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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, 2022

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2022 (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,		
	2022	2021	Change
	(RMB'000)	(RMB'000)	%
Revenues	3,430,936	2,703,173	26.9
Gross profit	1,835,259	1,226,243	49.7
Loss for the year	(574,013)	(917,288)	-37.4
Loss attributable to equity holders of the Company	(553,495)	(863,811)	-35.9
Adjusted loss for the year*	(494,256)	(890,345)	-44.5
Adjusted loss attributable to equity holders of the Company*	(482,447)	(839,972)	-42.6

* 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,		
	2022	2021	Change
	(in thousands)	(in thousands)	%
Online Games			
Average MAUs ⁽¹⁾	16,224	16,692	-2.8
Average MPUs ⁽²⁾	1,573	977	61.0
TapTap			
Average App MAUs in TapTap PRC	41,451	31,570	31.3
Average App MAUs in TapTap International	9,130	12,242	-25.4

- (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

During 2022, the pandemic has presented our colleagues with unparalleled difficulties. Challenges such as working from home, reduced face-to-face communication, and restrictions on business trips have all been obstacles that our colleagues have had to overcome. Nevertheless, our colleagues have courageously faced these challenges and have successfully overcome the obstacles through swiftly adjusting our way of working and strengthening online collaboration. In this difficult environment, we have achieved significant growth and successfully accomplished many of our business objectives. These efforts enabled our business to operate smoothly during the pandemic and accelerated the development in our future global operations.

During 2022, our online games revenue increased by 29.5% compared to the same corresponding period of last year, benefiting from significant growth in revenue from Sausage Man (香腸派對) and the launch of four new self-developed games. Additionally, the user base and revenue of TapTap PRC also showed remarkable improvement, attributable to the upgrade of our technical architecture and enhanced machine learning algorithms. These notable achievements have shown us a broader development space in the future. Looking ahead to 2023, we are committed to further growth. We have formulated a series of plans and measures to ensure our continuous expansion in the future. We will continue to launch high-quality self-developed games and strive to develop and promote more attractive and innovative games. Two new games, T3 Arena (火力蘇打) and Torchlight: Infinite (火炬之光：無限), will be launched in China during 2023, and several other games under development will undergo testing or launch this year. Additionally, we will closely monitor the development of AIGC (Artificial Intelligence Generated Content) technology and plan to deploy it to improve game content production efficiency and enhance our ability to serve users. 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.

During 2022, despite incurring losses due to substantial research and development investments, we have successfully implemented a series of cost control measures, thereby optimizing costs and reducing losses. Our adjusted loss before interest, taxes, depreciation, and amortization has significantly reduced by 56.7% to RMB353 million compared to the same period last year. Moving forward into 2023, we remain committed to our objective of further reducing losses through cost control.

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

Games

As of December 31, 2022, our portfolio consisted of 22 online games and 25 premium games.

Online Games

During 2022, the average MAUs of our online games decreased by 2.8% as compared to the corresponding period of the previous year, while our average MPUs increased by 61.0% on a year-on-year basis. Compared with the corresponding period of last year, decrease in average MAUs was attributable primarily to games entering their mature phase including Ragnarok M (仙境傳說M), but was partially offset by increase in average MAUs for Sausage Man (香腸派對) and increase in MAUs for newly-launched games such as T3 Arena (火力蘇打) and Torchlight: Infinite (火炬之光:無限). The overall growth of average MPUs was mainly due to a significant increase in pay rate of Sausage Man (香腸派對) when compared with the corresponding period of last year. For the year ended December 31, 2022, Sausage Man (香腸派對), Ragnarok M (仙境傳說M), Ulala (不休的烏拉拉), Arknights (明日方舟) and Lan Yan Qing Meng (藍顏清夢) were our top five games in terms of revenue contribution. The following is an overview of our existing major games:

- **Sausage Man (香腸派對):** the game was launched in China in April 2018. Although it has been nearly five years since the game was released, as a battle arena game, the game has retained a huge number of players in China market and has potential of continued growth. During 2022, both MAUs and MPUs of the game achieved successive record highs, leading to a significant increase in its revenue compared with the same corresponding period of last year. In the second quarter of 2022, Sausage Man has launched in several overseas markets, which further established initial user portfolios in overseas markets.
- **Ragnarok M (仙境傳說M):** the game was launched in China in January 2017, and was subsequently released in many countries and regions around the world, the game is currently at its maturity stage. Due to the life cycle of the game, the revenue of the game for the year ended December 31, 2022 was decreased to a certain extent compared with the same corresponding period of last year.
- **Ulala (不休的烏拉拉):** the game was launched in Taiwan in May 2019, and was subsequently released in many countries and regions around the world, which is now at its maturity stage. Due to the game's current standing in its life cycle, its revenue for the year ended December 31, 2022 was lower compared to the corresponding period of last year.

