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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

The Board of Directors of Qingci Games Inc. is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2021, together with the comparative figures for the year ended December 31, 2020 as follows:

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		
	2021	2020	Change
	(RMB'000)	(RMB'000)	(%)
Revenue	1,105,816	1,226,920	(10)
Gross profit	812,599	942,355	(14)
(Loss)/profit attributable to equity holders of the Company	<u>(367,231)</u>	<u>103,739</u>	<u>(454)</u>
Non-IFRS measure:			
Adjusted net profit⁽¹⁾	<u>422,147</u>	<u>166,156</u>	<u>154</u>

Note:

- (1) We define adjusted net 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. 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.

KEY OPERATING INFORMATION

	For the year ended December 31,		
	2021	2020	Change (%)
Average MAUs (in thousands)⁽¹⁾	2,542	3,448	(26.3)
Average MPUs (in thousands)	440	495	(11.2)
ARPPU (RMB)	224	206	8.4
Cumulative registered players (in thousands)	71,960	59,585	20.8

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 REVIEW

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 period under review, the Group's cumulative registered players reached 72.0 million, representing a year-on-year increase of 20.8% as compared with last year; the average number of monthly active users reached 2.5 million. QingCi continued to maintain its pace of progress, constantly attracting players' attention by virtue of captivating content, distinctive game punchlines, striking designs and graphics, and often humorous twists. The Group's games have performed well, in line with its continuous effort in the integrated mode of research and operation. In terms of research and development, the Group continued to create prime games with original IPs, of which its landmark mobile game, *The Marvelous Snail* (最強蝸牛), has continued to record strong performance during the year. In terms of game publishing, we customized the publication and operation methods for each game based on the characteristics of each game, players' interests and the characteristics of the distribution channels. For instance, *Lantern and Dungeon* (提燈與地下城), which was launched in March 2021, has achieved good results with respect to both word of mouth and in the market.

OUR GAMES

The Group develops, publishes and operates top-rated online mobile games. As of December 31, 2021, we had six existing mobile games, covering idle games, rogue-like RPG and other RPG.

Below is an overview of our landmark games, based primarily on their revenue contribution, ratings and market reception.

The Marvelous Snail (最強蝸牛), officially launched in June 2020, is our self-developed idle game. It generated gross billings exceeding RMB400 million in the first month following its launch in June 2020, over RMB1.8 billion in the first year after its launch and approximately RMB2.2 billion as of December 31, 2021. The game recorded more than 21.1 million cumulative registered players as of December 31, 2021. In addition, it had an average MAU of 1.2 million and an average MPU of over 208 thousand for the year ended December 31, 2021. Further, the average weekly player retention rate of *The Marvelous Snail (最強蝸牛)* exceeded 26.4% from its launch to December 31, 2021. During the Reporting Period, we released major game version updates such as “蝸牛與黃鸝鳥” (*Snail and Oriole*) and “時空孔隙” (*A Crack in the Space Dimension*) and had collaborations with renowned IPs such as *Detective Chinatown 3 (唐人街探案3)* and *Scissor Seven (刺客伍六七)* to further enrich our game content and plot and to enhance players’ game experience. Since its launch until December 31, 2021, the game has received over 190 times of “Editor’s Choice” on the iOS APP Store in China and for the year ended December 31, 2021, the game received 77 times of “Editor’s Choice” recommendation on the iOS App Store in China and obtained the highest ranking of No. 6 on the iOS Bestseller Games List in China in 2021. In 2021, *The Marvelous Snail (最強蝸牛)* obtained the highest ranking of No.2 on the App Store Bestseller Adventure Games List in Hong Kong and Taiwan, and it also obtained the highest ranking of No.3 on the Google Play Free Role-Playing Games Chart in Hong Kong. In addition, *The Marvelous Snail (最強蝸牛)* won the “Best Casual Game of the Year 2021” award selected by the Xiaomi Internet Global Eco Partner Conference in 2021. The game generated aggregate revenues of approximately RMB821 million for the year ended December 31, 2021.

Gumballs & Dungeons (不思議迷宮) is our self-developed rogue-like RPG launched in August 2016. It maintained its outstanding performance, though it has been launched for more than five years. It has also been recommended by both Google Play and iOS App Store in multiple regions around the globe. It had received 85 times of “Editor’s Choice” recommendation and obtained the highest score of 4.9 out of 5.0 on the iOS App Store in China from its launch to December 31, 2021. In 2021, it generated total gross billing of approximately RMB50 million and achieved an average MAU of over 218 thousand. The game generated aggregate revenues of RMB20 million for the year ended December 31, 2021.

Lantern and Dungeon (提燈與地下城) is our in-licensed rogue-like RPG officially launched in March 2021. It had more than one million active users with peak concurrent users exceeding 250,000 on its official launch day in March 2021. The game topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the highest ranking of No. 4 on the iOS Bestseller Games List in China. During the Reporting Period, we have released three major game version updates including “光暗對決” (*Light and Dark Showdown*), “元素塔再現” (*Element Tower Recurrence*), and “伊芙琳幻境開啟” (*Beginning of Evelyn’s Fantasy*) which further enriched the gameplay of the game. The game received 38 times of “Editor’s Choice” recommendation on the iOS App Store as of December 31, 2021. The game generated gross billings exceeding RMB180 million in the first month following its launch. As of December 31, 2021, it had recorded approximately 4.7 million cumulative registered players. For the year ended December 31, 2021, it achieved an average MAU of over 657 thousand, an average MPU of over 168 thousand and an average weekly player retention rate of 33.8%. The game generated aggregate revenues of RMB250 million for the year ended December 31, 2021.

