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Qingci Games Inc.

青瓷游戏有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6633)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2022

The Board of Directors of Qingci Games Inc. is pleased to announce the unaudited consolidated financial results of the Group for the six months ended June 30, 2022, together with the comparative figures for the six months ended June 30, 2021 as below.

The interim results of the Group for the six months ended June 30, 2022 have been reviewed by the Audit Committee and by PricewaterhouseCoopers, the independent auditor of the Company, in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board.

FINANCIAL HIGHLIGHTS

	For the six months ended June 30,		
	2022	2021	Change
	(RMB'000)	(RMB'000)	(%)
	(unaudited)	(audited)	
Revenue	268,114	762,950	(64.9)
Gross profit	166,012	574,522	(71.1)
Loss attributable to equity holders of the Company	(75,671)	(93,785)	(19.3)
Non-IFRS measure:			
Adjusted net (loss)/profit ⁽¹⁾	(86,872)	313,693	(127.7)

Note:

- (1) We define adjusted net (loss)/profit as net (loss)/profit for the period adjusted by adding back changes in fair value of convertible redeemable preference shares, loss from financial instruments issued to investors, listing expenses and share-based compensation (“**Adjusted Items**”). We eliminate the impacts of these items that our management do not consider to be indicative of our operating performance, as they are either non-cash items or non-recurring expenses. In particular, changes in fair value of convertible redeemable preference shares, loss from financial instruments issued to investors and listing expenses will not recur after the Listing. Changes in fair value of convertible redeemable preference shares will not recur after the Listing as convertible redeemable preferred shares have been converted into ordinary shares upon the Listing. Loss from financial instruments issued to investors will not recur after the Listing because the financial instruments issued to investors were already derecognized upon the share exchange in May 2021. Our share-based compensation expenses are one-off and non-recurring in nature and not considered by our management to be indicative of our results of operation. Same treatment has also been applied to the adjusted net loss during the Reporting Period, but as there was no Adjusted Items incurred during the Reporting Period, the amount of the adjusted net loss during the Reporting Period is the same as the net loss amount calculated based on the IFRS.

KEY OPERATING INFORMATION

	For the six months ended June 30,		
	2022	2021	Change (%)
Average MAUs (in thousands)⁽¹⁾	2,348	3,064	(23.4)
Average MPUs (in thousands)⁽²⁾	284	575	(50.6)
ARPPU (RMB)	209	221	(5.2)
Cumulative registered players (in thousands)	76,162	67,979	12.0

Notes:

- (1) Our Average MAUs are calculated by dividing (i) the total MAUs of a game; or (ii) the aggregate of the total MAUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MAUs did not consider each game’s data before its official launch.
- (2) Our Average MPUs are calculated by dividing (i) the MPUs of a game, or (ii) the aggregate of the total MPUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MPUs did not consider each game’s data before its official launch.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

As an established mobile game developer and publisher in China, we are committed to offering engaging experiences to game players around the world through our landmark and captivating games and content.

During the Reporting Period, the Group implemented the integrated mode of research and operation, and achieved steady development in the self-developed games business and game publishing business. For the six months ended June 30, 2022, the Group's revenue decreased comparing to the corresponding period in 2021 mainly due to *The Marvelous Snail* (最強蝸牛) in Mainland China and the *Lantern and Dungeon* (提燈與地下城) reached the mature stage of their life cycles (for details, please refer to the section headed "Financial Review – Revenue" below). Meanwhile, the Group continued to boost its overseas business. In terms of self-developed games, *The Marvelous Snail* (最強蝸牛) was successfully published in Japan in June 2022. In the first week of its launch, the game made remarkable achievements having ranked first on both the iOS free games ranking and the Google Play free games ranking in Japan, and ranked among top ten on the iOS bestseller games ranking in Japan. In terms of game publishing, *Lantern and Dungeon* (提燈與地下城) continued to record stable performance. As of June 30, 2022, the Group's cumulative registered players reached 76.16 million, representing an increase of approximately 5.8% as compared with the end of last year. In the first half of 2022, the average number of monthly active users reached around 2.35 million; and ARPPU reached RMB209. In addition, the Group has recently made significant progress in its pipeline games. The Group has cooperated with CMGE to jointly publish a mobile game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) on designated platforms. The Group will also publish a mobile game *Code: Key* (代號 : Key) that combines the features of idle gameplay and pretty girl dress-up elements. It is expected that the publication of the above-mentioned games will contribute to the Group's continuous business development.

OUR GAMES

The Group develops, publishes and operates top-rated online mobile games. As of June 30, 2022, we had six existing mobile games, covering idle game, rogue-like RPG and other RPG.

Below is an overview of our major games:

The Marvelous Snail (最強蝸牛), officially launched in June 2020, is our self-developed idle game. It generated gross billings exceeding RMB1.8 billion in the first year after its launch and approximately RMB2.4 billion as of June 30, 2022, which maintains a strong performance. The game recorded more than 22.81 million cumulative registered players as of June 30, 2022. It had an average MAU of over 1.552 million and an average MPU of over 207 thousand in the first half of 2022. The average weekly player retention rate of *The Marvelous Snail* (最強蝸牛) exceeded 26.1% from its launch to June 30, 2022.

During the Reporting Period, *The Marvelous Snail* (最強蝸牛) was successfully published in Japan on June 8, 2022. In the first week of its launch, the game ranked first on both the iOS free games ranking and the Google Play free games ranking in Japan, and ranked among top ten on the iOS bestseller games ranking in Japan. *The Marvelous Snail* (最強蝸牛) generated gross billings of approximately RMB67.50 million in a total of two months (from June 8, 2022 to August 8, 2022) after its launch in Japan. We have also released major game version updates such as “The Second Anniversary Celebration of The Marvelous Snail – Panda Paradise” (最強蝸牛二週年慶典—熊貓樂園) and “Aero’s Domain” (埃羅神域), and cooperated with *Pleasant Goat and Big Big Wolf* (喜羊羊與灰太狼) and *The Monkey King* (大鬧天宮) to further enhance the attractiveness of game contents to players. The game generated aggregate revenues of approximately RMB234.8 million in the first half of 2022.

