

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 2023

	Note	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash used in operations		(171,127)	(248,764)
Interest received		10,976	4,860
Income tax (paid)/received		(457)	2,317
Net cash used in operating activities		(160,608)	(241,587)
Cash flows from investing activities			
Purchases of property, plant and equipment		(644)	(7,505)
Purchases of intangible assets		(1,680)	(4,035)
Purchases of other financial assets at amortized cost		–	(33,557)
Purchases of financial assets at fair value through profit or loss	20	(906,000)	(896,223)
Payments for investments accounted for using the equity method	17	(1,000)	(30,000)
Placements of restricted cash		(16,981)	(14,925)
Purchases of term deposits		(587,493)	(129,670)
Loan granted to related party	19	(3,000)	–
Proceeds from maturity of financial assets at fair value through profit or loss		862,084	741,065
Receipt from maturity of restricted cash		15,982	13,629
Proceeds from maturity of term deposits		263,306	259,340
Interest income from term deposits		1,996	2,738
Investment income from financial assets at fair value through profit or loss		2,734	2,969
Investment loss from other financial assets at amortized cost		(728)	–
Proceeds from disposal of property, plant and equipment		54	–
Proceeds from disposal of other financial assets measured at amortized cost		34,823	–
Net cash used in investing activities		(336,547)	(96,174)

Interim Condensed Consolidated Statement of Cash Flows

For the Six Months ended 30 June 2023

	Note	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from financing activities			
Principal elements of lease payments	16	(20,038)	(18,526)
Interest paid	16	(2,327)	(3,128)
Payments for shares repurchase		–	(66,790)
Proceeds from borrowings		17,900	–
Repayment of borrowings		(17,900)	–
Net cash used in financing activities		(22,365)	(88,444)
Net decrease in cash and cash equivalents		(519,520)	(426,205)
Cash and cash equivalents at beginning of the period		1,232,999	1,672,338
Exchange gains on cash and cash equivalents		15,404	75,310
Cash and cash equivalents at end of the period		728,883	1,321,443

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 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.

Notes to the 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.

<u>Standards and amendments</u>	<u>Effective for annual periods beginning on or after</u>
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 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 2022 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 2022 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 2023					
(Unaudited)					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 25)	83,037	-	-	-	83,037
Lease liabilities	30,442	29,539	207	-	60,188
	<u>113,479</u>	<u>29,539</u>	<u>207</u>	<u>-</u>	<u>143,225</u>
At 31 December 2022					
(Audited)					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 25)	76,346	-	-	-	76,346
Lease liabilities	43,973	44,227	20,977	-	109,177
	<u>120,319</u>	<u>44,227</u>	<u>20,977</u>	<u>-</u>	<u>185,523</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 2023 and 31 December 2022 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 financial assets that are measured at fair value as at 30 June 2023, none of the Group's financial liabilities is measured at fair value:

(Unaudited)				
As at 30 June 2023	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Current				
Investments in wealth management products (Note 20)	-	-	215,444	215,444
Other fund investments (Note 20)	-	-	154,770	154,770
Structured investments (Note 20)	-	-	157,143	157,143
	<u>-</u>	<u>-</u>	<u>527,357</u>	<u>527,357</u>
Non-current				
Investments in private equity funds and venture capital funds (Note 20)	-	-	149,015	149,015
Structured investments (Note 20)	-	-	69,165	69,165
Preferred shares investments (Note 20)	-	-	14,349	14,349
Other fund investments (Note 20)	-	-	8,289	8,289
Other ordinary share investments (Note 20)	-	-	3,526	3,526
	<u>-</u>	<u>-</u>	<u>244,344</u>	<u>244,344</u>
	<u>-</u>	<u>-</u>	<u>771,701</u>	<u>771,701</u>

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 2022, none of the Group's financial liabilities is measured at fair value.

(Audited) As at 31 December 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)	–	–	151,115	151,115
Other fund investments (Note 20)	–	–	149,439	149,439
Structured investments (Note 20)	–	–	140,107	140,107
	–	–	440,661	440,661
Non-current				
Investments in private equity funds and venture capital funds (Note 20)	–	–	163,435	163,435
Structured investments (Note 20)	–	–	99,299	99,299
Preferred shares investments (Note 20)	–	–	14,349	14,349
Other fund investments (Note 20)	–	–	8,225	8,225
Other ordinary share investments (Note 20)	–	–	3,526	3,526
	–	–	288,834	288,834
	–	–	729,495	729,495

The changes in level 3 instruments of financial assets at fair value through profit or loss for the six months ended 30 June 2023 and 2022 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 and comparable company approach, 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 wealth management products, preferred shares investments, other ordinary share investments, investments in private equity funds and venture capital funds, other fund investments, structured investments. As these instruments are not traded in an active market, their fair values have been determined by using applicable methodologies.