Ares Virus (阿瑞斯病毒), launched in August 2018, is our in-licensed survival RPG with a top-down still view and distinct fresh ballpoint style. It had already received more than 200,000 advanced reservations before its official launch in August 2018 and it obtained a score of 8.6/10 on TapTap, higher than the average level of game score (around 6/10) on TapTap. It topped the iOS Paid Games List in China overnight after its official launch, and it remained as one of the top 10 iOS Paid Adventure Games for over 30 days. The game received over 18 times of “Editor’s Choice” recommendation, amongst all, 11 times of “Editor’s Choice” recommendation were received in 2021, and obtained the highest score of 4.8 out of 5.0 on the iOS App Store in China as of December 31, 2021. Even without incurring substantial cost for customer acquisition, Ares Virus (阿瑞斯病毒) achieved great reputation and brand recognition. As of December 31, 2021, Ares Virus (阿瑞斯病毒) had recorded more than 16 million cumulative registered players. At its peak, it achieved an MAU of 3.6 million. For the year ended December 31, 2021, it achieved an average weekly player retention rate of 24.7%. The game generated aggregate revenues of RMB9.0 million for the year ended December 31, 2021.

Eternal Adventure (無盡大冒險), launched in June 2015, is one of our self-developed classic games that combine the features of idle gameplay experience and Diablo-like adventure. As of December 31, 2021, the game received over 150 times of “Editor’s Choice” recommendation and obtained the highest score of 4.7 out of 5.0 on the iOS App Store in China. It also recorded over 1.9 million cumulative registered players as of December 31, 2021. The game generated aggregate revenues of RMB3.7 million for the year ended December 31, 2021.

PLAYER COMMUNITY

We have nurtured vibrant QingCi community of players on various mobile game forums and social media platforms. We attract players to our QingCi community mainly through introducing our social media platform accounts in our games, and we retain players by organizing activities and encouraging player interactions via our official accounts on various social media platforms. We have a dedicated operation team that manages our player community accounts and actively interacts with the community participants. Meanwhile, we have opened an offline experience store in Shanghai to further enhance our interactions with players. Through the QingCi community, our players can receive from us 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 also proactively seek players' feedback on our games and organize online and offline player activities to enhance players' sense of belonging and identification with us.

As of December 31, 2021, our games had accumulated 10.53 million QingCi Enthusiasts who contacted us through our official accounts and groups on social media platforms, such as Tencent QQ, WeChat, TapTap and Bilibili.

OUTLOOK

In 2022, the Group will continue to enrich its pipeline games, including deploying existing games to explore overseas markets, continuing to create new prime games with original IPs and licensing in quality games.

At present, the Group has a pipeline of 11 mobile games, covering a wide range of genres and types, including RPG, SLG and ACT RPG, etc..

Title	Mobile Game Genre	Source	Development Stage as of December 31, 2021	Expected Launch Time⁽¹⁾
Time Voyager (時光旅行社)	Rogue-like RPG	Developed in-house	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	2022
Ares Virus 2 (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	2023
Bladeheart Ninja 2 (刃心2)	Parkour	In-licensed	Game production, testing and optimization	2023

Title	Mobile Game Genre	Source	Development Stage as of December 31, 2021	Expected Launch Time ⁽¹⁾
Project E	SLG	Developed in-house	Demo production	2023
Project B	Casual games	In-licensed	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

Note:

- (1) The expected launch time for each game refers to the launch time for the first local version of the game to be released. The title, genre, expected launch time and other information of each game in the pipeline may be subject to changes according to their respective development and, in the case of games to be launched in China, preapproval status.

In terms of the existing games, the Group will continue to push forward its plans for overseas market exploration, for example, the local version of the Group's landmark game *The Marvelous Snail* (最強蝸牛) will be launched in Japan in 2022 and the Group is also preparing for its release in America, Europe and Southeast Asia.

In terms of self-developed games, the Group's new self-developed work titled *Time Voyager* (時光旅行社) has completed its first round of testing in Hong Kong, Macau and Taiwan. While inheriting the Group's original innovative design, genre and type strengths and personal expression in gameplay, it also enriched its "social" attributes. It is regarded as one of the key products in the Group's pipeline games.

The remaining self-developed games have also recorded positive R&D progress: *Servitor Project* (使魔計劃) is entering the paid testing stage, while the SLG game *Project E* has also entered the high-speed iterative stage for the demo version.

In terms of in-licensed games, the Group will continue to promote the development of its existing in-licensed games, for example, *Loot Rush* (騎士沖呀) has completed several rounds of testing, and the Group will further implement its publishing plan for the relevant game during the year based on its testing status. Meanwhile, the Group will also continue to identify high-potential game developers, and as of February 28, 2022, a new simulation game *Project MN* has been added to the Group's in-licensed game pipeline.