Lantern and Dungeon (提燈與地下城) is our in-licensed rogue-like RPG officially launched in March 2021. During the Reporting Period, we released version updates such as “Anniversary” (週年慶) and “Ikong Island Fantasy” (伊空島幻境), and also cooperated with *Pleasant Goat and Big Big Wolf* (喜羊羊與灰太狼) and Panpan Foods to continue to provide players with rich game contents. As of June 30, 2022, the game recorded approximately 4.905 million cumulative registered players. In the first half of 2022, it achieved an average MAU of over 103 thousand, an average MPU of over 16 thousand. Further, the average weekly player retention rate of *Lantern and Dungeon* (提燈與地下城) was 32.68% since its launch to June 30, 2022. The game generated aggregate revenues of approximately RMB18.6 million for the first half of 2022.

Other major games such as *Gumballs & Dungeons* (不思議迷宮) (launched in August 2016, our self-developed rogue-like RPG), *Ares Virus* (阿瑞斯病毒) (launched in August 2018, our in-licensed survival RPG), *Eternal Adventure* (無盡大冒險) (launched in June 2015, our self-developed classic game combining with idle gameplay and Diablo-like adventure features) have also maintained outstanding performance, and continued to contribute stable income to the Group.

PLAYER COMMUNITY

We have nurtured vibrant community of players on various mobile game forums and social media platforms – QingCi Enthusiasts community. Through the QingCi community, our players can receive the latest information about our games, including the recent events we organize, opportunities to participate in testing our new games and free in-game virtual items.

We have frequent and close interactions with QingCi Enthusiasts, creating a virtuous circle as the feedback from the player community can help us develop and improve our games, thereby attracting more active players. In addition, such interaction further enhances players’ loyalty and increases the awareness of the “QingCi” brand. For example, in May 2022, the Group has adopted a giant panda at the China Giant Panda Conservation and Research Center on behalf of the QingCi players, and named it “QingCi” (青糍) through the vote of players, which has the same pronunciation of the Company’s name “Qingci” (青瓷) and has Chinese traditional cultural characteristics. The second anniversary version of the Group’s iconic game *The Marvelous Snail* (最強蝸牛) has also adopted panda element as its theme. As of June 30, 2022, our games had accumulated 10.62 million QingCi Enthusiasts who contacted us through our official accounts and groups on social media platforms, such as Tencent QQ, WeChat, TapTap and Bilibili, representing an increase of 0.9% as compared with the end of last year.

OUTLOOK

In the first half of 2022, the Group made significant progress in its pipeline games, including the successful promotion of *The Marvelous Snail* (最強蝸牛) to open up the Japanese market and the continued polishing of *Servitor Project* (使魔計劃), *Time Voyager* (時光旅行社) and other new prime games with original IPs. Recently, the Group has also introduced licenses of a number of quality games, such as *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情). Looking forward, the Group will continue to enrich game genres and expand its “QingCi universe” by leveraging its strong competitiveness in the integrated mode of research and operation.

The Group currently has a pipeline of 13 mobile games, covering a wide range of genres and types, including RPG, SLG and ACT RPG.

Title	Mobile Game Genre	Source	Development Stage as of June 30, 2022	Expected Launch Time
Sword and Fairy: Wen Qing (新仙劍奇俠傳之揮劍問情)	Interactive story mobile card game	In-licensed	Game production, testing and optimization	2022
Code: Key (代號 : Key)	Female-oriented idle game	In-licensed	Game production, testing and optimization	2022
Servitor Project (使魔計劃)	Idle game	Developed in-house	Game production, testing and optimization	2022
Loot Rush (騎士沖呀)	ACT RPG	In-licensed	Game production, testing and optimization	2023
Time Voyager (時光旅行社)	Rogue-like RPG	Developed in-house	Game production, testing and optimization	2023
Bladeheart Ninja 2 (刃心2)	Parkour	In-licensed	Game production, testing and optimization	2023
Ares Virus 2 (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	2023
Master Cat (超喵星計劃) (formerly known as Project B)	Casual game	In-licensed	Game production, testing and optimization	2023
Project E	SLG	Developed in-house	Game production, testing and optimization	2023
Project D	STG	In-licensed	Demo production	2024
Project MN	Simulation games	In-licensed	Demo production	2024
Project A	Tower defense	Developed in-house	Game production, testing and optimization	2024
Project C	ACT	In-licensed	Game production, testing and optimization	2024

In terms of the existing games, the Group will continue to push forward its plans for exploring overseas markets, for instance, the Group is preparing for the release of its iconic game *The Marvelous Snail* (最強蝸牛) in Thailand and North America. The game is also being developed for its H5 version, allowing players to experience the charm of this game through diversified channels in a more convenient way.

In terms of self-developed pipeline games, *Servitor Project* (使魔計劃) has entered the paid testing and fine-tuning stage before its official release. This game is a rogue-like RPG, which adopts classical turn-based combat style, allowing players to form their own teams by picking and training a series of servitors pets to explore various levels in a vast isekai. Another key product *Time Voyager* (時光旅行社) is also being prepared for release in various regions, including Mainland China, Hong Kong, Macau and Taiwan. Both products have inherited the Group's innovative design, genre and type strengths and character expression in gameplay, and enhanced their social attributes as well, which are expected to bring a refreshing experience to players. *Project E*, a post-apocalyptic world SLG game dedicated to providing an immersive experience for players, has gradually started to introduce a small group of players for testing and fine-tuning, with its R&D in smooth progress.

In terms of in-licensed pipeline games, the Group will release a mobile game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) jointly with CMGE. This game is derived from a game series named *Legend of Sword and Fairy* (仙劍奇俠傳) and its intellectual property (“IP”) has influential and commercial value. The Group will also publish a mobile game *Code: Key* (代號 : Key) that combines the features of idle gameplay and pretty girl dress-up elements. The game is currently under testing and is being prepared for release in Hong Kong, Macau and Taiwan regions.

In addition, *Loot Rush* (騎士沖呀) has completed several rounds of testing locally and overseas, and the Group will further implement the release plan based on the approval of game publication numbers and test results. *Master Cat* (超喵星計劃) (formerly described as Project B) has obtained a game publication number and will commence its paid testing gradually. Other major in-licensed games such as *Bladeheart Ninja 2* (刃心2) and the sequel to the popular ongoing game *Ares 2* (阿瑞斯2) have also completed their latest round of testing. In addition, *The Romance of the Three Kingdoms: Enemy at the Gates* (三國演義 : 兵臨城下), the mobile game invested and developed by the Group, has obtained a game publication number and the Group is currently working on launching and operation arrangement.

