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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, 2022

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, 2022, together with the comparative figures for the year ended December 31, 2021 as follows:

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		
	2022	2021	Change
	(RMB'000)	(RMB'000)	(%)
Revenue	630,367	1,105,816	(43)
Gross profit	422,087	812,599	(48)
Net profit/(loss)	45,656	(368,638)	(112)
Profit/(loss) attributable to equity holders of the Company	50,283	(367,231)	(114)
Non-IFRS measure:			
Adjusted net profit ⁽¹⁾	46,175	422,147	(89)
Adjusted profit attributable to equity holders of the Company	50,698	423,554	(88)

Note:

- (1) We define adjusted net profit and adjusted profit attributable to equity holders of the Company as net profit/(loss) and profit/(loss) attributable to equity holders of the Company for the period, respectively, 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.

KEY OPERATING INFORMATION

	For the year ended December 31,		
	2022	2021	Change (%)
Average MAUs (in thousands) ⁽¹⁾	1,596	2,542	(37)
Average MPUs (in thousands) ⁽²⁾	214	440	(51)
ARPPU (RMB)	262	224	17
Cumulative registered players (in thousands)	79,013	71,960	10

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, we constantly enhanced our core competitiveness: on one hand, we deepened our integrated mode of research and operation, and made significant progress in our self-developed games and game publishing business; on the other hand, we continued to promote our global business deployment. In terms of self-developed games, we continued to push forward our plans for overseas launch of the existing games by promoting the successful release of *The Marvelous Snail* (最強蝸牛) in Japan in June 2022, which topped both the iOS free games chart and Google Play free games chart in Japan in the first week of its launch and ranked among the top 10 best-selling iOS games in Japan. We were well prepared for the launch of *The Marvelous Snail* (最強蝸牛) in Thailand and North America (local version as “**Super Snail**”). In terms of game publishing, we made significant progress in our pipeline games and entered into a number of significant collaborations, such as (i) the joint release of the story mobile card game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) with CMGE on designated platforms; and (ii) the release of the teenage girl themed mobile game *Cardcaptor Sakura: Memory Key* (魔卡少女櫻：回憶鑰匙 (also known as 庫洛魔法使：回憶鑰匙)), further enriching the Group's game portfolio. Although the Group's revenue and adjusted net profit decreased as compared to those of the same period in 2022 (please refer to the section headed “Financial Review” below for details), with the gradual release of revenue from *The Marvelous Snail* (最強蝸牛) in Japan in the second half of the year and the effective long-term operation, the adjusted profit attributable to equity holders of the Company for the second half of 2022 was approximately RMB126 million, turning around from loss in interim period (the adjusted loss attributable to equity holders of the Company of approximately RMB75.7 million was recorded in the first half of 2022) and the adjusted profit attributable to equity holders of the Company amounted to approximately RMB50.7 million for the whole year of 2022. During the Reporting Period, we recorded a revenue of approximately RMB630 million, with over 79 million cumulative registered players, representing a year-on-year increase of 9.80% as compared with last year. In addition, the average number of monthly active users around 1.6 million with an ARPPU of RMB262.

OUR GAMES

The Group develops, publishes and operates top-rated online mobile games. As of December 31, 2022, we had six existing mobile games, covering idle games, rogue-like RPG and other RPG.

Below is an overview of our primary games:

The Marvelous Snail (最強蝸牛), officially launched in June 2020, is one of our self-developed idle games. As of December 31, 2022, the game recorded gross billings of approximately RMB2.75 billion overseas and domestically, with over 23.5 million cumulative registered players. For the year ended December 31, 2022, it had an average MAU of over 861 thousand and an average MPU of over 146 thousand. Its average weekly player retention rate has exceeded 25.83% since its launch and up to December 31, 2022, signifying the Group's remarkable capability to operate games on a long-term basis.

During the Reporting Period, *The Marvelous Snail* (最強蝸牛) was successfully launched in Japan on June 8, 2022, and topped both the iOS free games chart and Google Play free games chart in the first week of its launch and ranked among the top 10 best-selling iOS games in Japan, with gross billings of approximately RMB136 million as of December 31, 2022. Domestically, we released new gameplays 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), “Source Beast Uprising” (源獸崛起) and “King of Cooking” (烹飪王), and entered into IP collaborations with China Aerospace, *Lotus Lantern* (寶蓮燈) and *The Monkey King* (大鬧天宮). During the Reporting Period, the revenues generated from those games amounted to approximately RMB575 million overseas and domestically.