During 2022, we newly launched four self-developed online games, namely Flash Party (派對之星), T3 Arena (火力蘇打), Torchlight: Infinite (火炬之光:無限) and Unhappy Raccoon (浣熊不高興). In particular, Flash Party (派對之星) was officially launched in overseas markets in February 2022 and has continuously been ranked among the Top 3 Free Games by downloads in the iOS App Store in Japan. Flash Party (派對之星) was also launched in China in April 2022. T3 Arena (火力蘇打) was launched in overseas markets in May 2022, it was recommended by the iOS App Store in 171 countries and regions and became the No. 1 Free Game by downloads in the iOS App Store in 11 countries and regions. Torchlight: Infinite (火炬之光:無限) was launched in overseas markets in October 2022 and received a wide recognition from fans who liked diablo-like games through its operation mode of featured seasonal games and cross-platform compatibility with PC, Android, and iOS.

We have obtained the ISBN (International Standard Book Number) for our two games, T3 Arena (火力蘇打) and Torchlight: Infinite (火炬之光:無限), and these two game are scheduled to be launched in China in the second or third quarter of 2023.

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 new games. As of the end of December 2022, we had 854 employees engaged in game development, representing a decrease of 416 employees as compared to our number of employees as of the end of 2021. During 2022, with the goal of the cost reduction and efficiency enhancement, we terminated or optimized the development of 5 small-scale or unpromising games. In addition, our four self-developed games Flash Party (派對之星), T3 Arena (火力蘇打), Torchlight: Infinite (火炬之光:無限) and Unhappy Raccoon (浣熊不高興) were launched in 2022. As of December 31, 2022, we had 4 games in development, including Sword of Convallaria (鈴蘭之劍), which is expected to commence overseas testing in the second quarter or third quarter of 2023.

Premium Games

Premium games constitute an important component of TapTap's unique ecosystem, enabling us to achieve differentiation and foster a more diversified user base. In 2022, our premium games were in a transitional phase of preparing for key new launches, resulting in a slight decrease in overall revenue. The mobile version of Sands of Salzaar (部落與彎刀) performed well, and the number of users and payments on all platforms continued to increase with the launch of DLC (Downloadable Content). Classic games such as Terraria (泰拉瑞亞) still have a large online user base and active user communities. These high-quality products are expected to bring revenue and users to us and the platform continuously. In 2023, we will continue to announce more cross-platform new games in order to enrich the TapTap premium games ecosystem and release a variety of products on multiple platforms around the world.

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

During the year ended December 31, 2022, the average MAUs of TapTap PRC was approximately 41.5 million, representing a 31.3% year-on-year increase. Game downloads from TapTap PRC were 801.0 million times, representing a 38.3% year-on-year increase. Over 8.2 million new posts were created, representing a 22.1% year-on-year increase. Benefiting from a series of upgrades of TapTap's architecture and in-app experiences since 2021 and in-depth engagement of machine learning algorithms, the efficiency of TapTap's game distribution system and advertising system had been improved significantly. In July 2022, we hosted the 3rd Annual TapTap Presents online to global players, showcasing 26 new high quality games and their latest developments. Altogether, content related to the 3rd Annual TapTap Presents conference generated over 400 million impressions online.

We commenced the commercialization of TapTap Cloud Gaming business in the first half of 2022 and started to generate certain subscription revenue.

TapTap International

During the year ended December 31, 2022, the average MAUs of TapTap International was approximately 9.1 million, representing a decrease of 25.4% on a year-on-year basis. The higher growth of TapTap International in 2021 and the decline in the number of users in 2022 were attributable primarily to the combined effects of certain popular games and the global pandemic. We preliminarily built up a team focusing on the international market and have been dedicated to the development and operation of versions specifically for certain key overseas markets one by one. Given that TapTap International is still in its infancy, currently we do not set the overall MAU growth as our target, but build up the community ambiance and increase the user penetration rate instead.

Currently, we have only generated a small amount of test revenue from the commercialization of TapTap International.