While promoting the release of existing in-licensed games, the Group will further identify high-quality game projects, with the aim to create a diversified game portfolio across different genres and types, and expand the Group's “QingCi universe”, thus increasing the influence of the “QingCi” brand in the minds of game players and the Group's brand awareness in the market.

FINANCIAL REVIEW

Revenue

Our revenue is mainly derived from (i) game operating business where we generate revenues primarily from the sales of in-game virtual items; (ii) game licensing business where we generate revenues from licenses fees paid by third-party publishers; and (iii) information services business where we generate revenues from providing performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers' products in our games to players.

The following table sets forth a breakdown of our revenues by line of business for the six months ended June 30, 2021 and 2022.

	For the six months ended June 30,				2022 vs. 2021
	2022		2021		Change
	RMB'000 (unaudited)	%	RMB'000 (audited)	%	%
Game operating revenues					
Self-developed	225,214	84.0	496,391	65.1	(54.6)
Licensed	23,069	8.6	233,242	30.6	(90.1)
<i>Subtotal</i>	<u>248,283</u>	<u>92.6</u>	<u>729,633</u>	<u>95.6</u>	<u>(66.0)</u>
Game licensing revenue	14,992	5.6	18,930	2.5	(20.8)
Information service revenue	4,839	1.8	14,387	1.9	(66.4)
Total revenues	<u>268,114</u>	<u>100.0</u>	<u>762,950</u>	<u>100.0</u>	<u>(64.9)</u>

Game Operating Revenues

Our game operating revenues decreased by 66.0% to RMB248.3 million for the six months ended June 30, 2022 from the corresponding period in 2021. In particular,

- Our revenue from self-developed games decreased by 54.6% to RMB225.2 million for the six months ended June 30, 2022 from the corresponding period in 2021, primarily due to the decrease in revenue from *The Marvelous Snail* (最強蝸牛) in Mainland China as it entered into the maturity stage.
- Our revenue from licensed games decreased by 90.1% to RMB23.1 million for the six months ended June 30, 2022, from the corresponding period in 2021 primarily due to the decrease in revenue from *Lantern and Dungeon* (提燈與地下城) as it entered into the maturity stage.

Game Licensing Revenues

Our game licensing revenues decreased by 20.8% to RMB15.0 million for the six months ended June 30, 2022 from the corresponding period in 2021, primarily due to the decreases in game licensing revenues from *Gumballs & Dungeons* (不思議迷宮) in Mainland China and *The Marvelous Snail* (最強蝸牛) in Hong Kong, Macau and Taiwan, respectively.

Information Service Revenue

Our revenues from information service decreased by 66.4% to RMB4.8 million for the six months ended June 30, 2022 from the corresponding period in 2021, primarily due to fewer in-game advertisement views or clicks.

Cost of Revenues

Our cost of revenues decreased by 45.8% from RMB188.4 million for the six months ended June 30, 2021 to RMB102.1 million for the six months ended June 30, 2022. Our cost of revenues primarily consisted of (i) commissions charged by distribution and payment channels, representing revenue share payments to third-party distribution platforms and payment service providers for our self-published games; (ii) commissions charged by third-party game developers; (iii) bandwidth and servers custody fee; (iv) employee benefits expenses related to our system maintenance and customer service personnel, including wages, salaries, bonuses, social insurance contributions and other employee benefits; and (v) others, including outsourced technical service fees for short messaging services, professional service fees and miscellaneous expenses.

The following table sets forth our cost of revenue by nature in absolute amounts and as percentages of our total cost of revenues for the six months ended June 30, 2022 and 2021.

	For the six months ended June 30,				2022 vs. 2021 % Change
	2022		2021		
	RMB'000 (unaudited)	%	RMB'000 (audited)	%	
Commissions charged by distribution and payment channels	67,995	66.6	131,823	70.0	(48.4)
Commissions charged by third-party game developers	8,141	8.0	33,210	17.6	(75.5)
Bandwidth and servers custody fee	10,590	10.4	12,902	6.8	(17.9)
Employee benefits expenses	8,512	8.3	3,434	1.8	147.9
Others	6,864	6.7	7,059	3.8	(2.8)
Total	102,102	100.0	188,428	100.0	(45.8)

Our cost of revenue for commissions charged by distribution and payment channels decreased by 48.4% to RMB68.0 million for the six months ended June 30, 2022 from the corresponding period in 2021, primarily due to lower commissions paid to distribution platforms attributable to the decrease in game operating revenues.

Our cost of revenue for commissions charged by third-party game developers decreased by 75.5% to RMB8.1 million for the six months ended June 30, 2022 from the corresponding period in 2021, primarily due to the decrease in commissions paid to third-party developers as a result of the decrease in revenue from *Lantern and Dungeon* (提燈與地下城) as it entered into the maturity stage.

Our cost of revenue for employee benefits expenses increased by 147.9% to RMB8.5 million for the six months ended June 30, 2022 from the corresponding period in 2021, primarily due to the increase in number of employee and the increase in average salary of staff.

Gross Profit and Gross Margin

Our gross profit decreased by 71.1% from RMB574.5 million for the six months ended June 30, 2021 to RMB166.0 million for the six months ended June 30, 2022. Our gross margin decreased to 62% for the six months ended June 30, 2022 from 75% for the six months ended June 30, 2021, primarily due to (i) a decrease of RMB26 million in revenue recognized from *The Marvelous Snail* (最強蝸牛), which reached the mature stage of life cycle while the players' life cycles for the Reporting Period are expected to extend comparing to the same period last year, in Mainland China; (ii) a decrease of 64.9% in revenue for the Reporting Period on a year-over-year basis, and an increase of RMB2.5 million in cost of revenues for the Reporting Period, particularly three fixed expenses namely (1) employee benefits expenses; (2) bandwidth and servers custody fee; and (3) others, comparing to the same period last year; (iii) the revenue generated from *The Marvelous Snail* (最強蝸牛) was not fully reflected due to relatively short operating period since its launch in Japan on June 8, 2022, while its cost of revenue generated in the Reporting Period being recognized correspondingly during the Reporting Period, leading to a further drop of gross margin.

Selling and Marketing Expenses

Our selling and marketing expenses consisted of (i) marketing and promotion expenses paid to our online and offline marketing service providers, including traffic acquisition and brand marketing and promotion expenses; (ii) employee benefits expenses related to our sales and marketing personnel; and (iii) others, including office expenses incurred for our sales and marketing activities and miscellaneous expenses.