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 2023	As at 31 December 2022		As at 30 June 2023	As at 31 December 2022	
	RMB'000	RMB'000				
Wealth management products	215,444	151,115	Expected rate of return	2.25% to 4.72%	1.49% to 2.89%	Increasing/decreasing expected rate of return by 50 basis points would increase/decrease fair value by RMB604,477 and RMB508,398 as at 30 June 2023 and 31 December 2022.
Preferred share investments (a)	14,349	14,349	Expected volatility	50.31%	48.38%	The higher the expected volatility, the lower the fair value.
			Risk-free rate	2.42%	2.64%	The higher the risk-free rate, the lower the fair value.
			Discount for lack of marketability ("DLOM")	30.00%	30.00%	The higher the DLOM, the lower the fair value.
Other ordinary share investments (a)	3,526	3,526	Expected volatility	51.30%	43.77%	The higher the expected volatility, the higher the fair value.
			Risk-free rate	1.86%	2.21%	The higher the risk-free rate, the higher the fair value.
Investments in private equity funds and venture capital funds (b)	149,015	163,435	N/A	N/A	N/A	N/A
Other fund investments (c)	163,059	157,664	N/A	N/A	N/A	N/A
Structured investments (c)	226,308	239,406	N/A	N/A	N/A	N/A
	<u>771,701</u>	<u>729,495</u>				

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 share investments and other ordinary share investments as at the reporting date based on the valuation using applicable technique.
- (b) The fair value of investments in private equity funds and venture capital funds are primarily valued based on the latest available consolidated financial statements and valuation reports provided by their general partners.
- (c) Other fund investments and structured investments 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 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	2022
	RMB'000	RMB'000
	(Unaudited)	(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	–
	402,256	329,834
Timing of revenue recognition		
– At a point in time	85,376	118,413
– Over time	316,880	211,421
	402,256	329,834

Notes to the Interim Condensed Consolidated Financial Information

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

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (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
	204,001	64,436
Non-Current		
Unamortised balance of the non-refundable fixed licensing fees	23,603	28,595
	227,604	93,031

Notes to the Interim Condensed Consolidated Financial Information

6 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
	54,356	55,858

7 OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants	3,384	1,538

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, NET

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (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
	(26,996)	(10,215)

9 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 (Note 14, 15, 16)	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 18)	633	(69)
Others	2,798	3,009
	620,571	625,274

Notes to the Interim Condensed Consolidated Financial Information

10 FINANCE INCOME, NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income	<u>23,434</u>	7,284
Finance costs		
Interest expenses on lease liabilities (Note 16)	<u>(2,176)</u>	(3,128)
Others	<u>(410)</u>	(285)
	<u>(2,586)</u>	(3,413)
Finance income, net	<u>20,848</u>	3,871

11 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	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax expense	<u>560</u>	971
Deferred income tax	<u>(1,132)</u>	763
	<u>(572)</u>	1,734

Notes to the Interim Condensed Consolidated Financial Information

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

(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.

(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.

Notes to the Interim Condensed Consolidated Financial Information

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.

	<u>Six months ended 30 June</u>	
	<u>2023</u>	2022
	<u>(Unaudited)</u>	(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)	<u>—</u>	<u>(1,328)</u>
Weighted average number of issued ordinary shares for calculating basic loss per share (in thousands)	<u>783,926</u>	<u>788,864</u>
Basic loss per share (in RMB/share)	<u>(0.30)</u>	<u>(0.39)</u>

(b) Diluted

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

For the six months ended 30 June 2023 and 2022, the Company has two categories of dilutive potential ordinary shares: the restricted share unit ("RSU") and the share options as described in Note 24.

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.

