

2023 ANNUAL REPORT 年度報告



XD Inc. 心动有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號 : 2400

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01

CORPORATE
INFORMATION

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Huang Yimeng (*Chairman and Chief Executive Officer*)
Mr. Dai Yunjie
Mr. Fan Shuyang

Non-executive Directors

Mr. Wu Meng (appointed with effect from December 17, 2023)
Mr. Liu Wei (resigned with effect from December 17, 2023)

Independent Non-executive Directors

Mr. Pei Dapeng
Mr. Xin Quandong
Ms. Liu Qianli

AUDIT COMMITTEE

Mr. Xin Quandong (*Chairman*)
Mr. Pei Dapeng
Ms. Liu Qianli

REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Qianli (*Chairman*)
Mr. Dai Yunjie
Mr. Xin Quandong

NOMINATION COMMITTEE

Mr. Pei Dapeng (*Chairman*)
Mr. Huang Yimeng
Ms. Liu Qianli

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Huang Yimeng (*Chairman*)
Mr. Dai Yunjie
Mr. Wu Meng (appointed on December 17, 2023)
Mr. Liu Wei (resigned on December 17, 2023)
Mr. Pei Dapeng

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang
Mr. Chung Ming Fai

AUTHORISED REPRESENTATIVES

Mr. Fan Shuyang
Mr. Chung Ming Fai

AUDITOR

PricewaterhouseCoopers
(*Registered Public Interest Entity Auditors*)
22/F, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

Campbells Corporate Services Limited
Floor 4, Willow House, Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Wanrong Road
Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F., Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

Campbells Corporate Services Limited
Floor 4, Willow House, Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

HONG KONG LEGAL ADVISER

Clifford Chance

PRINCIPAL BANKS

China Merchants Bank (Shanghai Branch, Daning Sub-branch)
China Citic Bank (Shanghai Branch, Daning Sub-branch)

WEBSITE

2400.hk

STOCK CODE

2400

02

CHAIRMAN'S
LETTER

CHAIRMAN'S LETTER

Dear fellow investors and friends,

2024 marks our sixth year on the public market, and it's my fifth time communicating with you in this manner. More than just a tradition, our annual shareholder letter has been an important channel for candid communication. As I review the letters from previous years, it's evident how they have documented our Company's growth and aspirations as we navigated challenges along the way. I am committed to maintaining this dialogue in this year's letter, sharing with you my honest reflections and insights.

In the recent years, we have experienced unexpected challenges. Although it is a pity that we were not able to meet all our goals as planned and faced considerable constraints, these circumstances encouraged us to pause for strategic reflection and to adjust our objectives accordingly. Over the past year, against the backdrop of shifting market conditions and our operational realities, we reassessed our capabilities, sharpened our strategic focus, and optimized our core personnel. Our efforts extended to making selective decisions across our gaming projects and TapTap operations, prioritizing resources where they could have the greatest impact.

Over the past year, we launched *Torchlight: Infinite* (火炬之光：無限) and *T3 Arena* (火力蘇打) in Mainland China, and released *Sword of Convallaria* (鈴蘭之劍) across Mainland China, Hong Kong, Macau, and Taiwan, and *GoGo Muffin* (出發吧麥芬) in public beta in Hong Kong, Macau, and Taiwan earlier this year. The rollout and operation of these self-developed projects have significantly enhanced our development and distribution capabilities, leading to increasingly promising results.

Even the older games in our portfolio such as *Shen Xian Dao* (神仙道), *Ragnarok M: Eternal Love* (仙境傳說RO：守護永恆的愛), and *Sausage Man* (香腸派對), despite being in its maturity stages of their lifecycles, continue to be our playgrounds for exploring and verifying new ideas. We remain actively involved in the operation and development on these games. These games are expected to receive revolutionary content updates this year.

In the past years, we have made significant investments in game development, aiming to gain a competitive edge through scalable inputs and extensive resources, however the results have not been the most favorable. As the gaming market in China grows fiercely competitive, we no longer takes an aggressive approach in terms of content output and resources input. However, these efforts have not been in vain, they have significantly elevated our capabilities in production and ensured our games maintain a quality above industry standards. Looking forward, we will leverage this unique strength and focus on innovating gameplay mechanics and empathetic player engagement to drive better business results.

Due to a strategic shift in marketing investments and the impacts of various internal and external factors due to market changes, the number of active users on TapTap experienced a decline in 2023 compared to the previous year. However, after several adjustments to our advertising strategies, active user growth in TapTap PRC has since rebounded, aligning with our expectations since fourth quarter of last year.

We have continued to optimize the algorithms on TapTap to improve the efficiency of content distribution on the platform. Alongside improving quantity, we have placed a strong emphasis on the quality of content to keep our users satisfied. Furthermore, we have introduced a curated segment dedicated to individually promoting games of higher quality and potential.

As the influence and credibility of our TapTap ratings and ranking systems within the gaming industry continue to grow, our ratings, commentaries and rating systems have also increasingly become targets for manipulation. We are working intensively in combating unethical practices and promotions to maintain the integrity of our ratings. Beyond upgrading existing protocols against manipulation, we are exploring the introduction of a credit system to enable receipt of positive feedbacks of the long-term reputable game developers and games.

In our ongoing efforts to moderate community content on TapTap, we have observed the adverse effects of malicious reviews on both game developers and the broader community. As part of our community governance, we are continually updating our rules and algorithms to address these issues. While traffic in the content community on TapTap remains modest, it's important to acknowledge the notable improvements we've seen, as user engagement has progressively improved. And, despite iOS restrictions that prevented us from offering game downloads and left the app with only community features, TapTap still achieved meaningful growth on iOS last year.

We have also made great advances in our data-driven initiatives, enabling developers to share backend data with us through a backend protocol since last year. This integration transforms user data from static figures to dynamic metrics, continuously tracked and analyzed post-download. Whether it's developers advertising on TapTap or our own promotional efforts, the return on investment has significantly increased. Looking ahead, we plan to further lower the threshold of data feedback by integrating it directly into the TapTap SDK. This will empower us to enhance our recommendation and advertising algorithms more effectively, improving user experience and boosting developer revenues.

In the past, our TapTap Developer Services (TDS) was criticized for its complexity, with many of its features failing to meet both developers' or our own expectations. This year, we are streamlining TDS functionalities by removing underutilized features to improve both service quality and direct revenue generation. We plan to consolidate essential services such as login, updates, friends, gaming career data, and backlink feedback into a single TapTap SDK, in order to reduce the cost for developers. Additionally, by linking multiple data points across TapTap, the SDK will not only offer us the improvement of our algorithms and appeal to higher quality players, but also provide developers clearer insights into the performance of their games at various stages and enable more effective comparisons with site-wide data, and highlighting areas for strength and improvement.

Over the past few years, our grand dreams and ambitions have propelled us through bold trials and explorations across numerous avenues. Whether investing in casual competitive games with high DAUs, expanding the global reach of TapTap, maximizing talent density, fostering a corporate culture of transparency and open dialogue, all our efforts have been commendable.

While these efforts did not always meet our expectations, in the past year we have recalibrated our strategies to capitalize on our greatest strengths in key areas, and the improvements are already evident. Nonetheless, we have not strayed from our initial ideals and ambitions. Our mission to "impact each and every gamer through the spirit of craftsmanship" remains steadfast, reinforced by our commitment to nurturing an excellent corporate culture. We have made timely and necessary adjustments to our approach, setting the stage for a more effective and sustainable progress toward our goals.

This journey has truly been one filled with love and courage, and despite the many challenges, we have no regrets about the dedication we've shown. My greatest insights from this last year emerged from the deep reevaluation of my own capabilities and the thorough review of past experiences. These reflections have enabled us to refine our strategies and team structures. By placing the most qualified talent in roles that align with their expertise and clearly defining their responsibilities and motivations, we are building a robust foundation for our long-term goals and assembling a team that is ready for the challenges ahead.

This year marks the 20th anniversary of my career as an entrepreneur. Reflecting on the past two decades, I've witnessed the ups and downs of the gaming industry and navigated the highs and lows of leading a business. Fortunately, the invaluable support of my colleagues, partners, and users has empowered me to persist in my beliefs and pursue a career I am passionate about.

I am grateful to the colleagues who have shared their love and courage on this journey with me. Our adventure continues, and although there will still be challenges, I am confident that next year is going to be better.

I would like to express my gratitude to all our Shareholders for your long-standing trust and support. XD will continue to be a company of conviction and perseverance, and we remain committed to long-term value over short-term gains, facing challenges head-on, and maintaining transparency and candor in sharing our progress.

Huang Yimeng

Chairman of the Board and Chief Executive Officer of XD Inc.

03

MANAGEMENT DISCUSSION AND ANALYSIS

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 years ended December 31, 2023 and 2022.

	For the year ended December 31,			
	2023		2022	
	Amount	% of revenue	Amount	% of revenue
(RMB in thousands, except for percentages)				
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	3,389,144	100.0	3,430,936	100.0

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	%
(RMB in thousands, except for percentages)				
Revenue recognized on a gross basis	1,902,833	91.4	2,178,732	89.5
Revenue recognized on a net basis	179,218	8.6	255,677	10.5
Total game operating revenue	2,082,051	100.0	2,434,409	100.0

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 years ended December 31, 2023 and 2022.

	For the year ended December 31,			
	2023		2022	
	Amount	% of segment revenue	Amount	% of segment revenue
(RMB in thousands, except for percentages)				
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 years ended December 31, 2023 and 2022.

	For the year ended December 31,			
	2023		2022	
	Amount	%	Amount	%
(RMB in thousands, except for percentages)				
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 average MAUs of online games; 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) Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司) ("Yiwan"); (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 (RMB'000)	2022 (RMB'000)
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
EBITDA	107,020	(427,706)
Share-based compensation expenses	51,364	74,661
Adjusted EBITDA	158,384	(353,045)

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	(9,406)	(494,256)

	For the year ended December 31,	
	2023	2022
	(RMB'000)	(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)
Adjusted loss attributable to equity holders of the Company	(34,118)	(482,447)

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,	As at December 31,
	2023	2022
	(RMB'000)	(RMB'000)
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
	3,354,478	3,588,863

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.

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BIOGRAPHIES
OF DIRECTOR
AND SENIOR
MANAGEMENT

BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Huang Yimeng (黃一孟), aged 42, is an executive Director, the Chairman of the Board and the Chief Executive Officer of our Company. Mr. Huang has over 17 years of experience in games, telecommunications, technology and internet industries and is primarily responsible for the overall operations and management of our Group. Mr. Huang has been the chairman of the board of directors of X.D. Network since July 2011. Mr. Huang currently also holds directorships in various of our subsidiaries, our PRC Consolidated Affiliated Entities and Relevant Entities. In addition, Mr. Huang has abundant management experience in the technology industry, including as the chief executive officer of Shanghai Shaosi Network Technology Co., Ltd. (上海少思網絡科技有限公司) from May 2007 to June 2011, and the chief executive officer of Shanghai Weixi Network Technology Co., Ltd. (上海維西網絡科技有限公司) from June 2005 to April 2007. Mr. Huang graduated from Fudan High School in China in July 2000.

Mr. Dai Yunjie (戴雲傑), aged 41, is an executive Director and the President of our Company. Mr. Dai has over 17 years of experience in games, telecommunications, technology and internet industries and is primarily responsible for daily operations, overseas business development and human resources of our Group. Mr. Dai currently also holds directorships in various of our subsidiaries, Consolidated Affiliated Entities and Relevant Entities. Mr. Dai has been an executive director of Shanghai Qingwu Network Technology Co., Ltd. (上海輕舞網絡科技有限公司) since August 2014, and an executive director of Shanghai Yinzhi Network Technology Co., Ltd. (上海隱志網絡科技有限公司) since November 2003. In addition, Mr. Dai was the chief operating officer of Shanghai Shaosi Network Technology Co., Ltd. (上海少思網絡科技有限公司) from May 2007 to June 2011, and the chief operating officer of Shanghai Weixi Network Technology Co., Ltd. (上海維西網絡科技有限公司) from June 2005 to April 2007. Mr. Dai graduated from Shanghai University in China majoring in mechanical engineering and automation in June 2006.

Mr. Fan Shuyang (樊舒陽), aged 40, is an executive Director and one of the joint company secretaries of our Company. Mr. Fan has also served as the secretary to the board of directors, the product manager and project manager of X.D. Network since February 2012. Mr. Fan has more than 16 years of experience in game and consultancy industries and is primarily responsible for daily operations, corporate governance and legal and compliance affairs of our Group. Prior to joining our Group, Mr. Fan served as a project manager at SEGA Shanghai (世嘉(上海)) from January 2010 to January 2012, a transfer pricing consultant at KPMG China from July 2009 to December 2009 and a software engineer at SEGA Shanghai from July 2006 to July 2007. Mr. Fan obtained his bachelor's degree in automation from Tongji University in China in July 2007 and his master's degree in electronic business management from University of Warwick in the United Kingdom in January 2009.

Non-Executive Director

Mr. Wu Meng (吳萌), aged 39, is a non-executive Director of our Company. Mr. Wu started his business since 2005 and has over 18 years of experience in the gaming and Internet industry. From February 2012 to June 2022, Mr. Wu worked at Giant Network Group Co., Ltd. (巨人網路集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002558), where he consecutively served as the vice president from February 2012 to December 2019, and as the chief executive officer from January 2020 to June 2022. Mr. Wu is the founder of Shanghai MiAO Worlds Technology Co., Ltd. (上海妙世界科技有限公司) and has served as the chief executive officer since July 2022. Mr. Wu graduated from Shuangyashan City Forestry School in Heilongjiang Province (黑龍江省雙鴨山市林業學校) in 2004.

Independent non-executive Directors

Mr. Pei Dapeng (裴大鵬), aged 46, is our independent non-executive Director. Mr. Pei has also been an independent director of X.D. Network since October 2017. Mr. Pei has extensive industry experience in E-commerce and network technology. In addition to his positions in our Group, Mr. Pei has been the chairman of the board of directors and chief executive officer in Shopex Software Co., Ltd. (商派軟件有限公司) since March 2019. Mr. Pei also served as the general manager in Shopex Software Co., Ltd. (商派軟件有限公司) from June 2017 to February 2019. Mr. Pei served as the general manager in Youliang (Shanghai) Information Technology Co., Ltd. (有量(上海)信息技術有限公司) from April 2015 to May 2017. Mr. Pei served as the general manager in Shanghai Youliang Marketing Co., Ltd. (上海有量市場營銷策劃有限公司) from November 2014 to March 2015. Mr. Pei served as the general manager in Ku Mei (Shanghai) Information Technology Co., Ltd. (酷美(上海)信息技術有限公司) from January 2009 to October 2014. Mr. Pei served as the general manager of Shanghai Shopex Network Technology Co., Ltd. (上海商派網絡科技有限公司) from November 2006 to December 2008. Mr. Pei obtained his bachelor's degree in Informatics from East China Normal University in China in July 2000.

Mr. Xin Quandong (辛全東), aged 50, is our independent non-executive Director. Mr. Xin also serves as an independent director of X.D. Network since October 2017. Mr. Xin has extensive experience in accounting and investment industries. In addition to his positions in our Group, Mr. Xin has been founding partner and chief executive officer of Shanghai Honggu Equity Investment Fund (上海紅穀股權投資基金) since August 2015. Before that, Mr. Xin served as the partner and managing director of Shanghai Chengding Equity Investment Fund (上海誠鼎股權投資基金) from May 2010 to July 2015, as chairman and general manager of Shanghai Big Thumb Home Service Co., Ltd. (上海大拇指家庭服務有限公司) from June 2008 to May 2010, as executive vice president of Shanghai East Joy Long Motor Airbag Co., Ltd. (上海東方久樂汽車安全氣囊股份有限公司) from December 2006 to July 2007, as chief financial officer and deputy general manager of Shanghai Huabo Investment Consulting Co., Ltd. (上海華博投資諮詢有限公司) from April 2003 to December 2006, as investment manager of Shanghai Keyuan Investment Consulting Co., Ltd. (上海科遠投資諮詢有限公司) from April 2001 to November 2012. Mr. Xin obtained his bachelor's degree in accounting from Shanghai University of Finance and Economics in China in July 1996. Mr. Xin has been accredited as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since 1998 and has obtained the fund practice qualification from Asset Management Association of China in 2017.

Ms. Liu Qianli (劉千里), aged 48, is our independent non-executive Director. Ms. Liu has over 20 years of experience in investment banking and corporate finance. Ms. Liu served as the chief financial officer of MainOne Information Technology Company Ltd., an information technology company, from June 2007 to August 2008; the chief financial officer of ChinaEdu Corp., an education services provider in China from October 2008 to November 2010; the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Code: FENG), from December 2010 to July 2013; an independent non-executive director of BAI00 Family Interactive Limited, a children's web game developer listed on the Main Board of the Stock Exchange (Stock Code: 2100) from March 2014 to date; an independent non-executive director of Feiyu Technology International Company Ltd., a leisure mobile game developer listed on the Main Board of the Stock Exchange (Stock Code: 1022) from November 2014 to date; an independent non-executive director of Luckin Coffee Inc., a coffee retail company listed on the OTC Pink Market (OTC: LKNKY), from May 2022 to date; and Ms. Liu serves as the Assistant Head of School, Business of Keystone Academy from 2020 to date. Ms. Liu obtained her bachelor's degree in arts from Dartmouth College in 1997 and her master's degree in Business Administration from the Massachusetts Institute of Technology Sloan School of Management in 2003.

SENIOR MANAGEMENT

For biographical details of Mr. Huang Yimeng, Mr. Dai Yunjie and Mr. Fan Shuyang, who form part of our senior management team, please refer to “-Directors–Executive Directors” in this section of this annual report.

Mr. Gong Rui (龔睿), aged 38, has been appointed as the Chief Financial Officer of our Company since June 3, 2019 and is primarily responsible for the overall finance, investments, and strategic development of our Group. Mr. Gong has been the chief financial officer of X.D. Network since November 2018. Mr. Gong has 14 years of experience in the investment banking and financial management industries. Prior to joining our Group, Mr. Gong served as associate vice president and vice president in China Culture Industry Investment Fund Management Co., Ltd. (中國文化產業投資基金管理有限公司) from September 2014 to November 2018, an associate in BOCI Asia Limited from July 2012 to September 2014, and an analyst in BOCI Asia Limited from June 2010 to June 2012 and BOCI Securities Limited from December 2009 to May 2010. Mr. Gong obtained his bachelor's degree in science in Peking University in China in July 2008 and his master's degree in science in Boston University in the United States in September 2009.

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CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group is committed to implementing high standards of corporate governance to safeguard the interests of the Shareholders 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. Saved for the deviation as disclosed under the section headed "Chairman and Chief Executive Officer" below, the Company has complied with all applicable code provisions of the CG Code during the year ended December 31, 2023. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

CORPORATE CULTURE

The Company is committed to developing our corporate culture, which is built upon our missions, strategies and purpose. Our mission is "to impact each and every gamer by promoting the spirit of craftsmanship". Since the inception of our Company, we have been driven by our belief in the power of technology and art, wisdom and courage, to make the world a more engaging and aesthetically pleasing place. Our unwavering commitment to exploration and innovation enables us to continuously challenge the conventions of the gaming industry, while remaining receptive to the genuine needs and opinions of our players, and fostering a fair and harmonious gaming community. We remain resolute in our pledge to deliver an all-inclusive and premium entertainment service to our valued players.

THE BOARD OF DIRECTORS

Responsibilities

The Board takes the responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitor the performance of the senior management.

All Directors shall at all times ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders.

Board Composition

Executive Directors

Mr. Huang Yimeng (*Chairman of the Board and Chief Executive Officer*)

Mr. Dai Yunjie

Mr. Fan Shuyang

Non-executive Directors

Mr. Wu Meng (appointed on December 17, 2023)

Mr. Liu Wei (resigned on December 17, 2023)

Independent Non-executive Directors

Mr. Pei Dapeng

Mr. Xin Quandong

Ms. Liu Qianli

There is no material financial, business, family or other relationship between any members of the Board. The biographies of the Directors are set out under the section headed "Biographies of Directors and Senior Management" in this annual report.

Chairman and Chief Executive Officer

Under code provision C.2.1 of part 2 of the CG Code, 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.

Independent non-executive Directors

The independent non-executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. The functions of independent non-executive Directors include bringing an impartial view and judgment on issues of the Company's strategies, performance and control; and scrutinizing the Company's performance and monitoring performance reporting.

During the year ended December 31, 2023, the Board has at all times met the requirements of Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received a confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and after assessing the diversity of experience, skills, expertise and the guidelines set out in Rule 3.13 of the Listing Rules of each of the independent non-executive Directors, the Company considers such Directors to be independent.

Directors' training and professional development

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment. The Company will continue to arrange regular seminars to provide the Directors with updates on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge his duty. During the year ended December 31, 2023, the Directors have participated in continuing professional development programmes and provided the Company with records of the training they received to ensure that their contributions to the Board remain informed and relevant.

The table below summarises the participation of each of the Directors in continuous professional development during the year ended December 31, 2023:

Name of Directors	Attending Training Courses	Reading Legal and Regulatory Updates and other Reference Materials
Executive Directors		
Mr. Huang Yimeng	√	√
Mr. Dai Yunjie	√	√
Mr. Fan Shuyang	√	√
Non-executive Directors		
Mr. Wu Meng (appointed on December 17, 2023)	√	√
Mr. Liu Wei (resigned on December 17, 2023)	√	√
Independent Non-executive Directors		
Mr. Pei Dapeng	√	√
Mr. Xin Quandong	√	√
Ms. Liu Qianli	√	√

BOARD DIVERSITY POLICY

We have adopted a diversity policy of the Board which sets out the objectives and provides that all appointments of the members of the Board should be made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective. Our Nomination Committee will review and assess the composition of the Board and make recommendations to the Board on appointment of members of the Board. Meanwhile, our Nomination Committee will consider the benefits of all aspects of diversity and seek to achieve Board diversity through the consideration of a number of factors, including without limitation, professional experience, skills, knowledge, education background, age, gender, cultural and ethnicity and length of service, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board. Under the current composition of the Board, the Board has a balanced mix of knowledge, skills and experiences, including experiences in games, technology, internet, investment, accounting and financial markets. Directors have a diverse educational background including business administration, accounting, automation engineering, electric engineering, computer applications, international finance, informatics.

In terms of gender diversity, the Board currently has one female member, and the Board is of the view that it has achieved gender diversity and comply with the board diversity requirements under the Rule 13.92 of the Listing Rules. The Board will strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommendation and best practices in the foreseeable future. Specifically, the Board targets to maintain at least 10% female representation and will consider nominating female directors in the future if suitable candidates are available, thereby achieving gender diversity on the Board. We will also ensure that there is gender diversity when recruiting staff at mid to senior level and we are committed to provide career development opportunities for female staff so that we will have a pipeline of female senior management and potential successors to our Board in a few years' time.

Workforce Diversity

The gender ratio in our workforce as at December 31, 2023 are as follows:

Total workforce (including senior management):	Male 71.5%;	Female 28.5%
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During the Reporting Period, female employees accounted for 28.5% of the Company's total number of employees. In order to promote the gender diversity in the composition of the Company's management and workforce, all employees enjoy equal employment, training and career development opportunities. The Company also strives to create an environment and culture which is friendly to our female staff.

In addition, we are aiming to achieve a more balanced gender ratio in the workforce in the future and will continue to monitor and evaluate the diversity policy from time to time to ensure its continued effectiveness. Our Nomination Committee is delegated by the Board to be responsible for compliance with relevant codes governing board diversity under the CG Code. Our Nomination Committee will review our diversity policy of the Board on annual basis and to ensure its continued effectiveness.

BOARD MEETINGS

Code provision C.5.1 of part 2 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of Directors, either in person or through electronic means of communication.

The Company has adopted the practice of holding Board meetings regularly. Notice of not less than 14 days is given of all regular Board meetings to provide all Directors with the opportunity to attend and include matters in the agenda. For other committee meetings, reasonable notice is given. The agenda and accompanying Board papers are despatched to the Directors or committee members at least three days before meetings to ensure that they have sufficient time to review these documents and be adequately prepared. When the Directors or committee members are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and committee meetings are recorded in detail and include the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors within a reasonable time after the date on which the meeting is held so that they have an opportunity to request amendments.

The Board reserves for its decision on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. The Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. The Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

The table below sets forth the attendance of each of the Directors at the Board meetings and annual general meeting:

Name of Directors	Number of meetings attended/ held during the Director's term of office	
	Board meetings	Annual general meeting
Executive Directors		
Mr. Huang Yimeng	6/6	1/1
Mr. Dai Yunjie	6/6	1/1
Mr. Fan Shuyang	6/6	1/1
Non-executive Directors		
Mr. Wu Meng (appointed on December 17, 2023)	1/1	0/0
Mr. Liu Wei (resigned on December 17, 2023)	6/6	1/1
Independent Non-executive Directors		
Mr. Pei Dapeng	6/6	1/1
Mr. Xin Quandong	6/6	1/1
Ms. Liu Qianli	6/6	1/1

During the year ended December 31, 2023, the chairman has also held a meeting with all independent non-executive Directors without the presence of other Directors.

Appointments, Re-election and Removal of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years. Either party has the right to give not less than three months' written notice to terminate the agreement.

The non-executive Director has entered into a service contract with the Company for a term of three years commencing from the date of the service contract or until the third annual general meeting of the Company since the date of the service contract whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the letter of appointment or by either party giving to the other not less than one month's prior notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from the date of the respective appointment letter or until the third annual general meeting of the Company since the respective appointment letter whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the letter of appointment or by either party giving to the other not less than one month's prior notice in writing.

Mr. LIU Wei has retired as a non-executive Director upon the expiry of his term of office with effect from December 17, 2023 due to personal work arrangement.

The Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years in accordance with the Articles of Association.

None of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

BOARD COMMITTEES

The Board has established four committees, namely Audit Committee, Remuneration and Appraisal Committee, Strategy and Development Committee and Nomination Committee. Each of these committees has specific written terms of reference and is responsible for overseeing particular aspects of the Group's affairs. The chairman of these committees will report their findings and recommendations to the Board after each meeting.

The table below sets forth the attendance of each of the committee members at the Board committees:

Name of Directors	Number of meetings attended/held during the Director's term of office			
	Audit Committee	Remuneration and Appraisal Committee	Strategy and Development Committee	Nomination Committee
Mr. Huang Yimeng	N/A	N/A	1/1	1/1
Mr. Dai Yunjie	N/A	4/4	1/1	N/A
Mr. Wu Meng (appointed on December 17, 2023)	N/A	N/A	N/A	N/A
Mr. Liu Wei (resigned on December 17, 2023)	N/A	N/A	1/1	N/A
Mr. Pei Dapeng	2/2	N/A	1/1	1/1
Mr. Xin Quandong	2/2	4/4	N/A	N/A
Ms. Liu Qianli	2/2	4/4	N/A	1/1

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Xin Quandong (Chairman), Mr. Pei Dapeng and Ms. Liu Qianli.

The main duties of the Audit Committee include the following:

- a) being primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and considering any questions of its resignation or dismissal;
- b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- c) developing and implementing policies on engaging an external auditor to supply non-audit services (for this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally) and reporting to the Board and making recommendations on any matters where action or improvement is needed;
- d) discussing with the external auditor the nature and scope of the audit and relevant reporting obligations, and ensuring co-ordination where more than one audit firm is involved before the audit commences;
- e) monitoring integrity of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained therein. In reviewing these statements and reports before submission to the Board, the Audit Committee shall focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;

- (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and any requirements from the Stock Exchange and legal requirements in relation to financial reporting;
- f) Regarding (e) above:
- (i) liaising with the Board and the Senior Management;
 - (ii) meeting at least twice a year with the Company's auditors; and
 - (iii) considering any significant or unusual items that are, or may need to be, reflected in the financial reports and accounts and giving due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- g) reviewing the Company's financial controls, risk management and internal control systems;
- h) discussing the risk management and internal control systems with the Senior Management, ensuring that the Senior Management has performed their duties to establish effective systems and to review annually the effectiveness, adequacy and appropriateness of those systems. This review should include adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- i) conducting research on major investigation findings of risk management and internal control matters and the Senior Management's response to these findings on its own initiative or as delegated by the Board;
- j) ensuring co-ordination between the internal and external auditors, ensuring that the internal audit function is adequately resourced to operate and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- k) reviewing the Company's financial and accounting policies and practices;
- l) reviewing the external auditor's management letter, any material queries raised by the auditor to the Senior Management about accounting records, financial accounts or systems of control and Senior Management's response;
- m) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- n) reporting to the Board on the matters in these terms;
- o) reviewing the following arrangements set by the Company: employees of the Company can raise concerns about possible improprieties in financial reporting, internal control or other matters in confidence; and ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions by the Company;
- p) acting as the key representative body for overseeing the Company's relations with the external auditor;
- q) formulating a whistle-blowing policy and system by the Audit Committee to allow employees and those who have dealings with the issuer (such as customers and suppliers) to raise, in confidence, any concern regarding any possible improprieties about the issuer to the Audit Committee;
- r) to identify the environmental, social and governance matters that are relevant and material to the operations of the Group and/or that affect shareholders and other key stakeholders (the "Key ESG Issues"), which shall include environmental and social aspects as stated in Appendix C2 to the Listing Rules;
- s) to review the Company's vision, strategy, framework, principles and policies in relation to Key ESG Issues, make relevant recommendations to the Board;
- t) to review and monitor the Company's policies, practices and performance in relation to Key ESG Issues to ensure compliance with legal and regulatory requirements and that they are appropriate in the context of the size, business nature and scope of the Company;
- u) to monitor the key performance indicators and standards set and performance achieved on Key ESG Issues by the Company;

- v) to assess, review, report and make recommendations, once (1) a year or as and when required, to the Board on the effectiveness of the Company's policies, practices and performance in respect of Key ESG Issues;
- w) to identify and engage stakeholders to understand and respond to their views by appropriate means;
- x) to review disclosure on environmental, social and governance matters of the Company whether by way of inclusion in the Company's annual report or a separate report in compliance with Rule 13.91 of the Listing Rules and Appendix C2 to the Listing Rules; and
- y) conducting any other matters related to the Audit Committee in accordance with the instructions from the Board from time to time.

During the year ended December 31, 2023, the Audit Committee had performed the followings:

- reviewed the audited financial statements for the year ended December 31, 2022;
- reviewed the unaudited interim financial statements for the six months ended June 30, 2023;
- reviewed and approved the audit service memorandum presented by the external auditor;
- discussed with the management and the external auditor on the issues concerning accounting policies and practices which may affect the Group, along with financial reporting matters;
- reviewed the risk management and internal control systems; and
- made recommendations to the Board for re-appointment of the external auditor.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee consists of one executive Director, namely Mr. Dai Yunjie and two independent non-executive Directors, namely Ms. Liu Qianli (Chairperson) and Mr. Xin Quandong.

The main duties of the Remuneration and Appraisal Committee include the following:

- a) making recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- b) being responsible for either (i) determining, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or (ii) making recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management (this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment);
- c) making recommendations to the Board on the remuneration of non-executive Directors;
- d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- e) reviewing and approving the Senior Management's remuneration proposals with reference to the Board's corporate goals and objectives;
- f) reviewing and approving compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- g) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- h) ensuring that no Director or any of his associates is involved in deciding his own remuneration;
- i) advising the Shareholders on how to vote with respect to any service contracts of the Directors that require Shareholders' approval under the Listing Rules;

- j) reviewing the Group's policy on expense reimbursements for the Directors and Senior Management;
- k) attending annual general meetings of the Company, and making themselves available to answer questions at such annual general meetings; and
- l) reviewing and/or approving matters relating to the share schemes under Chapter 17 of the Listing Rules.

During the year ended December 31, 2023, the Remuneration and Appraisal Committee had performed the followings:

- reviewed the grant of share options to the executive Directors;
- reviewed the effectiveness of the remuneration policy; and
- reviewed the remuneration package of the executive Directors and senior management.

No material matters relating to the share schemes under Chapter 17 of the Listing Rules were reviewed and/or approved by the Remuneration and Appraisal Committee during the Reporting Period.

