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XD Inc.

心动有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2400)

PROFIT WARNING

This announcement is made by XD Inc. (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board of directors of the Company (the “**Board**”) wishes to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on the preliminary assessment of the unaudited consolidated management accounts of the Group for the year ended December 31, 2020, the Group is expected to record a net profit of approximately RMB30.0 million to RMB60.0 million for the year ended December 31, 2020 (“**FY 2020**”), down 94.2% to 88.3% from RMB513.4 million recorded for the year ended December 31, 2019 (“**FY 2019**”).

Such expected decrease in net profit is mainly attributable to (a) a significant increase of approximately RMB330.0 million to RMB360.0 million in research and development expenses for FY 2020 as compared to FY 2019. This was primarily due to the Group's strategy to enhance our game development capabilities and TapTap's user experience through recruitment of more research and development personnel, leading to an increase of the total number of the research and development personnel from 806 as of December 31, 2019 to 1,355 as of December 31, 2020, and the increased levels of employee benefits to incentivise the employees of the Group; (b) a decrease of approximately RMB230.0 million to RMB260.0 million in gross profit for FY 2020 as compared to FY 2019. While the total revenue of the Group for FY 2020 remained stable as compared to FY 2019, the decrease in gross profit was primarily due to the increase in the contribution ratio from licensed games of the Group to the total game operating revenues of the Group, as licensed games generally have lower gross margin than self-developed games; and (c) partially offset by the decreased selling and marketing expense, as we launched fewer new games in FY 2020 as compared to FY 2019. The Board considers that, while this may have negative impact on the net profit of the Group in the short-term, the Group's strategy to continuously invest in talents in game development and information technology is in the interest of the Group in the long-term and the Board remains optimistic about the long-term development and prospects of the Group.

The Board wishes to emphasize that the results of the Company for FY 2020 have not yet been finalized. The information contained in this announcement is only based on the preliminary assessment by the Board with reference to the information currently available to the Board and the unaudited management accounts of the Group for FY 2020, which have not been audited or reviewed by the Company's independent auditors and/or the audit committee of the Company, and may be subject to adjustments. Shareholders and potential investors are advised to read carefully the results announcement of the Company for FY 2020, which is expected to be published by the end of March 2021.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
XD Inc.
HUANG Yimeng
Chairman and Chief Executive Officer

Shanghai, the PRC
26 February, 2021

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