Our selling and marketing expenses decreased by 38.1% from RMB245.1 million for the six months ended June 30, 2021 to RMB151.7 million for the six months ended June 30, 2022. This was primarily due to the decrease in selling and marketing expenses as *The Marvelous Snail* (最強蝸牛) in Mainland China and *the Lantern and Dungeon* (提燈與地下城) reached the mature stage of their life cycles, despite the partial off-set by increase in selling and marketing expenses for the launch of *The Marvelous Snail* (最強蝸牛) in Japan.

Research and Development Expenses

Our research and development expenses consisted of (i) employee benefits expenses related to our R&D staff; (ii) outsourced technical service fee; and (iii) others, including office expenses incurred for our R&D activities, depreciation of right-of-use assets, rental expenses, utilities and miscellaneous expenses.

Our research and development expenses increased by 208.4% from RMB18.0 million for the six months ended June 30, 2021 to RMB55.6 million for the six months ended June 30, 2022. This was primarily due to the increase in number of R&D staff and the increase in average salary of employee.

General and Administrative Expenses

Our general and administrative expenses primarily consisted of (i) employee benefits expenses related to our supporting staff; (ii) depreciation of right-of-use assets on our leases; (iii) listing expenses; (iv) tax surcharges, including VAT surcharges and stamp duty; (v) rental expenses and utilities; and (vi) others, including office expenses, depreciation of property, plant and equipment, professional services fee and miscellaneous expenses.

Our general and administrative expenses increased by 43.4% from RMB28.7 million for the six months ended June 30, 2021 to RMB41.1 million for the six months ended June 30, 2022, primarily due to (i) the increase in number of supporting employee and the increase in average salary of staff; and (ii) amortization of right-of-use assets and renovation cost of a newly leased workplace.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

Our fair value changes on investments measured at fair value through profit or loss reflected changes in the fair value of (i) certain of our long-term equity investments, which were equity investments in private equity funds as limited partners without significant influence, and investments in investee companies; and (ii) our short-term investments, primarily consisting of investment funds and wealth management product.

Our fair value gains on investments measured at fair value through profit or loss increased by 472.1% from RMB2.0 million for the six months ended June 30, 2021 to RMB11.2 million for the six months ended June 30, 2022, mainly due to increase in our fair value gains from investment funds.

Other Income

Our other income primarily consisted of subsidies, mainly including government subsidies granted by local governments to support our R&D activities and in recognition of our contribution to local economic development.

Our other income increased by 54.6% from RMB2.9 million for the six months ended June 30, 2021 to RMB4.5 million for the six months ended June 30, 2022, mainly due to the increase in R&D subsidies and government subsidies.

Other Gains/(Losses), Net

Our net other gains/losses primarily consisted of (i) net foreign exchange gains or losses arising from revenue and trade receivables denominated in U.S. dollars; (ii) donations to charity organizations; and (iii) dividend distribution from a private equity fund we invested in.

Our net other gains increased by 203.8% from net other losses of RMB4.2 million for the six months ended June 30, 2021 to net other gains of RMB4.3 million for the six months ended June 30, 2022, this turnaround from net other losses to net other gains was primarily due to the impact of depreciation of RMB against US dollar in the first half of 2022 on our revenue and trade receivables denominated in US dollar.

Income Tax Expenses

Our income tax expenses increased by 240.4% from income tax credit of RMB9.5 million for the six months ended June 30, 2021 to income tax expenses of RMB13.4 million for the six months ended June 30, 2022, mainly due to: (1) applicable income tax rate increased in a profitable subsidiary. The subsidiary is accredited as a “software enterprise” under the relevant PRC Laws and regulations. It was exempted from corporate income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years; and (2) the Group did not further recognize deferred tax assets and utilized part of the previously recognized deferred tax assets in the current period.

Loss for the Reporting Period

Our loss for the Reporting Period decreased by 7.4% from a net loss of RMB93.8 million for the six months ended June 30, 2021 to a net loss of RMB86.9 million for the six months ended June 30, 2022. The Group recorded a loss during the Reporting Period mainly due to (i) the decrease in revenue as our landmark games reached mature stage of their life cycles; (ii) marketing expenses incurred from intensive marketing and promotion since the launch of *The Marvelous Snail* (最強蝸牛) on June 8, 2022 in Japan which is yet to be fully offset by its generated revenue as the game has a relatively short launch duration during the Reporting Period; (iii) the continuing increase in research and development investment for the Group’s pipeline games, including the increase in the number of employees engaging in research and development activities and the corresponding increase in employee benefits expenses; and (iv) non-existence of the main factors in the Reporting Period that led to the loss in the same period last year, including (1) changes in fair value of convertible redeemable preference shares; and (2) financial instruments issued to investors, which led to total losses of approximately RMB392 million for the same period last year.

Non-IFRS Measures – Adjusted Net Profit

To supplement our unaudited consolidated financial information which is presented in accordance with IFRS, we set forth below our adjusted net profit as an additional financial measure which is not presented in accordance with IFRS. We believe this is meaningful because potential impacts of certain items which our management do not consider closely relevant to our operating performance have been eliminated, and this would be useful for investors to compare our financial results directly with those of our peer companies.

Adjusted net profit eliminates the effect of certain non-cash or non-recurring items, namely (i) changes in fair value of convertible redeemable preference shares; (ii) losses from financial instruments issued to investors; (iii) listing expenses; and (iv) share-based compensation. The term “adjusted net profit” is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the Reporting Period. The following table reconciles our adjusted net profit for the periods indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS, but as there was no Adjusted Items incurred during the Reporting Period, the amount of the adjusted net loss during the Reporting Period is the same as the net loss amount calculated based on the IFRS.

	For the six months ended	
	June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(unaudited)	(audited)
Loss for the period	(86,872)	(93,785)
Add:		
Changes in fair value of convertible redeemable preference shares	–	338,380
Losses from financial instruments issued to investors	–	53,928
Listing-related expenses	–	15,170
Share-based compensation	–	–
	<hr/>	<hr/>
Adjusted net (loss)/profit	<u>(86,872)</u>	<u>313,693</u>

The Group recorded an adjusted net loss of approximately RMB86.9 million for the six months ended June 30, 2022, as compared to the adjusted net profit of approximately RMB313.7 million for the six months ended June 30, 2021. The turnaround from adjusted net profit to adjusted net loss was primarily attributable to (i) the decrease in revenue as our landmark games reached mature stage of their life cycles; (ii) marketing expenses incurred from intensive marketing and promotion since the launching of *The Marvelous Snail* (最強蝸牛) on June 8, 2022 in Japan which is yet to be fully offset by its generated revenue as the game has a relatively short launch duration during the Reporting Period; and (iii) the continuing increase in research and development investment for the Group's pipeline games, including the increase in the number of employees engaging in research and development activities and the corresponding increase in employee benefits expenses.