Remuneration of Directors and Senior Management

Details of the Directors' emoluments are set out in note 7(b) to the consolidated financial statements.

The remuneration packages of the Directors and Senior Management of the Company are decided by the Board with reference to the recommendation given by the Remuneration and Appraisal Committee, having regard to the Group's operating results, salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group.

For the year ended December 31, 2023, the emoluments of senior management team fell within the following bands:

Emolument bands (in HKD)	Number of individuals
HKD0–HKD1,000,000	0
HKD1,000,001–HKD2,000,000	1
HKD2,000,001–HKD5,000,000	1
HKD5,000,001–HKD10,000,000	2
Total	4

Strategy and Development Committee

The Strategy and Development Committee consists of two executive Directors, namely Mr. Huang Yimeng (Chairman) and Mr. Dai Yunjie, one non-executive Director, namely Mr. Wu Meng and one independent non-executive Director, namely Mr. Pei Dapeng.

The main duties of the Strategy and Development Committee include the following:

- a) researching and making recommendations to the Board on the long-term development strategies and plans of the Company;
- b) researching and making recommendations to the Board on the major financing plans of the Company and other major strategic issues influencing the development of the Company; and
- c) reviewing the implementation of the above matters.

During the year ended December 31, 2023, the Strategy and Development Committee had reviewed strategies concerning business development and plans relating to the daily operations of the Group.

Nomination Committee

The Nomination Committee consists of one executive Director, namely Mr. Huang Yimeng, and two independent non-executive Directors, namely Mr. Pei Dapeng (Chairman) and Ms. Liu Qianli.

The main duties of the Nomination Committee include the following:

- a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- b) making recommendations to the Board on the appointment or re-appointment of Directors and succession plans for Directors, in particular the chairman and the chief executive officer. The Nomination Committee shall make recommendations on appointment of Directors with due regard to the diversity policy of the Company and in accordance with the challenges and opportunities faced by the Company;
- c) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship;
- d) assessing the independence of independent non-executive Directors;
- e) before making any appointment recommendations to the Board, evaluating the balance of Directors based on (including but not limited to) gender, age, cultural and educational background or professional experience, and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nomination Committee shall:
 - (i) use open advertising or the services of external advisors to facilitate the search;
 - (ii) consider candidates from a wide range of backgrounds; and
 - (iii) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;
- f) reviewing annually the time required from the non-executive Directors. Performance evaluations should be used to assess whether the non-executive Directors are spending enough time in fulfilling their duties; and
- g) ensuring that the Directors receive a formal letter of appointment from the Board setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.

During the year ended December 31, 2023, the Nomination Committee had performed the followings:

- reviewed the structure, size and composition of the Board;
- made recommendations to the Board on the appointment and/or re-election of Directors;
- reviewed the profile of the potential candidates to assess suitability in accordance with the Nomination Policy and the objective criteria, with due regard for the benefits of diversity, as set out under the Board Diversity Policy and made recommendation to the Board;
- accessed the independence of the independent non-executive Directors; and
- reviewed the time commitments of the non-executive Director.

Nomination Policy for Directorship

In light of Article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall not be less than two. Subject to the provisions of the Articles of Association and the Companies Act, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

The Company may by ordinary resolution at any time remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead. Any person so elected shall hold office during such time only as the Director in whose place he is elected would have held the same if he had not been removed.

Information and Documents from Candidate

The nominated candidate shall provide the following to the Nomination Committee for its consideration: (a) a curriculum vitae containing his/her relevant personal information and contact details, academic and professional qualifications (if applicable), work experience, employment history, current directorships (if any) and other information required to be disclosed under Rule 13.51(2) of the Listing Rules; (b) his/her written consent to be elected as a director of the Company; (c) other information, declarations, undertakings and/or confirmations as required by the Listing Rules; (d) other written consents (including without limitation his/her written consent to the publication of his/her personal data so provided) and other information as reasonably required by the Nomination Committee; and (e) if he/she is nominated to be appointed as an independent non-executive director of the Company, an independence confirmation and any other documents as required by the Listing Rules. The Nomination Committee may request the nominated candidate to provide additional information and documents as the Nomination Committee may consider appropriate.

Nomination Committee's Role and its Selection Process and Criteria

The Nomination Committee shall review the said information and documents provided by the nominated candidate and conduct the following process (in accordance with the following criteria) with a view to assessing and evaluating whether such candidate is suitably qualified to be appointed as a director of the Company before making recommendations to the Board:

1. to assess such candidate's qualifications, skills, knowledge, ability and experience and also potential time commitment and attention to perform director's duties under common law, legislation and applicable rules, regulations and guidance (including without limitation the Listing Rules and the "Guidance for Boards and Directors" published by the Stock Exchange (the "Guidance for Boards")), with reference to the corresponding professional knowledge and industry experience which may be relevant to the Company and also the potential contributions that such candidate could bring to the Board (including potential contributions in terms of qualifications, skills, experience, independence and gender diversity);
2. in addition to and without prejudice to Paragraph 1 above, to assess such candidate's personal ethics, integrity and reputation (including without limitation to conduct appropriate background checks and other verification processes against such candidate);
3. with reference to the Company's Board diversity policy (as adopted and amended by the Board from time to time), to take into account the then current structure, size and composition (including without limitation the balancing of the skills, knowledge, ability, experience and diversity of perspectives appropriate to the requirements of the Company's business) of the Board and the Company's corporate strategy, with due regard for the benefits of the appropriate diversity of the Board and also such candidate's potential contributions thereto;
4. to consider board succession planning considerations and the long-term needs of the Company;
5. in case of a candidate for an independent non-executive director of the Company, to assess: (i) the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and (ii) the guidance and requirements relating to independent non-executive directors set out in code provision B.3.4 of part 2 of the CG Code and in the Guidance for Boards; and
6. to consider any other factors and matters as the Nomination Committee may consider appropriate.

Board's Decision

The Board shall consider the recommendations from the Nomination Committee and make a decision as to whether the nominated candidate shall be eligible to be appointed as a Director.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with the Listing Rules, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and the management team of the Company; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG code set out in Appendix C1 to the Listing Rules and disclosure in the corporate governance report. During the year ended December 31, 2023, the Board has reviewed and determined the policy for the corporate governance of the Company.

MECHANISM FOR THE BOARD TO OBTAIN INDEPENDENT VIEWS AND OPINIONS

The Company has established a mechanism for the Board to obtain independent views and opinions (including but not limited to the Articles of Association, terms of reference of Board committees) to ensure the Board has an independent element as a key measure to improve the efficiency of the Board.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expense for discharging their duties to the Company. The Board has reviewed the implementation and effectiveness of the mechanism and believed that the mechanism can ensure the Board obtains the independent views and opinions.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements of the Group on a going concern basis.

The statement of the Auditor about its reporting responsibilities on the consolidated financial statements of the Company is set out in the section headed "Independent Auditor's Report" in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's strategic objectives. Risk management and internal control systems shall ensure the effective business operation, accuracy and reliability of the financial reporting, as well as compliance with applicable laws, regulations and policies. The Board acknowledges its responsibility to ensure the Company establishes and maintains sound risk management and internal control systems within the Group. The Board has also reviewed and recognized the effectiveness of such systems in the Reporting Period. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Company's risk management and internal control system and reporting the results to the Audit Committee. The Group will review the effectiveness of its risk management and internal control systems at least once every year through the Audit Committee. The General Office of the Company coordinates the detailed work of internal control and takes charge of sorting out and optimizing business processes and the management mechanism, as well as conducting evaluation on the effectiveness of internal control. In addition to the internal control and internal audit functions, all employees are accountable for risk management and internal control within their business scope. Business departments actively cooperate with internal control and internal audit functions, report to the management team on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks (including environmental, social and governance ("ESG") risks).

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. In addition, the Company has set up the internal control framework, which relates to business processes such as procurement, sales, human resources and payroll, game development, marketing, tax, capital, information security and intellectual property rights, financial reporting and disclosure. The risk bank has also been put in place and risk assessment is conducted on a regular basis, to ensure the effective operation of risk management and internal control.

The Board considers that the Group's risk management and internal control systems are adequate and effective for the year ended December 31, 2023.

Business Risk

The Group conducts business globally and faces business risks including reputation risks, investment and acquisition risks, taxation risks and corporate responsibility and suitability risks. The Board meets regularly and reviews the investment and expansion strategies, business plan, financial results, and key performance indicators of the Group to ensure that the business risks are controlled and managed, and potential risks can be identified.

Financial Risk

The Group has adopted financial risk management policies to control the Group's financial risk exposure, such as taxation risks, currency risks and financial reporting risks. Also, the Board monitors the financial results and key operating statistics with the assistance of the Group's internal financial reporting department on a monthly basis.

Compliance Risk

The Group has adopted internal procedures to monitor the Group's compliance risk to ensure that the Group's compliance with the laws and regulations in regions in which the Group conducts business. In addition, the Group from time to time engages consulting firms and professional advisers to keep the Group updated with the latest development in the regulatory environments.

Inside Information and Internal Control

The Group attaches utmost importance to the proper handling and dissemination of inside information. Internal policies are put in place to ensure that inside information is adequately controlled. To ensure the confidentiality and the timely disclosure of inside information, all employees are provided with learning materials and guidelines regarding the handling and dissemination of inside information on a yearly basis. IT system controls are implemented to ensure the access to sensitive data is restricted to authorized personnel only.

Operational Risk

The Group has adopted procedures to manage its operational risk exposures, such as human resources risks and IT governance risks. The Group monitors the overall employee turnover rate, degree of satisfaction, and IT system status on a monthly basis, and adopts countermeasures if any risk indicators arise.

DIVIDEND POLICY

The declaration and payment of dividends shall be determined at the sole discretion of the Board and subject to the Articles of Association and all applicable laws and regulations. The Company does not have any pre-determined dividend payout ratio. Any dividends the Company pays will be determined at the absolute discretion of the Board, taking into account factors including the Company's actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that the Board deems to be appropriate. The Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by the Board.

AUDITOR'S REMUNERATION

For the year ended December 31, 2023, the fee paid/payable to the external auditor of the Company, PricewaterhouseCoopers, in respect of audit and non-audit services is set out as follows:

	RMB'000
Audit service	4,140
Non-audit service ⁽¹⁾	870
Total	5,010

Note:

⁽¹⁾ The non-audit services conducted by the Auditor mainly include tax advisory service and IT system review service.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. All Directors confirmed that, having made specific enquiry with all Directors, they have complied with the required standards set out in the Model Code regarding directors' securities transactions during the year ended December 31, 2023.

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang and Mr. Chung Ming Fai of SWCS Corporate Services Group (Hong Kong) Limited (a company secretarial service provider) have been appointed as the Company's joint company secretaries. They are responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. The primary contact person of Mr. Chung Ming Fai at the Company is Mr. Fan Shuyang, the executive Director and joint company secretary of the Company.

For the year ended December 31, 2023, Mr. Fan Shuyang and Mr. Chung Ming Fai have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Article 12.3 of the Articles of Association, extraordinary general meetings shall also be convened and resolutions to a meeting agenda shall be added on the written requisition of any one or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital, on a one vote per share basis, of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital, on a one vote per share basis, of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting forward proposals at general meeting

There are no provisions under the Articles of Association regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Address: A1, 700 Wanrong Road, Shanghai, China or 40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong
(For the attention of the Board of Directors/Company Secretary)

Email: ir@xd.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a shareholders communication policy with a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include the annual general meeting, and other general meetings of the Company to allow Shareholders to speak and as a platform for communication and interaction; the annual and interim reports, notices, announcements and circulars and the Company's website at 2400.hk and the website of the Stock Exchange. The Board has reviewed the shareholder communication policy and confirmed its effectiveness.

CHANGE IN CONSTITUTIONAL DOCUMENTS

In order to (a) reflect the core shareholder protection standards as set out in the revised Appendix A1 to the Listing Rules with effect from January 1, 2022 (former Appendix 3 to the Listing Rules before December 31, 2023); (b) bring the Memorandum and Articles of Association in line with the Companies Act (As Revised) of the Cayman Islands; and (c) incorporate certain housekeeping amendments into the Memorandum and Articles of Association, a special resolution of the Shareholders was passed on June 20, 2023 to adopt the second amended and restated memorandum and articles of association of the Company with effect from the same date. For details, please refer to the Company's announcements dated March 30, 2023 and June 20, 2023 and the Company's circular dated April 27, 2023.

The second amended and restated memorandum and articles of association of the Company are available on the website of the Stock Exchange and the website of the Company.

06

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE REPORT

XD Inc. and its subsidiaries (the “Group”, “we”, “us”) publish the Group’s fifth environmental, social and governance report (this “Report”). This Report describes the Group’s environmental, social and governance (“ESG”) performance and discloses the environmental and social key performance indicators (“KPIs”) to disclose to stakeholders the Group’s governance, performance and effectiveness in relation to sustainable development.

1.1 Reporting Standards

This Report is prepared in accordance with the mandatory disclosure requirements and “comply or explain” provisions of the Environmental, Social and Governance Reporting Guide (the “Guide”) in Appendix C2 of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and complies with the four reporting principles set out in the Guide.

- **Materiality:** The Group has identified and disclosed in the Report the process of identifying material ESG issues and the criteria for selecting these issues, as well as the descriptions of the participation processes of stakeholders.
- **Quantitative:** The disclosure of statistical standards, methodologies, assumptions and calculation tools used for the emissions and energy data disclosed in this Report, as well as the sources of conversion factors are described herein.
- **Consistency:** The Report uses the same consistent statistical methods in data disclosure as last year. Any changes will be stated clearly in the Report.
- **Balance:** The Report presents the Group’s performance during the Reporting Period impartially. It aims to avoid choice, omission or presentation formats that may improperly influence readers’ decisions making and judgments.

1.2 Reporting Scope

The scope of this Report covers the period from January 1 to December 31, 2023 (the “Year” or “Reporting Period”). The scope of social disclosures in this Report is consistent with the Annual Report. During the Year, the scope of the Group’s environmental disclosures covered the head office in Shanghai and the branch office in Hainan and Singapore. These three operating locations are the main operating offices of the Group.

1.3 Report Language

This Report is published in two languages, Chinese and English. In case of discrepancies, the Chinese version shall prevail.

1.4 Confirmation and Approval

This Report was considered and approved by the Board of Directors (the “Board”) of the Company on March 28, 2024, after confirmation by the management.

2. ESG GOVERNANCE

2.1 Statement of the Board

The Board recognizes the importance of ESG governance and has established a five-tier governance structure. The Board is the highest level of leadership and is responsible for overseeing ESG-related issues and shouldering all reporting responsibilities. The Group's Audit Committee assesses, prioritizes and manages key ESG issues through stakeholder communication, sets ESG-related objectives, and receives regular reports from management on ESG-related policies, performance and risks, and reviews and analyzes them. Last year, we set environmental targets. During the Year, we assessed and managed ESG issues, reviewed progress on materiality assessment issues and targets, made continuous improvements and corrective actions based on progress and the Group's operations, and set quantitative targets and a base year in due course.

2.2 ESG Governance Structure

We understand the importance of ESG governance. In order to manage ESG issues more effectively, we have established an ESG governance structure, led by the Board, with the participation of the Audit Committee, management, ESG working group and executive departments, to integrate ESG governance at each level. We have set up a clear governance structure and responsibilities to help the Group practice corporate responsibility for sustainable development.



- **Board of Directors**
 - The Board is the highest decision maker on ESG governance for the Group;
 - Overseeing the ESG matters and developments of the Group;
 - Approving ESG reports and has full responsibility for reporting

- **Audit Committee**
 - Identifying the relevance and importance of ESG matters to the Group's and stakeholders' businesses;
 - Developing strategies, frameworks, principles and policies for ESG issues and making recommendations to the Board;
 - Setting ESG targets and tracking progress towards them, assessing, prioritizing and managing ESG issues;
 - Assessing, reviewing, reporting and making recommendations to the Board on the effectiveness of the Group's policies, practices and performance on material ESG issues;
 - Reviewing and monitoring the Group's policies, practices and performance on material ESG issues;
 - Reviewing the Group's environmental, social and governance disclosures

- **Management**
 - Arranging the ESG working group to carry out ESG work;
 - Reporting to the Audit Committee on the Group's ESG-related risks and opportunities, and policies, practices and performance on ESG matters, ESG work performance and annual ESG report
- **ESG working group**
 - Designating and coordinating ESG work across departments;
 - Reporting to management on daily ESG performance and progress of the annual ESG report;
 - Preparing the annual ESG report
- **Executive departments**
 - Conducting and implementing ESG work;
 - Collecting data on relevant ESG KPIs

2.3 Stakeholder Engagement

The Group actively communicates with different stakeholders such as government, regulatory bodies, shareholders, players, employees, society, and environmental organizations. We identify stakeholders and have established multiple channels of communication, understand their expectations and requirements, and actively develop measures to respond to their expectations and requirements to promote the sustainable development of the Group.

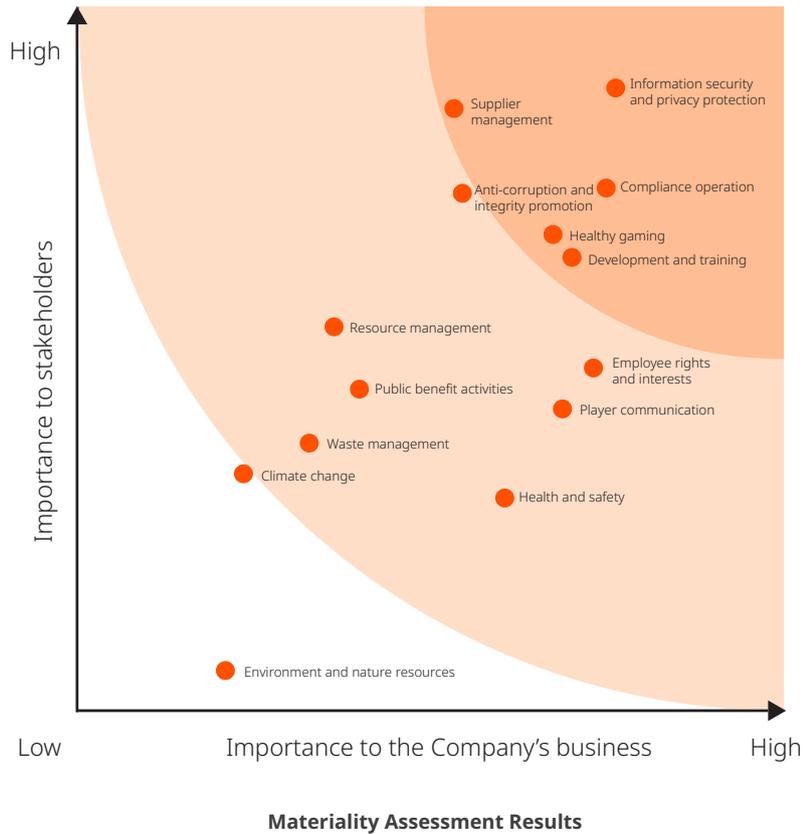
Major Stakeholders	Expectations and Requirements	Communication Channels	Communication Frequency
Government & Regulatory body	<ul style="list-style-type: none"> • Implementing the policies and regulatory rules of the government; • Operating by the law; • Paying taxes according to the law; • Providing high quality games and services; • Public welfare activities; • Facilitating the harmonious development of the community 	<ul style="list-style-type: none"> Daily management Work meetings Supervision and inspection Compliance report Lectures Organization of industry events Consultation 	Held irregularly
Shareholders/ Investors	<ul style="list-style-type: none"> • Implementing the policies and regulatory rules of the government; • Operating by the law; • Corporate governance; • Earning returns on investment; • Status of the business development of the Company; • Risk management; • Providing high quality games and services 	<ul style="list-style-type: none"> General meeting Annual reports, interim reports and announcements Investor relations activities Company website Results announcement Senior management meeting Corporate newsletter 	<ul style="list-style-type: none"> Once a year Twice a year Held irregularly Updated irregularly Twice a year Four times a year Twice a year
Players	<ul style="list-style-type: none"> • Information security and privacy protection; • Providing high quality games and services; • Anti-cheating and fair gaming; • Healthy gaming; • Player communication 	<ul style="list-style-type: none"> Customer service online communication Improving customer complaint handling mechanism Social media communication Satisfaction survey E-mail 	<ul style="list-style-type: none"> 24-hour customer service system to collect players' opinions Collect opinions from players through TapTap and public websites, etc. Collect feedback from players after providing customer service Set up in game and platform for players to provide feedback

Major Stakeholders	Expectations and Requirements	Communication Channels	Communication Frequency
Employees	<ul style="list-style-type: none"> • Employment promotion; • Salaries and welfare; • Healthy and safe working environment; • Fair promotion and development opportunity; • Employee rights and interests; • Operating by the law; • Paying taxes according to the law; • Corporate governance; • Risk management; • Anti-corruption and integrity promotion 	Employee opinion survey Internal communication channels Work performance evaluation Meeting interviews Training courses Volunteer activities Seminars/workshops/lectures	Once a year Updated regularly Quarterly Once a year No less than thirty times a year Once a year No less than ten times a year
Public/Community	<ul style="list-style-type: none"> • Raising awareness of public welfare; • Facilitating the harmonious development of the community 	Participating in social charity Volunteer activities	Once a year
Environmental organizations	<ul style="list-style-type: none"> • Reducing emissions; • Energy conservation 	Waste classification Green office	Held irregularly
Peers	<ul style="list-style-type: none"> • Status of the business development of the Company; • Risk management; • Anti-corruption and integrity promotion 	Cooperation projects Industry associations Developer events	Held irregularly Twice a year
Suppliers	<ul style="list-style-type: none"> • Risk management; • Anti-corruption and integrity promotion; • Supplier management 	Supplier management procedure Meetings Supplier evaluation system Site visit	Held irregularly
Business partners	<ul style="list-style-type: none"> • Status of the business development of the Company; • Risk management; • Providing high quality games and services; • Healthy gaming 	Strategic cooperation projects Exchange activities Meetings Visits Lectures Report	Held irregularly Published irregularly

2.4 Materiality Assessment

During the Year, there were no significant changes in the Group's business operations, and there were no significant changes in the Group's impact on stakeholders and stakeholders' impact on the Group. Therefore, we reviewed the results of the materiality assessment for 2022, summarized the results of the materiality assessment for the Year, and finally confirmed the results of the materiality assessment by the Board. The results of the materiality assessment for the Year are as follows:

Highly material issues	Moderately material issues	Generally material issues
— Information security and privacy protection	— Anti-corruption and integrity promotion	— Climate change
— Supplier management	— Employee rights and interests	— Environment and natural resources
— Compliance operations	— Resource management	
— Healthy gaming	— Public welfare activities	
— Development and training	— Player communication	
	— Health and safety	
	— Waste management	



3. STABLE OPERATION

3.1 Information Security

The Group strictly complies with the laws and regulations such as the Cybersecurity Law of the People's Republic of China, the *Provisions on Protection of Personal Information of Telecommunications and Internet Users and the Administrative Measures for Internet Information Services*, and has established systems such as the *Information Security Policy*, the *Regulations on Management of Data Backup* and the *Guideline on Emergency Response to Major Incidents*.

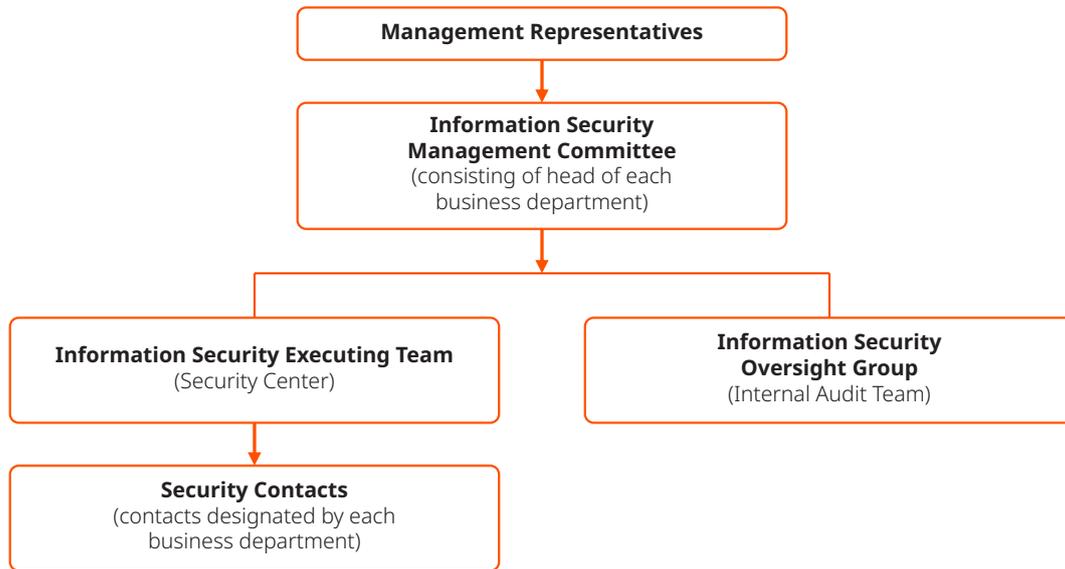
We have established an Information Security Management Committee, with the information security policy of "putting safety first, focusing on comprehensive prevention, and making continuous improvement", and optimized and managed the information management system and security work according to the requirements of "ISO27001 information security standard system", and the relevant system includes risk management, internal audit, system effectiveness measurement, and personnel security management, etc.

The Information Security Management Committee is responsible for finalizing the information security development strategy, overall planning, management system and major decisions, providing resources to implement information security activities, and regularly reviewing the information security management of the Group to ensure that the information security management system is applicable and effective. The information security oversight group is mainly responsible for auditing information security work from two perspectives: process auditing and security technology. The information security executive team is responsible for establishing, implementing, checking and improving the information security management system, ensuring the continuity and effectiveness of the system, and implementing daily security protection work and annual risk assessment of the Group's information systems to identify information security risks.

During the Year, X.D. Network Inc. ("X.D. Network"), a subsidiary of the Group, won the Outstanding Elite Blue Party and Outstanding Emergency Response Award in the Shanghai Industry and Information Technology Network Security Attack and Defense Exercise "Rock Operation 2023". As required by the Shanghai Communications Administration, X.D. Network completed the data security assessment and submitted the report for review during the Year, as well as selected the appropriate data management personnel as the Chief Data Officer (CDO). The CDO is responsible for coordinating the implementation of related enterprise data strategies.

Our information security management and server rooms have been certified with National Information Security Level Protection (Tier 3), *Code for Design of Data Centers (GB50174-2017)* and *Code for Construction and Acceptance of Data Center Infrastructure (GB50462-2015)*. In order to ensure the maintenance of the information room is carried out properly, we have arranged dedicated personnel to be responsible for the daily maintenance, monitoring, alarming and troubleshooting of the room environment to ensure the information security of users from the hardware and facility levels.

In order to strengthen the employee's regulation and management of information security, we have formulated the *Specification for Employee Information Security Management* to improve the employee's risk awareness in their daily work and protect the information security of our Group and customers, and also added a series of information security management regulations, such as employee induction information security learning mechanism, third-party service security management mechanism, data use approval, desensitization mechanism, permission reclaiming mechanism for departing staff, and business online security compliance detection mechanism.



Organizational structure of information security management system

Privacy Protection

Due to the nature of our business, we receive, transmit and store players' personally identifiable information and generated data in the course of our operations, and the Group is responsible for the maintenance, storage and protection of user data and other related information. The Group strictly complies with the *Personal Information Protection Law of the People's Republic of China* and has established the *Employee Confidentiality System*, the *Protection Rules for Personal Information of Children on TapTap*, the *Compliance Operation Guidance for Personal Information Collection and Use on App* and the *Privacy Policy* of each platform such as X.D. Network, TapTap Platform and TapSDK. The relevant documents and terms and conditions have clearly set out our handling, management and protection of personal information and explain the management methods and operational processes regarding the collection, storage, use, transfer, disclosure and subject rights of personal information. Specific instructions have also been provided regarding the scope, storage and protection of information collected by the platform from users who are minors.

We have explained the personal information we receive and the purposes for which it is used, and we protect users' personal information through encryption or de-tagging and anonymization. In some platforms, we have added a feature that allows users to modify their personal information. If users choose not to use our services and needs to cancel their account, we also provide a method for deleting or anonymizing their personal data once they have chosen to cancel their account.

We have deployed an automated security penetration testing platform and WAF security protection platform to manage risk at various nodes in the data lifecycle, such as explicit rules and user authorization during the collection of personal sensitive data; encryption and integrity verification during transmission; backup, recovery rehearsal, access control, encryption and retention of web logs during data storage; authorization approval, desensitization, watermark protection and interface output restrictions during data processing.

During the Year, we continued to improve our user privacy policy in line with national regulatory requirements. We have revised the TapTap privacy policy and the TapSDK privacy policy, and issued the TapSDK compliance instructions to further clarify the scope of personal information processed for each service, the purpose of processing, the use of permissions, etc. In terms of products, we have further optimized user privacy settings for the platform's personalized content and recommended advertising features. In accordance with the policy requirements of the Ministry of Industry and Information Technology, we have completed the App filing for our own games, and we will gradually require the games on the TapTap platform to complete the relevant App filing.

During the Year, the Group did not violate any laws and regulations related to personal data.

3.2 Compliance operations

3.2.1 Advertising

The Group promotes its products through various forms of publicity techniques. In order to ensure the accuracy and compliance of information on the content of publicity, promotion and advertising releases, we have formulated the *Advertising Management Policy* and strictly comply with the requirements of the *Advertising Law of the People's Republic of China* and the *Interim Measures for the Administration of Internet Advertising* and other laws and regulations to control the marketing information released on various channels.

We strictly review the compliance of advertising content. The marketing department is responsible for the review of our Group's promotional content, and the legal department and public relations department make the final review of uncertain content. We ensure that our external output of promotional content is accurate and does not contain elements that deceive or mislead consumers to protect the rights and interests of our users. If a third party needs to place advertisement on the TapTap platform, we examine the business license, proof of product ownership, software copyright certificate, game version number, and other appropriate qualifications that prove the legal authorization of the product of the relevant party, and only after confirming that they are correct, can they be published on the platform. During the Year, we added a new guarantee letter to the framework contracts between advertising platforms and their advertising agents, requiring the legal representative of the advertising agent to provide a joint liability guarantee to minimize the risks of related breaches of contract and violations, and to enhance the stable and mutually trusting relationship in the cooperation with the agents. Any advertisement on the platform must comply with the regulations and the content requirements of the platform. We will evaluate the content of the pictures, slogans and videos in the advertisement to ensure the authenticity and compliance of the content of the advertisement and that there is no infringement of the content. During the Year, we continued to standardize the operation process of our advertising platform, strengthened the review of advertiser authorization letters submitted by advertising agents, and implemented automated management such as authorization expiry reminders for the authorization period. In doing so, we improved the efficiency in the review process and the compliance and transparency of advertising content. The Group will also conduct marketing and legal advocacy training for our staff to enhance the compliance awareness of relevant personnel.

During the Year, the Group did not violate any laws and regulations related to advertising. Due to the nature of our business, product labelling does not apply to the Group.

3.2.2 Intellectual Property Rights

We strictly abide by the *Copyright Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China*, the *Patent Law of the People's Republic of China*, the *Tort Liability Law of the People's Republic of China*, the *Measures for the Administration of Internet Domain Names of China* and the *Measures for the Administration of Software Products* and other laws and regulations. We have formulated the *Trademark Application Process*, *Software Copyright Registration Application Process*, *Work Copyright Registration Application Process*, *XD Patent Management and Reward System*, *Patent Application Process*, *Organizational Structure and Division of Responsibilities for Intellectual Property Protection* and *Planning for Reducing the Risk of Infringing on Others' Intellectual Property Rights and A Brief Analysis of IP Brand Protection Strategy*.