TapTap Developer Services

In 2022, TapTap Developer Services (TDS) released various products and services in the new international developer center, to facilitate the global expansion of Chinese developers, as well as to serve the needs of game developers overseas. While continuously improving and promoting the existing products, our team also released new functions and products such as the in-game announcement system, TapTap achievements, gift codes, multiplayer system, SMS recalls, and player service systems. The number of daily active games using TDS services exceeded 1,500. In order to support developers who launch their games exclusively on TapTap, TDS has also introduced “Bonfire Program”, offering eligible developers free access to various services. Approximately 200 games participated in this supportive project.

FINANCIAL REVIEW

Revenue

Our revenue is mainly derived from (i) games, the principal 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) information services 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 years ended December 31, 2022 and 2021.

	For the year ended December 31,			
	2022		2021	
	Amount	% of revenue	Amount	% of revenue
	<i>(RMB in thousands, except for percentages)</i>			
Games	2,452,706	71.5	2,010,820	74.4
Game operating	2,434,409	71.0	1,987,999	73.6
Online games	2,310,757	67.4	1,784,032	66.0
Premium games	123,652	3.6	203,967	7.6
Others	18,297	0.5	22,821	0.8
Information services	978,230	28.5	692,353	25.6
Total revenue	<u>3,430,936</u>	<u>100.0</u>	<u>2,703,173</u>	<u>100.0</u>

Games

Our revenue from game business increased by 22.0% to RMB2,452.7 million for the year ended December 31, 2022 on a year-on-year basis. In particular,

- our revenue from online games increased by 29.5% to RMB2,310.8 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to increase in revenue from Sausage Man (香腸派對) and newly launched games such as T3 Arena (火力蘇打) and Torchlight: Infinite (火炬之光:無限), and partially offset by decrease in revenue from certain existing games under maturity stage, such as Ulala (不休的烏拉拉) and Ragnarok M (仙境傳說M); and
- our revenue from premium games decreased by 39.4% to RMB123.7 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to decrease in revenue from certain existing premium games.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the years ended December 31, 2022 and 2021.

	For the year ended December 31,			
	2022		2021	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Revenue recognized on a gross basis	2,178,732	89.5	1,629,801	82.0
Revenue recognized on a net basis	255,677	10.5	358,198	18.0
Total game operating revenue	<u>2,434,409</u>	<u>100.0</u>	<u>1,987,999</u>	<u>100.0</u>

Our game operating revenue recognized on a gross basis increased by 33.7% to RMB2,178.7 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to increase in revenue from Sausage Man (香腸派對) and newly launched games such as T3 Arena (火力蘇打) and Torchlight: Infinite (火炬之光:無限), and was partially offset by decrease in revenue from premium games. Our game operating revenue recognized on a net basis decreased by 28.6% to RMB255.7 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to decrease in revenue from Ragnarok M (仙境傳說M) in overseas markets.

Information services

Our revenue from information services business increased by 41.3% to RMB978.2 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to (i) the growth of online marketing revenue as a results of the growth of the average app MAUs of TapTap PRC, which increased by 31.3% to 41.5 million for the year ended December 31, 2022 on a year-on-year basis; and (ii) an increase of other revenues of RMB32.4 million mainly from TapTap Cloud Gaming service and TDS.

Cost of Revenue

Our cost of revenue increased by 8.0% to RMB1,595.7 million for the year ended December 31, 2022 on a year-on-year basis. The following table sets forth our cost of revenue by line of business for the years ended December 31, 2022 and 2021:

	For the year ended December 31,			
	2022		2021	
	Amount	% of segment revenue	Amount	% of segment revenue
	<i>(RMB in thousands, except for percentages)</i>			
Games	1,338,339	54.6	1,283,763	63.8
Information services	257,338	26.3	193,167	27.9
Total	<u>1,595,677</u>	<u>46.5</u>	<u>1,476,930</u>	<u>54.6</u>

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 information services 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 years ended December 31, 2022 and 2021.

	For the year ended December 31,			
	2022		2021	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Sharing of proceeds with game developers	631,684	39.6	467,953	31.7
Commissions charged by distribution platforms and payment channels	390,689	24.5	398,895	27.0
Bandwidth and servers custody fee	335,188	21.0	286,861	19.4
Employee benefits expenses	132,995	8.3	148,055	10.0
Professional and technical service fee	45,608	2.9	48,203	3.3
Amortization of intangible assets	26,591	1.7	50,670	3.4
Others	32,922	2.0	76,293	5.2
Total	<u>1,595,677</u>	<u>100.0</u>	<u>1,476,930</u>	<u>100.0</u>

Our cost of revenue for game business increased by 4.3% to RMB1,338.3 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to an increase of RMB163.7 million in sharing of proceeds with game developers, which was mainly attributable to the increase of revenue from Sausage Man (香腸派對), and partially offset by the decrease in amortization of intangible assets, as some of our game licenses were fully amortized in 2022.