13 DIVIDENDS

No dividend has been declared or paid by the Company for the six months ended 30 June 2023 and 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 2023				
(Unaudited)				
Opening net book amount	18,977	191	10,140	29,308
Additions	635	22	–	657
Disposals	(48)	(1)	–	(49)
Depreciation charge	(3,744)	(30)	(3,518)	(7,292)
Closing net book amount	15,820	182	6,622	22,624
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

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 2023				
(Unaudited)				
Opening net book amount	37,077	91,191	49	128,317
Additions	3,250	4,957	–	8,207
Amortisation charge	(3,386)	(3,057)	(9)	(6,452)
Currency translation differences	1,148	37	–	1,185
Closing net book amount	38,089	93,128	40	131,257
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

Notes to the Interim Condensed Consolidated Financial Information

16 LEASES

(a) Amounts recognised in the consolidated balance sheet

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Right-of-use assets		
Properties	55,837	99,984
Vehicles	232	359
	<u>56,069</u>	<u>100,343</u>
	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Lease liabilities		
Current	28,358	39,923
Non-current	29,035	62,797
	<u>57,393</u>	<u>102,720</u>

The reduction of right-of-use assets during the six months ended 30 June 2023 mainly arose from the early termination of lease contracts in June 2023.

Notes to the Interim Condensed Consolidated Financial Information

16 LEASES (Continued)

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

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

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Depreciation charge of right-of-use assets		
Properties	19,053	19,345
Vehicles	127	127
	<u>19,180</u>	<u>19,472</u>
Six months ended 30 June		
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest expenses (included in finance costs)	2,176	3,128
Expense relating to short-term leases (included in cost of revenue, research and development expenses, selling and marketing expenses and administrative expenses)	401	1,461
	<u>2,577</u>	<u>4,589</u>

The total cash outflow for leases in the six months ended 30 June 2023 and 2022 were RMB22,214,000 and RMB21,654,000.

(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.

(d) Extension options

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

Notes to the Interim Condensed Consolidated Financial Information

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 2023 and 2022:

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Investments in associates using equity method	<u>66,571</u>	<u>78,087</u>
	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Beginning of the period	78,087	61,524
Additions	1,000	30,000
Share of losses for the period	<u>(12,516)</u>	<u>(6,877)</u>
End of the period	<u>66,571</u>	<u>84,647</u>

As at 30 June 2023, the Group invested in three associates. In the opinion of the directors of the Company, none of the associates is material to the Group.

Notes to the Interim Condensed Consolidated Financial Information

18 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	(3,143)	(2,510)
Trade receivables – net	205,143	131,348

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 (Note 27(c))	71,326	63,193
Third parties	136,960	70,665
	208,286	133,858

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	194	454
	208,286	133,858

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 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
	208,286	133,858

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
End of the period	(3,143)	(2,268)

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.

Notes to the Interim Condensed Consolidated Financial Information

19 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Included in non-current assets		
Rental deposits	8,800	11,570
Interest receivables	117	–
Others	4,005	4,199
	<u>12,922</u>	<u>15,769</u>
Included in current assets		
Contract fulfilment costs	47,242	17,060
Prepayments to a stock broker for share repurchase	23,617	26,247
Recoverable value-added tax	18,096	23,814
Interest receivables	15,751	5,423
Rental deposits	3,871	1,494
Prepaid revenue share to IP holders (Note (a))	3,092	3,092
Loan to related party (Note (b))	3,017	–
Prepaid advertising expenses	104	342
Others	18,728	12,683
	<u>133,518</u>	<u>90,155</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.
- (b) As at 30 June 2023, the Group provided a loan to Beijing Vega Interactive Network Technology Co., Ltd. (北京唯加互動網絡科技有限公司) who is an associate of the Group of RMB3,000,000 at an interest rate of 3% per annum for a maturity period of 12 months.

Notes to the Interim Condensed Consolidated Financial Information

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Current		
Wealth management products (Note (a))	215,444	151,115
Other fund investments (Note (b))	154,770	149,439
Structured investments (Note (c))	157,143	140,107
	<u>527,357</u>	<u>440,661</u>
Non-current		
Investments in private equity funds and venture capital funds (Note (d))	149,015	163,435
Structured investments (Note (c))	69,165	99,299
Preferred shares investments (Note (e))	14,349	14,349
Other fund investments (Note (b))	8,289	8,225
Other ordinary share investments (Note (f))	3,526	3,526
	<u>244,344</u>	<u>288,834</u>
	<u>771,701</u>	<u>729,495</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 2023 and 2022 are as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Beginning of the period	729,495	651,124
Addition-wealth management products	604,000	788,202
Addition-structured investments	302,000	100,671
Addition-preferred shares investments	-	4,000
Addition-investments in private equity funds and venture capital funds	-	3,350
Addition-other ordinary share investments	-	125
Disposal	(855,211)	(736,214)
Changes in fair value	(8,583)	(7,341)
End of the period	771,701	803,917
Net unrealized losses recognized in the consolidated statement of profit or loss included in the above balance	(13,753)	(10,049)

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) Other fund investments represent the Group's investment in various securities funds, which were offered by several international financial institutions.
- (c) The Group purchased structured investments issued by several PRC and international financial institutions. The returns on all of these investments 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.
- (d) Investments in private equity funds and 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.
- (e) 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.
- (f) Other 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 OTHER FINANCIAL ASSETS AT AMORTIZED COST

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Structured investments	-	34,830

Other financial assets at amortized cost are structured investments, denominated in US\$. The investments were redeemed before 30 June 2023. The investments are held for collection of contractual cash flows and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs.