The Group will consider, in a comprehensive manner, the game's supplement to our portfolio, its market potential, the potential for version updates and the in-house development capability of its developer, with an aim to create a diversified game portfolio across different genres and types to offer players with upgraded experiences. We will also continue to build our QingCi universe primarily through developing original, iconic IP for our games including by integrating cultural elements, and supplemented by peripheral products and pan-entertainment content, such as comics, videos and other merchandise. We are committed to achieving synergies among the various IPs within our QingCi universe, such as by embedding gameplay elements of our existing IPs into our new games to connect our various IPs, thereby increasing player stickiness and enhancing the ability of monetization.

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 years ended December 31, 2020 and 2021.

	For the year ended December 31,				2021 vs. 2020 % Change
	2021 RMB'000	%	2020 RMB'000	%	
Game operating revenues					
Self-developed	790,938	71.5	1,082,298	88.2	(26.9)
Licensed	259,785	23.5	11,150	0.9	2,230
<i>Subtotal</i>	<u>1,050,723</u>	<u>95</u>	<u>1,093,448</u>	<u>89.1</u>	<u>(3.9)</u>
Game licensing revenue	35,789	3.2	58,576	4.8	(38.9)
Information service revenue	19,304	1.8	74,896	6.1	(74.5)
Total revenues	<u>1,105,816</u>	<u>100.0</u>	<u>1,226,920</u>	<u>100.0</u>	<u>(9.9)</u>

Game Operating Revenues

Our game operating revenues decreased by 3.9% to RMB1,050.7 million for the year ended December 31, 2021 on a year-on-year basis. In particular,

- Our revenue from self-developed games decreased by 26.9% to RMB790.9 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to a decrease in revenue from *The Marvelous Snail* (最強蝸牛).
- Our revenue from licensed games increased by 2,230% to RMB259.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to an increase in revenue driven by the launch of *Lantern and Dungeon* (提燈與地下城) in March 2021.

Game Licensing Revenues

Our game licensing revenues decreased by 38.9% to RMB35.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to the decrease in license fees from *Gumballs & Dungeons* (不思議迷宮) and *The Marvelous Snail* (最強蝸牛) in Hong Kong, Macau and Taiwan.

Information Service Revenue

Our revenues from information service decreased by 74.5% to RMB19.3 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to fewer in-game advertisement views or clicks.

Cost of Revenues

Our cost of revenues increased by 3.0% from RMB284.6 million for the year ended December 31, 2020 to RMB293.2 million for the year ended December 31, 2021 on a year-on-year basis. 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 years ended December 31, 2021 and 2020.

	For the year ended December 31,				2021 vs. 2020 % Change
	2021		2020		
	RMB'000	%	RMB'000	%	
Commissions charged by distribution and payment channels	206,825	70.5	249,107	87.5	(17)
Commissions charged by third-party game developers	40,919	14.0	2,430	0.9	1,584
Bandwidth and servers custody fee	21,862	7.5	16,022	5.6	36.4
Employee benefits expenses	9,193	3.1	9,844	3.5	(6.6)
Others	14,418	4.9	7,162	2.5	101.3
Total	293,217	100.0	284,565	100.0	3.0

Our cost of revenue for commissions charged by distribution and payment channels decreased by 17% to RMB206.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to lower distribution costs charged by distribution platforms attributable to lower game revenue.

Our cost of revenue for commissions charged by third-party game developers increased by 1,584% to RMB40.9 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to an increase in commissions charged by third-party developers driven by the success in launching *Lantern and Dungeon* (提燈與地下城) in March 2021.

Our cost of revenue for bandwidth and servers custody fee increased by 36.4% to RMB21.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to the launching of *Lantern and Dungeon* (提燈與地下城) in March 2021.

Our cost of revenue for others increased by 101.3% to RMB14.4 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to the launching of *Lantern and Dungeon* (提燈與地下城) in March 2021 resulting in an increase in outsourced technical service fees.

Gross Profit and Gross Margin

Our gross profit decreased by 13.8% from RMB942.4 million for the year ended December 31, 2020 to RMB812.6 million for the year ended December 31, 2021. Our gross margin decreased to 73% for the year ended December 31, 2021 from 77% for 2020, primarily due to an increase in the proportion of revenue generated from in-licensed games resulting in a rise in commission payable to third-party developers.

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, which represented 93.7% and 90.0% of our total selling and marketing expenses for the year ended December 31, 2020 and 2021, respectively; (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 45.6% from RMB559.2 million for the year ended December 31, 2020 to RMB304.2 million for the year ended December 31, 2021. This was primarily due to a decrease in promotion expenses as *The Marvelous Snail* (最強蝸牛) entered into the maturity stage, partially offset by higher promotion expenses for *Lantern and Dungeon* (提燈與地下城).

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 decreased by 38% from RMB146.1 million for the year ended December 31, 2020 to RMB91.2 million for the year ended December 31, 2021. This was primarily due to the decrease in bonuses for R&D projects as a result of the decrease in revenue from *The Marvelous Snail* (最強蝸牛), partially offset by the increase in R&D investment in other projects under development by the Company.