Lantern and Dungeon (提燈與地下城), released in March 2021, is a Rogue-like RPG that we introduced through licensing. During the Reporting Period, we released its version updates such as “Anniversary” (週年慶), “Summer Celebration” (夏日慶典) and “Valley of the Giants” (巨人山谷). As of December 31, 2022, the game recorded gross billings of approximately RMB296 million with over 4.9 million registered players. For the year ended December 31, 2022, it had an average MAU of over 76.2 thousand and an average MPU of over 11.2 thousand in addition to an average weekly player retention rate of 32.20% since its launch and up to December 31, 2022. During the Reporting Period, the game generated a total revenue of approximately RMB26.1 million.

Other primary 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 survival RPG introduced through licensing) and *Eternal Adventure* (無盡大冒險) (launched in June 2015, one of our self-developed classic games that combines the features of idle gameplay experience and Diablo-like adventure) also continued to contribute steady revenue to the Group, which amounted to approximately RMB13.8 million, RMB8.3 million and RMB2.2 million, respectively, during the Reporting Period.

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 to develop and improve our games, thereby attracting more active players. For example, in May 2022, the Group had 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) had also adopted panda element as its theme. We are also building the “Qingyu” (青宇) platform, which has basic gaming functions, including a customer service system, a live streaming system, game-themed novels and videos, and a physical item exchange system. The platform will have access to a number of Qingci’s self-developed and launched games, allowing players of different games to socialise and interact with each other on the platform, thus further enhance the stickiness of players and recognition of the “Qingci” (青瓷) brand. As of December 31, 2022, our games had accumulated 10.6264 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 0.91% as compared with the end of last year.

OUTLOOK

Looking forward, 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.

The Group currently has a pipeline of 12 mobile games, covering a wide range of genres and types, including RPG, SLG, ACT RPG, etc.

Title	Mobile Game Genre	Source	Development Stage as of December 31, 2022	Expected Launch Time
Time Voyager (時光旅行社)	Rogue-like RPG	Developed in-house	Game production, testing and optimization	2023
Sword and Fairy: Wen Qing (新仙劍奇俠傳之揮劍問情)	Story mobile card game	In-licensed	Game production, testing and optimization	2023
CardCaptor Sakura: Memory Key (魔卡少女櫻：回憶鑰匙) (formerly known as: Code: Key (代號: Key))	Female-oriented casual game	In-licensed	Game production, testing and optimization	2023
Bladeheart Ninja 2 (刃心2)	Parkour	In-licensed	Game production, testing and optimization	2023
Loot Rush (騎士沖呀)	ACT RPG	In-licensed	Game production, testing and optimization	2023
Master Cat (超喵星計劃)	Casual game	In-licensed	Game production, testing and optimization	2023
Project D	STG	In-licensed	Game production, testing and optimization	2024
Ares Virus 2 (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	2024
Project E	SLG	Developed in-house	Demo production	2024
Project MN	Simulation game	In-licensed	Demo production	2025
Project 36Z	Simulation game	In-licensed	Demo production	2025
Project V	Idle game	In-licensed	Demo production	2025

Note: During the Reporting Period, the Group optimized the allocation of resources according to the progress of the pipeline game projects, and the progress of *Project A* and *Project C* were put on hold. As of March 10, 2023, the Group added two new in-licensed games, *Project 36Z* and *Project V*.

In terms of the existing games, the Group will continue to push forward its plans for exploring overseas markets, for example, the Group's iconic game *The Marvelous Snail (最強蝸牛)* was released in Thailand on January 29, 2023 following its launch in Japan, which topped the free games chart while ranking fifth on the bestseller games list there. The game has also begun testing in North America and will be released in the coming year. In addition, an H5 version of the game is being developed, which allows players to experience the game in a more convenient way through variety of channels and is expected to be released within this year.

In terms of self-developed games, *Servitor Project* (使魔計劃) was launched on January 4, 2023 and generated gross billings of approximately RMB25.5 million within 2 months (from January 4, 2023 to March 4, 2023). The game was created by the original development team that crafted the Group's classic *Eternal Adventure* (無盡大冒險). It is a strategy card game that adopts classical turn-based combat style, in which players pick and train a series of servitors, and equip them with selected attributes, while meeting like-minded friends to form a game union to explore various levels in a vast isekai. Another self-developed game, *Time Voyager* (時光旅行社), is making preparations for a new round of paid tests and is expected to be launched during the year. Featuring a combination of Rouge-like RPG, card and chess gameplay, it is an original worldview infinite-stream strategy game, in which players can take on the role of a Time Voyager and travel to the intertwined past, present, future, virtual and reality. It is one of the key products of the Group's pipeline games. Project E (項目E) is a post-apocalyptic world SLG game that is dedicated to bringing an immersive experience to the players, and is currently in the iterative stage for the demo version, aiming to bring players an upgraded experience.