Liquidity, Capital Resources and Gearing Ratio

We fund our operations primarily through cash generated from our operating activities and capital contribution from our Shareholders.

The Group's total cash and cash equivalents decreased by 31.3% from RMB1,168.1 million as of December 31, 2021 to RMB802.6 million as of June 30, 2022. The decrease in total cash and cash equivalents during the Reporting Period was primarily due to (i) the usage of proceeds raised from the Global Offering; and (ii) the usage of part of our own funds for short-term investments.

As of June 30, 2022, we did not have any borrowings or unutilized banking facility.

As of June 30, 2022, the current assets of the Group amounted to approximately RMB1,661.4 million, and the current liabilities of the Group amounted to approximately RMB314.8 million. Current ratio is calculated as total current assets divided by total current liabilities. As of June 30, 2022 and 2021, the current ratio of the Group was 527.7% and 438.5%, respectively.

Gearing ratio is calculated as total liabilities divided by total assets. As of June 30, 2022 and 2021, the gearing ratio of the Group was 17.5% and 192.6%, respectively.

Significant Investments

As of December 31, 2021, the fair value of the investment funds and wealth management products held by the Group amounted to approximately RMB355,313,000, among which details of the investment with a value of 5% or more of the Group's total assets as of December 31, 2021 are as follows:

Name of Investment Fund	AP China USD Currency Fund – AP China Flexible Cash Management Plan (AP China 美元貨幣基金 – AP China 靈活現金管理計劃) (“AP China Fund”)
Name of Counterparty	AP China Unicorn Fund SPC
Name of Group Company	Qingci Games Inc.
Date of acquisition	November 26, 2021
Investment Cost	US\$20,000,000 equivalent to approximately RMB127,514,000 ⁽¹⁾
Type of Product and investment scope	Currency market fund, investment in currency market instruments such as cash, bank deposits, notes and treasury bonds.
Expiry Date of the lock up period	January 7, 2022
Term of the Product	No fixed term
Fair value as of December 31, 2021	RMB127,612,000 ⁽¹⁾
Percentage to the Group's total asset as of December 31, 2021	Approximately 6.8%

Note:

(1) Calculated based on the exchange rate of US\$1.00: RMB6.3757.

The Company recorded a gain in fair value of the AP China Fund of approximately RMB98,000 in the consolidated statement of profit or loss and other comprehensive income for the year of 2021. The Company fully redeemed the AP China Fund on March 24, 2022 and recorded a gain of RMB329,000 for the six months ended June 30, 2022.

AP China Unicorn Fund SPC (“**AP China**”) is a closed-ended exempted segregated portfolio company incorporated with limited liability pursuant to the laws of the Cayman Islands and is principally engaged in management and investment of asset denominated in US dollar. To the best knowledge, information and belief of the directors of the Company, having made all reasonable enquiries, AP China and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Company’s subscription for the AP China Fund for wealth management purpose in order to improve the utilization of its own fund and enhance the yields of its cash assets.

As at June 30, 2022, the Group’s short-term investments measured at fair value through profit or loss increased by 109.7% from approximately RMB355.3 million as at the end of 2021 to approximately RMB745.3 million as at the end of June 2022. The short-term investments mainly included investment funds and wealth management products. The increase was mainly attributable to the improvement of utilization of its own fund by the Group during the Reporting Period, in order to further enhance the yields of its cash assets. For the six months ended June 30, 2022, no single investment of the Group accounted for more than 5% of the total assets of the Group.

Material Acquisitions and Disposals

During the Report Period, the Group made no material acquisitions nor material disposals of subsidiaries, associates and joint ventures.

Pledge of Assets

As of June 30, 2022, we did not pledge any of our assets.

Capital Expenditure

For the six months ended June 30, 2022, our total capital expenditure was approximately RMB7.7 million, compared to approximately RMB4.0 million for the six months ended June 30, 2021. Our capital expenditure primarily included our purchase of property, plant and equipment, mainly related to the purchase of office equipment and vehicles. We funded these expenditures with cash generated from our operations. We plan to fund our future capital expenditures with our cash from operating activities.

Contingent Liabilities

As of June 30, 2022, we did not have any material contingent liabilities.

Foreign Exchange Risk Management

We operate globally through overseas third-party publishers and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Our foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. We managed our foreign exchange risk exposures through foreign currency forward contracts during the six months ended June 30, 2022.

Employee and Remuneration Policy

As of June 30, 2022, we had 538 full-time employees, substantially all of whom were based in China and 15 of whom were based in Japan.

We recruit talent primarily from job fairs as well as word-of-mouth referrals. We provide regular training to our employees covering various aspects including our culture and technical know-how. We also follow up with the employees to evaluate the effect of the training, which is aimed at enhancing our employees' skillset and helping them stay up-to-date with industry and technology developments. In addition, we discover and incubate future game producers who display strong innovation and game design talent. We encourage and support our employees keen on mobile game development to become our producers. They may form new core project teams with other like-minded employees to develop new games. We compensate our employees with salaries, welfare payments, and performance-based and annual bonuses.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Six months ended June 30,	
		2022	2021
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
Revenues	4	268,114	762,950
Cost of revenues	5	<u>(102,102)</u>	<u>(188,428)</u>
Gross profit		166,012	574,522
Selling and marketing expenses	5	(151,748)	(245,071)
Research and development expenses	5	(55,639)	(18,043)
General and administrative expenses	5	(41,112)	(28,666)
Net impairment losses on financial assets	5	(103)	71
Fair value changes on investments measured at fair value through profit or loss		11,225	1,962
Other income	6	4,510	2,917
Other gains/(losses), net	7	<u>4,317</u>	<u>(4,157)</u>
Operating profit		(62,538)	283,535
Finance income		2,231	697
Finance costs		<u>(1,033)</u>	<u>(283)</u>
Finance income, net		1,198	414
Fair value changes of convertible redeemable preferred shares		-	(338,380)
Share of results of investments accounted for using equity method		135	5,046
Losses on impairment of investments accounted for using the equity method		(12,294)	-
Losses from financial instruments issued to investors		<u>-</u>	<u>(53,928)</u>
Loss before income tax		(73,499)	(103,313)
Income tax (expenses)/benefit	8	<u>(13,373)</u>	<u>9,528</u>
Loss for the period		<u>(86,872)</u>	<u>(93,785)</u>