General and Administrative Expenses

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

Our general and administrative expenses decreased by 16% from RMB102.9 million for the year ended December 31, 2020 to RMB86.9 million for the year ended December 31, 2021. After offsetting the impact from share-based compensation of RMB56.0 million in 2020 and one-off listing expenses of RMB45.8 million incurred in 2021, the general and administrative expenses decreased by 12.4% in 2021 as compared to that of 2020, primarily due to the decrease in revenue from *The Marvelous Snail* (最強蝸牛) and the corresponding decrease in performance bonus paid.

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 investments in derivative instruments with a major PRC commercial bank and investments in funds that invest primarily in publicly-traded securities.

Our fair value gains on investments measured at fair value through profit or loss increased by 746.8% from RMB0.6 million for the year ended December 31, 2020 to RMB5.0 million for the year ended December 31, 2021, mainly due to our investments in unlisted companies and the fair value gains on our existing investments.

Other Income

Our other income primarily consisted of (i) interest income from loans to third parties and related parties; (ii) interest income from financial assets at amortized cost, mainly representing interest income from term deposits; (iii) investment return from wealth management products issued by commercial banks; and (iv) 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 remained stable in 2021 and the Reporting Period at RMB11.4 million and RMB11.1 million, respectively.

Other Losses

Our net other 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 losses decreased by 65.4% from RMB27.1 million for the year ended December 31, 2020 to RMB9.4 million for the year ended December 31, 2021, this change was primarily a result of the appreciation of RMB against U.S. dollars in 2020 affecting our U.S. dollar dominated revenues and trade receivables.

Income Tax Expenses

Our income tax expenses decreased by 440.7% from income tax expenses of RMB9.6 million for the year ended December 31, 2020 to a income tax benefit of RMB32.6 million for the year ended December 31, 2021, mainly due to 1) increase in deferred tax assets of RMB38.4 million, which was mainly related to our tax losses in certain subsidiaries and marketing and promotion expenses to be deductible for tax purposes in future periods, 2) a decrease in current income tax of RMB3.8 million which was resulted from the decrease in revenue from overseas licensing.

(Loss)/Profit for the Year

Our (loss)/profit for the year decreased by 455.4% from a net profit of RMB103.7 million for the year ended December 31, 2020 to a net loss of RMB368.6 million for the year ended December 31, 2021, mainly due to (i) changes in fair value of convertible redeemable preference shares; and (ii) loss from financial instruments issued to investors.

(Loss)/Profit for the year attributable to equity holders of the Company

Our (loss)/profit for the year attributable to equity holders of the Company decreased by 454.0% from a profit of RMB103.7 million for the year ended December 31, 2020 to a net loss of RMB367.2 million for the year ended December 31, 2021, mainly due to (i) changes in fair value of convertible redeemable preference shares; and (ii) loss from financial instruments issued to investors.

Non-IFRS Measures – Adjusted Net Profit

To supplement our 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 year. 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:

	For the year ended	
	December 31,	
	2021	2020
	(RMB'000)	(RMB'000)
(Loss)/profit for the year	(368,638)	103,739
Add:		
Changes in fair value of convertible redeemable preference shares	691,052	–
Losses from financial instruments issued to investors	53,928	6,400
Listing-related expenses	45,805	–
Share-based compensation	–	56,017
Adjusted net profit	422,147	166,156

The adjusted net profit for the year ended December 31, 2021 increased by 154.1% to RMB422.1 million as compared with RMB166.2 million for the year ended December 31, 2020. Such increase was primarily attributable to (i) our landmark game *The Marvelous Snail* (最強蝸牛) continued to record profit growth in 2021 after its launch in June 2020; and (ii) the success in launching *Lantern and Dungeon* (提燈與地下城) in March 2021 which drove our profit.

Liquidity, Capital Resources and Gearing Ratio

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

As of December 31, 2021, the Group's total cash and cash equivalents increased by 163.5% from RMB443.2 million for the year ended December 31, 2020 to RMB1,168.1 million for the year ended December 31, 2021. The increase in total cash and cash equivalents during the period under review was primarily resulted from (i) funds generated from business operations, (ii) the pre-IPO financing, and (iii) proceeds raised from the Global Offering.

As of December 31, 2021, we did not have any borrowings. As of the same date, we had a banking facility of RMB50 million, and we did not draw down this facility as deposit to secure our obligations under our foreign currency forward contract.

As of December 31, 2021, the current assets of the Group amounted to approximately RMB1,615.9 million, and the current liabilities of the Group amounted to approximately RMB199.8 million. Current ratio is calculated as total current assets divided by total current liabilities. As of December 31, 2021 and 2020, the current ratio of the Group was 809% and 148%, respectively.

Gearing ratio is calculated as total liabilities divided by total assets. As of December 31, 2021 and 2020, the gearing ratio of the Group was 12% and 71%, respectively.

Material Acquisitions and Disposals and Significant Investments

The Group did not have any material acquisitions and disposals and significant investments during the year ended December 31, 2021.

Pledge of Assets

As of December 31, 2021, we did not pledge any of our assets.

Capital Expenditure

For the year ended December 31, 2021, our total capital expenditure was approximately RMB5.9 million, compared to approximately RMB3.5 million for the year ended December 31, 2020. 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 December 31, 2021, 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 year ended December 31, 2021.