In terms of in-licensed games, the Group is to join hands with CMGE in publishing the story mobile card game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) on designated platforms. The game reproduces the classic single-player storyline in high definition to create a highly restorative Sword and Fairy experience and is planned to be launched in the first half of 2023. The Group is also planning to release *CardCaptor Sakura: Memory Key* (魔卡少女櫻：回憶鑰匙) (also known as *庫洛魔法使：回憶鑰匙*) (formerly known as *Code: Key* (代號：Key)), which is a mobile game created based on the teenage girl themed animation of *CardCaptor Sakura: Clear Card* (庫洛魔法使：透明牌篇) with genuine licensing. The game features a Chibi role known as Sakura playing with online blind box, focusing on collection and growing, etc., with a built-in AR system. The game has completed several rounds of testing and obtained a game publication number in March 2023, and is currently under planning for its subsequent launch. As of March 10, 2023, the Group added two new in-licensed games, a simulation game *Project 36Z* and an idle game *Project V*, respectively. Other licensed games are also progressing well.

We will continue to search for quality game projects to build a diversified game portfolio, and will continue to expand our IP matrix and grow our Qingci Universe by developing original and iconic IPs for games, complemented by peripheral products and pan-entertainment content (such as comics, videos and other merchandise) to achieve synergies between multiple IPs in the Qingci Universe (such as embedding game elements from existing IPs into new games to connect our IPs) and bring an enjoyable gaming experience to our players around the world.

FINANCIAL REVIEW

Revenue

Our revenue decreased by 43.0% from approximately RMB1,105.8 million for the year ended December 31, 2021 to RMB630.4 million for the year ended December 31, 2022 on a year-on-year basis. In 2022, our revenue from Mainland China was RMB470.6 million, accounting for 74.7% of total revenue, compared to 96.1% in 2021; our revenue from other areas was RMB159.8 million, accounting for 25.3% of total revenue, compared to 3.9% in 2021. 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 license 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, 2021 and 2022.

	For the year ended December 31,				2022 vs. 2021 % Change
	2022		2021		
	RMB'000	%	RMB'000	%	
Game operating revenues					
Self-developed	557,559	88.4	790,938	71.5	(29.5)
Licensed	34,380	5.5	259,785	23.5	(86.8)
<i>Subtotal</i>	<u>591,939</u>	<u>93.9</u>	<u>1,050,723</u>	<u>95.0</u>	<u>(43.7)</u>
Game licensing revenue	27,361	4.4	35,789	3.2	(23.5)
Information service revenue	9,625	1.5	19,304	1.8	(50.1)
Other services and sales	1,442	0.2	–	–	NA
Total revenues	<u>630,367</u>	<u>100.0</u>	<u>1,105,816</u>	<u>100.0</u>	<u>(43.0)</u>

Game Operating Revenues

Our game operating revenues decreased by 43.7% to approximately RMB591.9 million for the year ended December 31, 2022 on a year-on-year basis. In particular,

- Our revenue from self-developed games decreased by 29.5% to approximately RMB557.6 million for the year ended December 31, 2022 on a year-on-year basis, 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, partially offset by the increase in revenue from the launch of *The Marvelous Snail* (最強蝸牛) in Japan.
- Our revenue from licensed games decreased by 86.8% to approximately RMB34.4 million for the year ended December 31, 2022 on a year-on-year basis, 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 Revenue

Our game licensing revenue decreased by 23.5% to approximately RMB27.4 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the decrease 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 information service revenue decreased by 50.1% to approximately RMB9.6 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to fewer in-game advertisement views or clicks.

Other Services and Sales

Our other revenues and services increased to approximately RMB1.4 million for the year ended December 31, 2022 from nil in the previous year, primarily due to the commencement of technical supporting services.

Cost of Revenues

Our cost of revenues decreased by 29.0% from approximately RMB293.2 million for the year ended December 31, 2021 to RMB208.3 million for the year ended December 31, 2022 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 revenues by nature in absolute amounts and as percentages of our total cost of revenues for the years ended December 31, 2022 and 2021.