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares US\$		
Authorized				
At 1 January and 30 June 2023	<u>5,000,000,000</u>	<u>50,000</u>		
At 1 January and 30 June 2022	<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 2023	<u>788,368,470</u>	<u>8</u>	<u>55</u>	<u>6,946,624</u>
Vesting of RSUs (Note (a))	665,580	-	-	5,083
Cancellation of treasury shares	<u>(6,391,000)</u>	<u>-</u>	<u>-</u>	<u>(18,525)</u>
At 30 June 2023	<u>782,643,050</u>	<u>8</u>	<u>55</u>	<u>6,933,182</u>
At 1 January 2022	791,491,279	8	55	6,951,009
Vesting of RSUs (Note (a))	210,640	-	-	2,664
Cancellation of treasury shares	<u>(1,933,000)</u>	<u>-</u>	<u>-</u>	<u>(13,517)</u>
At 30 June 2022	<u>789,768,919</u>	<u>8</u>	<u>55</u>	<u>6,940,156</u>

Note:

- (a) During the six months ended 30 June 2023 and 2022, 665,580 and 210,640 ordinary shares of the Company were transferred to the share awardees upon vesting of the awarded shares under the scheme which is disclosed in Note 24(b).

Notes to the Interim Condensed Consolidated Financial Information

23 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 2023	(1,851,237)	5,000	255,076	(42,536)	(38,502)	(1,672,199)
Share-based compensation (Note 24(c))	-	-	18,135	-	-	18,135
Vesting of RSUs	-	-	(5,083)	-	-	(5,083)
Repurchase and cancellation of shares (Note (a))	-	-	-	-	15,211	15,211
Currency translation differences	-	-	-	69,225	-	69,225
At 30 June 2023 (Unaudited)	(1,851,237)	5,000	268,128	26,689	(23,291)	(1,574,711)
At 1 January 2022	(1,851,237)	5,000	259,198	(250,900)	(31,036)	(1,868,975)
Share-based compensation (Note 24(c))	-	-	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)

Note:

- (a) During the six months ended 30 June 2023, the Group repurchased a total of 659,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$3,744,880 (approximately RMB3,314,415). All the repurchased shares have been cancelled as of 30 June 2023.

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

24 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 directors) 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 grantees’ 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.

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

	Number of share options
Outstanding as of 1 January 2023	3,079,845
Vested	(1,434,925)
Forfeited	(235,857)
	1,409,063
Outstanding as of 30 June 2023	1,409,063
Outstanding as of 1 January 2022	6,776,377
Vested	(2,513,714)
Forfeited	(579,100)
	3,683,563
Outstanding as of 30 June 2022	3,683,563

No share option was expired or exercised during the six months ended 30 June 2023 and the remaining contractual life of outstanding share options was 8.5 years as of 30 June 2023.

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

24 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:

	<u>Grant date</u>	<u>Modification date</u>	
	<u>As at 14 April 2021</u>	<u>As at 7 January 2022 Before modification</u>	<u>After modification</u>
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 ("Pre-IPO RSU Scheme"). 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 Pre-IPO 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 Pre-IPO RSU Scheme, subject to grantees' employment or service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 40%, 30% and 30% of the RSUs on each of the first trading day after 12, 24 and 36 months from the Listing date of the Company.

On 1 February 2021, 29 March 2021, 25 August 2021, 25 March 2022 and 30 August 2022, the Company granted RSUs representing an aggregate of 2,521,200 underlying shares to certain eligible employees pursuant to the Pre-IPO RSU Scheme. Subject to grantees' 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.

On 22 December 2022, the new RSU scheme of the Company was approved and adopted by the shareholders ("RSU Scheme").

Notes to the Interim Condensed Consolidated Financial Information

24 SHARE-BASED PAYMENTS *(Continued)*

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

On 6 April 2023, the Company granted RSUs representing an aggregate of 9,020,000 underlying shares to certain eligible employees pursuant to the RSU Scheme. Subject to grantees' 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 day after 12, 24 and 36 months from a certain date.