		Six months ended June 30,	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Other comprehensive income/(loss):			
Items that may not be reclassified to profit or loss			
– Currency translation differences		56,800	1,604
– Fair value changes on convertible redeemable preferred shares due to own credit risk		<u>–</u>	<u>(986)</u>
Total comprehensive loss for the period		<u>(30,072)</u>	<u>(93,167)</u>
Loss for the period attributable to:			
Equity holders of the Company		(75,671)	(93,785)
Non-controlling interests		<u>(11,201)</u>	<u>–</u>
		<u>(86,872)</u>	<u>(93,785)</u>
Total comprehensive loss for the period attributable to:			
Equity holders of the Company		(18,538)	(93,167)
Non-controlling interests		<u>(11,534)</u>	<u>–</u>
		<u>(30,072)</u>	<u>(93,167)</u>
Loss per share for profit for the period attributable to the equity holders of the Company			
Basic and diluted loss per share (<i>RMB</i>)	<i>9</i>	<u>(0.11)</u>	<u>(9.84)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at June 30, 2022	As at December 31, 2021
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		13,784	8,446
Right-of-use assets		30,828	32,063
Deferred tax assets		37,925	40,175
Investments accounted for using the equity method		23,010	29,169
Long-term investments measured at fair value through profit or loss		142,815	136,252
Prepayments, deposits and other assets		<u>8,810</u>	<u>6,915</u>
		<u>257,172</u>	<u>253,020</u>
Current assets			
Trade receivables	10	67,864	48,211
Inventories		125	279
Prepayments and other assets		35,258	44,004
Short-term investments measured at fair value through profit or loss		748,598	355,313
Restricted cash		6,983	–
Cash and cash equivalents		<u>802,584</u>	<u>1,168,076</u>
		<u>1,661,412</u>	<u>1,615,883</u>
		<u><u>1,918,584</u></u>	<u><u>1,868,903</u></u>

		As at June 30, 2022	As at December 31, 2021
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
EQUITY			
Share capital	11	44	44
Share premium	11	5,117,821	5,151,253
Other reserves		(2,975,422)	(3,032,555)
Accumulated deficit		<u>(548,271)</u>	<u>(472,600)</u>
Equity attributable to equity holders of the Company			
		1,594,172	1,646,142
Non-controlling interests		<u>(11,341)</u>	<u>193</u>
Total equity		<u>1,582,831</u>	<u>1,646,335</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>20,912</u>	<u>22,735</u>
		<u>20,912</u>	<u>22,735</u>
Current liabilities			
Trade payables	12	61,233	5,745
Other payables and accruals		143,017	103,346
Short-term liabilities measured at fair value through profit or loss		3,344	–
Contract liabilities		88,470	74,918
Current income tax liabilities		8,073	5,997
Lease liabilities		<u>10,704</u>	<u>9,827</u>
		<u>314,841</u>	<u>199,833</u>
Total liabilities		<u>335,753</u>	<u>222,568</u>
Total equity and liabilities		<u>1,918,584</u>	<u>1,868,903</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Qingci Games Inc. (the “**Company**”) is an exempted company with limited liability incorporated under the laws of the Cayman Islands on March 12, 2021. The Company is an investment holding company. The Company and its subsidiaries, including consolidated structured entities (together, the “**Group**”) are principally engaged in the development and operation of mobile games and provision of information services (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”, “**Mainland China**”, for the purpose of preparing the consolidated financial statements, PRC and Mainland China refers to the People’s Republic of China, excluding the Hong Kong Special Administrative Region (“**Hong Kong**”), the Macau Special Administrative Region (“**Macau**”) and Taiwan) and other countries and regions.

The Company has its primary listing (the “**IPO**”) on the Stock Exchange of Hong Kong Limited on December 16, 2021.

The condensed consolidated financial statements for the six months ended June 30, 2022 (the “**Interim Financial Information**”) are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated.

2 BASIS OF PREPARATION

The Interim Financial Information have been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”), “Interim Financial Reporting”.

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as set out in 2021 annual report of the Company dated March 24, 2022 (the “**2021 Financial Statements**”).

3 SIGNIFICANT ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards which are relevant to the Group’s operations and are mandatory for the financial year beginning on or after January 1, 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 37	Onerous contract – cost of fulfilling a contract
Annual Improvements	Improvements to IFRS Standards 2018–2020

The adoption of these new and amended standards does not have material impact on the condensed consolidated financial statements of the Group.

(b) New standards and amendments to standards that have been issued but not effective

A number of new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2022 and have not been early adopted by the Group in preparing the Interim Financial Information. None of these is expected to have a significant effect on the Interim Financial Information based on the preliminary assessment made by management.

4 SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the directors of the Company consider that the Group's operation is operated and managed as a single segment and no segment information is presented, accordingly.

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

Revenue for the six months ended June 30, 2022 and 2021 are as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Game operating revenues		
– Self-developed	225,214	496,391
– Licensed	23,069	233,242
	<u>248,283</u>	<u>729,633</u>
Subtotal		
Game licensing revenue	14,992	18,930
Information service revenue	4,839	14,387
	<u>268,114</u>	<u>762,950</u>
Total revenues		
Cost of revenues	(102,102)	(188,428)
	<u>166,012</u>	<u>574,522</u>
Gross profit		
Gross margin	62%	75%

Revenues of approximately RMB18 million and RMB34 million for the six months ended June 30, 2022 and 2021, respectively, were from five largest single customers.

During the six months ended June 30, 2022 and 2021, none of single customers individually exceeding 10% of the Group's revenue.

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the six months ended June 30, 2022 and 2021, respectively:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Service transferred overtime	119,905	389,478
Service transferred at a point of time	148,209	373,472
	<u>268,114</u>	<u>762,950</u>

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the six months ended June 30, 2022 and 2021, respectively:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Mainland China	233,522	742,945
Outside Mainland China (a)	34,592	20,005
Total	<u>268,114</u>	<u>762,950</u>

(a) Revenue from outside Mainland China mainly include revenue from local versions operated in Japan, Hong Kong, Macau and Taiwan Province.