	For the year ended December 31,				2022 vs. 2021
	2022		2021		% Change
	RMB'000	%	RMB'000	%	
Commissions charged by distribution and payment channels	146,296	70.2	206,825	70.5	(29.3)
Commissions charged by third-party game developers	11,109	5.3	40,919	14.0	(72.9)
Bandwidth and servers custody fee	20,734	10.0	21,862	7.5	(5.2)
Employee benefits expenses	18,133	8.7	9,193	3.1	97.2
Others	12,008	5.8	14,418	4.9	(16.7)
Total	208,280	100.0	293,217	100.0	(29.0)

Our cost of revenue for commissions charged by distribution and payment channels decreased by 29.3% to approximately RMB146.3 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to lower commissions paid to distribution platforms due to the decrease in game operating revenues.

Our cost of revenue for commissions charged by third-party game developers decreased by 72.9% to approximately RMB11.1 million for the year ended December 31, 2022 on a year-on-year basis, 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 97.2% to approximately RMB18.1 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the increase in number of employees and the increase in average salary of staff.

Our cost of revenue for others decreased by 16.7% to approximately RMB12.0 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the decrease in outsourced technical service fees for short messaging services.

Gross Profit and Gross Margin

Our gross profit decreased by 48.1% from approximately RMB812.6 million for the year ended December 31, 2021 to approximately RMB422.1 million for the year ended December 31, 2022. Our gross margin decreased to 67% for the year ended December 31, 2022 from 73% for 2021, primarily due to (i) a decrease of 43.7% in game operating revenues for the Reporting Period on a year-over-year basis, and a decrease of 29.3% in commissions charged by distribution and payment channels (the “**Channel Commissions**”) in the cost of revenues on a year-over-year basis, resulting in the decrease of gross margin. Further, the proportion of overseas game operating revenues in the total game operating revenues increased from 2% in the same period last year to 23% in the Reporting Period, and the proportion of overseas Channel Commissions to revenues was higher than that of domestic Channel Commissions. Therefore, the increase in the proportion of overseas game operating revenues led to a higher rate of decline in game operating revenues than that of Channel Commissions, which in turn led to a drop in gross margin for the Reporting Period; (ii) revenue for the Reporting Period decreased by 43% as compared to that of the same period last year, and an increase in an aggregate of RMB5.4 million in three types of fixed expenses under cost of revenue namely (1) employee benefits expenses; (2) bandwidth and servers custody fee; and (3) others during the Reporting Period, comparing to the same period last year, which led to a drop in 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, which represented 90.0% and 70.4% of our total selling and marketing expenses for the years ended December 31, 2021 and 2022, 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 31.2% from approximately RMB304.2 million for the year ended December 31, 2021 to approximately RMB209.3 million for the year ended December 31, 2022. This was primarily due to the decrease in marketing and promotion 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 set-off by the increase in marketing and promotion 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 R&D expenses increased by 24.2% from approximately RMB91.2 million for the year ended December 31, 2021 to approximately RMB113.3 million for the year ended December 31, 2022. This was primarily due to the increase in R&D investment for the pipeline games of the Company and the increase in the number of employees engaged in R&D activities.

General and Administrative Expenses

Our general and administrative expenses 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) tax surcharges, including VAT surcharges and stamp duties; (v) rental expenses and utilities; and (vi) others, including office expenses, depreciation of property, plant and equipment, professional service fees and miscellaneous expenses.

Our general and administrative expenses decreased by 17.4%% from approximately RMB86.9 million for the year ended December 31, 2021 to approximately RMB71.8 million for the year ended December 31, 2022. This was primarily due to the removal of the impact from one-off listing expenses of approximately RMB45.8 million incurred in 2021, which was partially set-off by (i) the increase in the number of employees related to our supporting staff and the average salary of staff; (ii) the increase in amortization of right-of-use assets and renovation cost of a newly leased workplace; and (iii) the increase in professional service fees.

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 631.7% from approximately RMB5.0 million for the year ended December 31, 2021 to approximately RMB36.8 million for the year ended December 31, 2022, mainly due to the 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 decreased by 45.8% from approximately RMB11.1 million for the year ended December 31, 2021 to approximately RMB6.0 million for the year ended December 31, 2022, mainly due to the decrease in R&D subsidies and government subsidies.

Other Gains/(Losses), Net

Our net other losses primarily consisted of (i) net foreign exchange gains or losses arising from revenue and trade receivables denominated in USD; (ii) donations to charity organizations.

Our other net gains/(losses) increased by 272.2% from net losses of approximately RMB9.4 million for the year ended December 31, 2021 to net gains of approximately RMB16.1 million for the year ended December 31, 2022, this change was primarily a result of the impact of appreciation of USD against RMB in 2022 on our revenue and trade receivables denominated in USD.