The Group's intellectual property rights include but are not limited to patents, trademarks, software, art copyrights, music copyrights, and text copyrights. In order to protect intellectual property rights, we will register the intellectual property rights. During the Year, we took timely steps to protect our intellectual property such as the design patent for the Tap brand upgrade. We have also formulated and implemented the *XD Patent Management and Reward System*, and improved the process for protecting the intellectual property rights of various exclusive games. By doing so, we can help the Group protect its innovations more effectively and promote the legitimate use of intellectual property rights, while at the same time incentivizing our employees to continue their commitment to technological innovation and the creation of intellectual property. We provide our employees with a clear process for registration of intellectual property rights to facilitate the registration of patent applications. In addition, to encourage our employees to create inventions, we provide appropriate bonuses and compensation to the inventor as an invention reward.

The Legal Department is responsible for the protection of intellectual property rights, guiding and supervising the collection of intellectual property rights by all departments and implementing our intellectual property rights protection system and measures. In the event of a third party appropriating and using our intellectual property, we will take legal action to protect our own rights and interests. When we cooperate with external partners, we will require the other party to sign the *"Mutual Confidentiality Agreement"*, which stipulates the relevant confidentiality rights and obligations of the confidentiality party, the confidentiality period and the liability for breach of contract to prevent the leakage of intellectual property rights.

The Legal Department also regularly educates and trains employees regarding intellectual property. During the Year, we analyzed and shared the AIGC (artificial intelligence generated content) intellectual property issues and other latest industry topics, including the latest information such as regulatory trends in various European and American countries and infringement risks related to AI training models, and typical cases like AI-generated image copyrights. We have also conducted legal education and publicity on intellectual property-related issues to help employees respect others' works and prevent illegal uses. We have also established the "*Scope of Intellectual Property Rights and Attribution of Rights*" to determine the attribution of intellectual property rights. The intellectual property rights of creations enjoyed by the Group or hosted by or on behalf of the Group under the contract are attributed to the Group and the Group assumes the relevant responsibilities. The intellectual property rights generated by employees on the basis of their work also belong to the Group.

During the Year, the number of intellectual property rights maintained by the Group was 1,909, including 1,506 trademarks, 18 patents, 215 software copyrights, 98 art copyrights, 13 music copyrights, 3 text copyrights and 56 other intellectual works.

3.3 Integrity in Practice

The Group strictly complies with the *Anti-Money Laundering Law of the People's Republic of China*, the *Anti-Money Laundering Regulations for Financial Companies*, the *Measures for the Administration of Payment Services for Non-Financial Companies*, the *Detailed Rules for the Implementation of the Administrative Measures for the Payment Services Provided by Non-financial Institutions*, the *Guidelines Against Money Laundering and Terrorist Financing through Payment and Clearing Organizations*, the *Guidelines for the Assessment of Money Laundering and Terrorism Financing Risk and Categorized Management of Customers of Financial Institutions*, the *Interim Provisions on Banning Commercial Bribery Temporary Provisions* and the *Anti-Unfair Competition Law* and other laws and regulations. We have formulated the *Anti-Money Laundering and Anti-Terrorist Measures and the Anti-Fraud Procedures and Control Manual system* to set out the measures and handling of illegal acts such as bribery, extortion, fraud and money laundering.

We have established an Anti-Money Laundering and Anti-Terrorist Financing Steering Group, which meets regularly to review and supervise the Group's anti-money laundering and anti-terrorist financing work. We comply with the "know your customer" principle, establish a sound customer identification system, and properly maintain customer information and financial and transaction history records with our customers. The Group prohibits any use of the functions of exchanging game coins for cash, props for cash and accounts for cash in virtual games, and prohibits and strictly punishes offline transactions of virtual items. We also strictly prohibit any form of illegal gain. The *Employee Handbook* states that employees shall not receive benefits from business-related units, nor shall they use company resources to conduct internal transactions or misappropriate public funds.

The Group has set up a whistle blowing email address: accusation@xd.com. The Audit Committee ensures that the personal information of whistleblowers is kept confidential. The Audit Committee, together with the Internal Audit Department, will analyze, independently follow up, investigate and provide feedback on the reported information, and the investigation results will be reported to the Board, and penalties will be imposed on the relevant units, and will be reported to the judicial authorities if the law is involved.

During the Year, the Group did not have any lawsuits and corruption cases filed against the Group and its employees.

We regularly provide anti-corruption training to our directors and employees. In addition, we also send out information on anti-commercial bribery and conflict of interest via email or group to remind all directors and employees to prevent unscrupulous practices from occurring.

3.4 Healthy Games

As an enterprise with a sense of social responsibility, we always put the care for minors' health and the prevention of minors' addiction to games in the first place. We strictly abide by the laws and regulations such as the *Network Security Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of Minors*, the *Personal Information Protection Law of the People's Republic of China*, the *Regulations on the Administration of Internet User Account Names*, the *Regulations on the Administration of Information Services for Internet User Public Accounts*, the *Notice on Preventing Minors from Being Addicted to Online Games*, and other laws and regulations, and have formulated the "*TapTap Community Management Regulations*", which regulate the content posted by platform users and prohibit any pornography, undesirable behaviors, unfavorable to the physical and mental health of minors and illegal comments, etc. to establish a healthy gaming platform and ensure the physical and mental health of players. We will review the game content to deliver positive and healthy messages, and we have established the "*Content Review Guidelines*" to prohibit game content with undesirable behavior or content that conveys undesirable awareness, undesirable inducements and is unfavorable to the physical and mental health of minors, etc., and ensures that the games as a whole present a positive, uplifting and wholesome style.

We have followed the requirements of the *Notice on Implementing "the Guidelines for Setting Up Youth Mode on Shanghai Online Platforms (trial version)"* to regulate minors' addiction to games and excessive consumption and implement a platform for a healthy gaming environment. We have established a Youth Mode on the TapTap platform, which will be automatically activated for youth users, giving priority to recommending knowledge-based, application-based and science-based pure and high-quality game content in the exclusive content pool, so as to create a healthier gaming environment for them. Download behaviors of youth users are further standardized and restricted on the TapTap platform. For games that are confirmed to be substandard as a result of inspection, no download service will be provided to any minors. We have also launched a page named "Protection of Minors: Parental Guide" on our official website, which provides detailed information and answers to parents' common questions about managing gaming devices, controlling gaming time and contacting customer service for refunds. This enables the parents to educate and guide their children in a more effective way to correctly treat online games.

The Group shoulders product responsibility and establishes policies to prevent infringement on the physical and mental health of minors in our game products. We require all users to register with their real names and keep records of their gaming time, and the games are connected to the real-name verification system of the National Press and Publication Administration for online games anti-addiction, and do not provide game services in any form to users who do not register and log in with their real names. We only provide online game services to minors for one hour from 20:00 to 21:00 daily on Fridays, Saturdays, Sundays and legal holidays. We limit the amount of game recharge for underage players by setting a single time and monthly recharge amount. We have embedded an AI banned words blocking system in the game to block sensitive content.

During the Year, to further protect the physical and mental health of minors, the function of reporting "content harmful to minors" was added in the one-click complaint and reporting module of the TapTap platform. We have dedicated personnel to receive and handle reports 24 hours a day. If violations are confirmed, immediate actions such as content deletion, muting, and account freezing are taken against the offending content and its posters. Our subsidiary, X.D. Network Inc. (X.D. Network), participated in the formulation of the *Guidance of the Shanghai Online Game Industry Association on Effectively Preventing Minors from Getting Addicted to Online Games*. Based on its existing measures for the protection of minors, X.D. Network provided suggestions on real-name authentication, prevention of minors from addiction, and refund procedures for underage player recharges. It also held discussion meetings with the Online Game Association and peers in the gaming industry to collectively propose revisions and promote industry consensus, in a bid to work together to create a safer and healthier online gaming environment for minors.

Due to the nature of our operations, KPI B6.1 Percentage of total products sold or shipped that are subject to recall for safety and health reasons and B6.4 Description of quality assurance processes and product recall procedures are not applicable to the Group.

3.5 Player Communication

In order to provide players with a better gaming experience, we are committed to providing the best user experience and continuously communicating with players. The Group strictly abides by the laws and regulations such as the *Consumer Rights Law of the People's Republic of China*, and has developed and implemented systems such as the *"Customer Service Complaint Handling Process"* and the *"Code of Practice for Satisfaction Surveys"*.

We have established multiple communication channels, including a 24-hour in-game customer service system, online communication tools, online forums, customer service hotline and email. During the Year, we independently developed several new customer service tools, including our proprietary Tapdesk backend, which enables to integrate work order system interface into existing games. This addition has made work order submission and interaction with customer service more convenient and boosted user satisfaction and problem resolution rates. We also launched a new version of our self-developed online customer service system, which can reduce the cost of using customer service tools and mitigate internal data breach risks compared to using rented external tools. We plan to continue real-time communication with our development and technical teams in actual customer service practices to further refine and enhance this new system. We have also hired a third-party service provider to provide multi-lingual customer service to our players. When we receive complaints from players about game related issues such as game recharge, server abnormalities, penalty dissatisfaction, etc., our customer service representatives are required to record and manage the complaints, summarize the content in a timely manner, and coordinate with relevant departments within the Group to deal with user issues and follow up on the issues. After handling the issues, we will collect players' satisfaction survey on the service, and analyze the complaint data regularly to improve the quality of the service.

During the Year, to professionally and effectively handle refund issues for the Sausage Man, we established a dedicated refund team responsible for document verification, outbound calls, video verification, and refund amount confirmation. After the team was set up, we continually communicated with the game project team and improved the refund process based on actual user cases. The improvement included raising the refund standard, shortening the refund period, and reducing the discount on refundable amounts, etc., and finally, the dedicated refund team handled the execution, communication, and settlement of refund issues.

During the Year, the Group received 40 complaints, and the complaint response rate and complaint handling rate reached 100%. Player satisfaction rate was 99.88%.

3.6 Working Together

3.6.1 Supplier Management

Our suppliers are important partners and an important part of our sustainability efforts. Our suppliers include R&D, marketing, software and hardware, content procurement, and equipment and materials. We have established the *"Procurement and Warehouse Management Policy"*, *"Fixed Assets Management Policy"*, *"Administrative Procurement Operation Procedures"*, *"Administrative Procurement Approval Standards"*, *"Supplier Management Standards"* and *"Green Procurement Guidelines"*.

When selecting and hiring suppliers, we will adopt different induction procedures for different suppliers, and we will evaluate companies based on a number of aspects such as their business status, business capability, quotation, management level, and quality. We will ask suppliers to provide profiles and case studies and sign confidentiality agreements. We may test some of our suppliers to ensure that they can meet our requirements for service quality. In the procurement of materials and hardware and software, we will compare the quality of the materials of three suppliers, check the quality of the materials, and negotiate with the suppliers or return them if the quality does not meet the requirements. The Group's warehousing management is based on the principle of "first-in-first-out", and the storage manager regularly updates the *List of Storage Items* to record the storage period of storage items in each department. During the Year, we set up a special unified management team for procurement needs to centrally manage the procurement process and material requirements of each department, making the procurement process more efficient and unified and improving procurement efficiency.

When managing and securing data safety with suppliers, we require both parties to sign a confidentiality agreement before cooperation begins. For data sharing, we impose additional requirements on third parties involved in collecting and processing our users' personal information, including software development kits (SDK). These requirements include providing feedback on data compliance operations related to their services, making disclosures in privacy policies, and signing data security standard contract terms, so as to ensure the effective enforcement of data security and privacy protection measures in our collaboration with all suppliers.

Each year, we evaluate suppliers and urge them to communicate their shortcomings and facilitate their rectification. This Year, we audited 396 suppliers. In addition, we will provide our suppliers with the *"Anti-Bribery Clause"* to ensure that they will not violate any commercial bribery clause and we will completely stop the cooperative relationship in case of violation. If there is any violation of the Group's interests, we will also seriously pursue their legal responsibilities. In addition, we will review the environmental and social risks in each link of the supply chain, and the supplier units we work with will be required to comply with the laws and regulations in their operations, and any bribery, unethical, child labor, and forced labor will be strictly prohibited.

We have established the *"Green Procurement Guidelines"*. In the material procurement process, we consider the price factor while strengthening the proportion of environmental protection and green product procurement, giving priority to energy-saving, environmental protection, reusable and non-polluting products, increasing the procurement of recycled, low-carbon, renewable and organic products and gradually reducing energy consumption and eliminating energy-intensive and outdated equipment.

During the Year, the number of suppliers of the Group was approximately 396, with 119 art suppliers, including 32 in Shanghai and 87 in other regions; 277 administrative suppliers, including 41 in Shanghai and 236 in other regions.

3.6.2 Industry Participation

The Group has always supported the industry to work together to promote the development of the industry. We are actively involved in industry activities, exchanging and collaborating with different developers, content creators and peers. During the Year, the Group's participation and representation in the following industry associations were as follows:

Association Name	Role
5G Cloud Game Industry Alliance	Council member
Shanghai Internet Association	Vice President
Shanghai Internet Association	Council member
Shanghai Online Game Association	Council member
China Audio-visual and Digital Publishing Association Game Publishing Working Committee	Vice director
Shanghai Minhang District Cultural and Creative Industries Association	Member
Shanghai Information Service Industry Association	Member

The Group promoted a number of large-scale events during the Year, leveraging its strengths and influence to explore more opportunities for exchanges and cooperation, promote the healthy and innovative development of the industry.

Leveraging the Role of the Anti-Cybercrime Alliance

As one of the founding members of the "Anti-Cybercrime Alliance", this year we have actively played our part in the alliance and strengthened our abilities to tackle the multitude of challenges that cybercrime poses to businesses. The Group's subsidiary, X.D. Network, in collaboration with Alibaba Cloud, Tencent Gamesafe and several other entities, has participated in formulating the "Guidelines for Handling Cybercrime Issues". This aims to provide compliance guidance for businesses and help internet companies respond to and deal with various cybercrime issues in a more effective way. We also participated in the Roundtable Forum on the Comprehensive Governance of the Online Game Ecology hosted by the People's Procuratorate of Xuhui District and the Shanghai West Bund Development (Group) Co., Ltd. At the forum, we provided valuable suggestions and discussed new paths for the co-governance and co-management of the online game industry to make contribution to the quality development of the industry.



2023 TapTap Developers Workshop

The TapTap Developers Workshop was held this Year under the slogan “Together as One”, aiming to bring developers closer together understanding their needs and concerns, and addressing new challenges in the domestic gaming industry. The workshop organized offline exchanges which were broadcast synchronously to reach a wider audience of developers. It facilitated direct communication between developers and the TapTap management team, fostering deeper exchanges and sharing insights. This included sharing TapTap’s future development directions, gathering feedback and suggestions from developers about TapTap’s products, and collaboratively promoting value creation.



Hosting of the 2023 China Game Innovation Awards

During the Year, the Group’s TapTap platform and Shanghai Online Game Association jointly hosted the 2023 China Game Innovation Awards. The competition adhered to the principles of art, innovation, and professionalism in judging, recognizing original game works that exhibit positive values, technological attributes, and social impact. The competition awarded 15 outstanding works, 4 innovative teams, and 4 innovative individuals, aiming to promote innovation and healthy development in the Chinese gaming industry. It also aimed to enhance the quality and aesthetic level of domestic games, promote Chinese traditional culture, and boost the global influence of Chinese games.



4. CHARITABLE ACTIVITIES

While we develop our business, we do not forget the development of the community. We have formulated the Management Measures on Charity and Public Benefits to regulate and manage the Group's community investment operations, the holding of public welfare activities and the sources of public welfare funds. We support various public welfare activities in the following forms, taking into account the characteristics of our business, including support for cultural and sports events, charitable donations, volunteer activities, care for the elderly, concern for children's development, environmental protection promotion and school-enterprise cooperation. The Group encourages its employees to contribute to the community and establish the responsibility of helping the community. We have set up "XD Touch" charity organization in 2015 to organize our staff to participate in various charity activities to help the needy groups.

Shanghai "Baby's Home" is an organization we have been helping for a long time. This is the 6th year that we have linked up with Baby's Home. With a sincere heart, our Group's volunteers once again came to "Baby's Home" to personally deliver our care and love to the children. This Year, we donated toiletries, summer cooling items and other materials to the organization, totaling RMB1,713.92.

During the Year, we also carried out the "XD Touch" litter cleanup activity, in which volunteers worked together to pick up and classify scattered litter in parks and scenic spots, practicing the concept of ecological civilization, enhancing the sense of social responsibility and environmental protection awareness, and actively contributing to the construction of a cleaner and greener living environment.



Donation of supplies to "Baby's Home"



"XD Touch" Litter Cleanup Activity

5. TALENT MANAGEMENT

Our employees are our Group's precious assets and the core of our competitive advantage, as well as our source of motivation for innovation. In order to maintain an excellent team of talents, we have formulated a number of human resources-related measures, including the *Employee Handbook*, *Training Management Policy*, *Recruitment Management Policy* and other policies. Our Group strictly abides by the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, the *Employment Promotion Law of the People's Republic of China*, the *Contract Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of Minors*, the *Provision on the Prohibition of Using Child Labor*, and other laws and regulations.

The Group is committed to providing safe, inclusive, equal and friendly work opportunities for our employees and takes a "zero tolerance" attitude towards any workplace sexual harassment, discrimination and bullying. We will not discriminate against employees on the basis of race, gender, color, age, family background, ethnic tradition, religion, physical fitness or original nationality. We ensure that our employees enjoy fair opportunities in all aspects such as compensation and dismissal, recruitment and promotion, working hours, rest periods and other benefits. During the Year, the Group did not have any cases of non-compliance in relation to compensation, equal opportunities, diversity, anti-discrimination and other treatment and benefits.

5.1 Employment Management

We formulate the "*Recruitment Management Policy*" to regulate the recruitment-related procedures and requirements. The Group's recruitment process consists of requirements from business departments and talent acquisition through traditional recruitment platforms, social networking platforms, potential candidates/talent bank maintenance, internal/HR recommendations, target recruitment from peer companies, head-hunting and other ways. We will conduct background investigation on the qualifications of all candidates, and will not hire if we find falsified resumes or integrity issues, and consider the candidates' ability, industry knowledge, professional skills and career match, and the candidates' behavior, overall quality and cultural value fit with the Group, to ensure the openness and fairness of the recruitment process.

We have established the "*Reward Policy for Internal Recommendation*" to encourage employees to recommend new employees to join the Group, and if the recommendation is successful, they will receive a corresponding bonus according to their rank. In order to attract employees who have left the Group to return to the Group, we have also established the "*Resignation and Reemployment Policy*" to provide salary adjustment for returning employees. These two systems aim to attract and retain quality talents and improve the quality of the Group's talents to meet the needs of the Group's business development and to maintain the competitiveness of the industry. We will sign Labor Contract with our employees. In accordance with the *Labor Contract* and the *Employee Handbook*, employees have the right to terminate their employment contracts, and are required to submit applications to their department heads in advance, and after confirmation, employees need to hand over before leaving the job. We will also conduct interviews with employees to understand their reasons for leaving.

The Group strictly prohibits the employment of child labor, and we will check the identification documents of our employees at the time of recruitment. Our Group has established a standard working hours system with working hours of 8 hours a day, 5 days a week, and thus 40 hours a week. Employees who need to work overtime during holidays need to obtain approval from their supervisors. We have established a flexible working system and implemented a comprehensive calculation of working hours system or irregular working hours system in certain positions in accordance with the relevant national and local regulations. We do not encourage our employees to work overtime, do not take pride in working overtime as competitive, and we reject the "996" (nine o'clock on, nine o'clock off, work six days per week) work culture. We prohibit any forced labor, corporal punishment, confinement, etc. If any violations are found, we will investigate and take measures to improve in accordance with relevant laws and regulations.

During the Year, the Group did not have any cases of violations related to child labor and forced labor.

The total number of employees and the number of people in each different employment type as at the end of 2023 are as follows:

Number of employees	Unit	2023
Total number of employees	Number of people	1,452
Number of employees by gender		
Female	Number of people	414
Male	Number of people	1,038
Number of employees by employment type		
Short-term contract/part-time employees/interns	Number of people	0
Full-time junior staff	Number of people	1,281
Full-time intermediate staff	Number of people	141
Full-time senior staff	Number of people	30
Number of employees by age		
19–24 years old	Number of people	44
25–29 years old	Number of people	520
30 years old and above	Number of people	888
Number of employees by region		
Shanghai	Number of people	1,417
Other regions	Number of people	35

During the Year, employee turnover rate was as follows:

Employee turnover¹	Unit	2023
Total employee turnover rate	%	22.02
Employee turnover rate by gender		
Female	%	19.61
Male	%	22.94
Employee turnover rate by age		
19–24 years old	%	30.16
25–29 years old	%	21.69
30 years old and above	%	21.76
Employee turnover rate by region		
Shanghai	%	21.41
Other regions	%	40.68

5.2 Employee Care

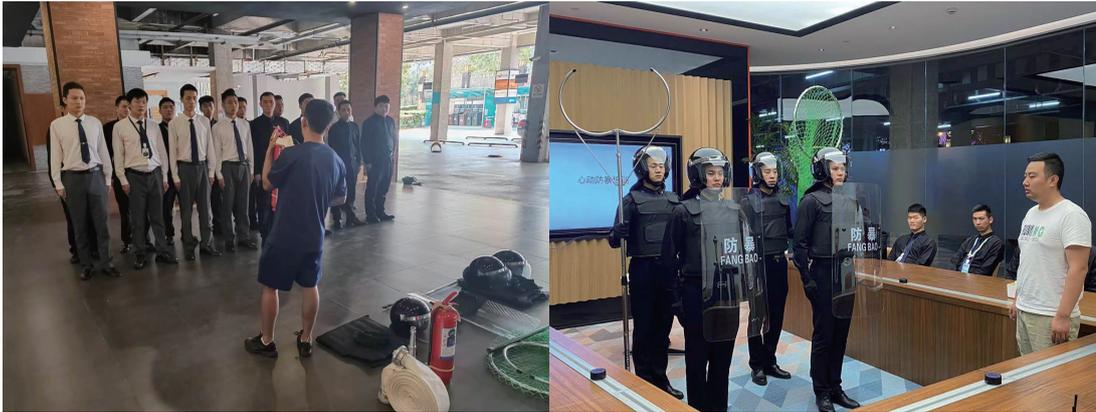
The Group's compensation system for employees includes basic salary, allowances, performance bonuses, year-end bonuses and stock options. In order to maintain the attractiveness and market competitiveness of our employees' remuneration, we adjust the salaries of employees with outstanding performance in accordance with the Group's operating conditions, the labor market and other factors. The Group also grants year-end bonuses to employees in accordance with annual operating conditions and employee performance. In order to allow our employees to grow with the Group, we have established the "XD Supplemental Option Program", which allows employees to choose a portion of their salary to be paid in the form of XD stock options and to share in the fruits of the Group's growth.

The Group pays "Five social insurances and one housing fund" including pension insurance, medical insurance, maternity insurance, work-related injury insurance, unemployment insurance and housing provident funds for our employees in accordance with the regulations, and also provides various subsidized benefits for our employees, such as marriage and maternity subsidies. We have also established XD Employee Assistance Program to help employees receive financial assistance in case of unexpected accidents. In addition to legal annual leave and statutory holidays, we also provide maternity leave, pregnancy check-up leave, breastfeeding leave, wedding leave, paternity leave, sick leave, work-related injury leave and other benefits.

¹ Calculation of employee turnover in different categories: Number of departed employees in that category ÷ (total number of employees in that category at the end of the year + number of departed employees in that category during the year) × 100%

5.3 Health and safety

The Group does not involve significant health and safety risks in its daily operations, but we have taken various measures to protect the occupational health and safety of our employees. The Group strictly adheres to the requirements of the *Fire Protection Law of the People's Republic of China* and other regulations, and regularly inspects the fire-fighting equipment in our office buildings to ensure fire safety and provide a safe workplace for our employees. We will organize our staff to participate in fire drills in the campus and conduct regular fire safety drills to enable our staff to master the fire response process and to enhance their coordination and cooperation skills as well as their awareness of self-rescue and mutual rescue in handling fire emergencies. We also regularly conduct health and safety emergency training and first aid lectures to enhance employees' knowledge of occupational health and safety, and to promote the awareness of safety and self-protection among employees. During the Year, the Group organized simulation training on riot control plans and training on the use of emergency supplies to further enhance the ability to respond to and handle emergencies.



Fire safety drills

Simulation training on the riot control plan

For the sake of the health of employees and their families, we provide annual medical check-up service and additional group commercial supplemental medical insurance to take care of employees' needs by offering basic medical benefits to employees, their spouses, and children. We invite professional general practitioners to conduct 1V1 Q&A sessions with employees after their annual physical examination, paying attention to their personalized health needs. To alleviate the symptoms of cervical spine disease, muscle aches and eye fatigue that may be caused by work, we provide ergonomic desks and chairs, and set up rest areas and fitness equipment to reduce physical and mental fatigue.

The Group regularly organizes staff activities and team building activities. During the Year, we conducted about 80 staff activities including dinners, afternoon tea, group outings and other fascinating activities to build up the cohesion of the staff to the Group, enhance the team spirit, and also enable the staff to relax physically and mentally so as to enhance their work efficiency and creativity.



Employee team building activities

The Group is concerned about the mental health of its employees in work and life, and has launched the XD Tree Hallow EAP Program to provide employees with a 7*24-hour mental health care hotline. Employees can call the hotline at any time to talk about any emotional stress, workplace problems and other difficulties, to help them relieve their psychological stress and comfort. The Group respects and protects the privacy of the employees by keeping the information provided by the employees during the mental health counseling strictly confidential.

During the Reporting Period, no complaints or lawsuits regarding violations of health and safety laws occurred in relation to the Group, and there were no work-related fatalities in the Group in the past three years. During the Year, the number of days lost due to work-related injuries was 0.

5.4 Employee Growth

We attach great importance to the professional development of our employees, and we provide appropriate training programs for different employees to help them reach their maximum working potential and enhance the competitiveness of our Group. We have developed the "Training Management Policy" to provide various types of training to different employees on a regular basis. The training content is divided into six categories, including general, technology, arts, operation service, planning, and tools. We implement an internal instructor system to encourage employees to act as instructors and promote experience and academic exchanges among employees. The Human Resources Department has established a system for selecting, training, certifying, rating and incentivizing internal instructors. We support our internal instructors in teaching and research, and the Human Resource Department also gives performance points to internal instructors based on the number of lectures they have given and the feedback results of the training, which play an important role in the grading and evaluation of the staff. Our training programs for this Year include:

- Monthly new employee orientation training: Sharing the Group's development history, corporate culture, code of conduct, department responsibilities, training and promotion mechanisms, and product introductions to instill confidence, enhance new employees' sense of belonging, and help them integrate quickly into the team and better contribute to their roles. This Year, we introduced a post-orientation testing component with a focus on information security, and regularly collected new employees' feedback to improve and refine the training program;

- Open classes — XD sharing sessions: We invited different industry experts, scholars or senior instructors from external training institutions to conduct specialized training on our key business and product knowledge, core technologies, best practices, cross-industry information, professional skills, etc. The series included topics like the *Value and Management of Communities*, the *Magical Journey from Photoshop to Figma*, and the *Exploring the Apple Ecosystem Together and Simplify Work Process*, which effectively assisted employees in enhancing their job skills and overall capabilities;
- Leadership training program series: It was tailored for first-line managers with a desire for growth, introducing standardized leadership concepts, tools, and methods to enhance management efficiency and communication skills. The program included *Becoming A Warm Talent Recruiter*, *Goal Management*, and *A Leader's Responsibilities and Roles*;
- HR specialized training: Through the "HR Growth Learning Community" project, we fostered a positive learning atmosphere within the HR team, promoting communication, exchange, and mutual learning among team members to facilitate better growth. The training included courses such as *HR Workshop in the AI Era*, *People Effectiveness Theme Sharing*, and *Engagement and Satisfaction Surveys*.

We encourage our employees to join external training to learn the most cutting-edge professional knowledge and skills related to their positions. The Group encourages employees to serve as part-time training instructors for sharing and exchange within the Group. We promote knowledge sharing and dissemination by tapping into our internal training resources through selection, training, certification, rating and incentive mechanisms. During the Year, the training programs we conducted received high praise and widespread recognition from the participants.

During the Year, the training of employees was as follows:

Classification	Category	Percentage of trained employees (%)	Average training hours per employee (hours)
Gender	Male	58	5.2
	Female	42	4.6
Employment Type	Full-time junior staff	36	2.94
	Full-time intermediate staff	89	19.8
	Full-time senior staff	60	3.2

The Group provides employees with comprehensive promotion paths according to their functions, and employees can develop in two major paths, professional or managerial, according to their interests. If professional employees switch to management path and find that their management ability is limited, they can return to professional path and continue to develop, which provides them the opportunity to explore their career development paths. We have formulated the "Employee Promotion Management Program" to clarify the promotion process and evaluation criteria, and to provide employees with career development opportunities, and the promotion opportunities for each employee are fair and open. Both employees and department heads can nominate employees for promotion, and according to the different levels of promotion, the promotion opinions will be given by superiors or evaluation committee and finally submitted to management for approval.

6. ENVIRONMENTAL PROTECTION

The Group deeply understands the importance of environmental protection and we have a responsibility to manage our environment well to reduce our impact on the environment. As a game developer and online gaming platform operator, the Group's business does not have a significant impact on the environment, but we take our corporate social responsibility seriously and have implemented a number of measures on resource utilization, greenhouse gas emission reduction and waste management to demonstrate our commitment and efforts in environmental protection.

The Group strictly complies with the requirements of the *Environmental Protection Law of the People's Republic of China* and the *Energy Conservation Law of the People's Republic of China* and other regulations. During the Year, the Group did not violate any regulations related to environmental protection or cause any major incidents affecting the environment and natural resources, nor did it have any penalties and litigations related to environmental protection.

The Group has set environmental targets in 2021 and reviews them annually to ensure that they are reasonable. This Year, as a result of review, we maintained the environmental targets set in 2021 in accordance with the Group's operations:

- Reduction of absolute emissions: reduce emissions from facilities and assets owned and control by us;
- Investment in carbon offsetting projects: adopt a more transformative approach and select carbon offsetting projects that benefit all mankind, the society, and the planet;
- Enhancement of energy efficiency: find out and assess our facilities with the maximum emissions, identify and invest in solutions that deliver better energy savings and emissions reductions to improve energy efficiency; We plan to continue to reduce our resource consumption in the future and achieve the goal of a 5% reduction in annual per capita power consumption and per capita water consumption.
- Promotion of a low-carbon economy: encourage employees and suppliers to lead by example, including taking low-carbon travel, reducing wastes from business operations, and striving to transition to a low-carbon economy.

6.1 Greenhouse gas emissions

The Group has implemented solar power generation by installing photovoltaic panels in the main building, which are connected to the mains power supply to provide electricity for lighting as well as wall sockets to minimize carbon emissions arising from the use of thermal power. We have also installed centralized control system and sprinkler system for the air-conditioning in the building as a whole, which effectively reduces the consumption of energy used for refrigeration and further reduces carbon emissions. In our daily operations, the Group promotes the use of green food in our canteens and prioritizes the procurement of locally produced food to reduce carbon emissions from transportation. The Group advocates green travel and encourages employees to prioritize green flights, green trains, and renewable energy vehicles for business travel channels such as employee travel and corporate vehicles usage. We provide staff shuttle buses to and from the office and metro stations, and encourage our staff to practice default carpooling in their daily office trips, use public transportation more frequently, and replace business trips with online meetings in order to reduce fuel usage and carbon emissions.



Green Canteen Certificate 2023

During the year, the Group's greenhouse gas emissions and intensity were as follows:

Greenhouse gas emissions²	Unit	2023
Direct greenhouse gas emissions (Scope 1)	tCO ₂ e	715.69
Indirect greenhouse gas emissions (Scope 2) ³	tCO ₂ e	3,023.30
Total GHG Emissions (Scope 1 and 2)	tCO ₂ e	3,738.99
Greenhouse gas emission intensity (per square meter) (Scope 1 and 2)	tCO ₂ e/m ²	0.06
GHG emissions per capita (Scope 1 and 2)	tCO ₂ e/employee	2.60

6.2 Resource Management

During the year, the Group's energy and water usage and intensity were as follows:

Use of resources²	Unit	2023
Energy consumption		
Total electricity consumption (purchased power + solar power)	MWh	5,724.37
Total electricity consumption per employee	MWh/employee	3.98
Natural gas consumption	m ³	33,101
Water consumption		
Total water consumption	m ³	21,600.11
Total water consumption per employee	m ³ /employee	15.00

The Group sources water from municipal water supply and has no difficulty in sourcing water. Our operations do not involve large-scale use of non-renewable energy, forest resources, or impact on biodiversity, etc. Therefore, Aspect A3 Environmental and Natural Resources is not applicable to the Group.