Employee and Remuneration Policy

As of December 31, 2021, we had 432 full-time employees, substantially all of whom were based in China and 9 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,	
		2021	2020
	Notes	RMB'000	RMB'000
Revenues	3	1,105,816	1,226,920
Cost of revenues	4	<u>(293,217)</u>	<u>(284,565)</u>
Gross profit		812,599	942,355
Selling and marketing expenses	4	(304,236)	(559,215)
Research and development expenses	4	(91,228)	(146,108)
General and administrative expenses	4	(86,886)	(102,897)
Net impairment losses on financial assets	4	140	364
Fair value changes on investments measured at fair value through profit or loss		5,030	594
Other income	5	11,085	11,406
Other losses, net	6	<u>(9,354)</u>	<u>(27,071)</u>
Operating profit		337,150	119,428
Finance income		2,046	795
Finance costs		<u>(858)</u>	<u>(103)</u>
Finance income, net		1,188	692
Fair value changes of convertible redeemable preferred shares		(691,052)	–
Share of results of investments accounted for using equity method		5,377	(404)
Losses from financial instruments issued to investors		<u>(53,928)</u>	<u>(6,400)</u>
(Loss)/profit before income tax		(401,265)	113,316
Income tax benefit/(expenses)	7	<u>32,627</u>	<u>(9,577)</u>
(Loss)/profit for the year		<u>(368,638)</u>	<u>103,739</u>

		Year ended December 31,	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
Other comprehensive income/(loss):			
Items that may not be reclassified to profit or loss			
– Currency translation differences		<u>26,315</u>	<u>(955)</u>
Total comprehensive (loss)/income for the year		<u>(342,323)</u>	<u>102,784</u>
(Loss)/profit for the year attributable to:			
Equity holders of the Company		(367,231)	103,739
Non-controlling interests		<u>(1,407)</u>	<u>–</u>
		<u>(368,638)</u>	<u>103,739</u>
Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the Company		(340,916)	102,784
Non-controlling interests		<u>(1,407)</u>	<u>–</u>
		<u>(342,323)</u>	<u>102,784</u>
(Loss)/earnings per share for profit for the year attributable to the equity holders of the Company			
Basic and diluted (loss)/earnings per share (<i>RMB</i>)	<i>8</i>	<u>(0.96)</u>	<u>10.88</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at December 31,	
		2021	2020
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		8,446	3,931
Right-of-use assets		32,063	10,394
Deferred tax assets		40,175	2,625
Investments accounted for using the equity method		29,169	11,683
Long-term investments measured at fair value through profit or loss		136,252	77,800
Prepayments, deposits and other assets		6,915	343
		<u>253,020</u>	<u>106,776</u>
Current assets			
Trade receivables	9	48,211	121,536
Inventories		279	222
Prepayments and other assets		44,004	59,490
Short-term investments measured at fair value through profit or loss		355,313	1,299
Restricted cash		–	2,250
Cash and cash equivalents		1,168,076	443,248
		<u>1,615,883</u>	<u>628,045</u>
		<u>1,868,903</u>	<u>734,821</u>
EQUITY			
Share capital	10	44	–
Share premium	10	5,151,253	–
Other reserves		(3,032,555)	139,572
(Accumulated deficit)/retained earnings		(472,600)	74,631
		<u>1,646,142</u>	<u>214,203</u>
Equity attributable to equity holders of the Company		<u>1,646,142</u>	<u>214,203</u>
Non-controlling interests		193	–
		<u>1,646,335</u>	<u>214,203</u>

		As at December 31,	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		22,735	6,816
Financial instruments issued to investors		–	89,067
		<u>22,735</u>	<u>95,883</u>
Current liabilities			
Trade payables	<i>11</i>	5,745	13,329
Other payables and accruals		103,346	169,464
Contract liabilities		74,918	227,949
Current income tax liabilities		5,997	10,415
Lease liabilities		9,827	3,578
		<u>199,833</u>	<u>424,735</u>
Total liabilities		<u>222,568</u>	<u>520,618</u>
Total equity and liabilities		<u>1,868,903</u>	<u>734,821</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1.2 HISTORY AND REORGANISATION OF THE GROUP

Prior to the incorporation of the Company and the completion of the reorganization (the “**Reorganization**”) as described below, the Listing Business was mainly carried out by QC-Game Digital Technology (Xiamen) Co., Ltd (“**QC Digital**”) and its subsidiaries (collectively the “**QC Digital Group**”), amongst which, 13.33% of the shares of the QC Digital were in the form of ordinary shares with preferential rights which was recognized at financial instruments issued to investors and 86.67% of the share of the QC Digital were in the form of ordinary shares which was recognized in the equity.

In preparing for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization, pursuant to which the beneficial interests in the companies engaged in the Listing Business were transferred to the Company. Details of the Reorganization are set out below:

1.2.1 Incorporation of the Company and the offshore holding structure

On March 12, 2021, the Company was incorporated in the Cayman Islands with an authorized share capital of US\$50,000 divided into 5,000,000,000 shares of a par value of US\$0.00001 each. Upon incorporation, one share was allotted and issued for cash at par value to the initial subscriber and was subsequently transferred to Keiskei QC Ltd., the holding vehicle of Mr. Yang Xu, the founder, chairman and executive Director of our Group.