Income Tax (Expenses)/Benefit

Our income tax (expenses)/benefit decreased by 200.8% from income tax benefit of approximately RMB32.6 million for the year ended December 31, 2021 to income tax expenses of approximately RMB32.9 million for the year ended December 31, 2022, mainly because (i) the applicable income tax rate for a profitable subsidiary increased (from 0% to 15%). The subsidiary is accredited as a “software enterprise” under the relevant PRC laws and regulations. It was exempted from corporate income tax for the year 2021 and adopted “high-tech enterprise” preferential income tax of 15% for the year 2022; and (ii) the Group did not further recognize deferred tax assets and reverted part of the previously recognized deferred tax assets in the Reporting Period.

Profit/(Loss) for the Year

Our profit/(loss) for the year increased by 112.4% from a net loss of approximately RMB368.6 million for the year ended December 31, 2021 to a net profit of approximately RMB45.7 million for the year ended December 31, 2022, mainly due to the main factors that led to the loss for the same period last year including (i) changes in fair value of convertible redeemable preference shares; and (ii) the financial instruments issued to investors, which no longer exists during the Reporting Period, and the two items in aggregate generated losses of approximately RMB745.0 million for the same period last year.

Profit/(Loss) for the Year Attributable to Equity Holders of the Company

Our profit/(loss) for the year attributable to equity holders of the Company increased by 113.7% from a net loss of approximately RMB367.2 million for the year ended December 31, 2021 to a net profit of approximately RMB50.3 million for the year ended December 31, 2022, mainly due to the main factors that led to the loss for the same period last year including (i) changes in fair value of convertible redeemable preference shares; and (ii) financial instruments issued to investors, which no longer exists during the Reporting Period.

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 excluded, 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-related 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,	
	2022	2021
	(RMB'000)	(RMB'000)
Profit/(loss) for the year	45,656	(368,638)
Add:		
Changes in fair value of convertible redeemable preference shares	–	691,052
Losses from financial instruments issued to investors	–	53,928
Listing-related expenses	–	45,805
Share-based compensation	<u>519</u>	<u>–</u>
Adjusted net profit	<u>46,175</u>	<u>422,147</u>

The adjusted net profit for the year ended December 31, 2022 decreased by 89.1% to approximately RMB46.2 million as compared with approximately RMB422.1 million for the year ended December 31, 2021. Such decrease was primarily attributable to (i) the decrease in revenue from our landmark games as they reached the mature stage of their life cycle; (ii) the reversal of part of the deferred tax assets recognized in the previous years during the Reporting Period and the increase in the applicable income tax rate for a profitable subsidiary (from 0% to 15%), which led to the increase in income tax expenses; and (iii) the continuing increase in R&D investment for the pipeline games and the increase in the number of employees engaged in R&D activities.

Adjusted Profit Attributable to Equity Holders of the Company

Adjusted profit attributable to equity holders of the Company for the year ended December 31, 2022 decreased by 88.0% to approximately RMB50.7 million as compared with approximately RMB423.6 million for the year ended December 31, 2021. Such decrease was primarily attributable to (i) the decrease in revenue from our landmark games as they reached mature stage of their life cycle; (ii) the reversal of part of deferred tax assets recognized in the previous years during the Reporting Period and the increase in the applicable income tax rate for a profitable subsidiary (from 0% to 15%), which led to the increase in income tax expenses; and (iii) the continuing increase in R&D investment for the pipeline games and the increase in the number of employees engaged in R&D activities.

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, 2022, the Group's total cash and cash equivalents decreased by 14.2% from approximately RMB1,168.1 million for the year ended December 31, 2021 to approximately RMB1,001.9 million for the year ended December 31, 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 December 31, 2022, we did not have any borrowings. As of the same date, we had a banking facility of RMB59.0 million, and we drew down approximately RMB2.8 million as deposit to secure our obligations under our foreign currency forward contract.

As of December 31, 2022, the current assets of the Group amounted to approximately RMB1,613.6 million, and the current liabilities of the Group amounted to approximately RMB140.9 million. As of December 31, 2021, the Group's current assets amounted to approximately RMB1,615.9 million and the Group's current liabilities amounted to approximately RMB199.8 million. Current ratio is calculated as total current assets divided by total current liabilities. As of December 31, 2022 and 2021, the current ratio of the Group was 1,145% and 809%, respectively.

Gearing ratio is calculated as total liabilities divided by total assets. As of December 31, 2022 and 2021, the gearing ratio of the Group was 8% and 12%, respectively.