For the use of resources, we will use printing equipment that has the "China Certificate for Energy Conservation and the "China Environmental Labelling Product Certificate". In terms of paper usage, we give priority to paper certified by the Forest Stewardship Council (FSC). Currently, the tissue paper used in the Group's office buildings is sourced from FSC-certified paper products, contributing to the sustainable development of the environment and ecology. The Group is divided into several different office areas and uses independent light switches and air conditioning control systems in each area to turn off unneeded lighting and regulate the air conditioning temperature in each area as needed.

For water management, we use inductive water devices including automatic sensor taps. We regularly test the water consumption of our water-using equipment to check for leaks, and if we find any relevant situations, we will immediately repair the equipment to reduce water waste. The domestic wastewater and canteen wastewater generated by the Group are treated by the park property.

² Environmental KPIs cover the Group's Shanghai headquarters office and Hainan and Singapore subsidiaries.

³ Indirect greenhouse gas emissions in Singapore based on the emission factor (0.4057 kg CO₂/kWh) published by the Energy Market Authority of Singapore in 2021.

In our daily office work, the Group actively practises circular economy and is committed to reducing the use of disposable items. We encourage our staff to use more biodegradable products, including reusing eco-bags, replacing plastic cups with paper cups, using PLA biodegradable straws, etc., and have stepped up promotional efforts in this regard. The Group's coffee bars have also launched corresponding initiatives by offering discounts to employees who purchase beverages with their own cups. A coffee grounds recycling program has also been launched, with collection points set up in buildings and coffee bars for employees to receive free coffee grounds for use in home gardening or maintenance items, thus realizing the effective reuse of waste materials.

6.3 Waste Management

The Group's non-hazardous wastes are all domestic wastes generated by the offices, which are collected by the property management and handed over to the municipal hygiene agency for disposal, so the amount of waste generated cannot be measured. We actively respond to the *Shanghai Municipal Regulations on Domestic Waste Management* to classify and manage domestic waste, and have strictly implemented the policy of waste classification by covering the whole building with classified garbage cans and equipped them with clear markings, and promptly classified and recycled the waste in accordance with the four categories of "Dry Waste", "Wet Waste", "Recyclables" and "Hazardous Waste", so as to promote the environmental protection and the effective use of the waste. The Group uses environmentally qualified printer rental service providers to uniformly provide and recycle relevant equipment consumables in public printing areas. Used toner cartridges and ink cartridges in small quantities are recovered and recycled by the recyclers, which has little impact on the environment, and we will review the amount of usage and keep statistics on such usage in the future. We have also implemented a paperless office by promoting the use of Slack, Confluence and other office software for internal communications or electronic filing of documents to reduce the use of paper. Due to the nature of our business, the Group does not use packaging materials.

During the year, paper consumption and intensity were as follows:

Paper consumption ²	Unit	2023
Total paper consumption	kg	1,670.40
Paper consumption per employee	kg/employee	1.16

6.4 Pollutant Management

The Group uses electric vehicles and has no vehicle fuel usage, therefore the Group does not generate nitrogen oxides, sulfur oxides, or particulate matters. We regularly review the emission of pollutants and closely monitor the concentration of pollutant emissions to ensure that the emissions are in compliance with the relevant regulatory requirements. We regularly commission a third-party organization to conduct tests on our canteen fume purification equipment and oil-water separators in Shanghai, and the test results are in compliance with the standard requirements. We also regularly clean the fume ducts of our canteen kitchens to reduce pollution and to ensure that the equipment is in optimal working condition.

6.5 Climate Change

We are concerned about the impact of climate change on our operations. In order to respond to sudden extreme weather disasters in an efficient and orderly manner, the Shanghai head office has developed the *Climate Change — Emergency Plan for Extreme Weather*, which identifies the physical risks of common extreme weather such as severe winds, heavy precipitation, extreme heat and low temperatures, and formulates corresponding contingencies based on their impacts. The Group has also set up special emergency response teams and on-site emergency response teams in response to extreme weather, which are responsible for reporting early warning information, formulating preventive and emergency response measures, on-site command and other response work, as well as carrying out regular inspections of hidden dangers in the office area, so as to ensure the continuity and stability of the business in the event of emergencies, to minimize the property damage and casualties that may be incurred by the extreme weather, and to effectively respond to the challenges brought about by climate change.

Climate risks

Extreme weather risks

	Influencing factors	Response measures
Severe winds	<ul style="list-style-type: none"> Damaging doors and windows Casualties caused by a collapsed billboard 	<ul style="list-style-type: none"> Fix high-altitude objects to prevent them from injuring people when they fall Immediately clean up damage
Thunder and lightning	<ul style="list-style-type: none"> Causing damage to equipment and facilities Causing massive power outages Possible injury or death 	<ul style="list-style-type: none"> Evacuate uninvolved persons at the scene Call emergency services immediately
Rainstorm	<ul style="list-style-type: none"> Stagnant water damaging equipment 	<ul style="list-style-type: none"> Notify the property management in time to deal with the water accumulation on the road
Snowstorms	<ul style="list-style-type: none"> Snow accumulation in outdoor areas may cause injury or death 	<ul style="list-style-type: none"> Clear snow from roofs in time to prevent collapse and injury Clear snow from roads and take anti-slip measures
Extremely high temperatures	<ul style="list-style-type: none"> Employees suffer from heat stroke due to high temperature, posing a health threat 	<ul style="list-style-type: none"> Move the sufferer of heat stroke to a cool, well-ventilated area and perform first-aid treatment Immediately call for emergency services
Extreme cold temperatures	<ul style="list-style-type: none"> Damage to plumbing and other facilities Accidents while heating with high-powered electrical appliances Frostbite to employees 	<ul style="list-style-type: none"> Check the housing infrastructure Pay attention to electrical safety when using heating equipment Protect personnel from freezing
Hailstorms	<ul style="list-style-type: none"> Falls, injuries, slips and injuries to personnel 	<ul style="list-style-type: none"> Evacuate people to a safe place Wear personal protective equipment
Fog	<ul style="list-style-type: none"> Collisions or falls during personnel activities Pollutants are hazardous to employee health 	<ul style="list-style-type: none"> Personnel should look around and check their position to prevent accidental collisions Personnel should take personal precautions and wear masks

APPENDIX I: INDEX TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE

Disclosure Requirements		Section in this Report
Mandatory Disclosure Requirements		
Governance Structure		2.2 ESG Governance Structure
Reporting Principles		1.1 Reporting Standards
Reporting Scope		1.2 Reporting Scope
A. ENVIRONMENTAL AREA		
A1. Emissions	General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.
	A1.1	The types of emissions and respective emissions data.
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).
	A1.5	Description of emissions target(s) set and steps taken to achieve them.
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.
		6. Environmental protection
		The Group has no vehicle fuel usage, so the relevant KPI is not applicable to the Group
		6.1 Greenhouse Gas Emissions
		All non-hazardous waste is domestic waste, which is collected and disposed of by the property staff, while hazardous waste, including a small amount of waste toner cartridges, has been handed over to qualified recyclers for uniform disposal, and therefore is not disclosed in the report
		6. Environmental protection
		6. Environmental protection

Disclosure Requirements			Section in this Report
A2. Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	6.2 Resource Management
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	6.2 Resource Management
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	6.2 Resource Management
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	6.2 Resource Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	6.2 Resource Management
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	The Group does not use any packaging materials in its operations
A3. Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	6. Environmental protection
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	6. Environmental protection
A4. Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	6.5 Climate Change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	6.5 Climate Change
B. Social			
Employment and Labor Practices			
B1. Employment	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	5. Talent Management
	B1.1	Total workforce by gender, employment type (for example, full-or part-time), age group and geographical region.	5.1 Employment Management
	B1.2	Employee turnover rate by gender, age group and geographical region.	5.1 Employment Management

Disclosure Requirements			Section in this Report
B2. Health and safety	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5.3 Health and Safety
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	5.3 Health and Safety
	B2.2	Lost days due to work injury.	5.3 Health and Safety
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	5.3 Health and Safety
B3. Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5.4 Employee Growth
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	5.4 Employee Growth
	B3.2	The average training hours completed per employee by gender and employee category.	5.4 Employee Growth
B4. Labor Standards	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	5. Talent Management
	B4.1	Description of measures to review employment practices to avoid child and forced labor.	5. Talent Management
	B4.2	Description of steps taken to eliminate such practices	5. Talent Management
B5. Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	3.6.1 Supplier Management
	B5.1	Number of suppliers by geographical regions.	3.6.1 Supplier Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	3.6.1 Supplier Management
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	3.6.1 Supplier Management
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	3.6.1 Supplier Management

Disclosure Requirements		Section in this Report
B6. Product Responsibilities	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.
	B6.2	Number of products and service related complaints received and how they are dealt with.
	B6.3	Description of practices relating to observing and protecting intellectual property rights.
	B6.4	Description of quality assurance process and recall procedures.
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.
B7. Anti-corruption	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.
	B7.3	Description of anti-corruption training provided to directors and staff.
B8. Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).
	B8.2	Resources contributed (e.g. money or time) to the focus area.

07

DIRECTORS'
REPORT

DIRECTORS' REPORT

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2023.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the development, operation, publishing and distribution of mobile and web games and provision of information services. An analysis of the Group's revenue and operating results for the year ended December 31, 2023 by its principal activities is set out in Management Discussion and Analysis section of this annual report.

RESULTS

The results of the Group for the year ended December 31, 2023 are set out in the consolidated statements of profit or loss and other comprehensive income of the Group on pages 95 to 96 of this annual report.

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last five financial years is set out on pages 178 to 179 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group, comprising a discussion and analysis of the Group's performance during the year, particulars of important events affecting the Group that have occurred since the end of the Reporting Period and an indication of likely future development in the business of the Group are set out in the "Chairman's Letter" on pages 4 to 6 of this annual report. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 7 to 15 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are set out in the "Environmental, Social and Governance Report" on pages 35 to 62 of this annual report. Details regarding the Group's compliance with the relevant laws and regulations which have a significant impact on the Group are also set out in the "Environmental, Social and Governance Report" on pages 35 to 62 and the "Corporate Governance Report" on pages 20 to 34 of this annual report. A description of the principal risks and uncertainties facing the Group is set out in the "Corporate Governance Report" on pages 20 to 34 of this annual report. All such discussions form part of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended December 31, 2023 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2023 are set out in note 24 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year ended December 31, 2023 are set out in the consolidated statement of changes in equity. As at December 31, 2023, the amount of reserves available for distribution of the Company amounted to approximately RMB7,036 million.

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
	275.6	147.5	147.5	—	

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
	1,113.0	127.5	10.6	116.9	

DIRECTORS

The Directors during the year ended December 31, 2023 and up to the date of this annual report were:

Executive Directors

Mr. Huang Yimeng (*Chairman of the Board and Chief Executive Officer*)

Mr. Dai Yunjie

Mr. Fan Shuyang

Non-executive Directors

Mr. Wu Meng (appointed on December 17, 2023)

Mr. Liu Wei (resigned on December 17, 2023)

Independent Non-executive Directors

Mr. Pei Dapeng

Mr. Xin Quandong

Ms. Liu Qianli

In accordance with Article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting. Accordingly, Mr. Wu Meng shall retire from office and, being eligible for, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Article 16.18 of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than one-third) shall retire from office by rotation. Accordingly, Mr. Fan Shuyang and Mr. Pei Dapeng shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received a confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and they have made an invaluable contribution to the development of the Company's strategies and policies, providing independent advice. In addition, they have also provided diversity of experience, skills, expertise, background and qualifications to the Board through regular attendance and active participation. The Board considers that they are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years. Either party has the right to give not less than three months' written notice to terminate the agreement.

The non-executive Director has entered into a service contract with the Company for a term of three years commencing from the date of the service contract or until the third annual general meeting of the Company since the date of the service contract, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from the date of the respective appointment letter or until the third annual general meeting of the Company since the date of the respective appointment letter, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

The Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years in accordance with the Articles of Association.

None of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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.

Particulars of the pension scheme of the Group are set out in note 7 to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 7 to the consolidated financial statements. None of the Directors waived any emoluments during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2023, none of the Directors or their associates has any competing interests in the businesses which compete or are likely to compete, directly or indirectly, with our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year ended December 31, 2023.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at December 31, 2023, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were otherwise required, to be notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

(i) Interest in Shares and underlying Shares

Name of Director	Capacity/Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
Mr. Huang Yimeng ("Mr. Huang")	Settlor of a discretionary trust ⁽²⁾	157,605,000 (L)	32.80%
	Beneficial owner	3,527,633 (L) ⁽³⁾	0.73%
	Interest of spouse	2,100,000 (L)	0.44%
Mr. Dai Yunjie ("Mr. Dai")	Settlor of a discretionary trust ⁽⁴⁾	53,245,000 (L)	11.08%
	Beneficial owner	1,235,001 (L) ⁽⁵⁾	0.26%

Notes:

- (1) The Letter "L" denotes the long position in the Shares. The percentage figures disclosed under "Approximate percentage of shareholding" were calculated based on the 480,453,107 Shares, being the number of total issued Shares of the Company as of December 31, 2023.
- (2) Happy Today Holding Limited is a company incorporated in the British Virgin Islands and is wholly-owned by Happy Today Company Limited. Happy Today Company Limited is held by the Happy Today Trust, which was established by Mr. Huang as the settlor. J.P. Morgan Trust Company (Singapore) Pte. Ltd. is the trustee of the Happy Today Trust, and Mr. Huang and his family members are the beneficiaries of the Happy Today Trust. Mr. Huang is also a director of Happy Today Holding Limited. As such, each of Mr. Huang, J.P. Morgan Trust Company (Singapore) Pte. Ltd. and Happy Today Company Limited is deemed to be interested in our Shares held by Happy Today Holding Limited under the SFO.
- (3) Mr. Huang was interested in 3,527,633 Shares, of which inclusive of the interest in 1,041,633 Shares underlying the share options granted pursuant to the share option plan which was adopted by Shareholders on June 25, 2021.
- (4) Kros Dai Inc. is a company incorporated in the British Virgin Islands and is wholly-owned by Danger and Sons Inc. Danger and Sons Inc. is held by the Dai & Sons Trust, which was established by Mr. Dai as the settlor. J.P. Morgan Trust Company of Delaware is the trustee of the Dai & Sons Trust, and Mr. Dai and his family members are the beneficiaries of the Dai & Sons Trust. Mr. Dai is also a director of Kros Dai Inc. As such, each of Mr. Dai, J.P. Morgan Trust Company of Delaware and Danger & Sons Inc. is deemed to be interested in our Shares held by Kros Dai Inc. under the SFO.
- (5) Mr. Dai was interested in 1,235,001 Shares, of which inclusive of the interest in 669,201 Shares underlying the share options granted pursuant to the share option plan which was adopted by Shareholders on June 25, 2021.

(ii) Interest in an associated corporation

Name of Director	Nature of Interest	Associated corporations	Number of Shares	Approximate percentage of shareholding ⁽¹⁾
Mr. Huang Yimeng	Interest in controlled corporation	X.D. Network ⁽¹⁾	165,900,000 (L)	77.82% ⁽²⁾
	Beneficial owner	X.D. Network ⁽¹⁾	47,281,500 (L)	22.18% ⁽²⁾

Notes:

- (1) On September 1, 2023, X.D. Network completed its share capital reduction and the number of the issued shares of X.D. Network was reduced from 236,197,420 shares to 213,181,500 shares.
- (2) Following the completion of share capital reduction of X.D. Network on September 1, 2023, the approximate percentage of shareholding held by Mr. Huang Yimeng in X.D. Network was 77.82% (interest in controlled corporation) and 22.18% (beneficial owner) respectively.

Save as disclosed above, as at December 31, 2023, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Company, as at December 31, 2023, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following persons, other than a Director or chief executive of the Company, had an interest of 5% or more in the Shares or underlying Shares:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
J.P. Morgan Trust Company (Singapore) Pte. Ltd. ⁽²⁾	Trustee	157,605,000 (L)	32.80%
Happy Today Company Limited	Interest in controlled corporation	157,605,000 (L)	32.80%
Happy Today Holding Limited	Beneficial owner	157,605,000 (L)	32.80%
J.P. Morgan Trust Company of Delaware	Trustee	53,245,000 (L)	11.08%
Danger & Sons Inc.	Interest in controlled corporation	53,245,000 (L)	11.08%
Kros Dai Inc.	Beneficial owner	53,245,000 (L)	11.08%

Notes:

- (1) The letters "L" denote long position in the shares of the Company respectively. The percentage figures disclosed under "Approximate percentage of shareholding" were calculated based on the 480,453,107 Shares, being the number of total issued Shares of the Company as of December 31, 2023.
- (2) On March 2, 2023, the interests held by Credit Suisse Trust Limited under Happy Today Trust has transferred to J.P. Morgan Trust Company (Singapore) Pte. Ltd. under Happy Today Trust.

Save as disclosed above, as at December 31, 2023, the Company had not been notified of any persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares that were recorded in the register required to be kept under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2023 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

RSU SCHEME

The RSU Scheme was adopted on June 3, 2019.

Purpose

The purpose of the RSU Scheme is to enable our Group to attract and retain the services of Participants (as defined below) considered essential to the success of our Group by providing additional incentives, and to promote the success of our Group as a whole.

Effectiveness and Duration

Subject to any early termination as may be determined by the Board pursuant to terms of the RSU Scheme, the RSU Scheme shall be valid and effective for a period of ten years commencing from the adoption date of June 3, 2019, after which no award of RSUs granted to a Participant (the "Award") will be granted, but the provisions of this RSU Scheme shall in all other respects remain in full force and effect and the Awards granted during the term of the RSU Scheme may continue to be valid and exercisable in accordance with their terms of grant. The remaining life of the RSU Scheme was approximately 5 years.

Administration

The RSU Scheme shall be subject to the administration of the Board.

The Board shall have the sole and absolute right to (i) interpret and construe the provisions of the RSU Scheme; (ii) determine the persons who will be granted the Awards under the RSU Scheme, the terms and conditions on which the Awards are granted and when the RSUs granted pursuant to the RSU Scheme may vest; (iii) make such appropriate and equitable adjustments to the terms of the Awards granted under the RSU Scheme as it deems necessary; and (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the RSU Scheme. The Board may by resolution delegate any or all of its powers in the administration of the RSU Scheme to the administration committee or any other committee as authorized by the Board for such purpose. All the decisions, determinations and interpretations made by the Board shall be final, conclusive and binding on all parties.

Heart Assets Limited (the "RSU Holding Entity") was a limited liability company incorporated in the British Virgin Islands on June 4, 2019, and was established by the Company as the settlor holding our Shares pursuant to the RSU Scheme. On June 17, 2019, the Company issued and allotted an aggregate of 8,437,540 Shares to the RSU Holding Entity, which hold our Shares pursuant to the RSU Scheme on trust for and on behalf of the grantees or our Company (as the case may be), representing approximately 1.76% of the issued share capital of the Company as at the date of this report. The Shares held by the RSU Holding Entity will not be counted towards the public float of the Company.

The RSU Holding Entity will not exercise the voting rights attached to the Shares underlying the RSU Scheme.

The RSU shall be made at nil consideration to selected participants.

Participants

Those eligible to participate in the RSU Scheme (the "Participants") include: (i) full-time employees (including directors, officers and members of senior management) of any member of our Group; and (ii) any person who, in the sole opinion of the Board, has contributed or will contribute to any member of our Group.

Annual limit of Shares

The maximum limit of the total number of Shares to be issued by the Company under the RSU Scheme in any financial year will not exceed 3% of the total Shares in issue as at the beginning of that financial year. The total number of Shares issued and to be issued to a grantee in any 12-month period will not exceed 1% of the total number of Shares in issue at anytime during this 12-month period.

Terms and Conditions of Award

(i) Grant of Awards

The Board may, from time to time, select the Participants to whom the Award may be granted. The amount of the Award may be determined at the sole and absolute discretion of the Board and may differ among selected Participants.

(ii) Notice of grant

Subject to the limitations and conditions of the RSU Scheme, a notice of grant (the "Notice of Grant") will be sent to the grantee confirming (a) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip dividends in respect of these Shares) or the amount of cash the grantee will receive; (b) the lock-up arrangements upon vesting (if any); and (c) other terms and conditions (if any) that the RSUs are subject to as determined by the Board in its absolute discretion.

The grantee is required to execute an acceptance notice and return it to the trustee of the RSU Scheme (the "Trustee") after receiving the Notice of Grant. Upon the receipt from the eligible Participant of a duly executed acceptance notice, the RSUs are granted to such Participant, who becomes a grantee pursuant to the RSU Scheme. The date of such receipt shall be the grant commencement date (the "Grant Commencement Date"). In the event that the grantee fails to execute or return the acceptance notice within the time period and in a manner prescribed in the Notice of Grant, it shall be deemed that such grant of Award has been irrevocably declined and thus the RSUs have immediately lapsed.

(iii) Conditions of Award

The Board has absolute discretion on the terms and conditions of the Awards. Subject to the terms of the RSU Scheme, the Awards may be granted on such terms and conditions (such as by linking the vesting of their RSUs to the attainment or performance of milestones by any member of our Group, the grantee or any group of grantees).

(iv) Restrictions

No grant of Award shall be made to any selected Participant at a time when the selected Participant would or might be prohibited from dealing in our Shares by the Listing Rules (where applicable) or by any other applicable rules, regulations or law.

A grant of Award must not be made after inside information has come to the knowledge of our Company until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular during the period commencing one month immediately preceding the earlier of:

- (a) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement;

no Award may be granted. Such period will cover any period of delay in the publication of a results announcement.

Where any Award is proposed to be granted to a director, it shall not be granted on any day on which the financial results of our Company are published and during the period of:

- (a) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (b) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

Upon the completion of Listing, any grant to any Director, chief executive or substantial shareholder of our Company, or any of their respective associates (as defined under the Listing Rules), shall be subject to the prior approval of the independent non-executive directors (excluding the independent non-executive director who is the proposed grantee of the Awards in question) and shall otherwise be subject to compliance with the requirements of the Listing Rules. Notwithstanding the foregoing, any grant of Award to a director pursuant to Rule 14A.95 of the Listing Rules will be exempted from reporting, announcement and independent Shareholders' approval requirements if the Award forms part of the relevant director's remuneration under his service contract.

The Board may not grant any Award to any Participants in any of the following circumstances:

- (a) the requisite approvals for that grant of Award from any applicable regulatory authorities have not been obtained; or
- (b) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of Award or in respect of this Scheme, unless the Board determines otherwise; or
- (c) where the grant of Award would result in a breach of any applicable securities laws, rules or regulations by any member of our Group or any of its directors; or
- (d) the grant of Award would result in breach of the RSU Limit or other rules of the RSU Scheme.

(v) Transferability of Awards

Awards, and any interest therein, shall not be transferable or assignable or encumbered, and shall not be made subject to execution, attachment or similar process, except:

- (a) transfer from a grantee to his family member by gift or pursuant to domestic relations order in the settlement of marital property rights with the consent of the Board; or
- (b) transfer by the grantee and provided that following the grantee's death, RSUs may be transferred by will, or by the laws of descent and distribution.

Taxes

The grantee shall pay all taxes and other liabilities that may be assessed or assessable on any payments made by our Company or Trustee under the RSU Scheme and all payments required to be made hereunder by our Company shall be subject to the deduction or withholding of any payment or transfer of any kind otherwise due to the grantee, and the grantee agrees to indemnify and keep our Company (for itself and for any members of our Group), the Trustee and RSU Holding Entity indemnified in respect of any such liability, obligation or loss and accepts any claim in respect of such indemnity may be satisfied by set-off against any sums due from our Company, any member of our Group, the Trustee and/or RSU Holding Entity to such grantee from time to time.

Vesting

(i) Vesting period

Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted shall be subject to vesting schedule and to the satisfaction of performance and/or other conditions to be determined by the Board (if any) in its absolute discretion. If such conditions are not satisfied, the RSU shall automatically lapse on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion.

The Board shall have the sole and absolute discretion to determine whether or not a grantee shall have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award prior to vesting of the Award.

(ii) Voting Rights

Prior to the transfer of the Shares underlying the vested RSUs to the grantee, the grantee shall not be entitled to have any rights as a shareholder with respect to such Shares.

Lapse and Forfeiture

Subject to terms and conditions of the RSU Scheme, the unvested RSUs shall automatically lapse upon the earliest of:

- (a) the date of the termination of grantee's employment or service in Cause (as defined below) by any member of our Group; or
- (b) in the event that certain general offer by way of voluntary offer or takeover is made to all the Shareholders the date of the offer (or, as the case may be, revised offer); or
- (c) in the event that certain general offer for Shares by way of scheme of arrangement is made to all the Shareholders, the record date for determining entitlements under the scheme of arrangement; or
- (d) the date of the commencement of the winding-up of our Company; or
- (e) the date on which, at the absolute discretion of the Board, the grantee has failed to perform any major customary duties or responsibilities of an employee, or has committed a material violation of any reasonable directions or instructions of the managerial department or personnel of the relevant member of our Group, or has committed a material breach of any applicable internal rules, regulations and code of conduct of the relevant member of our Group; or
- (f) the date on which it is no longer possible to satisfy any outstanding conditions to vesting; or
- (g) the Board has decided that the unvested RSUs shall not be vested in the grantee in accordance with the rules of the RSU Scheme and the terms and conditions as set out in the Notice of Grant.

For the purpose of defining the lapse conditions, the "Cause" means, with respect to a grantee, the summary termination of employment or office or service on any one or more of the following grounds: the grantee has been guilty of willful misconduct or gross negligence, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board in its absolute discretion) on any other ground on which the relevant member in our Group would be entitled to terminate his employment or office or service summarily at common law or pursuant to any applicable laws or under the grantee's employment or service contract with the relevant member in our Group.

Notwithstanding the aforesaid, in each case, the Board may in its absolute discretion decide that any RSU shall not lapse or shall be subject to such conditions or limitations as the Board may decide.

The number of Awards available for grant under the RSU Scheme at the beginning and the end of the Reporting Period were both 8,437,540. As at the date of this report, the aggregate number of Shares held by the RSU Holding Entity pursuant to the RSU Scheme for and on behalf of the grantees was 8,437,540, representing approximately 1.76% of the issued share capital of our Company and no RSUs had been granted by the Company.

As of December 31, 2023, no RSUs had been granted by the Company.

For more details, please refer to the section headed "Statutory and General Information — D. RSU Scheme" in Appendix IV to the prospectus of the Company dated November 29, 2019.

SHARE OPTION PLAN

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 (the "Share Option Plan"). On June 25, 2021 (the "Adoption Date"), the Share Option Plan was considered and approved by the Shareholders 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 of December 31, 2023, the remaining life of the Share Option Plan was approximately 7.5 years.

Purpose

The purpose of the Share Option Plan is 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.

Eligible Participants

The eligible participants for the Share Option Plan include any employee (whether full time or part time), executives or officers, Directors (including executive, non-executive and independent non-executive Directors) of any member of the Group, who, in the sole opinion of the Board, have contributed or will contribute to the growth and development of the Group.

Maximum Number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Plan and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Adoption Date that is, 48,043,070 Shares. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other options granted and yet to be exercised under any other option scheme shall not exceed 30% of the issued Shares from time to time.

Maximum Entitlement of Eligible Participants

No option may be granted to any eligible participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Share Option Plan (including exercised, cancelled and outstanding options) in the 12-month period up to and including the grant date of such new grant exceeding 1% in aggregate of the issued share capital of the Company as at the grant date of such new grant. Any grant of further options above this limit shall be subject to the requirements provided under the Listing Rules.

Vesting Period and Exercise Period

The Share Option Plan provides that the Board may specify the vesting period of the options and does not provide for any minimum vesting period. The option must be exercised no more than 10 years from the grant date. There is no minimum period for which an option must be held before it can be exercised. The Board and the Remuneration and Appraisal Committee will take into account of the purpose of the Share Option Plan as part of the remuneration package of eligible participants to incentivize their performance and to make continuous contributions to the growth and development of the Group, as well as maintaining the competitiveness of the remuneration package offered by the Group as compared with those offered by the industry peers.

Performance Target

There is no performance target attached to the options under the Share Option Plan. For the grant of options, the Board and the Remuneration and Appraisal Committee will consider the ability of eligible participants for their contributions to the overall operations, development and long-term growth of the Group with reference to their tenure with the Group and their industry experience. It is the common practice of gaming industry of granting options without performance target. The grant of options aligns the interest of eligible participants with that of the Company and the Shareholders and reinforces the eligible participants' commitment to the Group and thus aligns with the purpose of the Share Option Plan.

Clawback Mechanism

Any options shall lapse and not exercisable with immediate effect on the following dates:

- (a) on which the grantee ceases to be an eligible participant (including any employees, executives or officers and directors of any members of the Group) in accordance with the Share Option Plan; or
- (b) on the date on which the Board exercises the Company's right to cancel or forfeit the options if the grantee commits any breach of non-transferrable provision of the options and confidentiality clause of the Share Option Plan.

Subscription Price and Consideration for the Options

The Board shall be entitled at any time during the operation of the Share Option Plan, at its/his/her sole and absolute discretion, to make an offer of options to an eligible participant by letter in such form as the Board may from time to time determine. Unless otherwise determined by the Board, RMB1.00 shall be payable by the grantee to the Company upon acceptance of the offer of options, and such remittance shall not be refundable.

The total number of shares available for issue under the plan is 47,899,863 (representing 9.97% of the issued shares) as at the date of this report.

The exercise price shall be a price determined by the Board and notified to any grantee and will be the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the grant date of the relevant options, which must be a business day;
- (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the grant date of the relevant options; or
- (c) the nominal value per Share on the grant date.

