

## Archosaur Games Inc.

# 祖龍娛樂 (9990.HK)

### Business Overview

Archosaur Games Inc. (“The Company”) is a leading mobile game developer in China with proven capabilities in developing high-quality mobile games with excellent market reception. The Company mainly focuses on mobile MMORPG development and has established a solid track record. Having gained a thorough understanding of game player demand for midcore to hardcore games with quality content, The Company aspire to continually roll out blockbuster titles with relentless passion and unwavering dedication.

The Company is a pioneer in China’s mobile game industry focusing on developing high-quality mobile MMORPGs. The Company have continually led the evolution in industry technology and achieved a number of “firsts” in China’s mobile game industry: The Company launched one of the first real 3D mobile MMORPG grand strategy wargames, Loong Craft (六龍爭霸/六龍御天), and China’s first next-generation real 3D mobile MMORPG powered by Unreal Engine 4, Dragon Raja (龍族幻想). The Company also launched one of the pioneering real 3D turn-based mobile MMORPGs, Fantasy Zhuxian (夢幻誅仙). Their games have met with considerable market acceptance. In the first month of launch in 2019, Dragon Raja (龍族幻想) generated gross billings of over RMB600.0 million in mainland China, and Fantasy Zhuxian (夢幻誅仙), which was launched in 2016, generated gross billings of over RMB3.3 billion as of December 31, 2019.

The Company is also a frontrunner in publishing in-house developed games in markets outside of mainland China. The Company publishes games directly through distribution channels and in collaboration with third-party publishers. During the Track Record Period and up to the Latest Practicable Date, The Company had 14 mobile games with over 60 regional versions in 14 languages available in more than 170 regional markets, such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. Dragon Raja (龍族幻想), on the first day The Company published a new regional version of the game in the Americas and SUMMARY – 1 – Europe in 2020, ranked first among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States and sat among the top ten mobile games based on iOS App Store downloads in

### Basic Information

#### Offer Price

HK\$9.8-HK\$11.6

#### Offer Size

187,400,000 Shares, comprise of Public Offer 18,740,000 Shares and International Offer 168,660,000 Shares (subject to reallocation and Over-allotment Option)

#### Market Capitalization

\$7,716.52 million to \$9,133.84 million

#### Application Period

30 June 2020 – 7 July 2020, Noon

#### Listing Date

15 July 2020

#### Board Lot

1000 shares

#### Major Shareholders

Cresc Chorus	35.35%
Perfect World Interactive	17.6%
Image Frame	13.34%
Green Particle	6.17%

#### Sole Sponsors

CICC

#### Joint Bookrunners

CICC, Haitong International, CMB International



eight regional markets in Europe. It notched a top 40 entry on the Top Grossing Chart of the iOS App Store in the United States within three months after its launch in the Americas. Dragon Raja (龍族幻想) is also the first Chinese mobile MMORPG topping the Top Free Games Charts of both iOS App Store and Google Play in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014.

Their principal lines of business comprise development and licensing business and integrated game publishing and operation business. The Company primarily licenses their games to third-party publishers and recognizes revenue under the development and licensing segment. The Company also publishes games through distribution channels and recognizes revenue from such business operations under the integrated game publishing and operation segment.

## Financial Highlights

Summary Consolidated Statements of Profit or Loss and Other Comprehensive Expenses			
For the year ended Dec 31			
	2017	2018	2019
	RMB in million		
Revenue	1,309.2	870.1	1,067.2
COGS	(273.2)	(173.6)	(177.6)
<b>Gross Profit</b>	<b>1,036.0</b>	<b>696.5</b>	<b>889.6</b>
R&D expenses	(455.5)	(327.6)	(389.2)
Selling and marketing expenses	(230.8)	(93.7)	(114.5)
Administrative expenses	(99.5)	(38.9)	(57.2)
Other income	35.6	17.0	14.1
Other losses/gains, net	(4.8)	57.7	24.1
<b>Operating profit</b>	<b>281.0</b>	<b>311.0</b>	<b>366.9</b>
Finance income	7.7	12.7	8.6
Finance costs	(1.0)	(5.8)	(17.9)
Finance income/cost, net	6.7	6.9	(9.3)
Fair value changes on convertible redeemable preferred shares	(383.6)	(381.3)	(212.5)
<b>Profit/loss before income tax</b>	<b>(95.9)</b>	<b>(63.4)</b>	<b>145.1</b>
Income tax expenses	(63.5)	(12.0)	(24.7)
<b>Profit/loss for the year</b>	<b>(159.4)</b>	<b>(75.4)</b>	<b>120.4</b>
<b>Non-IFRS adjusted net profit</b>	<b>423.2</b>	<b>310.9</b>	<b>354.5</b>

## Use of Proceed

The company estimates that it will receive net proceeds of approximately HK\$1,866.3 million after deducting the underwriting fees and expenses payable by them in the Global Offering, assuming no Over-allotment Option is exercised and assuming an Offer Price of HK\$10.70 per Offer Share.

