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XD Inc.

心动有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2400)

US\$280,000,000 1.25% Convertible Bonds due 2026

(Stock code: 40646)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2023 (the “**Reporting Period**”). The results have been audited by the Auditor in accordance with International Standards on Auditing, and have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended December 31,		
	2023	2022	Change
	(RMB'000)	(RMB'000)	%
Revenues	3,389,144	3,430,936	-1.2
Gross profit	2,068,370	1,835,259	12.7
Loss for the year	(65,362)	(574,013)	-88.6
Loss attributable to equity holders of the Company	(83,039)	(553,495)	-85.0
Adjusted loss for the year*	(9,406)	(494,256)	-98.1
Adjusted loss attributable to equity holders of the Company*	(34,118)	(482,447)	-92.9

* To supplement our consolidated financial statement which are presented in according with IFRS, we also use adjusted loss for the year and adjusted loss attributable to equity holders of the Company as an additional financial measure to evaluate our financial performance by eliminating the impact of fair value changes on long-term investments measured at fair value through profit or loss, and share-based compensation expenses. See “Non-IFRS Measures” for details.

KEY OPERATING INFORMATION

	For the year ended December 31,		
	2023	2022	Change
	(in thousands)	(in thousands)	%
Online Games			
Average MAUs ⁽¹⁾	12,446	16,224	-23.3
Average MPUs ⁽²⁾	1,307	1,573	-16.9
TapTap			
Average App MAUs in TapTap PRC	35,810	41,451	-13.6
Average App MAUs in TapTap International	5,785	9,130	-36.6

- (1) Our average MAUs for online games are calculated by dividing the aggregate of the total MAUs of each online game for the respective period by the number of months of that period.
- (2) Our average MPUs for online games are calculated by dividing the aggregate of the total MPUs of each online game for the respective period by the number of months of that period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Following the lifting of epidemic-related restrictions in 2023, the challenges confronting our business and colleagues have evolved. Instead of navigating remote work and limited travel, we now contend with the impact of users' diminished gaming time and the imperative to enhance cost efficiency within our Company. In the face of difficulties, our colleagues have made tremendous efforts and sacrifices. While individual businesses have faced pressure, our overall revenue has remained stable, with an increase in gross profit and a reduction in expenses. Consequently, we have successfully achieved a turnover from losses to profits on an adjusted EBITDA basis. Our adjusted EBITDA in 2023 was RMB158.4 million, while it was a loss of RMB353.0 million in 2022.

In terms of game business, in 2023, we have launched two games, namely Torchlight: Infinite (火炬之光: 無限) and T3 Arena (火力蘇打) on the domestic market in China, and Sword of Convallaria (鈴蘭之劍) on the market in Hong Kong, Macau and Taiwan as well as the domestic market in China. Furthermore, we have launched GoGo Muffin (出發吧麥芬) on the market in Hong Kong, Macau and Taiwan in January 2024. Despite the decline in revenue from our flagship game Sausage Man (香腸派對) in 2023, the launch of the aforementioned new self-developed games offers the potential for future growth in game revenue. In terms of TapTap platform business, although the average MAUs of the TapTap PRC App decreased as compared to 2022, we believe that this was mainly due to one-off factors and the MAUs have returned to growth momentum after certain adjustments. In 2023, we have initially applied the AIGC (Artificial Intelligence Generated Content) technology to our research and development of new games and platform user services and have achieved favorable results. We plan to further utilize this technology to enhance content production efficiency and user service capability. In the long run, we will continue to adhere to our vision of “to impact each and every gamer by promoting the spirit of craftsmanship,” and are committed to consistently providing high-quality games for players worldwide, while also continuously supporting developers in creating and distributing games more conveniently.

The following is an overview of our main products and services:

Our Games

As of December 31, 2023, our portfolio consisted of 20 online games and 31 premium games.

Online Games

During 2023, the average MAUs of our online games decreased by 23.3% year-over-year, while the average MPUs decreased by 16.9% year-over-year. The decrease in these two figures was primarily attributable to a decrease in number of users of Sausage Man (香腸派對) as compared with 2022. Such decline was partially offset by an increase in number of users as a result of the launch of three games, namely T3 Arena (火力蘇打), Torchlight: Infinite (火炬之光:無限) and Sword of Convallaria (鈴蘭之劍) in 2023.

For the year ended December 31, 2023, Sausage Man (香腸派對), Torchlight: Infinite (火炬之光:無限), Ragnarok M (仙境傳說M), Ulala (不休的烏拉拉) and Shen Xian Dao (HD) (神仙道高清重製版) were our top five games in terms of its revenue contribution. An overview of our major games at present is as follows:

- **Sausage Man (香腸派對):** the game was launched in China in April 2018 and has been nearly six years since it was released. During the Chinese New Year of 2023, the game had reached new peak in terms of active users and revenue. However, after the Chinese New Year, both MAUs and MPUs of the game declined as compared with 2022 due to (i) the decrease in the amount of time that people spent on online games after the lifting of the PRC's restrictive policies related to the pandemic; and (ii) the impact of several competing games being launched. However, as a battle arena game, we believe that the game still maintains a huge number of players in China market and has potential for further growth. Accordingly, we have implemented specific adjustments to the research and development and launch plan of the game for 2024, aiming to enhance its performance.
- **Ragnarok M (仙境傳說M):** as the game was launched in China in January 2017, and was subsequently released in many countries and regions worldwide, the game is currently at its maturity stage. Due to the impact of the life cycle of the game, its revenue was decreased for a certain extent for the year ended December 31, 2023 as compared with 2022. In 2024, we plan to launch the Ragnarok M novice server in the first half of the year to enhance players' gaming experience.
- **Torchlight: Infinite (火炬之光:無限):** the game was launched in overseas market outside China in October 2022 and launched in the domestic market in China in May 2023. The game has been recognized by fans of Diablo-like games through its operation mode of featured seasonal games and cross-platform compatibility with PC, Android, and iOS.
- **Sword of Convallaria (鈴蘭之劍):** the game was launched in Hong Kong, Macau and Taiwan in August 2023 and launched in the domestic market in China in November 2023. The game has been widely praised by SLG game players for its exquisite pixel art style and solid gameplay. The game is expected to be launched in various overseas countries and regions in the second half of 2024.