Our cost of revenue for information services business increased by 33.2% to RMB257.3 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the increase in bandwidth and servers custody fee, which was mainly attributed to the growths in the average mobile app MAUs and gamers' activities in TapTap PRC and the expansion of TapTap Cloud Gaming and TDS.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 49.7% to RMB1,835.3 million for the year ended December 31, 2022 on a year-on-year basis. Our gross margin increased to 53.5% for the year ended December 31, 2022 from 45.4% for the year ended December 31, 2021, primarily due to (i) an increase in our gross margin of game segment from 36.2% for the year ended December 31, 2021 to 45.4% for the year ended December 31, 2022, as a result of the increases in revenue from Sausage Man (香腸派對), and newly launched games T3 Arena (火力蘇打) and Torchlight: Infinite (火炬之光:無限), with all of these games having gross margins higher than the gross margin of our game segment of 36.2% in 2021; and (ii) an increase in gross margin of information services segment from 72.1% for the year ended December 31, 2021 to 73.7% in the corresponding period of 2022. The increase of our gross margin was also benefited from the increase in the contribution of revenue from our information services business to our total revenue from 25.6% for the year ended December 31, 2021 to 28.5% for the year ended December 31, 2022, which in general enjoys a higher gross margin than our game segment.

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 increased by 18.3% to RMB922.7 million for the year ended December 31, 2022 on a year-on-year basis. This was primarily due to (i) the increased marketing expenses of RMB94.5 million for TapTap, as we continued to attract new users and bring in high quality exclusive games in both PRC and overseas; and (ii) the increased marketing expenses of RMB48.0 million for game segment, as we newly launched four online games, namely Flash Party (派對之星), T3 Arena (火力蘇打), Torchlight: Infinite (火炬之光:無限) and Unhappy Raccoon (浣熊不高興) in overseas markets during the year ended December 31, 2022.

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 increased by 3.4% to RMB1,283.8 million for the year ended December 31, 2022 on a year-on-year basis. Although there was a decrease in the number of our research and development personnel from 1,635 as of December 31, 2021 to 1,196 as of December 31, 2022, mainly due to the projects restructuring in our game segment, the increase in our research and development expenses was primarily due to (i) an increase of RMB48.5 million in employment termination compensation; and (ii) an increase of RMB15.0 million in professional and technical services fee.

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 audit and law firms, (iii) office expenses incurred in the ordinary course of business, and (iv) depreciation of property, plant and equipment in connection with our office space in Shanghai and right-of-use assets pursuant to IFRS 16.

Our general and administrative expenses decreased by 0.6% to RMB233.8 million for the year ended December 31, 2022 on a year-on-year basis. This was primarily due to (i) the decrease in the number of back office personnel, and (ii) the decrease in office expenses, rental and utilities expenses as our office spaces benefiting from the rent relief and concession policy under the impact of the pandemic.

Other (Loss)/Gain, Net

Our other (loss)/gain, net primarily consist of gain or loss on foreign exchange.

Our foreign exchange net loss was RMB23.7 million for the year ended December 31, 2022, comparing a foreign exchange net gain of RMB21.4 million for the year ended December 31, 2021. This was primarily due to depreciation of RMB/USD and RMB/HKD exchange rates in 2022.

Income Tax (Expenses)/Credits

We recorded income tax expenses of RMB14.2 million for the year ended December 31, 2022, compared to income tax credits of RMB38.6 million for the corresponding period in 2021. For the year ended December 31, 2022, we recorded a current income tax expenses of RMB20.8 million for some of our profit-making subsidiaries and a deferred income tax credits of RMB6.6 million for some of our loss-making subsidiaries.

Loss for the Year

Our net loss for the year was RMB574.0 million for the year ended December 31, 2022, representing a decrease of 37.4% as compared to our net loss of RMB917.3 million for the year ended December 31, 2021.

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 RMB553.5 million for the year ended December 31, 2022, representing a decrease of 35.9% as compared to our net loss attributable to equity holders of the Company of RMB863.8 million for the corresponding period of 2021.