Movements of Options during the Reporting Period

Pursuant to Rule 17.07 of the Listing Rules, particulars and movements of share options under the Share Option Plan during the period from the Adoption Date to December 31, 2023 (the "Period") by category of grantees were as follows:

Category of grantees	Date of grant	Exercise price per Share	Closing price immediately before the date of grant	Vesting period/ ^(a) Exercisable period	Outstanding as at January 1, 2023	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	As at December 31, 2023
Directors and substantial shareholders										
Mr. Huang Yimeng (Executive Director)	July 12, 2021	HK\$62.60	HK\$60.20	July 12, 2021 to July 11, 2031	16,049	—	—	—	—	16,049
	October 11, 2021	HK\$46.90	HK\$42.85	October 11, 2021 to October 10, 2031	64,705	—	—	—	—	64,705
	January 10, 2022	HK\$37.01	HK\$35.60	January 10, 2022 to January 9, 2032	83,213	—	—	—	—	83,213
	April 11, 2022	HK\$25.04	HK\$23.35	April 11, 2022 to April 10, 2032	122,982	—	—	—	—	122,982
	July 5, 2022	HK\$21.64	HK\$20.60	July 5, 2022 to July 4, 2032	135,331	—	—	—	—	135,331
	October 14, 2022	HK\$16.09	HK\$15.04	October 14, 2022 to October 13, 2032	138,900	—	—	—	—	138,900
	January 11, 2023	HK\$25.86	HK\$26.80	January 11, 2023 to January 10, 2033	—	83,210	—	—	—	83,210
	April 12, 2023	HK\$27.79	HK\$27.55	April 12, 2023 to April 11, 2033	—	102,561	—	—	—	102,561
	July 6, 2023	HK\$20.29	HK\$20.45	July 6, 2023 to July 5, 2033	—	133,626	—	—	—	133,626
October 16, 2023	HK\$13.284	HK\$12.78	October 16, 2023 to October 15, 2033	—	161,056	—	—	—	161,056	

Category of grantees	Date of grant	Exercise price per Share	Closing price immediately before the date of grant	Vesting period/ ^(a) Exercisable period	Outstanding as at January 1, 2023	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	As at December 31, 2023
Mr. Dai Yunjie (Executive Director)	July 12, 2021	HK\$62.60	HK\$60.20	July 12, 2021 to July 11, 2031	9,924	—	—	—	—	9,924
	October 11, 2021	HK\$46.90	HK\$42.85	October 11, 2021 to October 10, 2031	40,009	—	—	—	—	40,009
	January 10, 2022	HK\$37.01	HK\$35.60	January 10, 2022 to January 9, 2032	51,453	—	—	—	—	51,453
	April 11, 2022	HK\$25.04	HK\$23.35	April 11, 2022 to April 10, 2032	122,982	—	—	—	—	122,982
	July 5, 2022	HK\$21.64	HK\$20.60	July 5, 2022 to July 4, 2032	99,243	—	—	—	—	99,243
	October 10, 2022	HK\$16.72	HK\$16.76	October 10, 2022 to October 9, 2032	121,244	—	—	—	—	121,244
	January 11, 2023	HK\$25.86	HK\$26.80	January 11, 2023 to January 10, 2033	—	3,715	—	—	—	3,715
	April 12, 2023	HK\$27.79	HK\$27.55	April 12, 2023 to April 11, 2033	—	51,281	—	—	—	51,281
	July 6, 2023	HK\$20.29	HK\$20.45	July 6, 2023 to July 5, 2033	—	66,813	—	—	—	66,813
	October 16, 2023	HK\$13.284	HK\$12.78	October 16, 2023 to October 15, 2033	—	102,537	—	—	—	102,537
Employees (other grantees save as Directors and the five highest paid individuals)	July 12, 2021	HK\$62.60	HK\$60.20	July 12, 2021 to July 11, 2031	233,245	—	—	—	—	233,245
	October 11, 2021	HK\$46.90	HK\$42.85	October 11, 2021 to October 10, 2031	772,323	—	—	—	—	772,323
	January 10, 2022	HK\$37.01	HK\$35.60	January 10, 2022 to January 9, 2032	1,057,299	—	—	—	—	1,057,299
	April 11, 2022	HK\$25.04	HK\$23.35	April 11, 2022 to April 10, 2032	614,720	—	—	—	—	614,720
	July 5, 2022	HK\$21.64	HK\$20.60	July 5, 2022 to July 4, 2032	817,716	—	—	—	—	817,716
	October 10, 2022	HK\$16.72	HK\$16.76	October 10, 2022 to October 9, 2032	1,071,772	—	(22,407) ⁽¹⁾	—	—	1,049,365
	January 11, 2023	HK\$25.86	HK\$26.80	January 11, 2023 to January 10, 2033	—	628,369	—	—	—	628,369
	April 12, 2023	HK\$27.79	HK\$27.55	April 12, 2023 to April 11, 2033	—	253,102	—	—	—	253,102
	July 6, 2023	HK\$20.29	HK\$20.45	July 6, 2023 to July 5, 2033	—	370,656	—	—	—	370,656
	October 16, 2023	HK\$13.284	HK\$12.78	October 16, 2023 to October 15, 2033	—	717,978	—	—	—	717,978
Five Highest Paid Individuals	July 12, 2021	HK\$62.60	HK\$60.20	July 12, 2021 to July 11, 2031	88,016	—	—	—	—	88,016
	October 11, 2021	HK\$46.90	HK\$42.85	October 11, 2021 to October 10, 2031	146,784	—	—	—	—	146,784
	January 10, 2022	HK\$37.01	HK\$35.60	January 10, 2022 to January 9, 2032	4,483,946	—	—	—	—	4,483,946
	April 11, 2022	HK\$25.04	HK\$23.35	April 11, 2022 to April 10, 2032	46,118	—	—	—	—	46,118
	July 5, 2022	HK\$21.64	HK\$20.60	July 5, 2022 to July 4, 2032	16,747	—	—	—	—	16,747
	October 10, 2022	HK\$16.72	HK\$16.76	October 10, 2022 to October 9, 2032	20,460	—	—	—	—	20,460
	January 11, 2023	HK\$25.86	HK\$26.80	January 11, 2023 to January 10, 2033	—	227,256	—	—	—	227,256
	April 12, 2023	HK\$27.79	HK\$27.55	April 12, 2023 to April 11, 2033	—	207,302	—	—	—	207,302
	July 6, 2023	HK\$20.29	HK\$20.45	July 6, 2023 to July 5, 2033	—	281,583	—	—	—	281,583
	October 16, 2023	HK\$13.284	HK\$12.78	October 16, 2023 to October 15, 2033	—	429,878	—	—	—	429,878
Total					10,375,181	3,820,923	(22,407)	—	—	14,173,697

Notes:

- (1) The weighted average closing price of the shares immediately before the dates of exercise was HK\$26.00 per Share.
- (2) All options granted vested on the date of grant pursuant to the terms of the Share Option Plan.

On July 12, 2021, a total of 347,234 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 16,049 options granted to Mr. Huang Yimeng, an executive Director, and 9,924 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated July 12, 2021.

On October 11, 2021, a total of 1,023,821 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 64,705 options granted to Mr. Huang Yimeng, an executive Director, and 40,009 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated October 11, 2021.

On January 10, 2022, a total of 5,675,911 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 83,213 options granted to Mr. Huang Yimeng, an executive Director, and 51,453 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated January 10, 2022.

On April 11, 2022, a total of 906,802 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 122,982 options granted to Mr. Huang Yimeng, an executive Director, and 122,982 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated April 11, 2022.

On July 5, 2022, a total of 1,069,037 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 135,331 options granted to Mr. Huang Yimeng, an executive Director, and 99,243 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated July 5, 2022.

On October 10, 2022, a total of 1,378,808 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 165,332 options granted to Mr. Huang Yimeng, an executive Director, and 121,244 options granted to Mr. Dai Yunjie, an executive Director. As disclosed in the announcement of the Company dated October 14, 2022, the Board has resolved to cancel the 165,332 options which were granted to Mr. Huang Yimeng and further announced that a total of 138,900 share options were granted by the Company under the Share Option Plan to Mr. Huang Yimeng. For details, please refer to the announcements of the Company dated October 10, 2022 and October 14, 2022.

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. For details, please refer to the announcement of the Company dated January 11, 2023.

On April 12, 2023, a total of 614,246 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 102,561 options granted to Mr. Huang Yimeng, an executive Director, and 51,281 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated April 12, 2023.

On July 6, 2023, a total of 852,678 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 133,626 options granted to Mr. Huang Yimeng, an executive Director, and 66,813 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated July 6, 2023.

On October 16, 2023, a total of 1,411,449 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 161,056 options granted to Mr. Huang Yimeng, an executive Director, and 102,537 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated October 16, 2023.

During the Reporting Period, a total of 22,407 options were exercised by eligible participants (other than a Director) of the Company under the Share Option Plan on January 10, 2023, January 11, 2023, January 13, 2023, January 16, 2023, and April 3, 2023.

Save as disclosed above, no other options under the Share Option Plan have been granted, exercised, lapsed or cancelled during the Period.

Number of Options Available for Grant

The number of options available for grant under the Share Option Plan at the beginning and the end of the Reporting Period were 37,667,889 and 33,846,966, respectively.

The number of shares that may be issued in respect of options granted under the Share Option Plan during the Reporting Period divided by the weighted average number of issued shares for the Reporting Period was 0.81%.

Fair Value of the Options

The Group used Binominal option-pricing model to determine the fair value of the share option as of the grant dates. The fair value of Options granted by the Company for the year ended December 31, 2023 to employee participants on January 11, 2023, April 12, 2023, July 6, 2023 and October 16, 2023 was HKD12.21 per Option, HKD13.10 per Option, HKD10.20 per Option and HKD6.40 per Option, respectively, at such dates of grant, and the fair value of Options granted to Directors was HKD13.42 per Option, HKD14.37 per Option, HKD11.19 per Option and HKD7.07 per Option, respectively, at such dates of grants. Key assumptions and the fair value of the Options are set out in note 33 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Other than the RSU Scheme and the Share Option Plan, during the year ended December 31, 2023, the Company has not entered into any equity-linked agreement.

CONTRACT OF SIGNIFICANCE

During the Reporting Period, save as disclosed in this report neither the Company nor any of its subsidiaries had any contract of significance with its controlling shareholder or its subsidiaries, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries (as defined in Appendix D2 to the Listing Rules).

RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out in the normal course of business are set out in note 36 to the consolidated financial statements.

Save as disclosed above, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, details of the Company's non-exempt continuing connected transactions are as follows:

1. IDC Services Framework Agreement

On November 26, 2019, Shanghai Maichuang entered into an Internet Data Center (the "IDC") services framework agreement (the "IDC Services Framework Agreement") with our Company (for itself and on behalf of other members of our Group), pursuant to which Shanghai Maichuang agreed to provide IDC services and related technical support services to the Group. IDC services and related technical support services include, but are not limited to, server equipment colocation services, bandwidth and Internet protocol (the "IP") address offerings, content delivery network (the "CDN") acceleration services, and maintenance and support services. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

The initial term of the IDC Services Framework Agreement was commenced on the Listing Date and was expired on December 31, 2021. The IDC Services Framework Agreement has subsequently renewed on April 1, 2022 and shall expire on December 31, 2024.

Reasons for the Transactions

Shanghai Maichuang is an IDC services provider in China and offers internet and data-related services, including IDC services and CDN services. Since the establishment of the Company, Shanghai Maichuang has been providing us with IDC services and related technical support services, and therefore has acquired a deep understanding of our business and operational requirements of the Group. Having considered the Group's previous purchasing experience and the long-term and stable cooperation with Shanghai Maichuang, the Directors believe that Shanghai Maichuang is capable of fulfilling the demands of the Group in a reliable and cost-effective manner and entering into the IDC Services Framework Agreement would minimize disruption to our operation and internal procedures of the Group.

The annual caps for the service fees under the IDC Services Framework Agreement for each of the nine months ended December 31, 2022, year ended December 31, 2023 and year ending December 31, 2024 is RMB5,027,000, RMB5,529,700 and RMB6,082,670 respectively.

Shanghai Maichuang is held by Mr. Dai's spouse as to 32.00% and Huang Binbin and Chen Hao who are Independent Third Parties as to 68.00%, therefore Shanghai Maichuang is an associate of Mr. Dai and a connected person of the Company under Rule 14A.07(4) of the Listing Rules. Details of the continuing connected transaction are set out in the Company's announcement dated March 30, 2022.

For the year ended December 31, 2023, the independent non-executive Directors have reviewed the aforesaid continuing connected transactions and confirmed that the transactions have been entered into:

- i. in the ordinary and usual course of business of the Company;
- ii. on normal commercial terms or better; and
- iii. in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Auditor has been engaged to report on the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

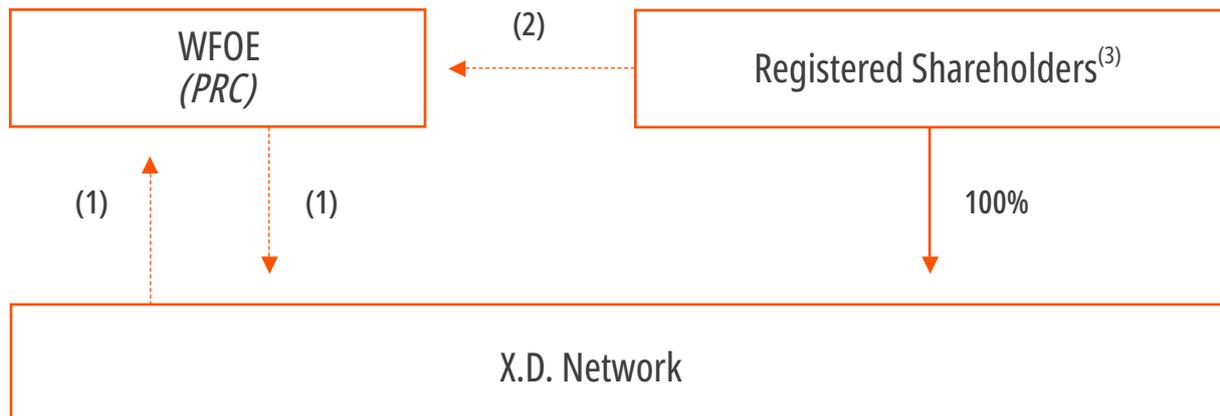
The Auditor had informed the Board and confirmed nothing has come to their attention that causes them to believe that the continuing connected transactions:

- i. have not been approved by the listed issuer's board of directors;
- ii. were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;
- iii. were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- iv. have exceeded the cap.

2. Contractual Arrangements

Our Company has entered into a series of the Contractual Arrangements with WFOE and the PRC Consolidated Affiliated Entities, pursuant to which our Company would gain effective control over, and receive all the economic benefits generated by, the businesses operated by the PRC Consolidated Affiliated Entities. Accordingly, through the Contractual Arrangements, the results of operations and assets and liabilities of X.D. Network and its subsidiaries are consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group. The total revenue of the PRC Consolidated Affiliated Entities during the year ended December 31, 2023 was approximately RMB1,351 million, and the total assets of the PRC Consolidated Affiliated Entities as at December 31, 2023 was approximately RMB1,052 million.

The following simplified diagram illustrates the flow of economic benefits from the PRC Consolidated Affiliated Entities to WFOE as stipulated under the Contractual Arrangements.



" ——— " denotes legal and beneficial ownership in the equity interest

" - - - - - " denotes the Contractual Arrangements

Notes:

- (1) WFOE provides technical consultation and other services in exchange for service fees from X.D. Network. Please refer to the paragraph headed "Summary of the Contractual Arrangements" below.
- (2) The Registered Shareholders executed exclusive option agreement, equity pledge agreement, voting rights proxy agreement and the spouse of each of the Relevant Individual Shareholders executed an undertaking, in favour of WFOE. Please refer to the paragraph headed "Summary of the Contractual Arrangements" below.
- (3) Xindong Holding Co., Ltd. (心動控股有限公司) and the Relevant Individual Shareholder Mr. Huang Yimeng is referred to as "Registered Shareholders."

- (4) In addition to the restricted and/or prohibited business of our Company, X.D. Network also directly or indirectly holds investment in certain entities in the PRC (the "Relevant Entities"), each of which (i) is engaged in business subject to foreign investment prohibition under the Negative List which will impair the continuous validity of the relevant licenses or permits of the prohibited businesses held or invested by these entities; (ii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List; however, the Relevant Entities intend to invest or engage in potential businesses which are subject to foreign investment prohibition and has expressly rejected our Company's proposed transfer of the interest in these entities held by our Group to WFOE; or (iii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List; however, the transfer of its equity interest directly or indirectly held by X.D. Network is subject to other stakeholders' consent and assistance and the Company was unable to procure such consent/assistance. It would be impracticable to obtain the consent and/or the assistance from all of the relevant stakeholders required for our Company's proposed transfer of the interest in the Relevant Entity held by our Group to WFOE. For further details of these Relevant Entities, please refer to pages 208 to 213 of the Prospectus.

Summary of the Contractual Arrangements

A brief description of each of the specific agreements that comprises the Contractual Arrangements is set out below.

(i) *Exclusive Service Agreement*

On June 16, 2019, WFOE and X.D. Network entered into the exclusive consultation and technical service agreement (the "Exclusive Service Agreement"), pursuant to which X.D. Network agreed to engage WFOE as its exclusive provider to provide X.D. Network with technical consultation and services, including but not limited to, (i) licensing the operation of the self-developed games and licensed games; (ii) licensing the use of the software, copyright and proprietary technology; (iii) providing comprehensive solutions for business operation and management skills; (iv) daily management, maintenance and update of the hardware and database; (v) development, maintenance and update of the software and online games; (vi) employee training; (vii) assistance in the collection and research of the technical information in compliance with the restriction under relevant PRC laws; and (viii) other services as required by X.D. Network from time to time. In exchange for these services, X.D. Network shall pay (i) a service fee, which shall consist of the total consolidated profit of X.D. Network in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions recognized by WFOE in each financial year, which may include any accumulated deficit of X.D. Network and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any); and (ii) the supplemental service fee as otherwise agreed by X.D. Network and WFOE for the specific consulting service or technical service (if any) required by X.D. Network. Meanwhile, X.D. Network agreed to any adjustment WFOE may make on the services scope and the service fee in accordance with the PRC tax law and PRC tax practice. During the term of the Exclusive Service Agreement, WFOE enjoys all the economic benefits in relation to X.D. Network business operation. The Exclusive Service Agreement also provides that WFOE has the exclusive and proprietary ownership, rights and interests in all intellectual property arising out of or created during the performance of the Exclusive Service Agreement.

The Exclusive Service Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in X.D. Network or the entire assets held by X.D. Network have been transferred to WFOE or its appointee(s); or (ii) terminated in writing by WFOE thirty days in advance.

(ii) *Exclusive Option Agreement*

On June 16, 2019, WFOE, X.D. Network and the Registered Shareholders entered into the exclusive option agreement (the "Exclusive Option Agreement"), WFOE has the irrevocable, unconditional and exclusive right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders all or any part of their equity interests in X.D. Network and from X.D. Network all or any part of the assets of X.D. Network at any time in WFOE's absolute discretion in accordance with the provision of the Exclusive Option Agreement and to the extent permitted by the PRC laws. The consideration in relation to purchasing shares from the Registered Shareholders shall be RMB1 or the lowest price as permitted under the applicable PRC laws. The consideration in relation to purchasing assets from X.D. Network shall be the lowest price as permitted under the applicable PRC laws. The Registered Shareholders shall return the consideration received to WFOE or any person designated by WFOE.

The Exclusive Option Agreement shall remain effective unless terminated in the event that (i) the entire equity interests held by the Registered Shareholders in X.D. Network or the entire assets held by X.D. Network have been transferred to WFOE or its appointee(s); or (ii) in writing by WFOE thirty days in advance.

(iii) *Equity Pledge Agreement*

On June 16, 2019, WFOE, X.D. Network and the Registered Shareholders entered into the equity pledge agreement (the "Equity Pledge Agreement"), the Registered Shareholders agreed to unconditionally and irrevocably pledge all of their respective equity interests in X.D. Network to WFOE as collateral security for securing the performance of their obligations under the Contractual Arrangements or for any and all of the secured indebtedness under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends arising from the equity interests in X.D. Network held by the Registered Shareholders.

The pledge in favour of WFOE under the Equity Pledge Agreement shall remain valid until after all the contractual obligations of the Registered Shareholders and X.D. Network under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and X.D. Network under the Contractual Arrangements have been fully settled.

(iv) *Voting Rights Proxy Agreement and Powers of Attorney*

On June 16, 2019, the Registered Shareholders, WFOE and X.D. Network entered into the Voting Rights Proxy Agreement (the "Voting Rights Proxy Agreement"), pursuant to which, each of the Registered Shareholder agreed to enter into a powers of attorney respectively through which each of the Registered Shareholders shall agree to irrevocably appointed WFOE or its appointees (including but not limited to the directors of the holding companies of WFOE and their successors and liquidators replacing such directors but excluding those non-independent or who may give rise to conflict of interests) as their exclusive agents to act on their behalf to exercise all of their respective rights as the shareholder of X.D. Network in accordance with the articles of association of X.D. Network.

The Voting Rights Proxy Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in X.D. Network and/or the entire assets held by X.D. Network have been transferred to WFOE or its appointee(s) in accordance to the Exclusive Service Agreement; or (ii) terminated in writing by WFOE thirty days in advance.

(v) *Spouse Undertakings*

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the "Spouse Undertakings") to the effect that (i) the spouse has full knowledge of and unconditionally and irrevocably consents to the entering into the Contractual Arrangements (as amended from time to time) among the respective Relevant Individual Shareholders, WFOE and X.D. Network; (ii) the spouse shall be bound by the Contractual Arrangements (as amended in X.D. Network from time to time) and take all necessary actions to ensure the appropriate implementation of the Contractual Arrangements; (iii) the spouse has no direct right to or interest in such interests of the Relevant Individual Shareholder and will not have any claim on such interests; (iv) the spouse unconditionally and irrevocably undertakes that he/she shall not in any manner act against the Contractual Arrangements; and (v) in the event that the spouse of the Relevant Individual Shareholders holds the interests in X.D. Network, such spouse shall enter into a series of agreements which are similar to the Contractual Arrangements with WFOE and X.D. Networks as requested by WFOE.

Reasons for adopting the Contractual Arrangements

Our principal businesses involve publication and operation of games through mobile apps and websites and are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment. In view of such PRC regulatory background, after consultation with our PRC legal advisers, we determined that it was not viable for our Company to hold our PRC Consolidated Affiliated Entities directly through equity ownership. For further details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements — PRC Regulatory Background — Overview" and "Contractual Arrangements — Development in the PRC Legislation on Foreign Investment" on pages 206 to 207 and pages 225 to 227 of the Prospectus.

Risks relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

- If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be materially and adversely affected.
- If the PRC government determines that our ownership structure does not comply with the restrictions contained in the GAPP Notice, we could be subject to severe penalties.
- Contractual Arrangements with X.D. Network and its shareholders may not be as effective in providing control as direct ownership. X.D. Network and its shareholders may fail to perform their obligations under these Contractual Arrangements.
- Our ability to enforce the equity pledge agreements may be subject to limitations based on PRC laws and regulations.
- The Registered Shareholders of X.D. Network have potential conflicts of interest with us, which may adversely affect our business.
- We may lose the ability to use and enjoy the benefits of the assets held by X.D. Network that are important to the operations of our business if such entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.
- Contractual Arrangements with X.D. Network may result in adverse tax consequences.
- If we exercise the option to acquire the equity ownership or assets of X.D. Network, the ownership transfer may subject us to substantial costs.
- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

For further details of these risks, please refer to the section headed "Risk Factors — Risks Related to Our Contractual Arrangements" on pages 50 to 56 of the Prospectus.

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- i. major issues arising from the implementation of and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;
- ii. the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- iii. our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- iv. our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the PRC Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

- i. the transactions carried out during the year ended December 31, 2023 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- ii. no dividends or other distributions had been made by the PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- iii. other than the Contractual Arrangements, no new contracts had been entered into, renewed and/or reproduced between our Group and the PRC Consolidated Affiliated Entities during the year ended December 31, 2023; and
- iv. the Contractual Arrangements had been entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable so far as our Group is concerned, and in the interest of our Company and its Shareholders as a whole.

The Auditor has confirmed in a letter to our Board that the transactions under the Contractual Arrangements have been approved by our Board, the transactions carried out during the year ended December 31, 2023 had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by the PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2023 are set out in note 1 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Under the Articles of Association, every Director, Auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, Auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

ISSUE OF CONVERTIBLE BONDS UNDER THE GENERAL MANDATE

On April 12, 2021, the Company completed the issue of Convertible Bonds in an aggregate principal amount of US\$280 million due 2026. The issue price of the Convertible Bonds shall be 100.00% of the aggregate principal amount and the denomination of each of the Convertible Bonds shall be US\$200,000 and integral multiples of US\$1,000 thereof. The initial conversion price is HK\$63.45 per share, and the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day on which the Convertible Bonds subscription agreement was signed (i.e. March 31, 2021) was HK\$47.00 per share. Based on such initial conversion price and assuming full conversion of the Convertible Bonds at such initial conversion price, the Convertible Bonds will be converted into a maximum of 34,308,715 conversion shares of the Company. The gross proceeds from the issue of the Convertible Bonds were US\$280 million and the net proceeds were approximately US\$275.6 million. Based on the net proceeds and assuming full conversion of the Convertible Bonds, the net price per conversion share is approximately HK\$62.46.

The Convertible Bonds have been offered and sold by the joint managers to no less than six (6) independent bondholders (who are, to the best knowledge of the Directors, independent individual, corporate and/or institutional investors). The Convertible Bonds were listed on the Stock Exchange on April 13, 2021.

There had not been any exercise of the Convertible Bonds as of December 31, 2023. During the year ended December 31, 2023, the Convertible Bonds in the principal amount of US\$55,000,000 was redeemed and canceled by the Company through the open market on the Stock Exchange for a total price of approximately US\$53.8 million. As of December 31, 2023, the outstanding Convertible Bonds, with US\$219,600,000 principal amount, are convertible into a maximum of 26,907,835 Shares at the initial conversion price of HK\$63.45 per Share.

PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

On March 31, 2021, the Company entered into the placing agreement with the placing agents, pursuant to which, each of the placing agents has agreed to act as the placing agent for the Company, on a best effort basis, to place 26,318,000 placing shares (the "Placing"). The placing price was HK\$42.38 per share and the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day on which the placing agreement was signed (i.e. March 31, 2021) was HK\$47.00 per share. The gross proceeds from the Placing were approximately HK\$1,115.36 million and the net proceeds were approximately HK\$1,113.0 million. The net price per share for the Placing after deducting related fees and expenses is approximately HK\$42.29 per share. The aggregate nominal value of the Placing was US\$2,631.80.

On April 13, 2021, the Company completed the Placing of a total of 26,318,000 new shares of the Company to placees, namely Bilibili Inc. and Taobao China Holding Limited, which are, to the best knowledge of the Directors, independent of, and not connected with, the Company and its connected persons or any of its respective associates.

The placing price is HK\$42.38 per Share and represents: (i) a discount of approximately 9.83% to the closing price of HK\$47.00 per Share as quoted on the Stock Exchange on March 31, 2021 (being the last full trading day prior to the signing of the placing agreement); (ii) a discount of approximately 14.78% to the average closing price of approximately HK\$49.73 per Share as quoted on the Stock Exchange for the last five trading days prior to and including March 31, 2021 (being the last full trading day prior to the signing of the placing agreement); and (iii) a discount of approximately 19.08% to the average closing price of approximately HK\$52.37 per Share as quoted on the Stock Exchange for the last 10 trading days prior to and including March 31, 2021 (being the last full trading day prior to the signing of the placing agreement). The placing price was determined after arm's length negotiation between the Company and the placing agents, with reference to the market price of the Shares.

The net proceeds raised from issue of the Convertible Bonds and the Placing are intended to be used for (i) further enhancing the Company's R&D capability and game portfolios; (ii) marketing and promoting games and TapTap; (iii) potential acquisitions and strategic investments; and (iv) general corporate purposes. For more information on the use of such net proceeds, see the above section "Use of Proceeds" of this report. The vision of the Company is to develop TapTap into a leading international game community and platform, which would require substantial and continuous capital investment. The Board therefore considers that the proceeds from the Convertible Bonds and the Placing would further strengthen the financial position of the Company, in order to allow the Company to seize the development opportunities in the current challenging global economy.

For further details of the Convertible Bonds and the Placing, please refer to the announcements of the Company dated March 31, 2021 and April 12, 2021.

DONATIONS

During the year ended December 31, 2023, the Company did not engage in any charitable and other donations.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 20 to 34 of this annual report.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended December 31, 2023, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

Our Group has adopted internal control and risk management policies to monitor the on-going compliance with relevant laws and regulations. As far as the Board is concerned, our Group has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries in all aspects.

As of the date of this report, we have implemented and completed system upgrading works in respect of the anti-addiction systems for our online games and premium games operated in China in accordance with the Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) issued by National Administration of Press and Publication (國家新聞出版總署). We will then engage an external independent IT consultant to review and test the effectiveness of our upgraded systems and will promptly consult with our PRC legal advisers as and when required.

MAJOR CUSTOMERS AND SUPPLIERS

1. Information about the major customers of the Company

During the year ended December 31, 2023, sales to the largest customer and the five largest customers amounted to RMB701 million and RMB1,301 million, respectively, accounting for 20.7% and 38.4% of the total sales for the year, respectively. No related-party sales were transacted to the five largest customers. None of the Directors, their close associates, or Shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had interests in any of the Group's five largest customers.

2. Information about the major suppliers of the Company

During the year ended December 31, 2023, purchases from the largest supplier and the five largest suppliers amounted to RMB333 million and RMB3,427 million, respectively, accounting for 9.7% and 25.3% of the total purchases for the year, respectively. There were no related-party purchases among such purchases from the five largest suppliers. None of the Directors, their close associates, Shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had interests in any of the Group's five largest suppliers.

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 million 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.

EVENTS AFTER THE REPORTING PERIOD

Grant of Options

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. On April 15, 2024, a total of 5,240,554 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 102,561 Options granted to Mr. Huang Yimeng, an executive Director, and 163,388 Options granted to Mr. Dai Yunjie, an executive Director, respectively. For details, please refer to the announcements of the Company dated January 12, 2024 and April 15, 2024.

Exercise of Options

Subsequent to the Reporting Period, 120,800 Options were exercised by certain eligible participants to subscribe for 120,800 ordinary shares of the Company.

Repurchase of the Convertible Bonds

In January 2024, the Company repurchased and cancelled an aggregate principal amount of US\$60 million of the Convertible Bonds. As at the date of this announcement, the aggregate principal amount of US\$159.6 million 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.

Acquisition of 35% shareholding in X.D. Global (HK) Limited

On April 9, 2024, the Company entered into the Sale and Purchase Agreement with EDragon and LY Development (the "Vendors") and XDG Holding Limited (the "Purchaser") (being a wholly-owned subsidiary of the Company), pursuant to which, the Purchaser has conditionally agreed to acquire, and EDragon and LY Development have severally and conditionally agreed to sell, the Target Shares, representing in aggregate 35% of the shareholding of the Target Company, subject to and on the terms and conditions of the Sale and Purchase Agreement.

The Initial Consideration for the Acquisition under the Sale and Purchase Agreement shall be an aggregate of US\$21,639,320 (of which US\$16,693,190 shall be payable to EDragon and US\$4,946,130 shall be payable to LY Development), which will be settled (i) as to an aggregate US\$17,339,320 by the allotment and issue of 7,405,714 and 2,194,286 Consideration Shares by the Company to EDragon and LY Development respectively at the Issue Price of HK\$14.20 per Consideration Share; and (ii) as to US\$3,317,143 and US\$982,857 in cash to be paid by the Purchaser to EDragon and LY Development respectively. The Initial Consideration will be subject to further adjustments by the deduction of any Earn Out Adjustment(s).

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Group.

The 9,600,000 Consideration Shares represent in aggregate approximately 2.00% of the issued share capital of the Company as at April 9, 2024 and in aggregate approximately 1.96% of the issued share capital of the Company as enlarged by the Consideration Shares (assuming there will be no other change in the total number of issued Shares of the Company between the date of this announcement and the allotment and issue of the Consideration Shares).

All the applicable percentage ratios in respect of the Acquisition are less than 5%. However, as part of the consideration under the Sale and Purchase Agreement will be satisfied by the allotment and issuance of the Consideration Shares, the Acquisition constitutes a share transaction and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

On April 9, 2024, as (a) EDragon is a substantial shareholder of the Target Company, being a subsidiary of the Company; and (b) EDragon is an associate of Mr. XW Huang, EDragon is a connected person of the Company at the subsidiary level and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition is therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Mr. XW Huang and his associates shall abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transaction contemplated thereunder (including the Acquisition and the issue of Consideration Shares under the Specific Mandate) at the annual general meeting to be held by the Company.

For details of the share transaction and connected transaction in relation to the acquisition of 35% shareholding in X.D. Global (HK) Limited involving the issue of consideration shares under specific mandate, please refer to the announcement of the Company dated April 9, 2024.

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 report.

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).

SUFFICIENCY OF PUBLIC FLOAT

According to information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained a sufficient public float as required under the Listing Rules.

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, 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

There has been no change in auditor in preceding three financial years. The consolidated financial statements of the Group for the year ended December 31, 2023 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the Annual General Meeting.

For and on behalf of the Board

XD Inc.

Huang Yimeng

Chairman of the Board

Hong Kong, March 28, 2024

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INDEPENDENT
AUDITOR'S
REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of XD Inc.

(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of XD Inc. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 95 to 177, comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition on online game operating services — estimates of lifespan of in-game virtual items;
- Impairment assessment of goodwill

Key Audit Matter

Revenue recognition on online game operating services — estimates of lifespan of in-game virtual items

(Refer to notes 2.9, note 4.1 and note 5 to the consolidated financial statements.)