Games in Development

We regard our self-developed games as one of the cornerstones of our growth, and we have made a large scale of investment in research and development of games. As at December 31, 2023, we had 746 employees engaged in game development, representing a decrease of 108 employees from December 31, 2022. The decrease was mainly due to the termination or optimization of the research and development of several games during 2023, with the goal of the cost reduction and efficiency enhancement. As of December 31, 2023, we had 4 online games in development. Among them, the incremental game GoGo Muffin (出發吧麥芬) was launched in Hong Kong, Macau and Taiwan in January 2024 and has been widely welcomed by players and has repeatedly topped the best-selling charts in the Apple stores of the three regions. The game is scheduled to be gradually launched in the domestic market of China and in various overseas markets.

Premium Games

Premium games constitutes a special business component of XD that meets the needs of mobile game users for high-quality pay-to-download games and adds ecological diversity to the TapTap platform. In 2023, our business line has obtained the ISBN (International Standard Book Number) of a number of domestic and foreign games, newly launched games such as Rotaeno (旋轉音律), Bloons TD6 (氣球塔防6) and Wizard of Legend (傳說法師) performed well, while the data from long-tail game such as Terraria (泰拉瑞亞) decreased slightly. Annual revenue from premium games only decreased slightly by 2.5% compared with 2022. In 2024, we will launch various games in the domestic and overseas markets and platforms, as well as develop new product lines.

TapTap

TapTap is our key competitiveness and one of the cornerstones of our growth. We rely on game development and publishing to provide TapTap with high-quality exclusive content, which drives TapTap's user growth. In the meantime, TapTap's own product and operation advantages will help retain users and generate revenue, which will then feed the content creation of both first-party and third-party developers through TapTap and in turn generate more quality content and continue to drive the further growth of TapTap.

TapTap PRC

For the year ended December 31, 2023, the average App MAUs of TapTap PRC was approximately 35.8 million, representing a decrease of 13.6% on a year-over-year basis. The decrease in MAUs on a year-over-year basis was mainly attributable to (i) the decrease in the amount of time that people spent on online games after the lifting of the restrictive policies related to the pandemic in China; and (ii) the decrease in the number of new users on a year-over-year basis due to the reduction of our marketing activities for the purpose of cost control in the first half of 2023. We implemented several strategic adjustments to TapTap in June and July 2023, and App MAUs of TapTap PRC regained growth momentum, the average MAUs in the fourth quarter of 2023 has exceeded the same period in 2022. Although MAUs has declined in 2023, the revenue achieved by TapTap PRC in 2023 has increased significantly on a year-on-year basis due to the increase in market demands for game marketing and the continued improvement of the efficiency of our advertising system. At the same time, we have also optimized TapTap's server and bandwidth costs and reduced these costs per user, thereby increasing gross profit margins.

In July 2023, we successfully hosted the 4th Annual TapTap Presents and Developers Workshop, which received a positive response.

TapTap International

For the year ended December 31, 2023, the average App MAUs of TapTap International was 5.8 million, representing a decrease of 36.6% on a year-over-year basis. The decrease in MAUs on a year-over-year basis in this year was mainly attributable to (i) the significant decrease in number of users from India due to the impacts of certain popular games; and (ii) the significant reduction in our overseas marketing and advertising activities for cost control purposes.

In 2023, we assisted a number of renowned developers to successfully conduct overseas testing of their new games, and initially established brand recognition and good reputation among overseas developers. We will continue to improve the international team and dedicate to the development and operation of versions specifically for certain key overseas markets. Currently, we do not set the overall MAUs growth as our target, but build up a good community ambiance and increase the user penetration rate by targeting specific key markets instead.

FINANCIAL REVIEW

Revenue

Our revenue is mainly derived from (i) games, principally operating business where we generate revenue primarily from sales of in-game virtual items in online games and sales of premium games through third-party and our proprietary distribution platforms; and (ii) TapTap platform, where we generate revenue primarily from providing online marketing services on TapTap. The following table sets forth our revenue by line of business for the year ended December 31, 2023 and 2022.

	For the year ended December 31,		2022	
	2023		Amount	% of revenue
	Amount	% of revenue	Amount	% of revenue
	<i>(RMB in thousands, except for percentages)</i>			
Games	2,091,685	61.7	2,452,706	71.5
Game operating	2,082,051	61.4	2,434,409	71.0
Online games	1,961,469	57.9	2,310,757	67.4
Premium games	120,582	3.5	123,652	3.6
Others	9,634	0.3	18,297	0.5
TapTap platform	1,297,459	38.3	978,230	28.5
Total revenue	<u>3,389,144</u>	<u>100.0</u>	<u>3,430,936</u>	<u>100.0</u>

Games

Our revenue from game business decreased by 14.7% to RMB2,091.7 million for the year ended December 31, 2023 on a year-on-year basis. In particular,

- Our revenue from online games decreased by 15.1% to RMB1,961.5 million for the year ended December 31, 2023 on a year-on-year basis, primarily due to decreases in revenue from Sausage Man (香腸派對), Ulala (不休的烏拉拉) and Ragnarok M (仙境傳說M), and partially offset by newly launched games, such as Sword of Convallaria (鈴蘭之劍), Torchlight: Infinite (火炬之光:無限) and T3 Arena (火力蘇打); and
- Our revenue from premium games decreased by 2.5% to RMB120.6 million for the year ended December 31, 2023 on a year-on-year basis, primarily due to decrease in revenue from certain existing premium games, and partially offset by newly launched premium games.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the years ended December 31, 2023 and 2022.

	For the year ended December 31,			
	2023		2022	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Revenue recognized on a gross basis	1,902,833	91.4	2,178,732	89.5
Revenue recognized on a net basis	<u>179,218</u>	<u>8.6</u>	<u>255,677</u>	<u>10.5</u>
Total game operating revenue	<u>2,082,051</u>	<u>100.0</u>	<u>2,434,409</u>	<u>100.0</u>

Our game operating revenue recognized on a gross basis decreased by 12.7% to RMB1,902.8 million for the year ended December 31, 2023 on a year-on-year basis, primarily due to decreases in revenue from Sausage Man (香腸派對) and Ulala (不休的烏拉拉), and partially offset by newly launched games such as Sword of Convallaria (鈴蘭之劍), Torchlight: Infinite (火炬之光:無限) and T3 Arena (火力蘇打). Our game operating revenue recognized on a net basis decreased by 29.9% to RMB179.2 million for the year ended December 31, 2023 on a year-over-year basis, primarily due to the decrease in revenue from Ragnarok M (仙境傳說M) in overseas markets.