Material Acquisitions and Disposals and Significant Investments

As at December 31, 2022, the Group's short-term investments measured at fair value through profit or loss increased by 37.8% from approximately RMB355.3 million as at December 31, 2021 to approximately RMB489.7 million as at December 31, 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 year ended December 31, 2022, no single investment of the Group accounted for more than 5% of the total assets of the Group.

Except for the above, the Group did not have any material acquisitions and disposals and significant investments during the year ended December 31, 2022.

Pledge of Assets

As of December 31, 2022, we did not pledge any of our assets.

Capital Expenditure

For the year ended December 31, 2022, our total capital expenditure was approximately RMB14.4 million, compared to approximately RMB5.9 million for the year ended December 31, 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 December 31, 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 USD. 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, 2022.

Employee and Remuneration Policy

As of December 31, 2022, we had 606 full-time employees, substantially all of whom were based in China and 15 of whom were based overseas.

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-hows. 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 annual bonuses.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,	
		2022	2021
	Notes	RMB'000	RMB'000
Revenues	4	630,367	1,105,816
Cost of revenues	5	<u>(208,280)</u>	<u>(293,217)</u>
Gross profit		422,087	812,599
Selling and marketing expenses	5	(209,302)	(304,236)
Research and development expenses	5	(113,345)	(91,228)
General and administrative expenses	5	(71,783)	(86,886)
Net impairment losses on financial assets	5	10	140
Fair value changes on investments measured at fair value through profit or loss		36,802	5,030
Other income	6	6,009	11,085
Other gains/(losses), net	7	<u>16,110</u>	<u>(9,354)</u>
Operating profit		86,588	337,150
Finance income		8,792	2,046
Finance costs		<u>(2,034)</u>	<u>(858)</u>
Finance income, net		6,758	1,188
Fair value changes of convertible redeemable preferred shares		–	(691,052)
Share of results of investments accounted for using equity method		(309)	5,377
Losses on impairment of investments accounted for using the equity method		(14,502)	–
Losses from financial instruments issued to investors		<u>–</u>	<u>(53,928)</u>
Profit/(loss) before income tax		78,535	(401,265)
Income tax (expenses)/benefit	8	<u>(32,879)</u>	<u>32,627</u>
Profit/(loss) for the year		<u>45,656</u>	<u>(368,638)</u>

	Year ended December 31,	
	2022	2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income/(loss):		
Items that may not be reclassified to profit or loss		
– Currency translation differences	<u>99,822</u>	<u>26,315</u>
Total comprehensive income/(loss) for the year	<u>145,478</u>	<u>(342,323)</u>
Profit/(loss) for the year attributable to:		
Equity holders of the Company	50,283	(367,231)
Non-controlling interests	<u>(4,627)</u>	<u>(1,407)</u>
	<u>45,656</u>	<u>(368,638)</u>
Total comprehensive income/(loss) for the year attributable to:		
Equity holders of the Company	150,198	(340,916)
Non-controlling interests	<u>(4,720)</u>	<u>(1,407)</u>
	<u>145,478</u>	<u>(342,323)</u>
Earnings/(loss) per share for profit for the year attributable to the equity holders of the Company		
Basic and diluted earnings/(loss) per share (<i>RMB</i>)	9 <u>0.07</u>	<u>(0.96)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at December 31,	
		2022	2021
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		19,005	8,446
Right-of-use assets		26,168	32,063
Deferred tax assets		27,861	40,175
Investments accounted for using the equity method		19,858	29,169
Long-term investments measured at fair value through profit or loss		200,223	136,252
Prepayments, deposits and other assets		9,678	6,915
		<u>302,793</u>	<u>253,020</u>
Current assets			
Trade receivables	10	52,341	48,211
Inventories		78	279
Prepayments and other assets		60,978	44,004
Short-term investments measured at fair value through profit or loss		489,717	355,313
Restricted cash		8,573	–
Cash and cash equivalents		1,001,922	1,168,076
		<u>1,613,609</u>	<u>1,615,883</u>
		<u>1,916,402</u>	<u>1,868,903</u>
EQUITY			
Share capital	11	44	44
Share premium	11	5,117,821	5,151,253
Other reserves		(2,932,121)	(3,032,555)
Accumulated deficit		422,317	(472,600)
		<u>1,763,427</u>	<u>1,646,142</u>
Equity attributable to equity holders of the Company			
Non-controlling interests		(4,527)	193
		<u>1,758,900</u>	<u>1,646,335</u>