Our net loss for the year attributable to non-controlling interests was due 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 profit to our EBITDA and Adjusted EBITDA for the periods presented:

	For the year ended	
	December 31,	
	2022	2021
	(RMB'000)	(RMB'000)
Operating loss	(567,870)	(955,521)
Adjustment:		
Fair value changes on investments measured at fair value through profit or loss	(1,701)	(9,347)
Other income	(51,020)	(44,993)
Other losses/(gains), net	12,931	(21,097)
Depreciation of property, plant and equipment and right-of-use assets	135,006	118,821
Amortization of intangible assets	44,948	68,496
EBITDA	(427,706)	(843,641)
Share-based compensation expenses	74,661	27,619
Adjusted EBITDA	(353,045)	(816,022)

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 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,	
	2022	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Loss for the year	(574,013)	(917,288)
Add:		
— Fair value changes on long-term investments measured at fair value through profit or loss	5,547	565
— Share-based compensation expenses	74,661	27,619
Less:		
— Income tax effects	(451)	(1,241)
Adjusted loss for the year	<u>(494,256)</u>	<u>(890,345)</u>
	For the year ended	
	December 31,	
	2022	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Loss attributable to equity holders of the Company	(553,495)	(863,811)
Add:		
— Fair value changes on long-term investments measured at fair value through profit or loss	5,204	(379)
— Share-based compensation expenses	66,209	25,223
Less:		
— Income tax effects	(365)	(1,005)
Loss attributable to equity holders of the Company	<u>(482,447)</u>	<u>(839,972)</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, 2022 and December 31, 2021 are as follows:

	As at December 31, 2022 (RMB'000)	As at December 31, 2021 (RMB'000)
Cash and cash equivalents	3,098,084	3,164,726
Short-term investments		
— Term deposits with initial terms over three months	295,999	102,920
— Wealth management products	194,780	689,518
Restricted cash	—	296
	<u>3,588,863</u>	<u>3,957,460</u>

As at December 31, 2022, our short term investments are mainly consist of (i) term deposits with initial terms ranging from three months to twelve months; and (ii) wealth management products issued by large reputable commercial banks. The principle and returns of such term deposits are guaranteed by relevant banks. These wealth management products invest principally in low risk and liquid fixed-income instruments 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 2.6% to 4.6% per annum.

The decrease of our cash positions and short-term investments was primarily due to net cash flows used in operating activities of RMB327.9 million for the year ended December 31, 2022.

As of December 31, 2022, other than the convertible bonds issued on April 12, 2021, we did not have any borrowings or unutilized banking facilities. These convertible bonds are in the specified denomination of USD200,000 each and integral multiples of USD1,000 thereof with the aggregate principal amounts of USD280.0 million, bearing an interest of 1.25% per annum payable semi-annually and will mature on April 12, 2026.

Our gearing ratio was 60.3% as at December 31, 2022, comparing a gearing ratio of 52.8% as at December 31, 2021. The increase in gearing ratio is mainly attributable to the decrease of total equity from RMB2,382.4 million as at December 31, 2021 to RMB1,905.6 million 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, 2022, neither the Group held any significant investments, nor was there any material acquisition and disposal of subsidiaries, associated companies and joint ventures.

Pledge of Assets

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

Future Plans for Material Investments or Capital Assets

As of December 31, 2022, 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, 2022, we did not have any material contingent liabilities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended December 31, 2022

		Year ended December 31,	
		2022	2021
	Notes	RMB'000	RMB'000
Revenues	3	3,430,936	2,703,173
Cost of revenues	4	(1,595,677)	(1,476,930)
Gross profit		1,835,259	1,226,243
Selling and marketing expenses	4	(922,683)	(780,184)
Research and development expenses	4	(1,283,824)	(1,242,174)
General and administrative expenses	4	(233,848)	(235,105)
Net impairment (losses)/reversal on financial assets	4	(2,564)	262
Fair value changes on investments measured at fair value through profit or loss		1,701	9,347
Other income	5	51,020	44,993
Other (losses)/gains, net	6	(12,931)	21,097
Operating loss		(567,870)	(955,521)
Finance income		27,677	13,533
Finance costs		(57,838)	(40,264)
Finance costs, net	7	(30,161)	(26,731)
Share of results of investments accounted for using equity method		38,197	28,387
Impairment of investments accounted for using equity method		—	(2,023)
Loss before income tax		(559,834)	(955,888)
Income tax (expenses)/credits	8	(14,179)	38,600
Loss for the year		(574,013)	(917,288)
Other comprehensive income/(loss):			
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		(11,389)	(1,793)
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		71,649	(56,316)
Total comprehensive loss for the year		(513,753)	(975,397)