TapTap Platform

Our revenue from TapTap platform business increased by 32.6% to RMB1,297.5 million for the year ended December 31, 2023 on a year-on-year basis. While the average App MAUs of TapTap PRC decreased by 13.6% to 35.8 million for the year ended December 31, 2023 on a year-over-year basis, the increase in revenue was mainly attributable to (i) more new games launched in the PRC market in 2023 compared to the year of 2022, resulting in increased marketing demand; (ii) the improvements to our advertising system and client coverage; and (iii) the increase of non-advertising revenue such as cloud play.

We have yet monetized TapTap International.

Cost of Revenue

Our cost of revenue decreased by 17.2% to RMB1,320.8 million for the year ended December 31, 2023 on a year-on-year basis. The following table sets forth our cost of revenue by line of business for the year ended December 31, 2023 and 2022.

	For the year ended December 31,			
	2023		2022	
	Amount	% of segment revenue	Amount	% of segment revenue
	<i>(RMB in thousands, except for percentages)</i>			
Games	1,115,547	53.3	1,338,339	54.6
TapTap platform	205,227	15.8	257,338	26.3
Total	1,320,774	39.0	1,595,677	46.5

Our cost of revenue for game business primarily consists of sharing of proceeds with game developers and commissions charged by distribution platforms and payment channels where we act as a principal, bandwidth and servers custody fee and employee benefits expenses. Our cost of revenue for TapTap platform business primarily consists of bandwidth and servers custody fee and employee benefits expenses. The following table sets forth our cost of revenue by nature for the year ended December 31, 2023 and 2022.

	For the year ended December 31,			
	2023		2022	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Sharing of proceeds to game developers	469,656	35.6	631,684	39.6
Commissions charged by distribution platforms and payment channels	354,067	26.8	390,689	24.5
Bandwidth and servers custody fee	230,094	17.4	335,188	21.0
Employee benefits expenses	123,313	9.3	132,995	8.3
Professional and technical service fee	65,694	5.0	45,608	2.9
Amortization of intangible assets	43,410	3.3	26,591	1.7
Others	34,540	2.6	32,922	2.0
Total	1,320,774	100.0	1,595,677	100.0

Our cost of revenue for game business decreased by 16.6% to RMB1,115.5 million for the year ended December 31, 2023 on a year-on-year basis, primarily due to (i) the decreases in sharing of proceeds to game developers and commissions charged by distribution platforms, which were mainly due to the decreases in revenue from Sausage Man (香腸派對), Ulala (不休的烏拉拉) and other licensed games; (ii) the decreases in bandwidth and servers custody fee, which were mainly due to the decrease in online game average MAUs; and (iii) the decrease in employee benefits expenses, which were due to our cost control and efficiency improvement measures.

Our cost of revenue for TapTap platform business decreased by 20.3% to RMB205.2 million for the year ended December 31, 2023 on a year-on-year basis, primarily attributable to the decrease in bandwidth and servers custody fee, which was due to (i) the decrease in the average App MAUs of TapTap PRC and TapTap International; and (ii) the implementation of cost optimization measures.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 12.7% to RMB2,068.4 million for the year ended December 31, 2023 on a year-on-year basis. Our gross margin was 61.0% for the year ended December 31, 2023, which was higher than the gross margin for the year ended December 31, 2022, primarily due to (i) an increase of our gross margin of game segment from 45.4% for the year ended December 31, 2022 to 46.7% for the year ended December 31, 2023, as a result of the increases in revenues in self-developed games, which in general enjoyed higher gross margin than licensed games; and (ii) an improvement in gross margin of TapTap platform segment from 73.7% for the year ended December 31, 2022 to 84.2% for the year ended December 31, 2023, mainly due to the significant growth in revenue and the reduction of bandwidth and servers cost. This increase was also benefited from the increase in the contribution of revenue from our TapTap platform business to our total revenue from 28.5% for the year ended December 31, 2022 to 38.3% for the year ended December 31, 2023, which in general enjoyed a higher gross margin than the game business.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses paid to external advertising agencies and professional information dissemination companies; and (ii) employee benefit expenses relating to our selling and marketing personnel.

Our selling and marketing expenses decreased by 6.2% to RMB865.2 million for the year ended December 31, 2023 on a year-on-year basis. This was primarily attributable to the decreased marketing expenses for game segments as a result of cost reduction measures.

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefits expenses relating to our research and development employees; and (ii) professional and technical services fees including art design and technical support for our games.

Our research and development expenses decreased by 20.9% to RMB1,015.7 million for the year ended December 31, 2023 on a year-on-year basis. This was primarily due to the decrease in employee benefits expenses. The number of our research and development personnel decreased from 1,196 as at December 31, 2022 to 1,031 as at December 31, 2023, as a result of game projects restructuring and staff optimization.

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) employee benefits expenses relating to our administrative employees; (ii) professional and technical services fees, such as fees paid to auditors and law firms; (iii) office expenses incurred in the ordinary course of business; and (iv) depreciation of property, plant and equipment and right-of-use assets in connection with our office space in Shanghai.

Our general and administrative expenses decreased by 3.9% to RMB224.6 million for the year ended December 31, 2023 on a year-on-year basis. This was primarily due to the decrease in the number of back office personnel.

Other Losses, Net

Our other losses, net primarily consist of foreign exchange losses, net.

Our foreign exchange net losses were RMB19.9 million for the year ended December 31, 2023, compared to foreign exchange net losses of RMB23.7 million for the year ended December 31, 2022. This was primarily due to depreciation of RMB/USD and RMB/HKD exchange rates in 2023.

Income Tax Expenses

We recorded income tax expenses of RMB35.3 million for the year ended December 31, 2023, compared to income tax expenses of RMB14.2 million for the corresponding period in 2022. Among which, we recorded a current income tax expense of RMB8.0 million and a deferred income tax expense of RMB27.3 million in relation to the deferred tax assets we recognized in previous years.

Loss for the Year

Our net loss for the year was significantly reduced to RMB65.4 million for the year ended December 31, 2023, comparing a net loss of RMB574.0 million for the year ended December 31, 2022.

Loss for the Year Attributable to Equity Holders of the Company

Our net loss for the year attributable to equity holders of the Company was significantly reduced to RMB83.0 million for the year ended December 31, 2023, comparing a net loss for the year attributable to equity holders of the Company of RMB553.5 million for the corresponding period of 2022.