		As at December 31,	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>16,596</u>	<u>22,735</u>
		<u>16,596</u>	<u>22,735</u>
Current liabilities			
Trade payables	12	10,078	5,745
Other payables and accruals		67,640	103,346
Contract liabilities		41,283	74,918
Current income tax liabilities		11,278	5,997
Lease liabilities		10,207	9,827
Short-term liabilities measured at fair value through profit or loss		<u>420</u>	<u>–</u>
		<u>140,906</u>	<u>199,833</u>
Total liabilities		<u><u>157,502</u></u>	<u><u>222,568</u></u>
Total equity and liabilities		<u><u>1,916,402</u></u>	<u><u>1,868,903</u></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**”) and other areas. For the purpose of preparing the consolidated financial statements, mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC (“**Hong Kong**”), Macau Special Administrative Region of the PRC (“**Macau**”) and Taiwan Province of the PRC.

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 transfer. 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 and liabilities measured 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.

3 SIGNIFICANT ACCOUNTING POLICIES

(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 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 consolidated financial statements of the Group.

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

The following 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 these consolidated financial statements. None of these new standards and amendments to standards is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for accounting year beginning on or after
Amendments to IAS 8 IFRS 17	Definition of Accounting Estimates Insurance Contracts	January 1, 2023 January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as current and non- current	January 1, 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	January 1, 2024
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 considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, when differences on settlement of the liabilities and the depreciation of right-of-use assets arise, there will be a net temporary difference on which deferred income tax is recognised. From the effective date of Amendments to IAS 12 on 1 January 2023, the Group will need to recognise a deferred income tax asset and a deferred income tax liability for the temporary differences arising on a lease on initial recognition.

4 SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision-maker (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, 2022 and 2021, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Game operating revenues		
– Self-developed	557,559	790,938
– Licensed	34,380	259,785
	<hr/>	<hr/>
Subtotal	591,939	1,050,723
	<hr/>	<hr/>
Game licensing revenue	27,361	35,789
Information service revenue	9,625	19,304
Other revenue	1,442	–
	<hr/>	<hr/>
Total revenues	630,367	1,105,816
	<hr/>	<hr/>
Cost of revenues	(208,280)	(293,217)
	<hr/>	<hr/>
Gross profit	422,087	812,599
	<hr/> <hr/>	<hr/> <hr/>
Gross margin	67%	73%

Revenues of approximately RMB33 million and RMB55 million for the years ended December 31, 2022 and 2021, respectively, were from five largest single customers.

During the years ended December 31, 2022 and 2021, none of single customers individually exceeded 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, 2022 and 2021, respectively:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Service transferred overtime	318,125	560,065
Service and merchandise transferred at a point of time	312,242	545,751
	<hr/>	<hr/>
	630,367	1,105,816
	<hr/> <hr/>	<hr/> <hr/>

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the years ended December 31, 2022 and 2021, respectively:

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	470,584	1,062,197
Other areas (a)	<u>159,783</u>	<u>43,619</u>
Total	<u>630,367</u>	<u>1,105,816</u>

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

5 EXPENSES BY NATURE

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expenses	216,266	145,732
Marketing and promotion expenses	147,272	273,673
Commissions charged by distribution channels	145,183	204,461
Bandwidth and server custody fee	20,734	21,862
Outsourced technical services	13,034	13,804
Professional services fee	12,221	3,487
Commissions charged by game developers	11,109	40,919
Depreciation of right-of-use assets	10,792	5,004
Office expenses	9,930	8,091
Auditor remuneration		
– Audit service	4,290	3,200
– Non-audit service	320	200
Depreciation of property, plant and equipment	3,771	1,387
Tax surcharges	2,274	2,882
Rental expenses and utilities	2,034	1,923
Commissions charged by payment channel	1,113	2,364
Net impairment losses on financial assets	(10)	(140)
Listing expenses	–	45,805
Others	<u>2,367</u>	<u>773</u>
Total	<u>602,700</u>	<u>775,427</u>

6 OTHER INCOME

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies	5,930	11,085
Dividend distribution from long-term investments measured at fair value through profit or loss	<u>79</u>	<u>—</u>
Total	<u>6,009</u>	<u>11,085</u>

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

7 OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange gain/(loss), net	20,583	(7,165)
Donations to charity organizations	(3,411)	(2,587)
Others	<u>(1,062)</u>	<u>398</u>
Total	<u>16,110</u>	<u>(9,354)</u>

8 INCOME TAX

The income tax of the Group for the years ended December 31, 2022 and 2021 is analyzed as follows:

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	20,437	4,988
Deferred income tax	<u>12,442</u>	<u>(37,615)</u>
Total income tax expenses/(benefit)	<u>32,879</u>	<u>(32,627)</u>

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) 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, 2021 and 2022.