5 EXPENSES BY NATURE

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Marketing and promotion expenses	118,313	233,170
Employee benefits expenses	113,966	36,074
Commissions charged by distribution channels	67,396	130,170
Bandwidth and server custody fee	10,590	12,902
Commissions charged by game developers	8,141	33,210
Outsourced technical services	7,454	6,508
Professional services fee	6,215	1,161
Depreciation of right-of-use assets	5,370	1,732
Office expenses	4,305	4,953
Depreciation of property, plant and equipment	2,290	462
Auditor remuneration		
– Audit service	1,800	–
– Non-audit service	120	–
Tax surcharges	1,263	2,275
Rental expenses and utilities	1,260	348
Commissions charged by payment channel	599	1,653
Net impairment losses on financial assets	103	(71)
Listing expenses	–	15,170
Others	1,519	420
Total	<u>350,704</u>	<u>480,137</u>

6 OTHER INCOME

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Government subsidies	4,510	2,797
Investment return from wealth management products issued by commercial banks	—	120
Total	4,510	2,917

There are no unfilled conditions or contingencies related to the above government subsidies.

7 OTHER GAINS/(LOSSES), NET

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Foreign exchange gain/(loss), net	6,857	(4,005)
Donations to charity organizations	(2,433)	(187)
Dividend distribution from long-term investments measured at fair value through profit or loss	—	8
Others	(107)	27
Total	4,317	(4,157)

8 INCOME TAX

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit in respect of operations in Hong Kong.

PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the six months ended June 30, 2022 and 2021.

Certain subsidiaries are accredited as a “software enterprise” under the relevant PRC Laws and regulations. They are exempt from CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the “**tax holiday**”).

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (“**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 six months ended June 30, 2022 and 2021.

PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

Since the Group intends to permanently reinvest earnings from QC Digital Group to further expand its businesses in PRC after the reorganization, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period. Cumulative undistributed earnings of the Company’s PRC subsidiaries intended to be permanently reinvested were RMB238 million as at June 30, 2022.

	Six months ended June 30,	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Audited)
Current income tax	10,751	4,553
Deferred income tax	<u>2,622</u>	<u>(14,081)</u>
Total income tax expenses/(benefit)	<u>13,373</u>	<u>(9,528)</u>

Income tax expenses/(benefit) are recognised based on management's best knowledge of the income tax rates that would be applicable to the full financial year.

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Loss before income tax	(73,499)	(103,313)
Tax calculated at statutory income tax rate of 25% in Mainland China	(18,375)	(25,828)
Tax effects of:		
Effect of different tax rates available to different jurisdictions	6,446	87,495
Preferential income tax rates applicable to subsidiaries	(10,197)	(85,624)
Expenses not deductible for income tax purposes	231	1,041
Tax effect of losses from financial instruments issued to investors	-	6,741
Super Deduction for research and development expenses	(2,763)	(2,590)
Tax losses for which no deferred income tax assets were recognized	33,766	5
Temporary differences for which no deferred income tax assets were recognized, net	<u>4,265</u>	<u>9,232</u>
Total income tax expenses/(benefit)	<u>13,373</u>	<u>(9,528)</u>

9 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of outstanding shares during the six months ended June 30, 2022 and 2021.

For the purpose of computing basic and diluted loss per share, 9,530,575 ordinary shares issued in the reorganisation were assumed to have been issued and allocated from the beginning of the periods presented as if the Company has been established by then. The weighted average number of ordinary shares for such purpose has been retrospectively adjusted.

Redeemable shares that are contingently returnable are not treated as outstanding and are excluded from the calculation of basic loss per share.

	Six months ended June 30,	
	2022	2021
	(Unaudited)	(Audited)
Loss attributable to ordinary shareholders of the Company (RMB'000)	(75,671)	(93,785)
Weighted average number of outstanding ordinary shares	<u>690,980,749</u>	<u>9,530,575</u>
Basic loss per share (RMB)	<u>(0.11)</u>	<u>(9.84)</u>

(b) **Diluted loss per share**

Diluted loss per share is calculated by adjusting the weighted average number of outstanding ordinary shares to assume conversion of all dilutive potential ordinary shares. For the six months ended June 30, 2021, the Company had convertible redeemable preferred shares that had potential ordinary shares. For the six months ended June 30, 2022, the Company had over-allotment option to the IPO that are potential ordinary shares. For the six months ended June 30, 2022 and 2021, diluted loss per share presented is the same as the basic loss per share as the inclusion of potential ordinary shares in the calculation of diluted loss per share would be anti-dilutive.

10 TRADE RECEIVABLES

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Distribution channels	55,584	38,646
Game publishers	9,649	9,087
Information service customers	<u>2,801</u>	<u>555</u>
	68,034	48,288
Less: allowance for impairment	<u>(170)</u>	<u>(77)</u>
	<u>67,864</u>	<u>48,211</u>

(a) Distribution Channels and game publishers and information service customers usually settle the amounts within 30–60 days. Aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Within 3 months	61,332	47,208
3 months to 6 months	6,674	1,080
6 months to 1 year	28	–
1 to 2 years	<u>–</u>	<u>–</u>
	<u>68,034</u>	<u>48,288</u>

11 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares '000	Nominal value of shares USD'000	Equivalent nominal value of shares RMB'000	Share premium RMB'000
Authorised				
As at June 30, 2022 and December 31, 2021	<u>5,000,000</u>	<u>50</u>	<u>–</u>	<u>–</u>
Issued (Audited)				
As at January 1, 2021	–	–	–	–
Issuance of ordinary shares in relation to the reorganisation of the Group (a)	<u>9,530</u>	<u>–</u>	<u>1</u>	<u>2,313,575</u>
As at June 30, 2021	<u>9,530</u>	<u>–</u>	<u>1</u>	<u>2,313,575</u>
Issued (Unaudited)				
As at January 1, 2022	685,000	7	44	5,151,253
Issuance of ordinary shares upon IPO over allotment (b)	6,331	–	–	55,888
Dividend distribution to the shareholders (Note 13)	<u>–</u>	<u>–</u>	<u>–</u>	<u>(89,320)</u>
As at June 30, 2022	<u>691,331</u>	<u>7</u>	<u>44</u>	<u>5,117,821</u>

- (a) On May 14, 2021, as part of the reorganization, the Company allotted and issued an aggregate of 9,530,575 ordinary shares at par value of US\$0.00001 each share to offshore holding vehicles which are beneficially owned by the ordinary shareholders of QC Digital as at that date. Upon completion of the reorganization, the fair value of ordinary shares of QC Digital amounting to RMB2,313 million was transferred from capital reserve to share premium accordingly.
- (b) On January 12, 2022, following the partial exercise of over-allotment option available upon its IPO, the Company issued 6,330,500 new ordinary shares at HKD11.20 per share and raised gross proceeds of approximately HKD71 million (equivalent to RMB58 million). The net proceeds was approximately HKD68 million (equivalent to RMB56 million) after deducting listing expenses directly relating to the share issuance.