Our net loss for the year attributable to non-controlling interests belonged to non-controlling interests in (i) Yiwán (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司) (“**Yiwán**”); (ii) Shanghai Longcheng Network Technology Co., Ltd. (“**Longcheng**”); (iii) X.D. Global (HK) Limited; (iv) Hyper Times Limited; and (v) Taptap Holding Limited.

Other Financial Information

The following table reconciles our operating loss to our EBITDA and Adjusted EBITDA for the periods presented:

	For the year ended	
	December 31,	
	2023	2022
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Operating loss	(5,222)	(567,870)
Adjustments:		
Other income	(48,941)	(51,020)
Other losses, net	16,509	11,230
Depreciation of property, plant and equipment	46,535	76,909
Depreciation of right-of-use assets	45,816	58,097
Amortization of intangible assets	52,323	44,948
	<hr/>	<hr/>
EBITDA	107,020	(427,706)
Share-based compensation expenses	51,364	74,661
	<hr/>	<hr/>
Adjusted EBITDA	<u>158,384</u>	<u>(353,045)</u>

Non-IFRS Measures

To supplement our consolidated financial information which is presented in accordance with IFRS, we set forth below our adjusted loss for the year and adjusted loss attributable to equity holders of the Company as an additional financial measure which is not presented in accordance with IFRS. We believe those non-IFRS financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain items, namely (i) fair value changes on long-term investments measured at fair value through profit or loss; and (ii) share-based compensation expenses. The following table reconciles our adjusted loss for the year and adjusted loss attributable to equity holders of the Company indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the year ended December 31,	
	2023 (RMB'000)	2022 (RMB'000)
Loss for the year	(65,362)	(574,013)
Add:		
Fair value changes on long-term investments measured at fair value through profit or loss	5,727	5,547
Share-based compensation expenses	51,364	74,661
Less:		
Income tax effects	(1,135)	(451)
Adjusted loss for the year	<u>(9,406)</u>	<u>(494,256)</u>
	For the year ended December 31,	
	2023 (RMB'000)	2022 (RMB'000)
Loss attributable to equity holders of the Company	(83,039)	(553,495)
Add:		
Fair value changes on long-term investments measured at fair value through profit or loss	4,864	5,204
Share-based compensation expenses	44,976	66,209
Less:		
Income tax effects	(919)	(365)
Loss attributable to equity holders of the Company	<u>(34,118)</u>	<u>(482,447)</u>

These unaudited non-IFRS financial measures should be considered in addition to, not as a substitute for, measures of the Group’s financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

Liquidity and Capital Resources

Our cash positions and short-term investments as at December 31, 2023 and December 31, 2022 are as follows:

	As at December 31, 2023 <i>(RMB’000)</i>	As at December 31, 2022 <i>(RMB’000)</i>
Cash and cash equivalents	3,206,821	3,098,084
Short-term investments		
— Term deposits with initial terms over three months	—	295,999
— Wealth management products	147,657	194,780
	<u>3,354,478</u>	<u>3,588,863</u>

As at December 31, 2023, our short-term investments are mainly consist of wealth management products issued by large reputable commercial banks. These wealth management products invest principally in low risk and fixed-income instruments with liquidity that are quoted on the interbank market or exchanges in China. The returns of such wealth management products are not guaranteed or protected by the issuing banks.

The effective rates of return of these wealth management products ranges from 2.55% to 3.86% per annum. The decrease of our cash positions and short-term investments was primarily due to repurchase of Convertible Bonds (as defined below) of RMB383.1 million, and partly offset by net operating cash flow of RMB235.4 million.

As of December 31, 2023, saved for the Convertible Bonds issued on April 12, 2021, we did not have any borrowings or unutilized banking facilities. References are made to the announcements of the Company dated March 31, 2021, April 12, 2021 and April 13, 2021 in relation to the issuance of the US\$280,000,000 1.25% convertible bonds by the Company due 2026 (the “**Convertible Bonds**”), and the announcements of the Company dated November 22, 2023, December 5, 2023, January 10, 2024, and January 18, 2024 regarding the partial repurchase and cancellation of the Convertible Bonds in the open market. As of February 29, 2024, an aggregate principal amount of US\$120,400,000 of the Convertible Bonds had been repurchased and cancelled, and an aggregate principal amount of US\$159,600,000 of the Convertible Bonds remains outstanding.

Pursuant to the condition 8(D) (*Redemption at the option of the Bondholders*) of the terms and conditions of the Convertible Bonds set out in the offering circular dated March 31, 2021, the holder of each Convertible Bond can exercise the right, at such holder's option, to require the Company to redeem all or some only of such holder's Convertible Bond on April 12, 2024 at the agreed price. As of March 13, 2024, notices of redemption have been served on the Company requiring the Company to redeem all outstanding Convertible Bonds with an aggregate principal amount of US\$159,600,000. The redemption amounts are expected to be satisfied by internal resources of the Group.

Gearing Ratio

Our gearing ratio was 57.6% as at December 31, 2023, comparing a gearing ratio of 60.3% as at December 31, 2022. This ratio was calculated as total liabilities divided by total assets.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

For the year ended December 31, 2023, the Company had no material acquisition and disposal of subsidiaries, associated companies and joint ventures.

Pledge of Assets

As of December 31, 2023, we did not pledge any of our assets.

Future Plans for Material Investments or Capital Assets

As of December 31, 2023, we did not have any future plans for material investments or capital assets.

Foreign Exchange Risk Management

We generate revenue from overseas markets in relation to our international business, and therefore, we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollars and Hong Kong dollars. We also pay licensing fees for foreign game developers and intellectual property providers, which are primarily in US dollars. We currently do not adopt any long-term contracts, currency borrowings or other means to hedge our foreign currency exposure.