During the year ended 31 December 2023, the majority of the Group's revenue was generated from its online game operating services.

The Group has recognised revenue from sales of in-game virtual items ratably over the lifespan of in-game virtual items determined by management with reference to the expected playing period of paying players ("Player Relationship Period") when the Group has determined that it is obligated to provide on-going services to game players.

We focused on this area because the determination of the lifespan of the in-game virtual items with reference to the expected Player Relationship Period is subject to high degree of estimation uncertainty. The inherent risk in relation to the determination of the lifespan of the in-game virtual items with reference to the expected Player Relationship Period is considered significant due to subjectivity of significant assumptions used and significant judgements involved in selecting data. These judgements and estimates included (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to nature of virtual item, the games profile (including historical players' consumption patterns, churn rates, and games life-cycle), target audience and its appeal to players of different demographics groups, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period.

How our audit addressed the Key Audit Matter

Our procedures performed in relation to the estimation of lifespan of in-game virtual items included:

We obtained an understanding of management's internal control and assessment process of estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity, changes and susceptibility to management bias or fraud. We evaluated and validated, on a sample basis, management's key internal controls in respect of the recognition of revenue from sales of in-game virtual items, including management's review and approval of (i) determination of the estimated lifespans of new virtual items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual items based on periodic reassessment on any indications triggering such changes;

We evaluated the judgement and estimates made by management in determining the lifespan of in-game virtual items with reference to the expected Player Relationship Periods including nature of virtual item, the games profile, the target audience and players of different demographics groups of the relevant games with reference to the nature of games, historical operating data, market data and practice, and our industry knowledge.

We also retrospectively evaluated, on a sample basis, the outcome of prior period assessment of the expected Player Relationship Periods to assess the effectiveness of management's estimation process by comparing the actual users' relationship periods against the original estimation.

We checked, on a sample basis, the data integrity of historical players' consumption patterns and calculation of the churn rates used in determining the Player Relationship Periods.

We assessed the adequacy of the disclosures related to estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods in the context of the applicable financial reporting framework.

We also considered whether the judgements made in determinations of estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods would give rise to indicators of possible management bias.

Based on the procedures performed, we considered that the risk assessment of estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods remained appropriate and the significant judgements and estimates adopted by management in the assessment of lifespan of in-game virtual items with reference to the expected Player Relationship Periods are supported by the evidence obtained.

Key Audit Matter**Impairment assessment of goodwill**

Refer to Notes 2.6, 4.5 and 15 to the consolidated financial statements.

As at 31 December 2023, the net carrying amount of goodwill amounted to RMB167.10 million.

Goodwill impairment assessment is required to be conducted annually and whenever there is an indication that a cash-generating unit ("CGU") to which goodwill has been allocated may be impaired.

The Group engaged an independent external valuer to assist management in the goodwill impairment assessment. The recoverable amounts of CGUs were determined based on the value-in-use calculations using cash flow projections.

We focused on this area due to that goodwill impairment assessment is subject to high degree of estimation uncertainty. The inherent risk in relation to goodwill impairment is considered significant due to the complexity of valuation models, subjectivity of significant assumptions used and significant judgements involved in selecting data such as annual revenue growth rate, gross profit rate, terminal revenue growth rate and pre-tax discount rate.

How our audit addressed the Key Audit Matter

Our procedures performed in relation to management's impairment of goodwill included:

We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with the operating and market information.

We obtained an understanding of management's internal control and assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud. We evaluated and validated, on a sample basis, management's key internal controls in respect of the impairment assessments, including the determination of appropriate valuation models and assumptions used in the impairment assessment.

We evaluated the external valuer's competence, capabilities and objectivity.

We retrospectively evaluated the outcome of prior period impairment assessment of goodwill to assess the effectiveness of the management's estimation process;

We assessed the appropriateness of the valuation models and significant assumptions adopted by management by (i) evaluating the historical accuracy of the cash flow forecast by, for example, comparing the forecast used in the prior year to the actual performance of the business in the current year; (ii) evaluating the reasonableness of the key assumptions used in the cash flow forecast, including revenue growth rate, terminal growth rate and gross profit rate taking into account industry forecasts and market developments, the Group's management approved budget, plan and historical performance; and (iii) involving our internal valuation experts to evaluate the pre-tax discount rate applied in the calculation by comparing with the industry or market data to assess whether the pre-tax discount rate applied was within the range of those adopted by comparable companies in the same industry and check the calculation of the discount rate.

We assessed management's sensitivity analysis regarding the key assumptions to evaluate the extent to which adverse changes would result in the goodwill being impaired.

We assessed the adequacy of the disclosures related to goodwill impairment in the context of the applicable financial reporting framework.

We also considered whether the judgements made in selecting the models, significant assumptions and data would give rise to indicators of possible management bias.

Based on the procedures performed, we considered that the risk assessment of goodwill impairment remained appropriate and the key judgement and estimates adopted by management in the assessment of goodwill impairment are supported by the evidence obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in XD Inc. 2023 Annual Report (the "annual report") other than the consolidated financial statements and our auditor's report thereon. We have obtained some of the other information including management discussion and analysis prior to the date of this auditor's report. The remaining other information, including chairman's letter, directors' report, corporate governance report and the other sections to be included in the annual report, is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining other information to be included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jane Kong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2024

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CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Notes	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenues	5	3,389,144	3,430,936
Cost of revenues	5, 6	(1,320,774)	(1,595,677)
Gross profit		2,068,370	1,835,259
Selling and marketing expenses	6	(865,237)	(922,683)
Research and development expenses	6	(1,015,657)	(1,283,824)
General and administrative expenses	6	(224,613)	(233,848)
Net impairment losses on financial assets	6	(517)	(2,564)
Other income	8	48,941	51,020
Other losses, net	9	(16,509)	(11,230)
Operating loss		(5,222)	(567,870)
Finance income		90,058	27,677
Finance costs		(119,924)	(57,838)
Finance costs, net	10	(29,866)	(30,161)
Share of results of investments accounted for using equity method	17(c)	19,884	38,197
Impairment of investments accounted for using equity method	17(c)	(14,894)	—
Loss before income tax		(30,098)	(559,834)
Income tax expenses	11	(35,264)	(14,179)
Loss for the year		(65,362)	(574,013)
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		22,126	71,649
Total comprehensive loss for the year		(43,827)	(513,753)
(Loss)/profit for the year attributable to:			
Equity holders of the Company		(83,039)	(553,495)
Non-controlling interests	17(a)	17,677	(20,518)
		(65,362)	(574,013)
Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the Company		(61,678)	(496,544)
Non-controlling interests	17(a)	17,851	(17,209)
		(43,827)	(513,753)
Loss per share for loss for the year attributable to the equity holders of the Company			
Basic and diluted loss per share (RMB)	12	(0.18)	(1.17)

The notes on pages 105 to 177 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	43,693	96,211
Right-of-use assets	14	192,680	271,256
Intangible assets	15	233,416	256,381
Deferred tax assets	16	48,920	76,184
Investments accounted for using the equity method	17(c)	122,561	124,734
Long-term investments measured at fair value through profit or loss	19	18,840	24,565
Prepayments, deposits and other assets	20	36,225	56,219
		696,335	905,550
Current assets			
Trade receivables	21	286,809	249,444
Prepayments, deposits and other assets	20	71,820	52,197
Short-term investments	22	147,657	490,779
Cash and cash equivalents	23	3,206,821	3,098,084
		3,713,107	3,890,504
Total assets		4,409,442	4,796,054

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 31 December	
	Notes	2023 RMB'000	2022 RMB'000
EQUITY			
Share capital	24	329	329
Share premium	24	7,036,290	7,035,801
Shares held for share award schemes	24	(6)	(6)
Other reserves	25	(4,490,917)	(4,377,255)
Accumulated deficit		(836,523)	(770,540)
Equity attributable to equity holders of the Company		1,709,173	1,888,329
Non-controlling interests	17(a)	159,578	17,320
Total equity		1,868,751	1,905,649
LIABILITIES			
Non-current liabilities			
Lease liabilities	26	158,636	213,951
Convertible bonds	31	—	1,805,948
		158,636	2,019,899
Current liabilities			
Trade payables	27	194,906	203,053
Advance from customers	28	53,008	59,411
Other payables and accruals	29	275,239	298,980
Contract liabilities	30	180,780	156,688
Current income tax liabilities		80,352	67,884
Lease liabilities	26	44,623	60,960
Convertible bonds	31	1,553,147	23,530
		2,382,055	870,506
Total liabilities		2,540,691	2,890,405
Total equity and liabilities		4,409,442	4,796,054

The notes on pages 105 to 177 are an integral part of these consolidated financial statements.

The financial statements on pages 95 to 177 were approved by the Board of Directors on 28 March 2024 and were signed on its behalf.

Dai Yunjie
Director

Fan Shuyang
Director

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Notes	Attributable to equity holders of the Company					Accumulated deficit RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for share award schemes RMB'000	Other reserves RMB'000					
As of 1 January 2023	329	7,035,801	(6)	(4,377,255)	(770,540)	1,888,329	17,320	1,905,649	
Comprehensive loss									
Loss for the year	—	—	—	—	(83,039)	(83,039)	17,677	(65,362)	
Other comprehensive income									
— Currency translation differences	—	—	—	21,361	—	21,361	174	21,535	
Total comprehensive loss for the year	—	—	—	21,361	(83,039)	(61,678)	17,851	(43,827)	
Transaction with owners in their capacity as owners									
Repurchase of convertible bond	31	—	—	—	(19,130)	18,764	(366)	(366)	
Dividend distribution of subsidiaries	32	—	—	—	—	—	(44,394)	(44,394)	
Share-based compensation expenses	33	—	—	—	51,364	—	51,364	51,364	
Exercise of share options	—*	489	—	—	(164)	—	325	325	
Appropriation to statutory reserves	—	—	—	—	1,708	(1,708)	—	—	
Transaction with non-controlling interests	17(b)	—	—	—	(168,801)	—	(168,801)	168,801	
Total transactions with owners in their capacity as owners for the year	—	489	—	(135,023)	17,056	(117,478)	124,407	6,929	
As of 31 December 2023	329	7,036,290	(6)	(4,490,917)	(836,523)	1,709,173	159,578	1,868,751	

* The amount is less than 1,000

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Notes	Attributable to equity holders of the Company					Accumulated deficit RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for share award schemes RMB'000	Other reserves RMB'000					
As of 1 January 2022		329	7,035,801	(6)	(4,512,959)	(218,923)	2,304,242	78,165	2,382,407
Comprehensive loss									
Loss for the year		—	—	—	—	(553,495)	(553,495)	(20,518)	(574,013)
Other comprehensive income									
— Currency translation differences		—	—	—	56,951	—	56,951	3,309	60,260
Total comprehensive loss for the year		—	—	—	56,951	(553,495)	(496,544)	(17,209)	(513,753)
Transaction with owners in their capacity as owners									
Repurchase of convertible bond	31	—	—	—	(1,878)	1,878	—	—	—
Dividend distribution of subsidiaries	32	—	—	—	—	—	—	(37,666)	(37,666)
Share-based compensation expenses	33	—	—	—	74,661	—	74,661	—	74,661
Transaction with non-controlling interests	17(b)	—	—	—	5,970	—	5,970	(5,970)	—
Total transactions with owners in their capacity as owners for the year		—	—	—	78,753	1,878	80,631	(43,636)	36,995
As of 31 December 2022		329	7,035,801	(6)	(4,377,255)	(770,540)	1,888,329	17,320	1,905,649

The notes on pages 105 to 177 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	34	232,126	(329,851)
Income tax refund		3,322	1,970
Net cash generated from/(used in) operating activities		235,448	(327,881)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,880)	(37,098)
Proceeds from disposals of property, plant and equipment		3,864	483
Purchase of intangible assets (including prepayments for intangible assets)		(13,576)	(54,002)
Net cash paid for business combination	29	(9,359)	(7,984)
Purchase of short-term investments		(230,000)	(1,896,867)
Proceeds from disposals of short-term investments		588,607	2,222,482
Dividends received from investments accounted for using the equity method	17(c)	7,200	3,600
Net cash generated from investing activities		343,856	230,614
Cash flows from financing activities			
Payment for interest of convertible bonds	31	(24,188)	(24,376)
Repurchase of convertible bonds	31	(383,147)	(27,237)
Dividend paid to non-controlling shareholders	32	(44,394)	(37,666)
Payment for lease liabilities (including interests)	14	(49,301)	(58,867)
Exercise of share options		325	—
Net cash used in financing activities		(500,705)	(148,146)
Net increase/(decrease) in cash and cash equivalents		78,599	(245,413)
Cash and cash equivalents at the beginning of the year		3,098,084	3,164,726
Effects of exchange rate changes on cash and cash equivalents		30,138	178,771
Cash and cash equivalents at the end of the year	23	3,206,821	3,098,084

The notes on pages 105 to 177 are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 25 January 2019 and was listed on the Stock Exchange of Hong Kong Limited on 12 December 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 31 December 2022 and 2023 are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated.

As at 31 December 2023, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of establishment/ Principal place of operation and nature of legal entity	Particulars of issued/ paid-in capital	Effective interest held by the Group		Principal activities
			As of December 31, 2023	2022	
Subsidiaries					
Directly held:					
XD Holdings Limited	BVI, limited liability company	USD1	100.00%	100.00%	Investment holding
Taptap Holding Limited	BVI, limited liability company	USD1,092	80.97%	80.97%	Investment holding
XDG Holding Limited	BVI, limited liability company	USD1	100.00%	100.00%	Investment holding
Indirectly held:					
XD (HK) Limited	Hong Kong, limited liability company	HKD10,000	100.00%	100.00%	Investment holding
XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司, the “WFOE”)	mainland China, limited liability company	RMB100,000,000	100.00%	100.00%	Game development
XD Interactive Entertainment (Hainan) Co., Ltd. (心動互動娛樂(海南)有限公司)	mainland China, limited liability company	RMB80,000,000	100.00%	100.00%	Game development
Shanghai Longcheng Network Technology Co., Ltd. (上海龍成網絡科技有限公司, “Longcheng”)	mainland China, limited liability company	RMB1,000,000	65.00%	65.00%	Game operation
X.D. Global Limited	Hong Kong, limited liability company	HKD12,213,000	65.00%	65.00%	Game operation

Note: For the purpose of preparing the consolidated financial statements, mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC (“Hong Kong”), Macau Special Administrative Region of the PRC (“Macau”) and Taiwan Province (“Taiwan”).

1 GENERAL INFORMATION (Continued)

Name	Place of establishment/ Principal place of operation and nature of legal entity	Particulars of issued/ paid-in capital	Effective interest held by the Group		Principal activities
			As of December 31, 2023	2022	
Indirectly held:					
Ganfan (Shanghai) Catering Service Co., Ltd. (滙飯(上海)餐飲服務有限公司)	mainland China, limited liability company	RMB5,000,000	100.00%	100.00%	Catering
Hyper Times limited	BVI, limited liability company	USD50,000	100.00%	51.00%	Investment holding
Hyper Power Limited	Hong Kong, limited liability company	HKD10,000	100.00%	51.00%	Investment holding
Shanghai Xincheng Information Technology Co., Ltd. (上海心城信息技術有限公司)	mainland China, limited liability company	RMB1,000,000	100.00%	51.00%	Game development
Lean Cloud (Hong Kong) Limited ("Lean Cloud")	Hong Kong, limited liability company	HKD1	100.00%	100.00%	TapTap platform
Pinyuechuangzhi (Beijing) Technology Consulting Co., Ltd. (品悅創智(北京)技術諮詢有限公司)	mainland China, limited liability company	USD7,300,000	100.00%	100.00%	TapTap platform
XD Entertainment Pte. Ltd.	Singapore, limited liability company	Singapore Dollar ("SGD") 4,000,000	100.00%	100.00%	Game operation
Xindong Korea Co., Ltd.	Korea, limited liability company	Korea Won ("KRW") 1,142,000,000	100.00%	100.00%	Game operation
Xindong (Hong Kong) Company Limited	Hong Kong, limited liability company	HKD34,275,000	100.00%	100.00%	Game operation
TapTap Pte. Ltd.	Singapore, limited liability company	SGD500,000	80.97%	80.97%	TapTap platform
Tappay Pte. Ltd.	Singapore, limited liability company	SGD 500,000	80.97%	80.97%	TapTap platform
X. D. Global (HK) Limited	Hong Kong, limited liability company	HKD10,000	65.00%	65.00%	Game operation
TapTap (HK) Limited	Hong Kong, limited liability company	HKD10,000	80.97%	80.97%	TapTap platform
Shanghai Yiwan Interactive Entertainment Co., Ltd. (上海易玩互動娛樂有限公司)	mainland China, limited liability company	RMB10,000,000	80.97%	80.97%	TapTap platform
Shanghai Yiwan Mutual Network Technology Co., Ltd. (上海易玩互樂網絡科技有限公司)	mainland China, limited liability company	RMB1,000,000	80.97%	80.97%	TapTap platform

1 GENERAL INFORMATION (Continued)

Name	Place of establishment/ Principal place of operation and nature of legal entity	Particulars of issued/ paid-in capital	Effective interest held by the Group		Principal activities
			As of December 31, 2023	2022	
Structured entities controlled via the Contractual Arrangements					
X. D. Network Inc.	mainland China, limited liability company	RMB213,181,500	100.00%	100.00%	Game operation
Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司, "Yiwan")	mainland China, limited liability company	RMB10,917,294	80.98%	80.98%	TapTap platform
Yiwan (Shenzhen) Entertainment Technology Co., Ltd. (易玩(深圳)娱乐科技有限公司)	mainland China, limited liability company	RMB1,000,000	80.98%	80.98%	TapTap platform
Yiwan (Hainan) Entertainment Technology Co., Ltd. (易玩(海南)娱乐科技有限公司)	mainland China, limited liability company	RMB1,000,000	80.98%	80.98%	TapTap platform
X. D. Investment Management Co., Ltd. (上海心動投資管理有限公司)	mainland China, limited liability company	RMB100,000,000	100.00%	100.00%	Investment in game development entities
Delicious Bookmark (Beijing) Information Technology Co., Ltd. (美味書籤(北京)信息技術有限公司)	mainland China, limited liability company	RMB108,115,705	100.00%	100.00%	TapTap platform
Suzhou Duopule Information Technology Co., Ltd. (蘇州多普勒信息科技有限公司)	mainland China, limited liability company	RMB3,000,000	(a)	100%	TapTap platform

(a) Suzhou Duopule Information Technology Co., Ltd. was liquidated during the year ended 31 December 2023.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 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 23 May 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 1 January 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	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 21	Lack of exchangeability	1 January 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.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries controlled through Contractual Arrangements

The wholly-owned subsidiary of the Company, the WFOE, has entered into a series of contractual arrangements (collectively, the “Contractual Arrangements”) with, among others, X.D. Network Inc., which enable the WFOE and the Group to:

- exercise effective control over X.D. Network Inc. and its PRC subsidiaries with restricted operation (collectively, the “PRC Consolidated Affiliated Entities”);
- exercise equity holders’ voting rights of the PRC Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the PRC Consolidated Affiliated Entities, in consideration for the business support by the WFOE, at the WFOE’s discretion;
- obtain an irrevocable and exclusive right to purchase all equity interests in X.D. Network Inc. from its registered equity holders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the registered equity holders of X.D. Network Inc. shall return the amount of purchase consideration they have received to the WFOE. At the WFOE’s request, the registered equity holders of X.D. Network Inc. will promptly and unconditionally transfer their respective equity interests in X.D. Network Inc. to the WFOE (or its designee within the Group) after the WFOE exercises its purchase right; and
- obtain a pledge over the entire ownership interests of X.D. Network Inc. from its registered equity holders to secure performance of their obligations under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Company has rights to exercise power over the PRC Consolidated Affiliated Entities, receive variable returns from its involvement with the PRC Consolidated Affiliated Entities, and has the ability to affect those returns through its power over the PRC Consolidated Affiliated Entities. Therefore, the Company is considered to control the PRC Consolidated Affiliated Entities. Consequently, the Company regards the PRC Consolidated Affiliated Entities as controlled structured entities and consolidates the financial positions and results of operations of these entities in the consolidated financial statements of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Consolidated Affiliated Entities and such uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of the PRC Consolidated Affiliated Entities. The directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. The Group's investments in associates in the form of redeemable instruments are designated as financial assets at fair value through profit or loss. All investments in associates in the form of ordinary shares with significant influence are accounted for using the equity method of accounting, after initially being recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an investment accounted for using the equity method equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount in "Impairment of investments accounted for using equity method" in the consolidated statement of comprehensive income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its subsidiaries in Hong Kong are USD. The functional currencies of the Company's subsidiaries in the mainland China are RMB. The functional currencies of the Company's subsidiaries in Singapore are SGD. As the major operations of the Group during the reporting period are within the mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

2.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in consolidated statement of comprehensive income on a net basis within "Other gains/(losses), net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in consolidated statement of comprehensive income as part of the fair value changes on investments measured at fair value through profit or loss.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

2.4.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

The Group has monetary items that are receivables from or payables to foreign operations. The items for which settlements are neither planned nor likely to occur in the foreseeable future are, in substance, part of the Group's net investment in foreign operations. Such monetary items include long-term receivables or loans. They do not include trade receivables or trade payables. On consolidation, foreign exchange gains or losses arising from the exchange of any net investment in foreign entities, are recognised in the consolidated statement of comprehensive income. When a foreign operation is disposed, the related foreign exchange gains or losses are reclassified into consolidated statements of profit or loss. The translation differences arising from translation to the Group's presentation currency of the Group's subsidiaries with the same functional currency as the Company is presented as part of items of other comprehensive income that will not be reclassified to profit or loss.

2.5 Intangible assets

2.5.1 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the aggregate purchase consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes at the operating segment.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.5 Intangible assets (Continued)

2.5.2 Other intangible assets

Other intangible assets mainly include software, game license, domain name and trade name. They are initially recognized and measured at cost if they are separately acquired or at fair value if they are acquired in business combinations. Other intangible assets are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

• Software	2–5 years
• Game license	2–5 years
• Domain name(a)	10 years
• Trade name(b)	8 years
• User list	5 years
• Technology(c)	10 years

When determining the length of useful life of an intangible asset, the management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

- (a) Management determined that the domain name related to one of the Group's major games, Ragnarok M, has a useful life of 10 years based on the estimated lifespan of such game, during which it could bring economic benefits to the Group.
- (b) Management determined that the trade name related to Yiwan has a useful life of 8 years based on the platform's popularity and great user base in the local market.
- (c) Management determined that the technology related to Lean Cloud has a useful life of 10 years based on the technology update cycle.

2.5.3 Research and development

Research expenditures are recognized as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets during the years ended 31 December 2022 and 2023.

2.6 Impairment of non-financial assets

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.7 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.7.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.7.2 Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2.7.3 Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.8 Share-based payments

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (options) of the Company.

The fair value of options granted is recognized as an expense in the consolidated statement of comprehensive income with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of equity instruments (options) granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Including the impact of any non-vesting conditions.

The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period.

2.9 Revenue recognition

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. The following is a description of the accounting policy for our principal revenue streams:

2.9.1 Game operating revenue

The Group is a publisher of online games developed by third party game developers or itself. The Group licenses online games from game developers and earns game publishing service revenue by making a localized version of the licensed games and publishing them to the game players through distribution channels, e.g. online application stores (such as Apple Inc.'s App Store ("Apple App") and Google LLC's Google Play ("Google App")), as well as web-based and mobile game portals (collectively referred to as "Distribution Channels"), including the Group's own websites.

The games licensed to the Group, or developed by the Group are operated under (i) free-to-play model whereby game players can play the games free of charge and are charged for the purchase of in-game virtual items (the "Online Game") via payment channels, such as the third-party internet payment systems (the "Payment Channels"); or (ii) pay-to-play model whereby game players are charged for a fixed amount when downloading the games (the "Premium Game"). Upon the completion of download and installation of the games to the game players' devices, all functionalities of the games have been fully delivered. Players can then play the games on their device without real time connection to the internet.

Proceeds earned from selling in-game virtual items, are shared between the Group and the game developers, with the amount paid to the developers generally calculated based on amounts paid by players, after deducting the fees paid to Payment Channels and Distribution Channels, multiplied by a predetermined percentage for each game.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.9 Revenue recognition (Continued)

2.9.1 Game operating revenue (Continued)

The Group evaluates agreements with the game players, game developers, Distribution Channels and Payment Channels in order to determine whether or not the Group acts as the principal or as an agent in the arrangement with each party respectively, which it considers in determining if relevant revenues should be reported gross or net of the predetermined amount of the proceeds shared with the other parties. The determination of whether to record the revenues gross or net is based on an assessment of various factors, including but not limited to whether the Group (i) is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibilities for acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specification); (ii) has inventory risk before the specified good or service has been transferred to a customer, or after transferring the control to the customer (for example, if the customer has a right of return); (iii) has discretion in establishing the prices for the specified goods or services.

(a) *The Group acts as principal*

During the reporting period, the Group self-developed mobile games or entered into game license arrangements with game developers, under which the Group takes primary responsibilities of game operation. The Group considered itself as a principal in these arrangements and recorded revenues on a gross basis.

Under the arrangements that the Group takes primary responsibilities, the Group considered that the (i) the Group is generally the initiator who raise ideas and plans for providing specification, modification or update of the game products or services desired by the game players; (ii) for certain licensed games that the Group made a localized version, the Group's costs incurred during developing the games are more than the game developer. The game developer is merely providing intellectual properties of character image and figures, the Group is providing game services and products relating to gaming experience to game players; (iii) besides publishing, providing payment solution and marketing promotion, the Group has the right to determine the pricing of in-game virtual items or downloading the pay-to-play games, as well as the selection of Distribution Channels and the Payment Channels. Thus, the Group views game players to be its customers and considers itself as the principal. Accordingly, the Group records the online game revenue under such arrangements on a gross basis. Commission fees paid to Distribution Channels and Payment Channels and license fees paid to third party game developer are recorded as cost of revenues.

Where the Group is acting as a principal under the free-to-play model, the Group has determined that it is obligated to provide on-going services to game players, who purchased virtual items to gain an enhanced game-playing experience, and accordingly, revenue is recognised over the estimated lifespans of the respective virtual items. The estimated lifespans of different virtual items are determined by the management based on the expected player relationship periods, on a game by game basis. The Group recognizes the revenues derive from sale of virtual items as below:

Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from deferred revenue) when the items are consumed and the related services are rendered.

Durable virtual items represent items that are accessible and beneficial to paying players over an extended period of time. Revenue is recognised ratably over the average life of durable virtual items for the applicable game, which the Group makes best estimates to be the average playing period of paying players ("Player Relationship Period").

The Group estimates the Player Relationship Period on a game-by-game basis. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group or by third-party developers until the new game establishes its own patterns and history. The Group considers (i) the games profile, including historical players' consumption patterns, churn rates, and games life-cycle, (ii) target audience, and its appeal to players of different demographics groups, and (iii) the Group's marketing strategy in estimating the Player Relationship Period. While the Group believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future as the games' operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of paying players of the games change. Any adjustments arising from changes in Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behaviour patterns.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.9 Revenue recognition (Continued)

2.9.1 Game operating revenue (Continued)

(a) *The Group acts as principal (Continued)*

Where the Group is acting as a principal under the pay-to-play model, the Group has determined all revenue recognition criteria are met upon players' confirmation of the purchase request and completion of download of the games. The Group has no additional performance obligations to the game players after the completion of the corresponding game purchase and downloading. Therefore, the Group recognizes revenue from game players upon the purchases and completion of downloading for this type of arrangement. Commission fees paid to Distribution Channels and Payment Channels and license fees paid to third party game developers are recorded.

(b) *The Group acts as agents of game developer*

Under those arrangements that the developer take primary responsibilities mentioned above, the Group considers that the (i) game developers are responsible for providing the game products desired by the game players; (ii) the costs incurred by the developers to develop the games are more than the licensing costs and game localizations costs incurred by the Group; (iii) the hosting and maintenance of game servers for running the online mobile games is the responsibility of the developers, the developers have the right to review and approve the pricing of in-game virtual items and the specification, modification or update of the game made by the Group. The Group's responsibilities are publishing, providing payment solution and market promotion service for the license game, and thus the Group views the game developers to be its customers and considers itself as the agent of the game developers in the arrangements with game players. The Group considers it provides a series of distinct services that are substantially the same and that have the same pattern of transfer to the game developers, and allocated the variable consideration based on certain percentage of sales of in-game virtual items to each day of distinct services and recognizes revenues in the month when related sales occur.

As the Group is responsible for identifying, contracting with and maintaining the relationships of the Distribution Channels and Payment Channels, commission fees paid to the Distribution Channels and Payment Channels are presented on a gross basis and included in cost of revenues. The Group considers it provides services to the game developers for the reasons identified above as it has been given latitude by the game developers in selecting Distribution Channels and Payment Channels for its service to the game developers.

Different from the above analysis, for games cooperated with Apple/Google App, the game developers are fully aware of Apple/Google App's roles and responsibilities. The Group considered that Apple/Google App and itself provide services to the game developers together, as the Group does not have the latitude in selecting and negotiating with Apple/Google App and does not have the primary responsibility to game developers for the service provided by them. Commissions charged by Apple/Google App are deducted from revenue.

(c) *The Group acts as agents of game publishers*

The Group also engaged in providing game maintenance and game operation services to game publishers, including game promotion services, customer services, technical support services and game localization services. The Group considers it provides a series of distinct services that are substantially the same and that have the same pattern of transfer to the game publisher, and allocated the variable consideration based on certain percentage of sales of in-game virtual items to each day of distinct services and recognizes game maintenance and game operation services to the game publisher in the month when related sales occur.

2.9.2 Online marketing service revenue

Online marketing service revenue mainly comprise revenues derived from performance based online marketing service provided to game developers, game publishers and their agencies.

Online marketing service revenue is mainly performance based and revenue is recognized when relevant specific performance measures (such as delivery of pay-for-click, pay-for-download etc.) are fulfilled.

2.9.3 Other revenues

The Group also generates revenue from providing data storage and instant data transmission services and selling game-related merchandise. Revenue is recognized when the service is rendered or control of merchandise is transferred.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.9 Revenue recognition (Continued)

2.9.4 Practical expedients applied

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been one year or less. Accordingly, the Group does not capitalize any incremental costs to obtain a contract.

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less.

2.10 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The Group leases properties as lessee. Rental contracts are typically made for fixed periods of 1 to 6 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Contracts may contain both lease and non-lease components, such as maintenance services provided by the landlord. The Group elects not to separate lease and non-lease components and instead accounts for each these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received any initial direct costs, and
- restoration costs.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Both deferred tax assets and deferred tax liabilities are recognized on the initial recognition of right-of-use assets and lease liabilities and are offset in the consolidated statements of financial position.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.11 Convertible bonds

The component parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

The Group assesses if the embedded derivatives in respect of the early redemption features are deemed to be clearly and closely related to the host debt contract. Embedded derivatives need not be separated if they are regarded as closely related to its host contract. If they are not, they would be separately accounted for.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

3.1 Financial risk factors

(a) Market risk

Foreign exchange risk

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of the respective subsidiaries. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

The functional currency of the Group's subsidiaries in mainland China is RMB and the functional currency of the Group's subsidiaries in Hong Kong is USD. If USD had strengthened/weakened by 5% against RMB with all other variables held constant, net loss would have been approximately and RMB25.5 million and RMB16.7 million, higher/lower for the years ended 31 December 2022 and 2023 respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

Price risk

The Group is exposed to price risk in respect of long-term and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents and short-term investments measured at amortized cost, and details of which have been disclosed in Note 23 and Note 22, respectively.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term investments, trade receivables, deposits and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) *Credit risk of cash and cash equivalents and short-term investments*

To manage risk arising from cash and cash equivalents and short-term investments, the Group only transacts with state-owned or reputable financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss is immaterial.