		Year ended December 31,	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
Loss for the year attributable to:			
Equity holders of the Company		(553,495)	(863,811)
Non-controlling interests		(20,518)	(53,477)
		<u>(574,013)</u>	<u>(917,288)</u>
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		(496,544)	(921,097)
Non-controlling interests		(17,209)	(54,300)
		<u>(513,753)</u>	<u>(975,397)</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>(1.17)</u>	<u>(1.86)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2022

		As at December 31,	
		2022	2021
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		96,211	148,561
Right-of-use assets		271,256	139,900
Intangible assets		256,381	248,808
Deferred tax assets		76,184	75,518
Investments accounted for using the equity method		124,734	89,846
Long-term investments measured at fair value through profit or loss		24,565	30,102
Prepayments, deposits and other assets		56,219	63,383
		<u>905,550</u>	<u>796,118</u>
Current assets			
Trade receivables	10	249,444	223,550
Income tax prepayment		—	2,258
Prepayments, deposits and other assets		52,197	64,746
Short-term investments		490,779	792,438
Restricted cash		—	296
Cash and cash equivalents		3,098,084	3,164,726
		<u>3,890,504</u>	<u>4,248,014</u>
Total assets		<u>4,796,054</u>	<u>5,044,132</u>
EQUITY			
Share capital	11	329	329
Share premium	11	7,035,801	7,035,801
Shares held for share award schemes		(6)	(6)
Other reserves		(4,377,255)	(4,512,959)
Accumulated deficit		(770,540)	(218,923)
		<u>1,888,329</u>	<u>2,304,242</u>
Equity attributable to equity holders of the Company		1,888,329	2,304,242
Non-controlling interests		17,320	78,165
		<u>1,905,649</u>	<u>2,382,407</u>
Total equity		<u>1,905,649</u>	<u>2,382,407</u>

		As at December 31,	
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		—	6,163
Lease liabilities		213,951	83,849
Convertible bonds		1,805,948	1,662,058
		<u>2,019,899</u>	<u>1,752,070</u>
Current liabilities			
Trade payables	<i>12</i>	203,053	205,390
Advance from customers		59,411	37,025
Other payables and accruals		298,980	341,578
Contract liabilities		156,688	206,642
Current income tax liabilities		67,884	42,740
Lease liabilities		60,960	54,275
Convertible bonds		23,530	22,005
		<u>870,506</u>	<u>909,655</u>
Total liabilities		<u>2,890,405</u>	<u>2,661,725</u>
Total equity and liabilities		<u>4,796,054</u>	<u>5,044,132</u>

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.

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 provision of information services (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”) and other countries and regions.

The Company has its primary listing (“**IPO**”) on the Stock Exchange of Hong Kong Limited on December 12, 2019.

The consolidated financial statements for the year ended December 31, 2021 and 2022 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 (“**IFRSs**”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

(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 37	Onerous Contracts — Cost of Fulfilling a Contract
Annual 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
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 1	Classification of Liabilities as current and non-current	1 January 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 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 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 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. The game segment also earns online marketing service revenue from in-game marketing and promotion services.

Information service segment

The information service segment offers online marketing services to game developers, game publishers or their agents. Revenues from the information service 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 information service 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, 2021 and 2022, 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, 2022		
	Information		
	Game segment RMB'000	service segment RMB'000	Total RMB'000
Game operating revenues			
— Online Games (free-to-play)	2,310,757	—	2,310,757
— Premium Games (pay-to-play)	123,652	—	123,652
	<u>2,434,409</u>	<u>—</u>	<u>2,434,409</u>
Subtotal	2,434,409	—	2,434,409
Online marketing service revenue	—	939,338	939,338
Others	18,297	38,892	57,189
	<u>18,297</u>	<u>38,892</u>	<u>57,189</u>
Total revenues	2,452,706	978,230	3,430,936
	<u>2,452,706</u>	<u>978,230</u>	<u>3,430,936</u>
Cost of revenues	(1,338,339)	(257,338)	(1,595,677)
	<u>(1,338,339)</u>	<u>(257,338)</u>	<u>(1,595,677)</u>
Gross profit	1,114,367	720,892	1,835,259
	<u>1,114,367</u>	<u>720,892</u>	<u>1,835,259</u>
Gross margin	45%	74%	53%

	Year ended December 31, 2021		
	Game	Information	Total
	segment	service	
	RMB'000	segment	RMB'000
		RMB'000	RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,784,032	—	1,784,032
— Premium Games (pay-to-play)	203,967	—	203,967
Subtotal	1,987,999	—	1,987,999
Online marketing service revenue	16,309	685,844	702,153
Others	6,512	6,509	13,021
Total revenues	2,010,820	692,353	2,703,173
Cost of revenues	(1,283,763)	(193,167)	(1,476,930)
Gross profit	727,057	499,186	1,226,243
Gross margin	36%	72%	45%

Revenues of approximately RMB948 million and 1,048 million for the years ended December 31, 2021 and 2022, 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, 2021 and 2022, respectively.