Contingent Liabilities

As of December 31, 2023, we did not have any material contingent liabilities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended December 31, 2023

		Year ended December 31,	
		2023	2022
	Notes	RMB'000	RMB'000
Revenues	3	3,389,144	3,430,936
Cost of revenues	4	<u>(1,320,774)</u>	<u>(1,595,677)</u>
Gross profit		2,068,370	1,835,259
Selling and marketing expenses	4	(865,237)	(922,683)
Research and development expenses	4	(1,015,657)	(1,283,824)
General and administrative expenses	4	(224,613)	(233,848)
Net impairment losses on financial assets	4	(517)	(2,564)
Other income	5	48,941	51,020
Other losses, net	6	<u>(16,509)</u>	<u>(11,230)</u>
Operating loss		(5,222)	(567,870)
Finance income		90,058	27,677
Finance costs		<u>(119,924)</u>	<u>(57,838)</u>
Finance costs, net	7	(29,866)	(30,161)
Share of results of investments accounted for using equity method		19,884	38,197
Impairment of investments accounted for using equity method		<u>(14,894)</u>	<u>—</u>
Loss before income tax		(30,098)	(559,834)
Income tax expenses	8	<u>(35,264)</u>	<u>(14,179)</u>
Loss for the year		<u>(65,362)</u>	<u>(574,013)</u>
Other comprehensive income/(loss):			
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		(591)	(11,389)
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		<u>22,126</u>	<u>71,649</u>
Total comprehensive loss for the year		<u><u>(43,827)</u></u>	<u><u>(513,753)</u></u>

		Year ended December 31,	
		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit for the year attributable to:			
Equity holders of the Company		(83,039)	(553,495)
Non-controlling interests		17,677	(20,518)
		<u>(65,362)</u>	<u>(574,013)</u>
 Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the Company		(61,678)	(496,544)
Non-controlling interests		17,851	(17,209)
		<u>(43,827)</u>	<u>(513,753)</u>
 Loss per share for loss for the year attributable to the equity holders of the Company			
Basic and diluted loss per share (RMB)	<i>9</i>	<u>(0.18)</u>	<u>(1.17)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

		As at December 31,	
		2023	2022
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		43,693	96,211
Right-of-use assets		192,680	271,256
Intangible assets		233,416	256,381
Deferred tax assets		48,920	76,184
Investments accounted for using the equity method		122,561	124,734
Long-term investments measured at fair value through profit or loss		18,840	24,565
Prepayments, deposits and other assets		36,225	56,219
		<u>696,335</u>	<u>905,550</u>
Current assets			
Trade receivables	10	286,809	249,444
Prepayments, deposits and other assets		71,820	52,197
Short-term investments		147,657	490,779
Cash and cash equivalents		3,206,821	3,098,084
		<u>3,713,107</u>	<u>3,890,504</u>
Total assets		<u>4,409,442</u>	<u>4,796,054</u>

		As at December 31,	
		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY			
Share capital	<i>11</i>	329	329
Share premium	<i>11</i>	7,036,290	7,035,801
Shares held for share award schemes	<i>11</i>	(6)	(6)
Other reserves		(4,490,917)	(4,377,255)
Accumulated deficit		(836,523)	(770,540)
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		1,709,173	1,888,329
Non-controlling interests		159,578	17,320
		<hr/>	<hr/>
Total equity		1,868,751	1,905,649
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Non-current liabilities			
Lease liabilities		158,636	213,951
Convertible bonds	<i>13</i>	—	1,805,948
		<hr/>	<hr/>
		158,636	2,019,899
		<hr/>	<hr/>
Current liabilities			
Trade payables	<i>12</i>	194,906	203,053
Advance from customers		53,008	59,411
Other payables and accruals		275,239	298,980
Contract liabilities		180,780	156,688
Current income tax liabilities		80,352	67,884
Lease liabilities		44,623	60,960
Convertible bonds	<i>13</i>	1,553,147	23,530
		<hr/>	<hr/>
		2,382,055	870,506
		<hr/>	<hr/>
Total liabilities		2,540,691	2,890,405
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		4,409,442	4,796,054
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

XD Inc. (the “**Company**”) is an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 25, 2019 and was listed on the Stock Exchange of Hong Kong Limited on December 12, 2019.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “**Group**”) are principally engaged in the development, operation, publishing and distribution of mobile and web games and operation of TapTap, a game community and platform, in the People’s Republic of China (the “**PRC**”) and other countries and regions.

The consolidated financial statements for the year ended December 31, 2022 and 2023 are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB (“**IFRS Accounting Standards**”). 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 IFRS Accounting Standards 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.

(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, 2023:

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules

Amendments to IAS 12 “International Tax Reform — Pillar Two Model Rules” were issued on May 23, 2023 which are effective upon issuance and require retrospective application. The amendments provide a temporary exception from deferred tax accounting for the income tax arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (“OECD”). The amendments also introduce new disclosure requirements about such tax, including the estimated tax exposure to Pillar Two income taxes. The Group considers there is no significant impact on the consolidated financial statements, since the Group does not meet the consolidated revenue criteria and is not subject to the Pillar Two model rules.

In addition to the amendments mentioned above, 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, 2023 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 1	Classification of Liabilities as current and non-current	January 1, 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 21	Lack of exchangeability	January 1, 2025
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. According to the preliminary assessment made by the Directors, 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 chief operating decision-maker ("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 Group determined that it has operating segments as follows:

Game segment

The game segment offers game publishing and operating services on its own and via other distribution channels. Revenues from the game segment are primarily derived from game publishing and operating services.

TapTap platform segment (previously known as "information service segment")

The TapTap platform segment offers online marketing services to game developers, game publishers or their agents through the Group's self-developed game community and platform. Revenues from the TapTap platform segment are primarily derived from performance-based online marketing services.

The CODM assesses the performance of the operating segments mainly based on segment revenues and cost of revenues of each operating segment. Thus, segment result would present revenues, cost of revenues and gross profit for each segment, which is in line with CODM's performance review.

The Group's cost of revenues for the game segment primarily consists of (a) commission paid to payment channels and distribution channels; (b) sharing of proceeds to game developers; (c) bandwidth and server custody fees; (d) amortization of intangible assets; and (e) employee benefit expenses.

The Group's cost of revenues for the TapTap platform segment primarily consists of (a) bandwidth and server custody fees; (b) employee benefits expenses; and (c) amortization of intangible assets.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

As at December 31, 2022 and 2023, substantially all of the non-current assets of the Group were located in the PRC.

The reconciliation of gross profit to profit before income tax is shown in the consolidated statement of comprehensive loss.