12 TRADE PAYABLES

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Trade payables	<u>61,233</u>	<u>5,745</u>

Trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to game developers. The credit terms of trade payables granted to the Group are usually 30 to 90 days.

Aging analysis of trade payables based on the recognition date of the trade payables at the respective reporting dates are as follows:

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Within 3 months	60,249	5,602
Over 3 months	<u>984</u>	<u>143</u>
	<u>61,233</u>	<u>5,745</u>

13 DIVIDEND DISTRIBUTION

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Dividend Distribution	<u>89,320</u>	<u>180,000</u>

The final dividend of HK15.2 cents per share for the year ended 31 December 2021, amounted HKD105,082,236 (equivalent to approximately RMB89,319,901) as total was approved in the shareholders' meetings of the company held on June 6, 2022 and paid on July 29, 2022.

Pursuant to the resolutions of the shareholders' meetings of QC Digital in May 2021, dividends of RMB180,000,000 were approved and paid to the then shareholders in cash.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2022.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the listing of the Company on the Listing Date to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after June 30, 2022 and up to the date of this announcement.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Stock Exchange on December 16, 2021. The net proceeds received from the Global Offering (taking into account the partial exercise of the over-allotment option and after deducting the underwriting fees and commission and other estimated expenses payable by the Company in connection with the Global Offering) was approximately HK\$925.8 million.

The table below sets out the planned usage of the net proceeds from the Global Offering and actual usage up to June 30, 2022:

Use of proceeds	Net proceeds from the Global Offering (after taking into account the partial exercise of the over-allotment option) <i>(HK\$ million)</i>	Utilized amount up to June 30, 2022 <i>(HK\$ million)</i>	Unutilized amount up to June 30, 2022 <i>(HK\$ million)</i>	Expected timeline for fully utilizing the unutilized amount ⁽¹⁾
For expanding our game portfolio and invest in our game R&D capabilities and related technologies	324.0	28.2	295.8	by December 2024
For expanding our business in the overseas markets	231.4	66.7	164.7	by December 2024
For strengthening our game publication and operation capabilities in China’s mobile game market and the market recognition of our “QingCi” brand and our IPs	138.9	36.7	102.2	by December 2024
For pursuing strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain	138.9	9.8	129.1	by December 2024
For working capital and general corporate purposes	<u>92.6</u>	<u>84.0</u>	<u>8.6</u>	by December 2022
Total	<u>925.8</u>	<u>225.4</u>	<u>700.4</u>	

Note:

- (1) The expected timeline for utilization of the unutilized proceeds disclosed above is based on the best estimation from the Board in accordance with latest information as at the date of this announcement.

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 CG Code contained in Appendix 14 to the Listing Rules and the Company has adopted the CG code as its own code of corporate governance.

The Board is of the view that the Company has complied with all code provisions as set out in the CG Code for the Reporting Period.

The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the transactions of securities of the Company by its Directors and the relevant employees who would likely possess inside information of the Company. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Model Code for the six months ended June 30, 2022 and up to the date of this announcement.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consist of three independent non-executive Directors, namely Mr. Zhang Longgen (Chairman), Professor Lam Sing Kwong Simon and Ms. Fang Weijin. Mr. Zhang Longgen possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The Audit Committee has reviewed the unaudited interim financial information of the Group for the six months ended June 30, 2022 together with the Group's auditors, PricewaterhouseCoopers, and have discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's unaudited interim financial information and the related notes thereto for the six months ended June 30, 2022 as set out in the announcement have been reviewed by the Group's auditor, PricewaterhouseCoopers.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND THE INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.qcplay.com). The interim report for the six months ended June 30, 2022 will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“ACT”	the action games
“ARPPU” or “average revenue per paying user”	average revenue per month per paying user, which is calculated by (i) dividing our revenue from a game for a specified period by the total MPUs of such game for that period; or (ii) dividing our total game revenue for a specified period by the aggregate of the total MPUs of all of our games for that period, as applicable
“Audit Committee”	the audit committee of the Board
“average MAUs”	calculated by dividing (i) the total MAUs of a game, or (ii) the aggregate of the total MAUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MAUs did not consider each game’s data before its official launch
“average MPUs”	calculated by dividing (i) the MPUs of a game, or (ii) the aggregate of the total MPUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MPUs did not consider each game’s data before its official launch
“Board” or “Board of Directors”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules

“CMGE”	CMGE Technology Group Limited, an exempted company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 0302)
“Company”	Qingci Games Inc. (青瓷游戏有限公司), an exempted company incorporated in the Cayman Islands with limited liability on March 12, 2021 and whose Shares are listed on the Stock Exchange
“Director(s)”	the director(s) of our Company
“Global Offering”	has the meaning ascribed to it under the Prospectus
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	the Company and its subsidiaries from time to time
“HK dollar” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of Shares on the Main Board of the Stock Exchange on December 16, 2021
“Listing Date”	December 16, 2021, being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“MAU(s)”	monthly active users, which represents the number of active users during a specified calendar month
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

“MPU(s)”	monthly paying users, which represents the number of paying players during a specified calendar month
“PRC”, “Mainland China” or “China”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus issued by the Company on December 6, 2021 in connection with the Hong Kong public offering of the Shares
“R&D”	research and development
“Reporting Period”	six months from January 1, 2022 to June 30, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“RPG”	the role-playing games
“Shareholder(s)”	holder(s) of Share(s)
“Shares”	ordinary share(s) in the capital of the Company with nominal value of US\$0.00001 each
“SLG”	the simulation games
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our Shareholders and business partners for their continued support, and to our employees for their dedication and hard work.

By Order of the Board
Qingci Games Inc.
Liu Siming
Executive Director

Hong Kong, August 23, 2022

As at the date of this announcement, the Board comprises Mr. Yang Xu, Mr. Huang Zhiqiang, Mr. Liu Siming and Mr. Zeng Xiangshuo as executive Directors, and Mr. Zhang Longgen, Professor Lam Sing Kwong Simon and Ms. Fang Weijin as independent non-executive Directors.