(ii) *Credit risk of trade receivables*

Trade receivables at the end of each reporting period were due from Distribution Channels and game publishers, online marketing service customers, as well as due from related parties. If the strategic relationship with Distribution Channels and game publishers and online marketing service customers are terminated or scaled-back; or if Distribution Channels and game publishers and online marketing service customers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with Distribution Channels and game publishers and online marketing service customers to ensure the effective credit control. In view of the history of cooperation with Distribution Channels and game publishers and online marketing service customers and the sound collection history of receivables due from them, the directors of the Group believe that the credit risk inherent in the Group's outstanding trade receivable balances due from Distribution Channels and game publishers and online marketing service customers is low.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of deposits and other assets

For deposits and other assets, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other assets based on historical settlement records and past experiences.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counter party;
- significant increases in credit risk on other financial instruments of the same counter party;
- significant changes in the expected performance and behaviour of the counter party, including changes in the payment status of debtor in the Group and changes in the operating results of the counter party.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 360 days of when they fall due.

The Group makes periodic assessment on the credit risk of the deposits and other assets based on the history of cooperation with customers, settlement records and past experience, the directors believe that the credit risk inherent in the outstanding deposits and other assets due from the debtors is not material.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorises deposits and other assets for write off when a debtor fails to make contractual payments/repayable demanded greater than 720 days past due. Where deposits and other assets have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
As at 31 December 2023				
Trade payables	194,906	-	-	194,906
Advance from customers	53,008	-	-	53,008
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	22,063	-	-	22,063
Lease liabilities	46,488	46,136	135,517	228,141
Convertible bonds (Note 31)	1,565,082	-	-	1,565,082
	1,881,547	46,136	135,517	2,063,200
As at 31 December 2022				
Trade payables	203,053	-	-	203,053
Advance from customers	59,411	-	-	59,411
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	29,492	-	-	29,492
Lease liabilities	62,624	51,258	200,775	314,657
Convertible bonds	23,906	23,906	1,986,757	2,034,569
	378,486	75,164	2,187,532	2,641,182

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets. As at 31 December 2022 and 2023, the gearing ratio of the Group is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Total liabilities	2,540,691	2,890,405
Total assets	4,409,442	4,796,054
Gearing ratio (%)	57.6%	60.3%

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements.

(a) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2022 and 2023, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2022 and 2023, none of the Group's financial liabilities are measured at fair value, and none of the Group's financial assets are measured at fair value using level 1 or level 2 inputs. The following table presents the Group's financial assets that are measured at fair value using level 3 inputs:

	Notes	As at 31 December	
		2023 RMB'000	2022 RMB'000
Long-term investments measured at fair value through profit or loss	19	18,840	24,565
Short-term investments measured at fair value through profit or loss	22	147,657	194,780
		166,497	219,345

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including investments in unlisted companies and wealth management products issued by commercial banks for the years ended 31 December 2022 and 2023.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Fair value measurements using significant unobservable inputs (level 3) (Continued)

(i) Investments in unlisted companies

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	24,565	30,102
Changes in fair value*	(5,727)	(5,547)
Currency translation differences	2	10
At the end of the year	18,840	24,565
*Includes unrealized losses recognized in profit or loss attributable to balances at the end of the year	(5,727)	(5,547)

(ii) Wealth management products issued by commercial banks

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	194,780	689,518
Addition	230,000	169,646
Changes in fair value*	7,175	7,248
Disposal	(284,298)	(677,363)
Currency translation differences	-	5,731
At the end of the year	147,657	194,780
* Includes unrealized gains recognized in profit or loss attributable to balances at the end of the year	3,219	1,001

(c) Valuation process and techniques

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team uses valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

- the use of quoted market prices or dealer quotes for similar instruments;
- the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- the latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- a combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc..

There were no change to valuation techniques during the reporting period.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(d) Valuation inputs and relationship to fair value

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value as at 31 December		Unobservable inputs	Range of inputs as at 31 December		Relationship of unobservable inputs to fair value
	2023 RMB'000	2022 RMB'000		2023	2022	
Investments in unlisted companies	18,840	24,565	Expected volatility	52.80%-72.45%	47.78%-57.78%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability ("DLOM")	25%	25%-30%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	147,657	194,780	Expected rate of return	2.55%-3.86%	2.60%-4.59%	The higher the expected rate of return, the higher the fair value

If expected volatility is 10% higher, the fair value of investments in unlisted companies will be RMB0.38 million and RMB0.46 million higher for the years ended 31 December 2022 and 2023 respectively, and loss after tax will be RMB0.38 million and RMB0.46 million lower respectively;

If expected volatility is 10% lower, the fair value of investments in unlisted companies will be RMB0.41 million and RMB0.50 million lower for the years ended 31 December 2022 and 2023 respectively, and loss after tax will be RMB0.41 million and RMB0.50 million higher respectively.

If DLOM is 10% higher/lower, the fair value of investments in unlisted companies will be RMB0.79 million and RMB0.57 million lower/higher for the years ended 31 December 2022 and 2023 respectively, and loss after tax will be RMB0.79 million and RMB0.57 million higher/lower respectively.

If expected rate of return is 10% higher/lower, the fair value of wealth management products issued by commercial banks will be RMB0.7 million and RMB1.0 million higher/lower for the years ended 31 December 2022 and 2023 respectively, and loss after tax will be RMB0.7 million and RMB1.0 million lower/higher respectively.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Estimates of lifespan of in-game virtual items in the Group's online game services

As described in Note 2.9, the Group recognizes certain revenue from sale of virtual items in online game services rateably over the lifespan of in-game virtual items. The determination of lifespan of in-game virtual items with reference of Player Relationship Period is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the lifespan of in-game virtual items as a result of new information will be accounted for as a change in accounting estimate.

4.2 Determination of fair value of long-term and short-term investments

The fair value of long-term and short-term investments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

4.3 Principal versus agent considerations

Pursuant to game publishing and operation arrangements signed between the Group and the third party game developers or Distribution Channels, the Group's responsibilities in publishing and operating the licensed games vary for each game. The determination of whether to record these revenues using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (a) is the primary obligor to the game developers and game players in the arrangements; (b) has latitude in establishing the selling price of virtual items; (c) changes the products or performs part of the services; (d) has involvement in the determination of product and service specifications; and (e) has the rights to determine Distribution Channels and Payment Channels.

4.4 Income tax

The Group is subject to income taxes in mainland China and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.5 Recoverability of non-financial assets

The Group tests whether goodwill has suffered any impairment on an annual basis or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required (i) to identify any impairment indicators existing for any of the Group's goodwill or other non-financial assets (ii) to determine appropriate impairment approaches for impairment review purposes, and (iii) to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statement.

4.6 Share-based compensation

The Group has granted share options to its employees and directors. The fair value of the options is determined by the Binominal option-pricing model at the grant date, which is to be expensed over the respective vesting periods. Significant estimates on assumptions, including risk-free interest rate, expected volatility, dividend yield, and expected term, are made by the directors and third-party valuer.

5 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.

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 leading 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.

5 SEGMENT INFORMATION AND REVENUE (Continued)

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 31 December 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 31 December 2023		
	Game segment RMB'000	TapTap platform segment RMB'000	Total 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%

5 SEGMENT INFORMATION AND REVENUE (Continued)

	Year ended 31 December 2022		
	Game segment RMB'000	TapTap platform 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
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 31 December 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 31 December 2022 and 2023, respectively.

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

5 SEGMENT INFORMATION AND REVENUE (Continued)

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

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

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

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

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

6 EXPENSES BY NATURE

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Employee benefits expenses (Note 7)	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 (Note 15)	52,323	44,948
Depreciation of property, plant and equipment (Note 13)	46,535	76,909
Depreciation of right-of-use assets (Note 14)	45,816	58,097
Office expenses	37,797	37,288
Tax surcharges	37,528	24,285
Impairment of non-financial assets (Note 20)	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

7 EMPLOYEE BENEFITS EXPENSES

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Wages, salaries and bonuses	884,543	1,030,126
Pension and other social security costs (Note a)	179,296	199,151
Share-based compensation expenses (Note 33)	51,364	74,661
Other benefits	63,294	102,354
Total	1,178,497	1,406,292

(a) Pension-defined contribution plans

There was no forfeited contribution available as of 31 December 2022 and 2023, to reduce the level of contributions. During the year ended 31 December 2022 and 2023, no forfeited contribution was utilized.

7 EMPLOYEE BENEFITS EXPENSES (Continued)

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

	Year ended 31 December 2023					Total RMB'000
	Fees RMB'000	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Share-based compensation expenses RMB'000	Other benefits RMB'000	
Chairman						
Huang Yimeng	-	1,338	41	4,685	-	6,064
Executive directors						
Dai Yunjie	-	1,431	42	2,044	-	3,517
Fan Shuyang	-	1,310	78	-	-	1,388
Non-Executive director						
Wu Meng	-	-	-	-	-	-
Independent non-executive directors						
Pei Dapeng	135	-	-	-	-	135
Xin Quandong	135	-	-	-	-	135
Liu Qianli	135	-	-	-	-	135
Total	405	4,079	161	6,729	-	11,374

7 EMPLOYEE BENEFITS EXPENSES (Continued)

(b) Directors' and chief executive's emoluments (Continued)

	Year ended 31 December 2022					
	Fees RMB'000	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Share-based compensation expenses RMB'000	Other benefits RMB'000	Total RMB'000
Chairman						
Huang Yimeng	-	1,864	84	4,885	-	6,833
Executive directors						
Dai Yunjie	-	948	61	3,957	-	4,966
Fan Shuyang	-	1,307	134	-	-	1,441
Non-Executive director						
Liu Wei	-	-	-	-	-	-
Independent non-executive directors						
Pei Dapeng	132	-	-	-	-	132
Xin Quandong	132	-	-	-	-	132
Liu Qianli	132	-	-	-	-	132
Total	396	4,119	279	8,842	-	13,636

During the year ended 31 December 2022 and 2023, no discretionary bonus, inducement fee to join or upon joining the Group or compensation for loss of office was paid to or receivable by the directors.

(i) Directors' retirement and termination benefits

No director's retirement or termination benefit subsisted at the end of each year disclosed or at any time during the years ended 31 December 2022 and 2023.

(ii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the each year disclosed or at any time during the years ended 31 December 2022 and 2023.

(iii) Information about borrowings, quasi-borrowings and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

No borrowings, quasi-borrowings and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of each year disclosed or at any time during the years ended 31 December 2022 and 2023.

(iv) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of or at any time during the years ended 31 December 2022 and 2023.

7 EMPLOYEE BENEFITS EXPENSES (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2022 and 2023, include 1 and 1 director respectively. The bonuses of five highest paid individuals are fixed in labor contracts and did not have bonuses which are discretionary or are based on the Company's, the Group's or any member of the Group's performance during the financial year. The aggregate amounts of emoluments for the remaining 4 and 4 individuals for each of the years ended 31 December 2022 and 2023, are set out below:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Basic salaries, housing allowances, share options, other allowances and benefits	44,549	53,443
Contribution to pension scheme	333	292
Discretionary bonuses	-	-
Inducement fee to join or upon joining the Group	-	-
Compensation for loss of office:		
— contractual payment	-	-
— other payment	-	-
Total	44,882	53,735

	Year ended 31 December	
	2023	2022
Emolument bands (in HKD)		
HKD5,500,001–HKD6,000,000	1	1
HKD6,500,001–HKD7,000,000	-	1
HKD8,000,001–HKD8,500,000	1	-
HKD8,500,001–HKD9,000,000	-	1
HKD15,000,001–HKD15,500,000	1	-
HKD22,500,001–HKD23,000,000	1	-
HKD40,500,000–HKD41,000,000	-	1
Total	4	4

8 OTHER INCOME

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Government subsidies	46,691	40,164
Interest income from term deposits above three months (Note 22(a))	2,250	10,856
Total	48,941	51,020

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

9 OTHER LOSSES, NET

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Foreign exchange loss, net	(19,878)	(23,712)
Net gain on repurchase of convertible bonds (Note 31)	6,371	8,983
Fair value changes of wealth management products issued by commercial banks (Note 22(b))	7,175	7,248
Fair value changes of long-term investments measured at fair value through profit or loss (Note 19)	(5,727)	(5,547)
Others	(4,450)	1,798
Total	(16,509)	(11,230)

10 FINANCE COSTS, NET

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

11 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 31 December 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 31 December 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.

11 INCOME TAX (Continued)

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 1 January 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 31 December	
	2023 RMB'000	2022 RMB'000
Current income tax	8,004	20,794
Deferred income tax (Note 16)	27,260	(6,615)
Total income tax expenses	35,264	14,179

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 31 December 2022 and 2023, being the tax rate of the major subsidiaries of the Group.

The difference is analysed as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Loss before income tax	(30,098)	(559,834)
Tax calculated at statutory income tax rate of 25% in mainland China	(7,524)	(139,959)
Tax effects of:		
Effect of different tax rates available to different jurisdictions	23,310	(4,466)
Preferential income tax rates applicable to subsidiaries	(42,883)	33,453
Expenses not deductible for income tax purposes	2,324	11,741
Super Deduction for research and development expenses	(83,811)	(100,525)
Utilization of previously unrecognized tax losses and temporary differences	(3,480)	(2,021)
Tax losses for which no deferred income tax assets were recognized	146,474	212,774
Temporary differences for which no deferred income tax assets were recognized, net	854	3,182
Total income tax expenses	35,264	14,179

12 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 31 December	
	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)	(0.18)	(1.17)

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 31 December 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 31 December 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.

13 PROPERTY, PLANT AND EQUIPMENT

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2022						
Cost	115,579	37,792	2,540	11,322	135,116	302,349
Accumulated depreciation	(71,320)	(16,476)	(1,416)	-	(64,576)	(153,788)
Net book amount	44,259	21,316	1,124	11,322	70,540	148,561
Year ended 31 December 2022						
Opening net book amount	44,259	21,316	1,124	11,322	70,540	148,561
Additions	3,399	9,852	-	11,392	-	24,643
Depreciation	(23,868)	(8,125)	(483)	-	(44,433)	(76,909)
Transfers	-	-	-	(22,714)	22,714	-
Disposal	(126)	(189)	-	-	-	(315)
Currency translation differences	4	63	-	-	164	231
Closing net book amount	23,668	22,917	641	-	48,985	96,211
At 31 December 2022						
Cost	113,822	47,370	2,540	-	186,330	350,062
Accumulated depreciation	(90,154)	(24,453)	(1,899)	-	(137,345)	(253,851)
Net book amount	23,668	22,917	641	-	48,985	96,211

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Leasehold improvements RMB'000	Total RMB'000
Year ended 31 December 2023						
Opening net book amount	23,668	22,917	641	-	48,985	96,211
Additions	2,447	200	-	233	-	2,880
Depreciation	(17,671)	(8,340)	(350)	-	(20,174)	(46,535)
Transfers	-	-	-	(233)	233	-
Disposal	(1,241)	(757)	-	-	(6,901)	(8,899)
Currency translation differences	(1)	9	-	-	28	36
Closing net book amount	7,202	14,029	291	-	22,171	43,693
At 31 December 2023						
Cost	98,407	43,876	1,933	-	179,662	323,878
Accumulated depreciation	(91,205)	(29,847)	(1,642)	-	(157,491)	(280,185)
Net book amount	7,202	14,029	291	-	22,171	43,693

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Servers and other equipment 3 years
- Furniture and appliances 5 years
- Vehicles 4 years
- Leasehold improvements Estimated useful lives or remaining lease terms, whichever is shorter

Depreciation expenses have been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost of revenues	3,296	10,830
Selling and marketing expenses	2,168	5,908
Research and development expenses	22,714	43,705
General and administrative expenses	18,357	16,466
	46,535	76,909

14 RIGHT-OF-USE ASSETS

Properties	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year		
Cost	421,625	283,901
Accumulated depreciation	(150,369)	(144,001)
Net book amount	271,256	139,900
Opening net book amount	271,256	139,900
Additions	1,366	200,953
Depreciation (Note 6)	(45,816)	(58,097)
Termination	(34,158)	(11,704)
Currency translation differences	32	204
Closing net book amount	192,680	271,256
At the end of the year		
Cost	284,056	421,625
Accumulated depreciation	(91,376)	(150,369)
Net book amount	192,680	271,256

The consolidated statement of comprehensive loss and the consolidated statement of cash flows contain the following amounts relating to leases:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Depreciation charge of right-of-use assets (Note 6)	45,816	58,097
Interest expenses (Note 10)	11,040	7,397
Expenses relating to short-term leases	3,010	1,870
The cash outflow for leases payment related to short-term lease as operating activities	3,010	1,870
The cash outflow for leases as financing activities	49,301	58,867

15 INTANGIBLE ASSETS

	Game license RMB'000	Technology RMB'000	Software RMB'000	Trade name RMB'000	Domain name RMB'000	Goodwill RMB'000	Total RMB'000
At 1 January 2022							
Cost	296,580	26,181	61,584	17,100	5,289	167,104	573,838
Accumulated amortization	(256,634)	(1,527)	(32,175)	(10,687)	(3,394)	-	(304,417)
Impairment	(20,613)	-	-	-	-	-	(20,613)
Net book amount	19,333	24,654	29,409	6,413	1,895	167,104	248,808
Year ended 31 December 2022							
Opening net book amount	19,333	24,654	29,409	6,413	1,895	167,104	248,808
Additions	47,122	-	4,128	-	-	-	51,250
Amortization	(23,917)	(2,618)	(15,747)	(2,137)	(529)	-	(44,948)
Currency translation differences	979	-	292	-	-	-	1,271
Closing net book amount	43,517	22,036	18,082	4,276	1,366	167,104	256,381
At 31 December 2022							
Cost	244,681	26,181	62,262	17,100	5,289	167,104	522,617
Accumulated amortization	(180,551)	(4,145)	(44,180)	(12,824)	(3,923)	-	(245,623)
Impairment	(20,613)	-	-	-	-	-	(20,613)
Net book amount	43,517	22,036	18,082	4,276	1,366	167,104	256,381
Year ended 31 December 2023							
Opening net book amount	43,517	22,036	18,082	4,276	1,366	167,104	256,381
Additions	28,197	-	793	-	-	-	28,990
Amortization	(37,922)	(2,618)	(9,115)	(2,139)	(529)	-	(52,323)
Currency translation differences	316	-	52	-	-	-	368
Closing net book amount	34,108	19,418	9,812	2,137	837	167,104	233,416
At 31 December 2023							
Cost	102,173	26,181	67,082	17,100	5,289	167,104	384,929
Accumulated amortization	(68,065)	(6,763)	(57,270)	(14,963)	(4,452)	-	(151,513)
Impairment	-	-	-	-	-	-	-
Net book amount	34,108	19,418	9,812	2,137	837	167,104	233,416

15 INTANGIBLE ASSETS (Continued)

Amortization expenses have been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of revenues	43,410	26,591
Selling and marketing expenses	78	50
Research and development expenses	4,540	9,593
General and administrative expenses	4,295	8,714
	52,323	44,948

Impairment of goodwill

The Group carries out its annual impairment test on goodwill by comparing the recoverable amount of a CGU to the carrying amount. The recoverable amount of a CGU was determined based on the higher of (i) its value-in-use and (ii) its fair value less cost of disposal. Value-in-use is calculated based on discounted cash flows expected to be derived from the respective CGU using pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flow beyond the 5-year period is extrapolated using the estimated terminal growth rates stated below. The Group believes that it is appropriate to cover a 5-year period in its cash flow projection, because it captures the development stage of the Group's businesses during which the Group expects to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. Management leveraged their extensive experiences in the industry and projected forecast based on past performance and their expectation of future business plans and market developments.

Management reviews the business performance based on type of business and monitors the goodwill at the operating segment level. The following is a summary of goodwill allocation for each operating segment:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Game segment	56,524	56,524
TapTap platform segment	110,580	110,580
	167,104	167,104

15 INTANGIBLE ASSETS (Continued)

Impairment of goodwill (Continued)

Impairment review on the goodwill of the Group has been conducted by Management as at 31 December 2022 and 2023 according to IAS 36 "Impairment of assets". The key assumptions used in the value-in-use calculations for significant CGUs allocated with goodwill are as follows:

	As at 31 December	
	2023	2022
Game segment		
Annual revenue growth rate for the 5-year period (%)	1.5%~24.2%	2.8%~27.8%
Gross profit rate (%)	46.2%~47.7%	51.5%~51.7%
Terminal revenue growth rate (%)	2.2%	2.0%
Pre-tax discount rate (%)	18.3%	18.4%
TapTap platform segment		
Annual revenue growth rate for the 5-year period (%)	2.2%~14.6%	2.5%~24.4%
Gross profit rate (%)	76.5%	79.8%~80.5%
Terminal revenue growth rate (%)	2.2%	2.0%
Pre-tax discount rate (%)	22.4%	20.9%

The budgeted gross margins and revenue growth rates used in the goodwill impairment testing, were determined by Management based on past performance, extensive experiences in the industry and its expectation for business plans and market developments. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

As of 31 December 2023, the recoverable amounts of Game segment and TapTap platform segment calculated based on value in use exceeded carrying value by RMB609 million and RMB1,572 million, respectively.

16 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

Deferred tax assets

	As at 31 December	
	2023 RMB'000	2022 RMB'000
The balance comprises temporary differences attributable to:		
— Tax losses	46,733	77,620
— Lease liabilities	37,684	49,903
— Promotional and advertising expenses	14,482	14,937
— Long term investments accounted for using the equity method or measured at fair value through profit or loss	4,860	—
— Expected credit loss provision	930	683
— Intangible assets	11	19
Total gross deferred tax assets	104,700	143,162
Set-off of deferred tax liabilities pursuant to set-off provisions	(55,780)	(66,978)
Net deferred tax assets	48,920	76,184
Deferred tax assets:		
— to be recovered within 12 months	75,425	110,445
— to be recovered after 12 months	29,275	32,717
	104,700	143,162

Deferred tax liabilities

	As at 31 December	
	2023 RMB'000	2022 RMB'000
The balance comprises temporary differences attributable to:		
— Right-of-use assets	36,581	49,086
— Long term investments accounted for using the equity method or measured at fair value through profit or loss	11,896	10,205
— Intangible assets arising from business combinations	5,389	6,578
— Short-term investments measured at fair value through profit or loss	1,914	1,109
Total gross deferred tax liabilities	55,780	66,978
Set-off of deferred tax assets pursuant to set-off provisions	(55,780)	(66,978)
Net deferred tax liabilities	—	—
Deferred tax liabilities:		
— to be settled within 12 months	16,586	19,500
— to be settled after 12 months	39,194	47,478
	55,780	66,978

16 DEFERRED INCOME TAXES (Continued)

The movement on the gross deferred income tax assets and liabilities are as follows:

Deferred tax assets

	Tax losses RMB'000	Lease liabilities RMB'000	Promotional and advertising expenses RMB'000	Expected credit loss provision RMB'000	Intangible assets RMB'000	Long term investments accounted for using the equity method or measured at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2022	67,719	26,183	11,139	250	26	—	105,317
Recognized in profit or loss	9,704	23,704	3,798	414	(7)	—	37,613
Currency translation differences	197	16	—	19	—	—	232
At 31 December 2022	77,620	49,903	14,937	683	19	—	143,162
Recognized in profit or loss	(30,886)	(12,219)	(455)	245	(7)	4,860	(38,462)
Currency translation differences	(1)	—	—	2	(1)	—	—
At 31 December 2023	46,733	37,684	14,482	930	11	4,860	104,700

Deferred tax liabilities

	Right-of-use assets RMB'000	Long-term investments accounted for using the equity method or measured at fair value through profit or loss RMB'000	Intangible assets arising from business combinations RMB'000	Short-term investments measured at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2022	26,123	2,794	7,045	—	35,962
Recognized in profit or loss	22,946	7,411	(468)	1,109	30,998
Currency translation differences	17	—	1	—	18
At 31 December 2022	49,086	10,205	6,578	1,109	66,978
Recognized in profit or loss	(12,510)	1,692	(1,189)	805	(11,202)
Currency translation differences	5	(1)	—	—	4
At 31 December 2023	36,581	11,896	5,389	1,914	55,780

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2022 and 2023, the Group did not recognize deferred income tax assets of RMB567 million and 723 million, in respect of cumulative tax losses amounting to RMB3,420 million and RMB4,344 million. Unrecognized tax losses of RMB4,054 million will expire from 2023 to 2032 and the remaining unrecognized tax losses can be carried forward indefinitely.

17 INTERESTS IN OTHER ENTITIES

(a) Non-controlling interests

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

(i) Yiwán

Summarized statement of financial position

	As of 31 December	
	2023 RMB'000	2022 RMB'000
Current assets	866,414	699,658
Non-current assets	161,370	228,333
Current liabilities	(320,373)	(208,619)
Non-current liabilities	(77,430)	(70,439)
Net assets	629,981	648,933
Accumulated non-controlling interests	108,099	114,559

Summarized statement of comprehensive loss

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue	1,321,890	972,667
Loss for the year	(41,695)	(2,123)
Loss and total comprehensive loss for the year allocated to non-controlling interests	(7,930)	(404)
Summarized statement of cash flows		
Cash flows from operating activities	90,521	134,571
Cash flows from investing activities	61,495	48,383
Cash flows from financing activities	(13,641)	(15,162)
Net increase in cash and cash equivalents	138,375	167,792

17 INTERESTS IN OTHER ENTITIES (Continued)

(a) Non-controlling interests (Continued)

(ii) Taptap Holding Limited

Summarized statement of financial position

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current assets	348,937	29,962
Non-current assets	1,003	1,124
Current liabilities	(258,609)	(183,150)
Net assets/(liabilities)	91,331	(152,064)
Accumulated non-controlling interests	17,372	(28,923)

Summarized statement of comprehensive income

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue	505,397	246
Profit/(loss) for the year	228,177	(98,054)
Other comprehensive income	14,092	17,366
Total comprehensive income/(loss)	242,269	(80,688)
Profit/(loss) allocated to non-controlling interests	43,400	(16,705)
Total comprehensive income/(loss) allocated to non-controlling interests	42,887	(17,199)
Summarized statement of cash flows		
Cash flows from operating activities	167,530	(107,062)
Cash flows from investing activities	13,107	(2,135)
Cash flows from financing activities	—	127,374
Exchange loss on cash and cash equivalents	(2,889)	(5,542)
Net increase in cash and cash equivalents	177,748	12,635

17 INTERESTS IN OTHER ENTITIES (Continued)

(b) Transactions with non-controlling interests

- (i) In December 2023, the Group obtained 49% non-controlling interest in Hyper Times Limited with zero consideration and Hyper Times Limited became a wholly owned subsidiary of the Group. Immediately prior to the transaction, the carrying amount of the 49% non-controlling interests was negative RMB169 million, which was transferred to other reserve upon the transaction.
- (ii) In 2022, the Group transferred certain shares held in TapTap Holding Limited and its subsidiaries to non-controlling shareholders (Note 17(a)(ii)). Given TapTap Holding Limited was in net liability position, the Group recognized a decrease in non-controlling interest of RMB6 million and an increase in other reserves of RMB2 million during the year ended 31 December 2022.

(c) Investments in associates using the equity method

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	124,734	89,846
Share of results of associates	19,884	38,197
Dividends distribution	(7,200)	(3,600)
Impairment (Note i)	(14,894)	—
Currency translation differences	37	291
At the end of the year	122,561	124,734

- (i) During the year ended 31 December 2023, certain investments were impaired by RMB20.7 million mainly resulted from deterioration of operation due to the inability to generate sufficient cash flow from existing games and the inability to launch new games due to lack of the licensed copyright. Management determined the recoverable amounts of these investments based on their value in use, with reference to revenue growth rate and profit margin according to their past performance and expectation for market development.

The Group invested in an associate which, as at 31 December 2023, in the opinion of the directors, is material to the Group. The associate was not considered material in the comparative period.

The associate has share capital consisting solely of ordinary shares and the Group directly holds 18% of the ownership interest in the associate. The Group is able to assign a director and determined that it could possess significant influence on the associate. The associate is a limited liability company. Its principal place of business, as well as the country of incorporation or registration, is the PRC. The associate's principal activities are mobile game development and licensing. The associate is a private company and there is no quoted market price available for its shares. For the year ended 31 December 2023, share of results of investment in this associate relative to the Group's loss for the year is 41%.

The tables below provide summarised financial information for the associate that is material to the Group.

17 INTERESTS IN OTHER ENTITIES (Continued)

(c) Investments in associates using the equity method (Continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	336,249	464,436
Profit and total comprehensive income for the year	150,060	232,224
Dividends paid	40,000	20,000

Summarised statement of financial position

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current assets	571,624	517,924
Non-current assets	77,822	61,400
Current liabilities	(40,767)	(77,605)
Non-current liabilities	(18,601)	(21,702)
Net assets	590,078	480,017

Reconciliation to carrying amounts:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Net assets	590,078	480,017
Group's share in %	18%	18%
Group's share in RMB'000	106,214	86,403
Goodwill	6,849	6,849
Carrying amount	113,063	93,252

In addition to the associate disclosed above, the Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31	
	2023	2022
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	9,498	31,482
Aggregate amounts of the Group's share of:		
— Loss from operations	(1,342)	(3,604)

18 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value through profit or loss:		
— Long-term investments measured at fair value through profit or loss (Note 19)	18,840	24,565
— Short-term investments measured at fair value through profit or loss (Note 22)	147,657	194,780
	166,497	219,345
Financial assets at amortized costs:		
— Trade receivables (Note 21)	286,809	249,444
— Deposits and other assets	13,468	11,491
— Short-term investments measured at amortized cost (Note 22)	—	295,999
— Cash and cash equivalents (Note 23)	3,206,821	3,098,084
	3,507,098	3,655,018

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortized costs:		
— Trade payables (Note 27)	194,906	203,053
— Advance from customers (Note 28)	53,008	59,411
— Other payables (excluding salaries and benefits payable and other tax payables) (Note 29)	22,063	29,492
— Lease liabilities (Note 26)	203,259	274,911
— Convertible bonds (Note 31)	1,553,147	1,829,478
	2,026,383	2,396,345

19 LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Movements in long-term investments measured at fair value through profit or loss during the year ended 31 December 2022 and 2023, are as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	24,565	30,102
Change in fair value (Note 9)	(5,727)	(5,547)
Currency translation differences	2	10
At the end of the year	18,840	24,565

As of 31 December 2022 and 2023, all long-term investments measured at fair value through profit or loss are equity investments in unlisted companies held by the Group. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 3.3.

Long-term investments measured at fair value through profit or loss included:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Investments in associates at fair value through profit or loss (Note a)	18,133	19,759
Other investments at fair value through profit or loss (Note b)	707	4,806
	18,840	24,565

- (a) During the years ended 31 December 2022 and 2023, the Group made investments in associates in the form of redeemable instruments and designated them at fair value through profit or loss. The Group has significant influence in these companies.

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	19,759	22,326
Change in fair value	(1,626)	(2,567)
At the end of the year	18,133	19,759

19 LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

- (b) The Group also has interests in certain investee companies in form of ordinary shares without significant influence, control or joint control, which are managed and their performance are evaluated on a fair value basis. The Company designated these instruments as long-term investments measured at fair value through profit or loss.

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	4,806	7,776
Change in fair value	(4,101)	(2,980)
Currency translation differences	2	10
At the end of the year	707	4,806

As at 31 December 2022 and 2023, the balance of the Group's long-term investments measured at fair value through profit or loss comprised a number of individual investments, none of the investment is material to the Group.

20 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Non-current		
Prepayments for game licenses (Note a)	23,519	38,933
Rental and other deposits	12,706	17,286
	36,225	56,219
Current		
Rental and other deposits	13,730	10,280
Tax prepayments	12,507	4,077
Prepayments for game proceeds (Note b)	11,662	13,982
Game merchandise	10,015	8,107
Prepayments to other service providers	9,493	8,666
Prepayments for advertisements and marketing services	7,380	2,461
Others	7,253	4,693
Less: allowance for impairment	(220)	(69)
	71,820	52,197

- (a) The Group licenses online games from game developers and pays game license fees to game developers. The prepayments for game license fees are transferred to intangible assets when the Group receives related licensed games.
- (b) The Group operates TapTap platform whereby game players can download games published by game developers. The Group provides payment solution to game developers free of commission for their games published on TapTap platform operated under a "pay to play" model. In order to attract game developers to TapTap platform, the Group makes prepayments to game developers and the prepayments will be offset against proceeds received from game players for downloading games.