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

	Year ended December 31,	
	2022	2021
Profit/(loss) attributable to ordinary shareholders of the Company (RMB'000)	50,283	(367,231)
Weighted average number of outstanding ordinary shares	<u>691,139,718</u>	<u>384,309,042</u>
Basic earnings/(loss) per share (RMB)	<u>0.07</u>	<u>(0.96)</u>

(b) Diluted earnings/(loss) per share

Diluted earnings/(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 year ended December 31, 2021, the Company had convertible redeemable preferred shares (Note 29) that are potential ordinary shares, 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, 2022, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from IPO over-allotment option (the "OAO").

	Year ended December 31, 2022
Profit attributable to equity holders of the Company (RMB'000)	50,283
Weighted average number of shares in issue	691,139,718
Adjustments for OAO	4,815
Weighted average number of shares for the calculation of diluted earnings per share	<u>691,144,533</u>
Diluted earnings per share (RMB)	<u>0.07</u>

10 TRADE RECEIVABLES

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Distribution channels	36,830	38,646
Game publishers	11,800	9,087
Information service customers	791	555
Others	2,943	—
	<u>52,364</u>	<u>48,288</u>
Less: allowance for impairment	(23)	(77)
	<u><u>52,341</u></u>	<u><u>48,211</u></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,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	42,930	47,208
3 months to 6 months	6,502	1,080
6 months to 1 year	2,932	—
	<u>52,364</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 December 31, 2022 and 2021	5,000,000	50	–	–
Issued				
As at 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 at December 31, 2021	685,000	7	44	5,151,253
Issued				
As at January 1, 2022	685,000	7	44	5,151,253
Issuance of ordinary shares upon IPO over-allotment (e)	6,331	–	–	55,888
Dividend distribution to the shareholders (Note 13)	–	–	–	(89,320)
As at December 31, 2022	691,331	7	44	5,117,821

- (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 (Note 29) 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.

- (e) 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 HK\$11.20 per share and raised gross proceeds of approximately HK\$71 million (equivalent to RMB58 million). The net proceeds was approximately HK\$68 million (equivalent to RMB56 million) after deducting listing expenses directly relating to the share issuance.

12 TRADE PAYABLES

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<u>10,078</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 December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	9,891	5,602
Over 3 months	<u>187</u>	<u>143</u>
	<u>10,078</u>	<u>5,745</u>

13 DIVIDEND DISTRIBUTION

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend distribution	<u>89,320</u>	<u>180,000</u>

The final dividend of HK15.2 cents per share for the year ended December 31, 2021, amounted HK\$105,082,236 (equivalent to approximately RMB89,319,901) in 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

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 Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after December 31, 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 December 31, 2022:

Use of proceeds	Net proceeds from the Global Offering (after taking into account the partial exercise of the over- allotment option (HK\$ million)	Amount	Utilized	Unutilized	Expected timeline for fully utilizing the unutilized amount ⁽¹⁾
		utilized during the Reporting Period (HK\$ million)	amount up to December 31, 2022 (HK\$ million)	amount up to December 31, 2022 (HK\$ million)	
For expanding our game portfolio and invest in our game R&D capabilities and related technologies	324.0	95.2	95.2	228.9	By December 2024
For expanding our business in the overseas markets	231.4	178.8	178.8	52.7	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	61.9	61.9	77.0	By December 2024
For pursuing strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain	138.9	93.2	93.2	45.7	By December 2024
For working capital and general corporate purposes	92.6	92.6	92.6	–	
Total	925.8	521.6	521.6	404.2	

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 Reporting Period.

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, 2022 together with the Group's auditor, and has 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, 2022 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 "2022 AGM") will be held on Tuesday, June 6, 2023. The notice of the 2022 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 2023.

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2022.

CLOSURE OF REGISTER OF MEMBERS

In relation to the 2022 AGM

For ascertaining Shareholders' right to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Thursday, June 1, 2023 to Tuesday, June 6, 2023, 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 2022 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 Wednesday, May 31, 2023 for registration.

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, 2022 will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in April 2023.

DEFINITIONS

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

“2022 AGM”	the forthcoming annual general meeting of the Company to be held on Tuesday, June 6, 2023
“ARPPU”	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
“Listing”	the listing of Shares on the Main Board of the Stock Exchange on December 16, 2021
“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, the 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”	twelve months from January 1, 2022 to December 31, 2022
“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
“USD” or “US\$”	United States Dollars, the lawful currency of the United States of America

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 28, 2023

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.