The segment information provided to the Group's CODM for the reportable segments is as follows:

	Year ended December 31, 2023		
	Game segment	TapTap platform segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,961,469	—	1,961,469
— Premium Games (pay-to-play)	120,582	—	120,582
Subtotal	2,082,051	—	2,082,051
Online marketing service revenue	—	1,256,280	1,256,280
Others	9,634	41,179	50,813
Total revenues	2,091,685	1,297,459	3,389,144
Cost of revenues	(1,115,547)	(205,227)	(1,320,774)
Gross profit	976,138	1,092,232	2,068,370
Gross margin	47%	84%	61%

	Year ended December 31, 2022		
	Game segment <i>RMB'000</i>	TapTap platform segment <i>RMB'000</i>	Total <i>RMB'000</i>
Game operating revenues			
— Online Games (free-to-play)	2,310,757	—	2,310,757
— Premium Games (pay-to-play)	123,652	—	123,652
Subtotal	2,434,409	—	2,434,409
Online marketing service revenue	—	939,338	939,338
Others	18,297	38,892	57,189
Total revenues	2,452,706	978,230	3,430,936
Cost of revenues	(1,338,339)	(257,338)	(1,595,677)
Gross profit	1,114,367	720,892	1,835,259
Gross margin	45%	74%	53%

Revenues of approximately RMB1,048 million and RMB1,301 million for the years ended December 31, 2022 and 2023, respectively, were from five largest single external customers.

The following table summarizes the percentage of revenue from a single customer individually exceeding 10% of the Group's revenue during the year ended December 31, 2022 and 2023, respectively.

	Year ended December 31,	
	2023	2022
Online marketing service revenue		
Customer A	21%	18%

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the years ended December 31, 2022 and 2023, respectively:

	Year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Overtime	1,096,790	1,631,237
At a point of time	2,292,354	1,799,699
	<u>3,389,144</u>	<u>3,430,936</u>

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 2023, respectively:

	Year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,394,503	1,503,464
Other areas (<i>Note a</i>)	687,548	930,945
Total	<u>2,082,051</u>	<u>2,434,409</u>
Online marketing service revenue		
Mainland China	<u>1,256,280</u>	<u>939,338</u>

Note:

- (a) Other areas revenue mainly include game revenue from local versions operated in Southeast Asia, Hong Kong, Macao, Taiwan, North America and South Korea.

4 Expenses by nature

	Year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expenses	1,178,497	1,406,292
Promotion and advertising expenses	764,565	813,963
Sharing of proceeds to game developers	469,656	631,684
Commissions charged by payment channels and distribution channels	354,067	390,689
Bandwidth and server custody fee	235,502	342,385
Professional and technical services fee	169,890	173,686
Amortization of intangible assets	52,323	44,948
Depreciation of property, plant and equipment	46,535	76,909
Depreciation of right-of-use assets	45,816	58,097
Office expenses	37,797	37,288
Tax surcharges	37,528	24,285
Impairment of non-financial assets	10,001	9,215
Rental expenses and utilities	9,111	10,314
Auditor's remuneration		
— Audit service	4,140	4,240
— Non-audit service	870	1,485
Net impairment losses on financial assets	517	2,564
Others	9,983	10,552
Total	3,426,798	4,038,596

5 Other income

	Year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies	46,691	40,164
Interest income from term deposits above three months	2,250	10,856
Total	48,941	51,020

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

6 Other losses, net

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Foreign exchange loss, net	(19,878)	(23,712)
Net gain on repurchase of convertible bonds <i>(Note 13)</i>	6,371	8,983
Fair value changes of wealth management products issued by commercial banks	7,175	7,248
Fair value changes of long-term investments measured at fair value through profit or loss	(5,727)	(5,547)
Others	(4,450)	1,798
Total	(16,509)	(11,230)

7 Finance cost, net

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	90,058	27,677
Finance costs		
Interest expenses on convertible bonds <i>(Note 13)</i>	(103,139)	(48,293)
Interest expenses on lease liabilities	(11,040)	(7,397)
Bank charges	(5,745)	(2,148)
Finance cost, net	(29,866)	(30,161)

8 Income tax

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital 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 rate is 16.5%.

Singapore

Singapore profits tax rate is 17%.

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, 2022 and 2023.

Certain subsidiary of the Group in the PRC, accordingly, is qualified as “high and new technology enterprise” and entitled to a preferential income tax rate of 15% during the years ended December 31, 2022 and 2023.

Certain subsidiary is 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 engaged in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). According to the relevant laws and regulations that was effective from 2022, the tax deductible ratio was increased to 200%. 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 all the years presented.

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. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors.

	Year ended December 31,	
	2023	2022
	<i>RMB’000</i>	<i>RMB’000</i>
Current income tax	8,004	20,794
Deferred income tax	27,260	(6,615)
	<hr/>	<hr/>
Total income tax expenses	<u>35,264</u>	<u>14,179</u>

The tax on the Group’s loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2022 and 2023, being the tax rate of the major subsidiaries of the Company.

9 Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of shares in issue during the respective years.

	Year ended December 31,	
	2023	2022
Loss attributable to equity holders of the Company (RMB'000)	(83,039)	(553,495)
Weighted average number of shares in issue (thousands)	472,015	471,993
Basic loss per share (in RMB)	<u>(0.18)</u>	<u>(1.17)</u>

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

For the years ended December 31, 2022 and 2023, the Group had potential dilutive ordinary shares arising from convertible bonds and share options. As the Group incurred losses for the years ended December 31, 2022 and 2023, the dilutive potential ordinary shares arising from convertible bonds and share options were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution.

10 Trade receivables

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Distribution channels and game publishers	166,925	191,920
Online marketing service customers	122,778	59,536
Others	1,428	1,906
	291,131	253,362
Less: allowance for impairment	(4,322)	(3,918)
	<u>286,809</u>	<u>249,444</u>

- (a) Distribution channels and game publishers and online marketing service customers usually settle the amounts within 30–120 days. Related parties are granted with a credit period of 90 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,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	273,431	205,439
3 months to 6 months	13,109	35,806
6 months to 1 year	1,640	8,652
1 to 2 years	2,284	2,849
Over 2 years	667	616
	<u>291,131</u>	<u>253,362</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	Shares held for share award schemes (Note a) RMB'000
Authorized					
Ordinary shares of USD0.0001 each; January 25, 2019 (date of incorporation)	1,000,000	100	—	—	—
As at December 31, 2022 and 2023	<u>1,000,000</u>	<u>100</u>	<u>—</u>	<u>—</u>	<u>—</u>
Issued and fully paid					
As at January 1, 2022, December 31, 2022 and January 1, 2023	480,431	48	329	7,035,801	(6)
Exercise of share options	22	—*	—*	489	—
As at December 31, 2023	<u>480,453</u>	<u>48</u>	<u>329</u>	<u>7,036,290</u>	<u>(6)</u>

* The amount is less than 1,000

- (a) On June 17, 2019, the Company allotted and issued an aggregate of 8,437,540 shares to Heart Assets Limited, which hold shares on trust for and on behalf of the Company. As at December 31, 2022 and 2023, the shares are represented as treasury shares of the Group and will be used for future share based compensation to employee.