The Group regularly assesses the possibility whether relevant games could be successfully published and estimates the future return from these games to assess impairment indicator of those prepayments. During the year ended 31 December 2022 and 2023, the Group made impairment provision for and write-off certain prepayments to game developers of RMB9 million and RMB10 million, respectively, due to underperformance of related games.

21 TRADE RECEIVABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
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)
	286,809	249,444

- (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 31 December	
	2023 RMB'000	2022 RMB'000
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
	291,131	253,362

21 TRADE RECEIVABLES (Continued)

- (b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. As of 31 December 2022 and 2023, the expected credit loss rates are determined as follows:

	As of 31 December	
	2023	2022
Distribution Channels and game publishers		
Within 3 months	0.07%	0.05%
3 months to 6 months	0.90%	0.66%
6 months to 1 year	10.08%	8.37%
1 to 2 years	79.88%	66.27%
Over 2 years	100.00%	100.00%
Online marketing service customers and others	0.63%-0.77%	0.63%

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2022 and 2023 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the CPI and GDP of the countries in which it operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	3,918	1,749
Provision	368	2,564
Write-off	(3)	(505)
Currency translation differences	39	110
At the end of the year	4,322	3,918

The provisions and reversal of provisions for impaired receivables have been included in "Net impairment losses on financial assets" in the consolidated statement of comprehensive loss.

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of 31 December 2022 and 2023.
- (d) The maximum exposure to credit risk as of 31 December 2022 and 2023 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

21 TRADE RECEIVABLES (Continued)

(e) The carrying amount of the Group's trade receivables is denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB	139,978	78,044
USD	135,537	152,253
HKD	9,788	13,995
Others	5,828	9,070
	291,131	253,362

22 SHORT-TERM INVESTMENTS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Term deposits above three months and within one year (Note a)	—	295,999
Wealth management products issued by commercial banks (Note b)	147,657	194,780
	147,657	490,779

- (a) Term deposits above three months and within one year are measured at amortized cost. The interest rates of these deposits per annum were 2.80%–3.60% and the terms are six to twelve months.
- (b) Returns on these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are based on discounted cash flow using the expected return based on management estimate (Note 3.3). Changes in fair value of these financial assets had been recognized in "Other losses, net" in the consolidated statement of comprehensive loss.

The carrying amount of the Group's short-term investments is denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB	147,657	194,780
USD	—	295,999
	147,657	490,779

23 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Cash on hand and cash in bank	3,146,083	1,791,212
Term deposits with initial terms within three months	—	1,267,557
Cash held by other financial institutions (Note i)	60,738	39,315
	3,206,821	3,098,084

- (i) As at 31 December 2022 and 2023, the Group had certain amounts of cash held in accounts managed by other financial institutions, such as Alipay and WeChat Pay in connection with the provision of online and mobile payment services which have been classified as cash and cash equivalents on the consolidated statement of financial position.

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
USD	1,937,992	1,855,680
RMB	1,066,951	1,044,257
HKD	162,426	176,084
Others	39,452	22,063
	3,206,821	3,098,084

24 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; 25 January 2019 (date of incorporation)	1,000,000	100	—	—	—
As at 31 December 2022 and 2023	1,000,000	100	—	—	—
Issued and fully paid As at 1 January 2022, 31 December 2022 and 1 January 2023 Exercise of share options	480,431 22	48 — *	329 — *	7,035,801 489	(6) —
As at 31 December 2023	480,453	48	329	7,036,290	(6)

* The amount is less than 1,000

- (a) On 17 June 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 31 December 2022 and 2023, the shares are presented as treasury shares of the Group and will be used for future share-based compensation to employee.

25 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserves RMB'000	Currency translation differences RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
As at 1 January 2022	(4,456,712)	71,348	(155,214)	27,619	(4,512,959)
Repurchase of convertible bond (Note 31)	(1,878)	—	—	—	(1,878)
Share-based compensation expenses (Note 33)	—	—	—	74,661	74,661
Transaction with non-controlling interests (Note 17(b))	5,970	—	—	—	5,970
Currency translation differences	—	—	56,951	—	56,951
As at 31 December 2022	(4,452,620)	71,348	(98,263)	102,280	(4,377,255)
As at 1 January 2023	(4,452,620)	71,348	(98,263)	102,280	(4,377,255)
Repurchase of convertible bond (Note 31)	(19,130)	—	—	—	(19,130)
Share-based compensation expenses (Note 33)	—	—	—	51,364	51,364
Appropriation to statutory reserves	—	1,708	—	—	1,708
Exercise of share options	—	—	—	(164)	(164)
Transaction with non-controlling interests (Note 17(b))	(168,801)	—	—	—	(168,801)
Currency translation differences	—	—	21,361	—	21,361
As at 31 December 2023	(4,640,551)	73,056	(76,902)	153,480	(4,490,917)

26 LEASE LIABILITIES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Minimum lease payments due		
— Within 1 year	46,488	62,624
— Between 1 and 2 years	46,136	51,258
— Between 2 and 5 years	135,517	156,785
— Over 5 years	—	43,990
	228,141	314,657
Less: future finance charges	(24,882)	(39,746)
Present value of lease liabilities	203,259	274,911

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Minimum lease payments due		
— Within 1 year	44,623	60,960
— Between 1 and 2 years	42,785	47,497
— Between 2 and 5 years	115,851	132,476
— Over 5 years	—	33,978
	203,259	274,911

27 TRADE PAYABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade payables	194,906	203,053

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.

27 TRADE PAYABLES (Continued)

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 3 months	194,846	202,387
Over 3 months	60	666
	194,906	203,053

The carrying amount of the Group's trade payables is denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB	131,223	146,206
USD	53,800	52,634
SGD	9,883	4,213
	194,906	203,053

As of 31 December 2022 and 2023, the fair value of trade payables approximated to their carrying amount.

28 ADVANCE FROM CUSTOMERS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Advance from customers	53,008	59,411

Advance from customers mainly represents advance related to online marketing services, which are usually received before displaying and will be refunded if not used.

29 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Salaries and benefits payables	225,418	238,309
Other tax payables	27,758	31,179
Payables for investments (Note a)	—	9,359
Others	22,063	20,133
	275,239	298,980

- (a) In May 2021, the Group acquired 100% of the equity interests in Lean Cloud (Hong Kong) Limited, an unlisted entity which provides data storage and instant data transmission services in mainland China, with a total cash consideration of RMB87.60 million. During the year ended 31 December 2023, the Group paid RMB9.36 million of the remaining consideration.

As at 31 December 2022 and 2023, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

30 CONTRACT LIABILITIES

Contract liabilities primarily consists of the unamortised revenue from sales of virtual items for mobile games, where there is still obligation to be provided by the Group to game players.

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Contract liabilities	180,780	156,688

The following table shows the amount of revenue recognized in the consolidated statement of comprehensive loss for the respective years relating to contract liabilities brought forward:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year	156,688	206,642

31 CONVERTIBLE BONDS

Issue of convertible bonds

On 12 April 2021, the Company issued convertible bonds (the “**2021 Convertible Bonds**”) at a par value 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 12 April 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 12 April 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 23 May 2021 up to the close of business on the seventh day prior to 12 April 2026. 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 12 April 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 31 December 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

Management constantly monitors and assesses the likelihood whether the Early Redemption Option will be exercised. During the year ended 31 December 2023, Management estimated that it is more likely than not that bond holders 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 31 December 2023, RMB1,553 million of the 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 gains/(losses), net” in the statement of comprehensive loss (Note 9). 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.

31 CONVERTIBLE BONDS (Continued)

Repurchase (Continued)

The movement of the liability component and the equity component of the 2021 Convertible Bonds for the years ended 31 December 2022 and 2023 is set out below:

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
As at 1 January 2022	1,684,063	97,390	1,781,453
Interest charged (Note 10)	48,293	–	48,293
Interest paid	(24,376)	–	(24,376)
Repurchase	(36,220)	(1,878)	(38,098)
Currency translation differences	157,718	–	157,718
As at 31 December 2022	1,829,478	95,512	1,924,990
As at 1 January 2023	1,829,478	95,512	1,924,990
Interest charged (Note 10)	48,581	–	48,581
Remeasurement impact of the Early Redemption Option (Note 10)	54,558	–	54,558
Interest paid	(24,188)	–	(24,188)
Repurchase	(389,152)	(19,130)	(408,282)
Currency translation differences	33,870	–	33,870
As at 31 December 2023	1,553,147	76,382	1,629,529

If the 2021 Convertible Bonds were fully converted, 26,907,835 ordinary shares will be issued as of 31 December 2023.

32 DIVIDENDS DISTRIBUTION

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

In May 2023 and December 2023, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a subsidiary of the Group, a total dividend of USD18 million was approved and paid, USD6.3 million (equivalent to RMB44 million) of which was paid to non-controlling shareholders.

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

33 SHARE-BASED COMPENSATION EXPENSES

On 25 June 2021, shareholders of the Company approved the Share Option Scheme, an equity-settled share-based compensation plan with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The Share Option Scheme is valid and effective for 10 years from the date of approval by the shareholders. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over shares or other securities by the Company or any of its subsidiaries shall not in aggregate exceed 48,043,070 shares without shareholders' approval subject to a limit of 10% to the total number of issued shares at the date of approval of the refreshed limit. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other options granted and yet to be exercised under any other option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

As of 31 December 2023, the Group has authorized and reserved a total of 48,043,070 ordinary shares under the Share Option Scheme for awards of options of the Company's ordinary shares.

There is typically no performance target or minimum period for which an option must be held before it can be exercised, except for certain options which have graded vesting terms and vest in tranches from the grant date over the vesting period, on condition that employee remain in service without performance requirements. The option must be exercised no more than 10 years from the grant date.

33 SHARE-BASED COMPENSATION EXPENSES (Continued)

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of share options	Weighted average exercise price per share option (HKD)
Outstanding as of 1 January 2022	1,371,055	50.88
Granted during the year	9,004,126	30.92
Outstanding as of 31 December 2022	10,375,181	33.56
Vested and exercisable as of 31 December 2022	7,147,591	32.00
Outstanding as of 1 January 2023	10,375,181	33.56
Granted during the year	3,820,923	20.28
Exercised during the year	(22,407)	16.72
Outstanding as of 31 December 2023	14,173,697	30.01
Vested and exercisable as of 31 December 2023	12,021,970	28.76

The weighted average remaining contractual life of outstanding share options are 8.56 years as of 31 December 2023.

The Group has used Binominal model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended 31 December	
	2023	2022
Risk-free interest rates	2.90%-3.95%	1.60%-3.82%
Expected term — years	2.2–2.8	2.2–2.8
Expected volatility	47.00%-51.61%	47.52%-47.77%
Fair value of share options (HKD)	6.40–14.37	8.08–18.87
Exercise price (HKD)	13.28–27.79	16.09–37.01

The weighted average fair value of options granted during the years ended 31 December 2022 and 2023 were HKD14.73 and HKD9.94 per share option.

The share-based compensation expenses have been charged to the consolidated statements of comprehensive loss for the year ended 31 December 2022 and 2023 as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of revenues	184	1,084
Selling and marketing expenses	132	456
Research and development expenses	42,230	59,068
General and administrative expenses	8,818	14,053
	51,364	74,661

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	Notes	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Loss before income tax		(30,098)	(559,834)
Adjustments for			
Depreciation and amortization	6	144,674	179,954
Net impairment losses on financial assets	6	517	2,564
Impairment of non-financial assets	6	10,001	9,215
Share of results of investments accounted for using equity method	17	(19,884)	(38,197)
Impairment of investments accounted for using equity method	17	14,894	-
Share-based compensation expenses	33	51,364	74,661
Interest income from term deposits above three months	8	(2,250)	(10,856)
Fair value changes on investments measured at fair value through profit or loss	9	(1,448)	(1,701)
Net gain on repurchase of convertible bonds	9	(6,371)	(8,983)
Net exchange differences	9	19,878	23,712
Loss/(gain) on disposal of non-current assets		4,887	(1,359)
Interest expenses on convertible bonds	10	103,139	48,293
Interest expenses on lease liabilities	10	11,040	7,397
		330,441	284,700
Changes in working capital			
— Trade receivables		(37,882)	(16,199)
— Prepayments, deposits and other assets		(25,044)	23,687
— Trade payables		(8,147)	(2,337)
— Advance from customers		(6,403)	22,386
— Contract liabilities		24,092	(49,954)
— Other payables and accruals		(14,833)	(32,596)
— Restricted cash		-	296
Cash generated from/(used in) operations		232,126	(329,851)

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Net debt reconciliation

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Cash and cash equivalents (Note 23)	3,206,821	3,098,084
Lease liabilities (Note 26)	(203,259)	(274,911)
Convertible bonds (Note 31)	(1,553,147)	(1,829,478)
Net debt	1,450,415	993,695

	Cash and cash equivalents RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000	Total RMB'000
At 1 January 2022	3,164,726	(138,124)	(1,684,063)	1,342,539
Cash flows	(245,413)	58,867	51,613	(134,933)
Increase of right-of-use assets	-	(200,953)	-	(200,953)
Gain on repurchase of convertible bonds (Note 9)	-	-	8,983	8,983
Interest accrued (Note 10)	-	(7,397)	(48,293)	(55,690)
Foreign exchange adjustments	178,771	(199)	(157,718)	20,854
Early termination of lease	-	12,895	-	12,895
At 31 December 2022	3,098,084	(274,911)	(1,829,478)	993,695
At 1 January 2023	3,098,084	(274,911)	(1,829,478)	993,695
Cash flows	78,599	49,301	407,335	535,235
Equity component of the repurchase price (Note 31)	-	-	(366)	(366)
Increase of right-of-use assets	-	(1,366)	-	(1,366)
Gain on repurchase of convertible bonds (Note 9)	-	-	6,371	6,371
Interest accrued (Note 10)	-	(11,040)	(103,139)	(114,179)
Foreign exchange adjustments	30,138	-	(33,870)	(3,732)
Early termination of lease	-	34,757	-	34,757
At 31 December 2023	3,206,821	(203,259)	(1,553,147)	1,450,415

35 COMMITMENTS

(a) Capital commitments

The Group made capital expenditure in respect of purchase of game licenses which are in development as at 31 December 2022 and 2023. The Group has commitments to make the following future installments under non-cancellable game purchase agreements are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Game licenses	-	5,223

(b) Operating lease commitments

The Group has non-cancellable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at 31 December 2022 and 2023 is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 14.

36 RELATED PARTY TRANSACTIONS

The following significant transactions were carried out between the Group and its related parties during the years presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties. The Group's pricing policies on the transactions with related parties are based on mutually agreed terms.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the years ended 31 December 2022 and 2023.

Name of related parties	Relationship
Gamecores (Beijing) Culture Communication Co., Ltd.	Associate
Shanghai Bianyue Culture Communication Co., Ltd.	Associate
Shanghai Chatie Network Science and Technology Co., Ltd.	Associate
Shanghai Fantablade Network Science and Technology Co., Ltd.	Associate
Xiamen So Funny Information Technology Co., Ltd.	Associate
ShenZhen Shanshi Interactive Technology Co., Ltd.	Associate
Mr. Dai Yunjie	Shareholder and director
Jiexin Holdings Limited	Shareholder
Happy Today Holding Limited	Shareholder
Shanghai Maichuang Network Technology Limited	Associate of Mr. Dai Yunjie's spouse

36 RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties

(i) Purchase of services

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Xiamen So Funny Information Technology Co., Ltd.	335,531	459,952
Shanghai Bianyue Culture Communication Co., Ltd.	12,792	8,113
Shanghai Fantablade Network Science and Technology Co., Ltd.	2,812	4,311
Gamecores (Beijing) Culture Communication Co. Ltd.	1,874	6,814
Shanghai Chatie Network Science and Technology Co., Ltd.	580	8,315
Shanghai Maichuang Network Technology Limited	515	1,202
Others	833	1,501
	354,937	490,208

(c) Year end balances with related parties

(i) Prepayments for game license to related parties

	As at 31 December	
	2023 RMB'000	2022 RMB'000
ShenZhen Shanshi Interactive Technology Co., Ltd	1,438	1,438

(ii) Other receivables from related parties

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Jiexin Holdings Limited	261	260
Happy Today Holding Limited	9	9
	270	269

The receivables from related parties are unsecured, interest-free and repayable on demand.

36 RELATED PARTY TRANSACTIONS (Continued)

(c) Year end balances with related parties (Continued)

(iii) Trade payables to related parties

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Xiamen So Funny Information Technology Co., Ltd.	12,504	77,951
Shanghai Chatie Network Science and Technology Co., Ltd.	3,432	3,750
Shanghai Fantablade Network Science and Technology Co., Ltd.	1,265	965
Others	78	1,374
	17,279	84,040

The payables due to related parties are unsecured, interest-free and are repayable on demand.

(d) Key management compensation

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Wages, salaries and bonuses	8,717	7,345
Post-employment benefits	177	294
Long-term benefits	-	-
Termination benefits	-	-
Share-based compensation expenses	6,729	8,842
	15,623	16,481

Key management includes directors and other senior executives.

37 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2023 RMB'000	2022 RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	5,055,610	4,920,545
Amounts due from related parties	2,584,790	–
	7,640,400	4,920,545
Current assets		
Amounts due from related parties	1,330,324	4,086,155
Cash and cash equivalents	222,823	309,355
	1,553,147	4,395,510
Total assets	9,193,547	9,316,055
EQUITY		
Share capital	329	329
Share premium	7,036,291	7,035,801
Shares held for share award scheme	(6)	(6)
Other reserves	484,415	325,551
Retained earnings	103,191	107,998
Total equity	7,624,220	7,469,673
LIABILITIES		
Non-current liabilities		
Convertible bonds	–	1,805,948
Current liabilities		
Other payables and accruals	16,180	16,904
Convertible bonds	1,553,147	23,530
Total liabilities	1,569,327	1,846,382
Total equity and liabilities	9,193,547	9,316,055

The balance sheet of the Company was approved by the Board of Directors on 28 March 2024 and was signed on its behalf.

Dai Yunjie
Director

Fan Shuyang
Director

37 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(b) Reserve movement of the Company

	Capital reserve RMB'000	Currency translation difference RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
As at 1 January 2022	97,390	(498,498)	27,619	(373,489)
Currency translation differences	-	626,257	-	626,257
Share-based compensation expenses (Note 33)	-	-	74,661	74,661
Repurchase of convertible bond (Note 31)	(1,878)	-	-	(1,878)
As at 31 December 2022	95,512	127,759	102,280	325,551
As at 1 January 2023	95,512	127,759	102,280	325,551
Currency translation differences	-	126,794	-	126,794
Share-based compensation expenses (Note 33)	-	-	51,364	51,364
Repurchase of convertible bond (Note 31)	(19,130)	-	-	(19,130)
Exercise of share options	-	-	(164)	(164)
As at 31 December 2023	76,382	254,553	153,480	484,415

38 CONTINGENCIES

The Group did not have any material contingent liabilities as of 31 December 2022 and 2023.

39 SUBSEQUENT EVENTS

- (a) On 12 January 2024, a total of 1,875,305 Options were granted by the Company under the Share Option Scheme to certain eligible participants to subscribe for ordinary shares of US\$0.0001 each of the Company.
- (b) In January 2024, the Company further repurchased an aggregate principal amount of USD60,000,000 of the 2021 Convertible Bonds. After the repurchase, an aggregate principal amount of USD159,600,000 of the 2021 Convertible Bonds remains outstanding, representing approximately 57.00% of the aggregate principal amount originally issued.

As mentioned in Note 31, the bond holders have the option to require the Company to redeem all or some only of the holder's bonds on 12 April 2024 at their principal amount, together with accrued and unpaid interest thereon. On 13 March 2024, the Company has received the exercise notice from the holders to redeem all outstanding 2021 Convertible Bonds with an aggregate principal amount of USD159,600,000.

40 SUMMARY OF OTHER ACCOUNTING POLICIES

40.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement (including structured entities) with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

40.1.1 Business combination

The Group applies the acquisition method to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss. Amounts classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in profit or loss.

40.1.2 Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company

40 SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

40.1 Subsidiaries (Continued)

40.1.3 Disposal of subsidiaries

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS Accounting Standards.

40.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

40.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company.

40.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment arising from business acquisition is depreciated over the remaining useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains, net" in the statement of comprehensive income.

40 SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

40.5 Financial assets

40.5.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

40.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (a) the contractual rights to receive the cash flows from the financial asset expire; or (b) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (c) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("**pass through**" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

40.5.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss (FVPL) are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

40 SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

40.5 Financial assets (Continued)

40.5.3 Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), net and impairment expenses are presented as separate line item in the statement of comprehensive income.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other gains/(losses), net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets measured at FVPL are recognised in other gains/(losses), net in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

40 SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

40.5 Financial assets (Continued)

40.5.4 Impairment

The Group has 2 types of financial assets subject to IFRS 9's new expected credit loss model:

- trade receivables; and
- other receivables

While cash and cash equivalents, restricted cash and short term investments at amortized cost are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at an amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Group uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

40.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

40.7 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

40.8 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

40.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

40 SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

40.10 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities unless payment is not due within 12 months after the reporting period.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

40.11 Employee benefits

40.11.1 Pension and other social welfare obligations

The Group's companies incorporated in the PRC contribute on a monthly basis to a defined contribution retirement benefit plan and other defined contribution social security plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. The Group's contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group. During the reporting period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

40.11.2 Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

40.11.3 Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

40.12 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

40.13 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Return from wealth management products measured at fair value through profit or loss is included in "Other gains/(losses), net".

40 SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

40.14 Government subsidies

Subsidies from government are recognized at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

Government subsidies relating to costs are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government subsidies relating to the purchase of property, plant and equipment, and other non-current assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

40.15 Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

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FINANCIAL
SUMMARY

FINANCIAL SUMMARY

	Year ended December 31				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenues	3,389,144	3,430,936	2,703,173	2,847,553	2,838,097
Cost of revenues	(1,320,774)	(1,595,677)	(1,476,930)	(1,315,525)	(1,066,320)
Gross profit	2,068,370	1,835,259	1,226,243	1,532,028	1,771,777
Selling and marketing expenses	(865,237)	(922,683)	(780,184)	(633,394)	(745,101)
Research and development expenses	(1,015,657)	(1,283,824)	(1,242,174)	(657,506)	(317,596)
General and administrative expenses	(224,613)	(233,848)	(235,105)	(179,916)	(202,692)
Net impairment losses on financial assets	(517)	(2,564)	262	(1,624)	(1,889)
Other income	48,941	51,020	44,993	26,166	12,426
Other gains/(losses), net	(16,509)	(11,230)	30,444	1,935	12,365
Operating Profit	(5,222)	(567,870)	(955,521)	87,689	529,290
Finance income	90,058	27,677	13,533	15,505	8,319
Finance costs	(119,924)	(57,838)	(40,264)	(3,986)	(2,951)
Finance income/(costs), net	(29,866)	(30,161)	(26,731)	11,519	5,368
Share of losses of investments accounted for using equity method	19,884	38,197	28,387	14,915	10,767
Impairment of investments accounted for using equity method	(14,894)	—	(2,023)	(7,137)	—
Profit before income tax	(30,098)	(559,834)	(955,888)	106,986	545,425
Income tax expenses	(35,264)	(14,179)	38,600	(51,198)	(31,996)
Profit for the year	(65,362)	(574,013)	(917,288)	55,788	513,429
Profit for the year attributable to:					
Equity holders of the Company	(83,039)	(553,495)	(863,811)	9,145	346,563
Non-controlling interests	17,677	(20,518)	(53,477)	46,643	166,866
Profit for the year	(65,362)	(574,013)	(917,288)	55,788	513,429

	As at 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Assets, Liabilities and Equity					
TOTAL ASSETS	4,409,442	4,796,054	5,044,132	3,344,742	2,866,060
TOTAL LIABILITIES	2,540,691	2,890,405	2,661,725	764,616	579,530
TOTAL EQUITY	1,868,751	1,905,649	2,382,407	2,580,126	2,286,530

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DEFINITIONS AND GLOSSARY

DEFINITIONS AND GLOSSARY *(to be updated)*

“Acquisition”	the acquisition of the Target Shares by the Purchaser from the Vendors in accordance with the terms of the Sale and Purchase Agreement;
“Articles of Association”	the second amended and restated articles of association of our Company, conditionally adopted on and with effect from June 20, 2023, and as amended from time to time;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“battle arena game”	a subdivision of ACT and where gamers are usually break into different teams consisting of equal number of team members and team members within one team have to cooperate with each other to compete with other teams;
“beta-testing”	a form of external user acceptance testing;
“Board”	the board of Directors of the Company;
“Board Committees”	the four committees established and delegated to by the Board, including the audit committee, the remuneration and appraisal committee, the strategy and development committee and the nomination committee;
“CDN”	content delivery network;
“CG Code”	the Corporate Governance Code set out in Appendix C1 to the Listing Rules;
“Companies Act”	the Companies Act (2022 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time;
“Company” or “our Company”	XD Inc. (心动有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 25, 2019, the shares of which are listed on the Stock Exchange under stock code 02400;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules;
“Consideration Share(s)”	the 7,405,714 and 2,194,286 new Shares to be issued and allotted by the Company at the Issue Price of HK\$14.20 to EDragon and LY Development respectively as part of the consideration to purchase the relevant Target Shares held by EDragon or LY Development;
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, X.D. Network and the Registered Shareholders, details of which are described in the section headed “Contractual Arrangements”;
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Huang and Happy Today Holding Limited;
“Director(s)”	the director(s) of the Company;

“Earn Out Adjustment(s)”	(i) in respect of EDragon, the EDragon Adjustment Amount and (ii) in respect of LY Development, the LY Development Adjustment Amount;
“EDragon”	EDragon Technology Limited, a company incorporated with limited liability in the British Virgin Islands;
“Encumbrance”	any claim, charge, mortgage, security, lien, option, equity, power of sale, hypothecation or other third party rights, retention of title, right of pre-emption, right of first refusal or security interest of any kind;
“Foreign Investment Law”	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) adopted by the National People’s Congress on March 15, 2019 with effect from January 1, 2020;
“GAPP” and “NAPP”	General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署), currently known as National Administration of Press and Publication (國家新聞出版總署) since March 2018;
“Group”, “our Group”, “we” or “us”	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;
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“IFRS”	International Financial Reporting Standards, which include standards and interpretations as issued from time to time by the International Accounting Standards Board;
“Independent Third Party(ies)”	an individual or a company who, to the best of our Directors’ knowledge, information and belief, having made reasonable enquiries, is not a connected person (within the meaning of the Listing Rules);
“Initial Consideration”	the sum of the EDragon Initial Consideration and LY Development Initial Consideration;
“Listing Date”	December 12, 2019, being the date on which the shares of the Company became listed and commenced trading on the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Longcheng”	Shanghai Longcheng Network Technology Co., Ltd. (上海龍成網絡科技有限公司), a company established in the PRC on September 14, 2015, and a non-wholly owned subsidiary of our Company, or together with one or more of its subsidiaries, as the context may require;
“LY Development”	LY Development Limited, a company incorporated with limited liability in the British Virgin Islands;
“LY Development Initial Consideration”	the amount of US\$4,946,130, being the consideration for the Target Shares held by LY Development initially payable to LY Development at completion of the Acquisition;
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of 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;
“MPU(s)”	monthly paying users, which refers to the number of paying users in the relevant calendar month in our games;
“Negative List”	Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 Edition) (外商投資准入特別管理措施(負面清單)(2019年版));
“pay-to-play”	a business model used in the online game industry, under which users are required to pay in order to play games;
“PRC” or “China”	the People's Republic of China, but for the purposes of this report only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;
“PRC Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely X.D. Network and its respective subsidiaries;
“premium games”	games for which gamers need to pay a fixed price before downloading such games, after which the users will have unlimited access to play such games;
“Prospectus”	the prospectus of the Company dated November 29, 2019;
“Ragnarok M”	Ragnarok M: Eternal Love (仙境傳說：守護永恆的愛);
“Registered Shareholders”	Xindong Holding Co., Ltd. (心動控股有限公司), Shanghai Jiexin Investment Management Partnership (Limited Partnership), Fuzhou Tianmeng Digital Company Limited (福州天盟數碼有限公司), Shanghai Muxinyinxi Investment Management Partnership (Limited Partnership), Dongfang Xinghui (Shanghai) Investment Center (Limited Partnership) (東方星輝(上海)投資中心(有限合夥)), Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司), Tibet Taifu Culture Media Co., Ltd. (西藏泰富文化傳媒有限公司), Xiamen Qunce Chuangying Equity Investment Partnership (Limited Partnership), Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), Tianjin Jinwutong Investment Management Partnership (Limited Partnership) and the Relevant Individual Shareholders (including Mr. Huang Yimeng, Mr. Dai Yunjie, Mr. Zhao Yuyao, Mr. Hong Shen, Mr. Shen Sheng, Mr. Wang Chenguang, Mr. Pan Zuqiang, Ms. Zhang Aifen, Ms. Chen Ying, Mr. Jia Shaochi, Mr. Huang Yecheng, Ms. Pan Chenping and Mr. Huang Xiwei);
“Relevant Entities”	certain entities in which X.D. Network also directly or indirectly holds investment in the PRC in addition to the restricted and/or prohibited business of our Company;
“Reporting Period”	period from January 1, 2023 to December 31, 2023;
“RMB”	Renminbi, the lawful currency of the PRC;
“RSU(s)”	restricted share unit(s);
“RSU Holding Entity”	Heart Assets Limited, a company incorporated in the British Virgin Islands holding our Shares pursuant to the RSU Scheme on trust or on behalf of the grantees of our Company;

“RSU Scheme”	the restricted share unit Scheme of our Company adopted on June 3, 2019;
“Sale and Purchase Agreement”	the sale and purchase agreement dated April 9, 2024 and entered into among the Company, the Purchaser and the Vendors in relation to the Acquisition;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Senior Management”	the senior management of the Company;
“Shanghai Maichuang”	Shanghai Maichuang Network Technology Limited (上海脈創網絡科技有限公司), which is currently held by Mr. Dai Yunjie’s spouse and Independent Third Parties as to 32.00% and 68.00%, respectively, and is therefore an associate of Mr. Dai Yunjie and a connected person of our Company under Rule 14A.07(4) of the Listing Rules;
“Share(s)”	ordinary shares in the share capital of our Company with a par value of US\$0.0001;
“Shareholder(s)”	holder(s) of the Share(s);
“Specific Mandate”	the specific mandate proposed to be granted to the Directors by the independent Shareholders at the forthcoming annual general meeting to allot and issue the Consideration Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Hong Kong Companies Ordinance;
“Target Company”	X.D. Global (HK) Limited, a company incorporated with limited liability in Hong Kong and an indirect subsidiary of the Company held by the Purchaser, EDragon and LY Development as to 65%, 27% and 8% respectively as at the date of this report;
“Target Shares”	(i) in respect of EDragon, 2,700 ordinary shares of the Target Company (representing 27% shareholding in the Target Company); and (ii) in respect of LY Development, 800 ordinary shares of the Target Company (representing 8% shareholding in the Target Company), which in aggregate represent 35% shareholding in the Target Company, free from any Encumbrance, to be sold by EDragon and LY Development respectively to the Purchaser pursuant to the Sale and Purchase Agreement;
“USD” or “US\$”	United States dollars, the lawful currency of the United States;
“VAT”	the PRC value-added tax;
“virtual items”	in-game non-physical items available for purchase, including consumables, avatars, skills, privileges, or other in-game features or functionality;
“web games”	games that are played in a web browser on PC without downloading any client or app;
“WFOE”	XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司), a wholly foreign-owned enterprise established in the PRC on June 6, 2019 held by XD (HK) Limited, an indirect wholly-owned company of our Company;
“X.D. Network”	X.D. Network Inc. (心動網絡股份有限公司), a company established in the PRC on July 29, 2011 and our PRC Consolidated Affiliated Entity;
“Yiwan”	Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司), a company established in the PRC on March 28, 2016, and our PRC Consolidated Affiliated Entity; and;
“%”	per cent.