On April 1, 2021, Qingci Holding Limited (“**Qingci Holding**”) was incorporated in the British Virgin Islands (“**BVI**”) as a wholly owned subsidiary of the Company.

On April 22, 2021, Qingci (HK) Limited (“**QC HK Limited**”) was incorporated in Hong Kong as a wholly owned subsidiary of the Qingci Holding.

In April 2021, the shareholders of QC Digital went through a share. After the share transfer, 33.21% of the share were in the form of ordinary shares with preferential rights and 66.79% of the share were in the form of ordinary shares.

On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 9,530,575 ordinary shares of the Company were allotted and issued at par value US\$0.00001 each share to 9 offshore ordinary shareholders, 4,739,938 redeemable and convertible preferred shares (“**Series A Preferred Shares**”) of the Company were issued to Series A investors.

On May 26, 2021, 1,152,488 redeemable and convertible preferred shares (“**Series B Preferred Shares**”) of the Company were allotted and issued at par value US\$0.00001 each share to Series B Investors.

1.2.2 Acquisition of QC Digital Group with restricted operation

On May 10, 2021, QC Interactive Technology Co., Ltd (厦门青瓷互动科技有限公司, the “WFOE”) was incorporated in the PRC as a wholly owned subsidiary of the QC HK Limited.

On May 26, 2021, WFOE entered into a series of contractual agreements (collectively the “**Contractual Arrangements**”) with QC Digital and the shareholders of QC Digital. Pursuant to the Contractual Arrangements, WFOE is able to effectively control the operating and financing decisions of QC Digital and its PRC subsidiaries with restricted operation (collectively “**the PRC Consolidated Affiliated Entities**”) and receives substantially all the economic benefits generated by the PRC Consolidated Affiliated Entities. Accordingly, the PRC Consolidated Affiliated Entities are treated as controlled structured entities of the Company and consolidated by the Company.

1.2.3 Restructuring of the non-restricted and/or non-prohibited operation

As part of the Reorganization, the business which are not subject to any foreign investment restrictions or prohibition were transferred from QC Digital Group to Qingci Holding. Accordingly, on May 11, 2021, QC Digital transferred 100% equity interests of QC-Game Digital Technology (HongKong) Co., Limited (“**QC HK**”), to Qingci Holding and QC HK became a wholly owned subsidiary of Qingci Holding.

Upon completion of the Reorganization, the Company became the holding company of the companies now comprising the Group.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed.

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2021:

Amendments to IFRS 16	COVID-19-related rent concessions
Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform

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

(b) New standards and amendments not yet adopted by the management of the Group

The following new standards, amendments and interpretations to existing standards, which are relevant to the Group, have been issued and are effective for future reporting periods and have not been early adopted by the Group.

		Effective for accounting year beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January, 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January, 2022
Amendments to IAS 37	Onerous contract – cost of fulfilling a contract	1 January, 2022
Annual Improvements	Improvements to IFRS Standards 2018–2020	1 January, 2022
Amendments to IAS 1	Classification of Liabilities as current and non-current	1 January, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January, 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January, 2023
Amendments to IAS 28 and IFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, and amendments. Management expects that “IAS 1 (Amendment) ‘Classification of liabilities as current or non-current’”, after its adoption on January 1, 2023, may cause a reclassification of “Convertible Redeemable Preferred Shares” from non-current liabilities to current liabilities, as the preferred shares may be converted into ordinary shares at the option of the preferred shareholders at any time. Except for this, no significant impact on the financial performance and positions of the Group is expected when they become effective.

3 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 December 31, 2020 and 2021, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the years ended December 31, 2020 and 2021 are as follows:

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Game operating revenues		
– Self-developed	790,938	1,082,298
– Licensed	259,785	11,150
Subtotal	1,050,723	1,093,448
Game Licensing revenue	35,789	58,576
Information service revenue	19,304	74,896
Total revenues	1,105,816	1,226,920
Cost of revenues	(293,217)	(284,565)
Gross profit	812,599	942,355
Gross margin	73%	77%

Revenues of approximately RMB134 million and RMB55 million for the years ended December 31, 2020 and 2021, respectively, were from five largest single external customers.

During the years ended December 31, 2020 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 years ended December 31, 2020 and 2021, respectively:

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Service transferred overtime	560,065	593,945
Service transferred at a point of time	545,751	632,975
	1,105,816	1,226,920

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the years ended December 31, 2020 and 2021, respectively:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Mainland China	1,062,197	1,178,903
Outside Mainland China (a)	43,619	48,017
Total	1,105,816	1,226,920

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

4 EXPENSES BY NATURE

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Marketing and promotion expenses	273,673	524,259
Commissions charged by distribution channels	204,461	243,710
Employee benefits expenses	145,732	226,319
Listing expenses (a)	45,805	–
Commissions charged by game developers	40,919	2,430
Bandwidth and server custody fee	21,862	16,022
Outsourced technical services	13,804	5,925
Office expenses	8,091	3,158
Depreciation of right-of-use assets	5,004	2,218
Professional services fee	3,487	2,670
Auditor remuneration		
– Audit service	3,200	–
– Non-audit service	200	–
Tax surcharges	2,882	3,764
Commissions charged by payment channel	2,364	5,397
Rental expenses and utilities	1,923	395
Depreciation of property, plant and equipment	1,387	367
Share-based compensation (b)	–	56,017
Net impairment losses on financial assets	(140)	(364)
Others	773	134
Total	775,427	1,092,421