Movements in the number of underlying shares represented by RSUs under the Pre-IPO RSU Scheme and the RSU Scheme for the six months ended 30 June 2023 and 2022 are as follows:

	Number of underlying shares represented by RSUs	Weighted average grant date fair value per RSU HK\$
Outstanding as of 1 January 2023	5,888,780	8.696
Granted	9,020,000	5.480
Vested	(665,580)	8.855
Forfeited	(321,458)	9.388
Outstanding as of 30 June 2023	13,921,742	6.589
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

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 are 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, 25 March 2022, 30 August 2022 and 6 April 2023 were 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

24 SHARE-BASED PAYMENTS *(Continued)*

(c) Expenses arising from share-based payment transactions

For the six months ended 30 June 2023 and 2022, share-based compensation expenses arising from the share-based awards granted by the Company have been charged to the interim condensed consolidated statement of profit or loss as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of revenue	351	371
Administrative expenses	3,152	5,338
Selling and marketing expenses	1,108	1,669
Research and development expenses	13,524	21,690
	18,135	29,068

25 TRADE AND OTHER PAYABLES

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

Notes to the Interim Condensed Consolidated Financial Information

25 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 (Note 27(c))	11,559	8,634
Third parties	58,818	58,240
	70,377	66,874

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	7,881	2,348
	70,377	66,874

26 COMMITMENTS

(a) Capital Commitments

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Intangible assets	21,677	25,769

(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 2023 and 31 December 2022 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

27 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
Shenzhen Tencent Tianyou Technology Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Beijing Vega Interactive Network Technology Co., Ltd.	Associate of the Group
Huai'an FlameDragon Entertainment Software Co., Ltd.	Associate of the Group

(b) Significant transactions with related parties

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Provision of services:		
Shenzhen Tencent Computer Systems Company Limited	59,723	86,357
Sixjoy Hong Kong Limited	7,066	14,166
Shenzhen Tencent Tianyou Technology Company Limited	324	–
Huai'an FlameDragon Entertainment Software Co., Ltd.	14	71
Tencent Technology (Shenzhen) Company Limited	–	220
	67,127	100,814

Notes to the Interim Condensed Consolidated Financial Information

27 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant transactions with related parties *(Continued)*

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
<i>Purchase of services:</i>		
Tencent Cloud Computing (Beijing) Company Limited	4,907	1,626
Chengdu Perfect World Network Technology Co., Ltd.	2,365	2,414
Shenzhen Tencent Computer Systems Company Limited	1,696	–
Beijing Perfect World Software Technology Development Co., Ltd.	1,294	1,207
Shenzhen Tencent Tianyou Technology Company Limited	272	–
	10,534	5,247

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
<i>Loan granted to related party:</i>		
Beijing Vega Interactive Network Technology Co., Ltd.	3,017	–

(c) Period/Year end balances with related parties

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
	<i>Trade receivables from related parties:</i>	
Shenzhen Tencent Computer Systems Company Limited	62,465	53,239
Sixjoy Hong Kong Limited	8,686	9,109
Shenzhen Tencent Tianyou Technology Company Limited	162	807
Huai'an FlameDragon Entertainment Software Co., Ltd.	13	38
	71,326	63,193

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

Notes to the Interim Condensed Consolidated Financial Information

27 RELATED PARTY TRANSACTIONS *(Continued)*

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
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Prepayments and other receivables:

Beijing Vega Interactive Network Technology Co., Ltd.	<u>3,017</u>	–
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	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
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Contract liabilities to related parties:

Sixjoy Hong Kong Limited	<u>18,065</u>	18,282
Shenzhen Tencent Computer Systems Company Limited	<u>12,521</u>	13,139
	<u>30,586</u>	31,421

The contract liabilities to related parties arise from trade transactions.

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
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Trade payables to related parties:

Chengdu Perfect World Network Technology Co., Ltd.	<u>7,001</u>	4,533
Beijing Perfect World Software Technology Development Co., Ltd.	<u>3,652</u>	2,267
Tencent Cloud Computing (Beijing) Company Limited	<u>817</u>	268
Shenzhen Tencent Tianyou Technology Company Limited	<u>89</u>	1,566
	<u>11,559</u>	8,634

Notes to the Interim Condensed Consolidated Financial Information

27 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Wages, salaries and bonuses	14,317	12,199
Other social security costs and housing benefits and other employee benefits	272	241
Pension costs – defined contribution plans	196	174
	14,785	12,614

28 CONTINGENCIES

The Group did not have any material contingent liabilities as at 30 June 2023 and 31 December 2022.

29 SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Group after 30 June 2023.



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Archosaur Games Inc.