	Year ended December 31,	
	2022	2021
Information service revenue		
Customer A	18%	18%

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

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Service transferred overtime	1,631,237	1,265,170
Service transferred at a point of time	1,799,699	1,438,003
	<u>3,430,936</u>	<u>2,703,173</u>

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

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,503,464	953,557
Other areas (<i>Note a</i>)	930,945	1,034,442
Total	<u>2,434,409</u>	<u>1,987,999</u>

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

4 Expenses by nature

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expenses	1,406,292	1,417,268
Promotion and advertising expenses	813,963	667,727
Sharing of proceeds to game developers	631,684	467,953
Commissions charged by Payment Channels and Distribution Channels	390,689	398,895
Bandwidth and server custody fee	342,385	291,651
Professional and technical services fee	173,686	160,577
Depreciation of property, plant and equipment and right-of-use assets	135,006	118,821
Amortization of intangible assets	44,948	68,496
Office expenses	37,288	49,607
VAT input transfer out and tax surcharges	24,285	23,562
Rental expenses and utilities	10,314	20,403
Impairment of non-financial assets	9,215	29,929
Auditor's remuneration		
–Audit service	4,240	5,625
–Non-audit service	1,485	3,330
Net impairment losses/(reversal) on financial assets	2,564	(262)
Others	10,552	10,549
Total	<u>4,038,596</u>	<u>3,734,131</u>

5 Other income

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies	40,164	28,247
Interest income from short-term investments measured at amortized cost	10,856	16,616
Others	—	130
Total	51,020	44,993

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

6 Other (losses)/gains, net

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange (loss)/gain, net	(23,712)	21,447
Net gain on repurchase of convertible bonds	8,983	—
Dilution gain	—	843
Others	1,798	(1,193)
Total	(12,931)	21,097

7 Finance cost, net

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	27,677	13,533
Finance costs		
Interest expenses on convertible bonds	(48,293)	(32,962)
Interest expenses on lease liabilities	(7,397)	(6,390)
Bank charges	(2,148)	(912)
Finance cost, net	(30,161)	(26,731)

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, 2021 and 2022.

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, 2021 and 2022.

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 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the years ended December 31, 2021 and 2022.

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,	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
Current income tax	20,794	19,628
Deferred income tax	(6,615)	(58,228)
Total income tax expenses	<u>14,179</u>	<u>(38,600)</u>

9 Loss per share

Basic loss earnings 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,	
	2022	2021
Loss attributable to equity holders of the Company (RMB'000)	(553,495)	(863,811)
Weighted average number of shares in issue (thousands)	471,993	464,566
Basic loss per share (in RMB)	<u>(1.17)</u>	<u>(1.86)</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, 2021 and 2022, 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, 2021 and 2022, 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,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Distribution Channels and game publishers	191,920	153,688
Online marketing service customers	59,536	71,106
Others	1,906	505
	<u>253,362</u>	<u>225,299</u>
Less: allowance for impairment	<u>(3,918)</u>	<u>(1,749)</u>
	<u><u>249,444</u></u>	<u><u>223,550</u></u>

- (a) Distribution Channels and game publishers and online marketing service customers usually settle the amounts within 30–120 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	205,439	203,554
3 months to 6 months	35,806	20,420
6 months to 1 year	8,652	219
1 to 2 years	2,849	17
Over 2 years	616	1,089
	<u>253,362</u>	<u>225,299</u>
	<u><u>253,362</u></u>	<u><u>225,299</u></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 b) RMB'000
Authorized					
Ordinary shares of USD0.0001 each; January 25, 2019 (date of incorporation)	1,000,000	100	–	–	–
As at December 31, 2021 and 2022	<u>1,000,000</u>	<u>100</u>	<u>–</u>	<u>–</u>	<u>–</u>
Issued and fully paid					
As at January 1, 2021	454,113	44	312	6,095,544	(6)
Issuance of ordinary shares (Note a)	26,318	3	17	940,257	–
As at December 31, 2021	<u>480,431</u>	<u>47</u>	<u>329</u>	<u>7,035,801</u>	<u>(6)</u>
As at December 31, 2022	480,431	47	329	7,035,801	(6)

(a) On April 13, 2021, a total of 26,318,000 new shares were subscribed at HKD42.38 per share under a general mandate granted. The Company raised gross proceeds of approximately HKD1,115 million (equivalent to RMB942 million) and received net proceeds of approximately HKD1,113 million (equivalent to RMB940 million) from the subscription.