- (a) During the year ended December 31, 2021, listing expenses include auditor's remuneration of RMB8.02 million, of which RMB6.96 million was for IPO related audit service and RMB1.06 million was for IPO related non-audit service.
- (b) In February 2020, subscription right for 8% shares of QC Digital were granted to two senior managements with performance conditions and agreed exercise price. The two senior managements completed performance conditions in December 2020 and injected capitals into QC Digital through their holding vehicle with the agreed exercise price. The fair value of the share option at grant date were recognized as share-based compensation expenses accordingly, and recorded over the period from February 2020 to December 2020, amounting to approximately RMB22 million.

In December 2020, 2% shares of QC Digital were granted to a senior management upon signing employment offer with agreed exercise price. The senior management completed capital injection in the same month with the agreed exercise price. The fair value of the share option at grant date was recognized as share-based compensation expenses accordingly in December 2020, amounting to approximately RMB34 million.

5 OTHER INCOME

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies	11,085	7,689
Interest income from loans to third parties and related parties	–	2,627
Interest income from financial assets at amortised cost	–	1,090
Total	11,085	11,406

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

6 OTHER LOSSES, NET

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange loss, net	7,165	24,712
Donations to charity organizations	2,587	2,254
Dividend distribution from long-term investments measured at fair value through profit or loss	(8)	–
Others	(390)	105
Total	9,354	27,071

7 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 gain. 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 years ended December 31, 2020 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 years ended December 31, 2020 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 RMB248 million as of 31 December, 2021.

The income tax of the Group for the years ended December 31, 2020 and 2021 is analyzed as follows:

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	4,988	8,756
Deferred income tax	<u>(37,615)</u>	<u>821</u>
Total income tax (benefit)/expenses	<u>(32,627)</u>	<u>9,577</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2020 and 2021, being the tax rate of the major subsidiaries of the Group.

The difference is analysed as follows:

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit before income tax	(401,265)	113,316
Tax calculated at statutory income tax rate of 25% in mainland China	(100,316)	28,329
Tax effects of:		
Effect of different tax rates available to different jurisdictions	176,513	(1,061)
Preferential income tax rates applicable to subsidiaries	(108,448)	(92,081)
Expenses not deductible for income tax purposes	440	13,635
Tax effect of losses from financial instruments issued to investors	13,482	800
Super Deduction for research and development expenses	(15,874)	(16,985)
Tax losses for which no deferred income tax assets were recognized	246	25
Temporary differences for which no deferred income tax assets were recognized, net (a)	<u>1,330</u>	<u>76,915</u>
Total income tax (benefit)/expenses	<u>(32,627)</u>	<u>9,577</u>

- (a) In the year ended December 31, 2020, RMB307 million of the Group's marketing and promotion expenses exceeded 15 percent of total revenue which can be deducted in future years were not recognized.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders of the Company by the weighted average number of outstanding shares during the years ended December 31, 2020 and 2021.

For the purpose of computing basic and diluted (loss)/earnings 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)/earnings per share.

	Year ended December 31,	
	2021	2020
(Loss)/profit attributable to ordinary shareholders of the Company (RMB'000)	(367,231)	103,739
Weighted average number of outstanding ordinary shares	<u>384,309,042</u>	<u>9,530,575</u>
Basic (loss)/earnings per share (RMB)	<u>(0.96)</u>	<u>10.88</u>

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings 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 year ended December 31, 2021, the Company had convertible redeemable preferred shares and over-allotment option to the IPO. For the year ended December 31, 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. For the year ended December 31, 2020, no potential dilutive ordinary shares in issue.

9 TRADE RECEIVABLES

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Distribution channels	38,646	80,000
Game publishers	9,087	34,936
Information service customers	<u>555</u>	<u>6,832</u>
	48,288	121,768
Less: allowance for impairment	<u>(77)</u>	<u>(232)</u>
	<u>48,211</u>	<u>121,536</u>

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Third parties	39,299	86,832
Related parties	<u>8,989</u>	<u>34,936</u>
	48,288	121,768
Less: allowance for impairment	<u>(77)</u>	<u>(232)</u>
	<u>48,211</u>	<u>121,536</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 December 31,	
	2021	2020
	RMB'000	RMB'000
Within 3 months	47,208	99,028
3 months to 6 months	1,080	22,698
6 months to 1 year	–	42
1 to 2 years	–	–
	<u>48,288</u>	<u>121,768</u>

10 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 of January 1, 2021	–	–	–	–
Ordinary shares of US\$0.00001 each; March 12, 2021 (date of incorporation)	5,000,000	50	–	–
As of December 31, 2021	<u>5,000,000</u>	<u>50</u>	<u>–</u>	<u>–</u>
Issued				
As of January 1, 2021	–	–	–	–
Issuance of ordinary shares in relation to the Reorganisation of the Group (a)	9,530	–	1	2,313,575
Conversion of Preferred Shares to ordinary shares (b)	5,893	–	–	2,093,797
Capitalization Issue (c)	584,577	6	38	(38)
Issuance of ordinary shares upon IPO (d)	85,000	1	5	743,919
As of December 31, 2021	<u>685,000</u>	<u>7</u>	<u>44</u>	<u>5,151,253</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) Upon completion of the IPO, all convertible redeemable preferred shares were converted into ordinary shares. As a result, convertible redeemable preferred shares were derecognized and recorded as share capital and share premium accordingly.