12 Trade payables

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<u>194,906</u>	<u>203,053</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 0 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,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	194,846	202,387
Over 3 months	<u>60</u>	<u>666</u>
	<u>194,906</u>	<u>203,053</u>

13 Convertible bonds

Issue of convertible bonds

On April 12, 2021, the Company issued convertible bonds (the “**2021 Convertible Bonds**”) in the specified denomination of USD200,000 each with the aggregate principal amounts of USD280 million. The 2021 Convertible Bonds bear an interest of 1.25% per annum payable semi-annually and will mature on April 12, 2026.

Bondholders have the right, at such holder’s option, to require the Company to redeem all or some only of such holder’s bonds on April 12, 2024 at their principal amount, together with accrued and unpaid interest thereon (the “**Early Redemption Option**”).

Bondholders may convert their bonds into ordinary shares at any time on or after May 23, 2021 up to the close of business on the seventh day prior to April 12, 2026 (both days inclusive). Conversion shares will be issued upon full conversion of the 2021 Convertible Bonds based on the conversion price of HKD63.45 with a fixed exchange rate of 7.7746 HKD/USD.

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at its principal amount, together with accrued and unpaid interest thereon, on the April 12, 2026 or in certain circumstances specified in the agreements.

The 2021 Convertible Bonds is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the 2021 Convertible Bonds. Such embedded derivatives are deemed to be clearly and closely related to the host contract and therefore do not need to be separately accounted for.

Subsequent to the initial recognition, the liability component of the 2021 Convertible Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the 2021 Convertible Bonds was 2.4% per annum as at December 31, 2022 and 2023. The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the 2021 Convertible Bonds mature.

Early Redemption Option

The management constantly monitors and assesses the likelihood whether the Early Redemption Option will be exercised. During the year ended December 31, 2023, the management estimated that it is more likely than not that bondholders will exercise the Early Redemption Option given the current market environment. Thus, the Company recalculated the amortised cost of the liability component as the present value of the revised estimated contractual cash flows, discounted at the original effective interest rate of 2.4% per annum. The difference between the recalculated amount and the carrying amount of RMB55 million was recognised as “finance costs” in the statement of comprehensive loss.

As of December 31, 2023, RMB1,553 million of 2021 Convertible Bonds are reclassified as current liabilities.

Repurchase

In November and December 2023, the Company repurchased convertible bonds with principal amounts of USD55 million. The repurchase price and transaction costs were allocated between the liability component and the equity component on the same basis that was used in the original allocation process. The allocated liability component amount was RMB383 million and the carrying amount of the liability component upon the repurchase was RMB389 million. The difference of RMB6 million between the carrying amount and the allocated repurchase price and transaction costs was recognised as “other losses, net” in the statement of comprehensive income (Note 6). The allocated equity component amount was RMB0.4 million and the carrying amount of the equity component upon the repurchase was RMB19 million. The difference of RMB19 million between the carrying amount and the allocated repurchase price and transaction costs was recognised in accumulated deficit accordingly.

14 Dividends distribution

No dividends have been paid or declared by the Company during the years ended December 31, 2022 and 2023.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2023, the Convertible Bonds in the aggregate principal amount of US\$55,000,000 was redeemed by the Company through the open market for a total price of approximately US\$53.8 million. The conversion price is HK\$63.45 per share. For details, please refer to the announcements of the Company dated November 22, 2023 and December 5, 2023.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended December 31, 2023.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2023 (for the year ended December 31, 2022: Nil).

ANNUAL GENERAL MEETING

The Company will notify the shareholders of the Company on a later date about the date of the coming annual general meeting of the Company and the corresponding arrangement for closure of register of members.

USE OF PROCEEDS

Issuance of Convertible Bonds in April 2021

The net proceeds received from the Convertible Bonds issue was approximately US\$275.6 million. The amount of net proceeds brought forward in the beginning of the Reporting Period was approximately US\$147.5 million and was fully utilized during the Reporting Period. The table below sets out the details of actual usage of the net proceeds as of December 31, 2023:

Use of proceeds	Amount of net proceeds received from Convertible Bonds issue (US\$ million)	Amount of net proceeds brought forward as of January 1, 2023 (US\$ million)	Actual usage for the year ended December 31, 2023 (US\$ million)	Unutilized net proceeds as of December 31, 2023 (US\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	148.8	64.5	64.5	—	N/A
• marketing and promoting games and TapTap	99.2	55.4	55.4	—	N/A
• general corporate purposes	27.6	27.6	27.6	—	N/A
	<u>275.6</u>	<u>147.5</u>	<u>147.5</u>	<u>—</u>	

Placing of shares in April 2021

The net proceeds received from the placing of shares was approximately HK\$1,113.0 million. The amount of net proceeds brought forward in the beginning of the Reporting Period was approximately HK\$127.5 million. The table below sets out the details of actual usage of the net proceeds as of December 31, 2023:

Use of proceeds	Amount of net proceeds received from placing of shares (HK\$ million)	Amount of net proceeds brought forward as of January 1, 2023 (HK\$ million)	Actual usage for the year ended December 31, 2023 (HK\$ million)	Unutilized net proceeds as of December 31, 2023 (HK\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	556.5	—	—	—	N/A
• potential acquisition and strategic investments	222.6	127.5	10.6	116.9	By December 31, 2024
• general corporate purposes	333.9	—	—	—	N/A
	<u>1,113.0</u>	<u>127.5</u>	<u>10.6</u>	<u>116.9</u>	

EMPLOYEE, REMUNERATION AND PENSION SCHEME

We had 1,452 employees as of December 31, 2023 (December 31, 2022: 1,706 employees), substantially of which were based in Shanghai. Employee benefits expenses (including the Directors' remunerations) were approximately RMB1,178.5 million for the year ended December 31, 2023, which was a decrease of approximately 16% as compared to approximately RMB1,406.3 million for the year ended December 31, 2022 due to the decrease in the number of our employees.