(b) 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, 2021 and 2022, the shares are represented as treasury shares of the Group and will be used for future shared based compensation to employee.

12 Trade payables

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Trade payables	<u>203,053</u>	<u>205,390</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,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	202,387	204,868
Over 3 months	666	522
	<u>203,053</u>	<u>205,390</u>

13 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2021 and 2022.

In April 2021, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a subsidiary of the Group, a dividend of USD20 million was approved and paid, USD7 million (equivalent to RMB45 million) of which was paid to non-controlling shareholders.

In May 2021, pursuant to the resolution of the shareholders' meetings of Yiwan, a subsidiary of the Group, a dividend of RMB50 million was approved and paid, RMB13 million of which was paid to non-controlling shareholders.

In July 2021, pursuant to the resolution of the shareholders' meetings of Longcheng, a subsidiary of the Group, a dividend of RMB165 million was approved and paid, RMB58 million of which was paid to non-controlling shareholders.

In April 2022, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a subsidiary of the Group, a dividend of USD16 million was approved and paid, USD5.6 million (equivalent to RMB38 million) of which was paid to non-controlling shareholders.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2022, the convertible bonds in the principal amount of US\$5,400,000 was redeemed by the Company through the open market for a total price of approximately US\$3.8 million. The conversion price is HK\$63.45 per share.

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, 2022.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2022 (for the year ended December 31, 2021: 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\$219.7 million. The table below sets out the details of actual usage of the net proceeds as of December 31, 2022:

Use of proceeds	Amount of net proceeds received from convertible bonds issue (US\$ million)	Amount of net proceeds brought forward as of January 1, 2022 (US\$ million)	Actual usage for the year ended December 31, 2022 (US\$ million)	Unutilized net proceeds as of December 31, 2022 (US\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	148.8	99.9	35.4	64.5	By December 31, 2023
• marketing and promoting games and TapTap	99.2	92.2	36.8	55.4	By December 31, 2023
• general corporate purposes	27.6	27.6	0	27.6	By December 31, 2023
	<u>275.6</u>	<u>219.7</u>	<u>72.2</u>	<u>147.5</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\$497.6 million. The table below sets out the details of actual usage of the net proceeds as of December 31, 2022:

Use of proceeds	Amount of net proceeds received from placing of shares (HK\$ million)	Amount of net proceeds brought forward as of January 1, 2022 (HK\$ million)	Actual usage for the year ended December 31, 2022 (HK\$ million)	Unutilized net proceeds as of December 31, 2022 (HK\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	556.5	133.4	133.4	0	—
• potential acquisition and strategic investments	222.6	136.4	8.9	127.5	By December 31, 2023
• general corporate purposes	333.9	227.8	227.8	0	—
	1,113.0	497.6	370.1	127.5	

EMPLOYEE, REMUNERATION AND PENSION SCHEME

We had 1,706 employees as of December 31, 2022 (December 31, 2021: 2,327 employees), substantially of which were based in Shanghai. Employee benefits expenses (including the Directors' remunerations) were approximately RMB1,406.3 million for the year ended December 31, 2022, which was a decrease of approximately 0.8% as compared to approximately RMB1,417.3 million for the year ended December 31, 2021 due to a decrease in the number of our company personnel.

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 (the “**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, 2022, a total of 10,375,181 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 561,180 Options granted to Mr. Huang Yimeng, an executive Director, and 444,855 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 and the circular of the Company dated May 21, 2021, respectively.

EVENTS AFTER THE REPORTING PERIOD

On January 11, 2023, a total of 942,550 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 3,715 Options granted to Mr. Dai Yunjie, an executive Director, respectively. For details, please refer to the announcement of the Company dated January 11, 2023.

Subsequent to the Reporting Period, 22,207 Options were exercised by certain eligible participants to subscribe for 22,207 ordinary shares of the Company.

Save as disclosed above, there are no material subsequent events undertaken by the Group after December 31, 2022 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, 2022 except for a deviation from code provision C.2.1 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, 2022.

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 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, 2022 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, 2022 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, 2022. 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 14 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 10 to the Listing Rules;
“MPU(s)”	Monthly paying user(s), 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 30, 2023

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