- (c) On December 16, 2021, the Company allotted and issued a total of 584,576,999 ordinary shares of US\$0.00001 each credited as fully paid at par value to the shareholders on the register of members of the Company on the day preceding the date of IPO in proportion to their then existing shareholdings in the Company by capitalizing from the share premium account of the Company (“**Capitalization Issue**”). The ordinary shares allotted and issued pursuant to the above Capitalization Issue rank pari passu in all respects with the existing issued ordinary shares.
- (d) On December 16, 2021, upon completion of the IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued 85,000,000 new ordinary shares at HK\$11.20 per share, and raised gross proceeds of approximately HK\$952 million (equivalent to RMB776 million). The net proceeds was approximately HK\$912 million (equivalent to RMB744 million) after deducting listing expenses directly relating to the share issuance.

11 TRADE PAYABLES

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Trade payables	<u>5,745</u>	<u>13,329</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 December 31,	
	2021	2020
	RMB'000	RMB'000
Within 3 months	5,602	12,291
Over 3 months	<u>143</u>	<u>1,038</u>
	<u>5,745</u>	<u>13,329</u>

12 DIVIDEND DISTRIBUTION

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Dividend Distribution	<u>180,000</u>	<u>90,000</u>

Pursuant to the resolutions of the shareholders’ meetings of QC Digital in December 2020, dividends of RMB90,000,000 were approved and paid to the then shareholders in cash.

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.

A final dividend in respect of the year ended December 31, 2021 of HK15.2 cents per Share was proposed pursuant to the resolution passed by the board on March 24, 2022 and subject to shareholders’ approval at the 2021 annual general meeting of the Company to be held on June 6, 2022. The aggregate amount of the proposed final dividend of HKD105 million, was not reflected as dividend payable in the consolidated financial statements.

OTHER INFORMATION

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

Save for the issuance of 6,330,500 ordinary shares on January 12, 2022 pursuant to the partial exercise of the over-allotment option as disclosed in the announcement of the Company dated January 10, 2022, 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 December 16, 2021 (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 December 31, 2021 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 December 31, 2021:

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 December 31, 2021 <i>(HK\$ million)</i>	Unutilized amount up to December 31, 2021 <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	–	324.0	by December 2024
For expanding our business in the overseas markets	231.4	–	231.4	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	–	138.9	by December 2024
For pursuing strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain	138.9	–	138.9	by December 2024
For working capital and general corporate purposes	<u>92.6</u>	<u>–</u>	<u>92.6</u>	by December 2023
Total	<u>925.8</u>	<u>–</u>	<u>925.8</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 from the Listing Date to December 31, 2021.

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 period from Listing Date to December 31, 2021.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, the Company has maintained the prescribed minimum public float under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive Directors, has reviewed the results of the Group for the year ended December 31, 2021 together with its auditors, 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 consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the auditor on this announcement.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the “**2021 AGM**”) will be held on Monday, June 6, 2022. The notice of the 2021 AGM will be published on the websites of the Company (www.qcplay.com) and the Stock Exchange (www.hkexnews.hk) and sent to the Shareholders in April 2022.

FINAL DIVIDEND

The Board has recommended a final dividend of HK15.2 cents per Share for the year ended December 31, 2021, amounting to a total of HK\$105 million. Subject to Shareholders’ approval at the 2021 AGM, the proposed final dividend will be distributed on or before July 29, 2022 to Shareholders whose names appear on the register of members of the Company on Thursday, June 16, 2022.

CLOSURE OF REGISTER OF MEMBERS

In relation to the 2021 AGM

For ascertaining Shareholders’ right to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Tuesday, May 31, 2022 to Monday, June 6, 2022, both days inclusive, during which period no transfer of Shares will be effected.

In order to be eligible to attend and vote at the forthcoming 2021 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, May 30, 2022 for registration.

In relation to the final dividend

In addition, in order to determine the entitlement of the Shareholders to receive the final dividend, the register of members of the Company will be closed from Tuesday, June 14, 2022 to Thursday, June 16, 2022, both days inclusive.

In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, June 13, 2022 for registration. The record date for entitlement to the proposed final dividend is Thursday, June 16, 2022.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT

This announcement was published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.qcplay.com). The annual report for the year ended December 31, 2021 will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in April 2022.

DEFINITIONS

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

“2021 AGM”	the forthcoming annual general meeting of the Company to be held on Monday, June 6, 2022
“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
“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
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executives or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“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” 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
“Reporting Period”	twelve months from January 1, 2021 to December 31, 2021
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of Share(s)
“Shares”	ordinary share(s) in the capital of the Company with nominal value of US\$0.0001 each
“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, March 24, 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.