We offer our employees competitive compensation packages and a collaborative working environment and as a result, we have generally been able to attract and retain qualified personnel and maintain a stable, core management team. We compensate our employees with basic salaries, subsidies, and performance-based and annual bonuses, and pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance maternity insurance and housing reserve fund. We also adopted a share option plan on June 25, 2021 for the purpose of providing incentives and rewards to the participants for their contributions to the Group.

We design and implement in-house training programs tailored to each job function and a set of responsibilities to enhance performance. Specific training is provided during orientation for new employees to familiarize them with our working environment and operational procedures. We also provide professional on-the-job training to our existing employees on various topics such as channel management, marketing and promotion strategies, product operations and operational support. We believe our training offers employees sustainable, organized and target-oriented quality training, and which can enhance the productivity of our employees.

SHARE OPTION PLAN

To provide incentives and rewards to the directors and employees of the Group for their contributions to, and continuing efforts to promote the interest of, the Company, on April 30, 2021, the Board resolved to propose the adoption of the share option plan of the Company for the approval by the shareholders of the Company (the “**Share Option Plan**”). On June 25, 2021 (“**Adoption Date**”), the Share Option Plan was considered and approved by the shareholders of the Company at the annual general meeting of the Company which will be valid and effective for a period of 10 years commencing on the Adoption Date. As at December 31, 2023, a total of 14,196,104 share options (the “**Options**”) were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of US\$0.0001 each of the Company, including 1,041,633 Options granted to Mr. Huang Yimeng, an executive Director, and 669,201 Options granted to Mr. Dai Yunjie, an executive Director. For further details of the Share Option Plan and grant of Options, please refer to the announcement of the Company dated April 30, 2021, June 25, 2021, July 12, 2021, October 11, 2021, January 10, 2022, April 11, 2022, July 5, 2022, October 10, 2022, October 14, 2022, January 11, 2023, April 12, 2023, July 6, 2023, October 16, 2023 and the circular of the Company dated May 21, 2021, respectively.

EVENTS AFTER THE REPORTING PERIOD

On January 12, 2024, a total of 1,875,305 Options were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of US\$0.0001 each of the Company, including 83,210 Options granted to Mr. Huang Yimeng, an executive Director, and 147,715 Options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated January 12, 2024.

Subsequent to the Reporting Period, 7,200 Options were exercised by certain eligible participants to subscribe for 7,200 ordinary shares of the Company.

In January 2024, the Company repurchased and cancelled an aggregate principal amount of US\$60,000,000 of the Convertible Bonds. As at the date of this announcement, the aggregate principal amount of US\$159,600,000 of the Convertible Bonds remained outstanding, representing approximately 57.00% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the announcements of the Company dated January 10, 2024 and January 18, 2024.

Pursuant to the condition 8(D) (*Redemption at the option of the Bondholders*) of the terms and conditions of the Convertible Bonds set out in the offering circular dated March 31, 2021, the holder of each Convertible Bond can exercise the right, at such holder's option, to require the Company to redeem all or some only of such holder's Convertible Bond on April 12, 2024 at the agreed price. As of March 13, 2024, notices of redemption have been served on the Company requiring the Company to redeem all outstanding Convertible Bonds with an aggregate principal amount of US\$159,600,000. The redemption amounts are expected to be satisfied by internal resources of the Group.

Save as disclosed above, there are no material subsequent events undertaken by the Group after December 31, 2023 and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to implementing high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance the corporate value as well as the responsibility commitments. The Company has adopted the CG Code as its own code of corporate governance.

The Company has complied with all applicable code provisions of the CG Code during the year ended December 31, 2023 except for a deviation from code provision C.2.1 of part 2 of the CG Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Huang Yimeng is currently the chairman and chief executive officer of the Company. In view of his substantial contribution to the Group since its establishment and his extensive experience in the game industry, the Board considers that vesting the roles of chairman and chief executive officer in the same individual provides the Group with strong and consistent leadership in the development and execution of long-term business strategies and does not impair the balance of power and authority between the Board and the management of the Company. The Board currently comprises three executive Directors (including Mr. Huang Yimeng), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

The Board will continue to review the effectiveness of the corporate governance structure in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company that they have complied with the Model Code during the year ended December 31, 2023.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision D.3 of part 2 of the CG code and has adopted written terms of reference. The Audit Committee comprises three members, including Mr. Xin Quandong, Mr. Pei Dapeng and Ms. Liu Qianli and is currently chaired by Mr. Xin Quandong, who possesses suitable professional qualifications.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2023 and confirmed that it has complied with all applicable accounting principles, standards and requirements, and made sufficient disclosures. The Audit Committee has also discussed the matters of audit and financial reporting.

AUDITOR'S PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive loss and the related notes thereto for the year ended December 31, 2023 as set out in the announcement have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2023. The work performed by the Auditor 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.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (2400.hk). The annual report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

DEFINITIONS

Unless the context otherwise requires, the following expressions in this announcement shall have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Audit Committee”	the audit committee of the Company;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“Board”	the board of Directors of the Company;
“CG Code”	the Corporate Governance Code set out in Appendix C1 to the Listing Rules;
“Company”	XD Inc. (心动有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange under stock code 2400 on December 12, 2019;
“Director(s)”	director(s) of the Company;
“Group”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“IFRS”	International Financial Reporting Standards, which include standards and interpretations as issued from time to time by the International Accounting Standards Board;

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“MAU(s)”	monthly active user(s), which refers to the number of users who log into a particular game or all of our games, as applicable, in the relevant calendar month for games, and refers to the number of users who access the TapTap mobile app in the relevant calendar month for TapTap, both of which include multiple accounts held by one single user. Average MAUs for a particular period are calculated by dividing the aggregate of the MAUs during that period by the number of months of that period;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules;
“MPUs”	monthly paying users, which refers to the number of paying users in the relevant calendar month in our games;
“PRC” or “China”	the People’s Republic of China, which for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan, China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;
“US\$” or “USD”	United States dollars, the lawful currency of the United States of America; and
“%”	percentage.

By order of the Board
XD INC.
HUANG Yimeng
Chairman and Chief Executive Officer

Shanghai, China, March 28, 2024

As at the date of this announcement, the Board comprises Mr. HUANG Yimeng, Mr. DAI Yunjie and Mr. FAN Shuyang as executive Directors, Mr. WU Meng as non-executive Director and Mr. PEI Dapeng, Mr. XIN Quandong and Ms. LIU Qianli as independent non-executive Directors.