- approximately 40%, or HK\$746.5 million, will be used for enhancing development capabilities and technology and expanding game portfolio;
- approximately 20%, or HK\$373.3 million, will be used for game publishing and operation business, particularly in markets outside of mainland China;
- approximately 20%, or HK\$373.3 million, will be used for 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;
- approximately 10%, or HK\$186.6 million, will be used for expanding IP reserve and enriching content offerings;
- approximately 10%, or HK\$186.6 million, will be used for working capital and general corporate uses;

## Cornerstone Investors

The following tables set forth details of the cornerstone placing and approximate percentage of total number of offer shares and percentage of total issued share capital of the company upon listing, based on different offer price scenarios.

Based on offer price of HK\$9.8				
Cornerstone Investor	Investment Amount USD	No. of share to be subscribed	Approx. % of the total offer shares	Approx. % of the total issued share after IPO
GIC Private Limited	68,018,663	53,793,000	28.70%	6.80%
Zilong Game Limited	9,999,286	7,908,000	4.20%	1.00%
SNK Corporation	7,998,923	6,326,000	3.40%	0.80%
Cosmic Blue Investments Limited	6,998,741	5,535,000	3.00%	0.70%
Soft-World International Corporation	1,999,099	1,581,000	0.80%	0.20%
Total	95,014,712	75,143,000	40.10%	9.50%

Based on offer price of HK\$10.70				
Cornerstone Investor	Investment Amount USD	No. of share to be subscribed	Approx. % of the total offer shares	Approx. % of the total issued share after IPO
GIC Private Limited	74,265,275	53,793,000	28.70%	6.80%
Zilong Game Limited	9,999,505	7,243,000	3.90%	0.90%
SNK Corporation	7,999,052	5,794,000	3.10%	0.70%
Cosmic Blue Investments Limited	6,999,516	5,070,000	2.70%	0.60%
Soft-World International Corporation	1,999,073	1,448,000	0.80%	0.20%
Total	101,262,421	73,348,000	39.20%	9.20%

Based on offer price of HK\$11.6				
Cornerstone Investor	Investment Amount USD	No. of share to be subscribed	Approx. % of the total offer shares	Approx. % of the total issued share after IPO
GIC Private Limited	80,511,887	53,793,000	28.70%	6.80%
Zilong Game Limited	9,999,441	6,681,000	3.60%	0.80%
SNK Corporation	7,999,852	5,345,000	2.90%	0.70%
Cosmic Blue Investments Limited	6,998,561	4,676,000	2.50%	0.60%
Soft-World International Corporation	1,999,589	1,336,000	0.70%	0.20%
<b>Total</b>	<b>107,509,330</b>	<b>71,831,000</b>	<b>38.40%</b>	<b>9.10%</b>

## Risks Factors

### Risks Relating to Business and Industry

- The Company operates in a new and rapidly changing industry, which makes it difficult to evaluate business and prospects.
- New games may not be commercially successful if The Company fail to adapt games to new trends and attract new game players.
- The Company may fail to maintain and grow game player base or keep game players engaged through their games.
- The Company work with third parties to publish, distribute or operate certain of their games and any loss or deterioration of their relationships may result in loss of game players and revenues.

### Risks Relating to the Contractual Arrangements

- Their contractual arrangements may not be as effective in providing operational control as direct ownership. Tianjin Loong or their shareholders may fail to perform their obligations under their contractual arrangements.
- The Company may lose the ability to use and enjoy assets held by their Consolidated Affiliated Entities that are material to their business operations if their Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.
- The shareholders and directors of Tianjin Loong may have conflicts of interest with the Company, which may materially and adversely affect their business.
- Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 FIL and how it may impact the viability of their current corporate structure, corporate governance and business operations.

### Risks Relating to Global Offering

- There has been no prior public market for the Shares. The liquidity, trading volume and market price of their Shares may be volatile.
- The actual or perceived sale or availability for sale of substantial amounts of their Shares, especially by Directors, executive officers and Shareholders, could adversely affect the market price.
- The Company may not be able to distribute dividends to Shareholders.



- Waivers have been granted from compliance with certain requirements of the Listing Rules. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing the Company and Shareholders to additional legal and compliance obligations.

## **Risk Disclaimer**

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