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**XD Inc.**

**心动有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2400)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020**

The Board of the Company is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2020. The results have been audited by the Auditor in accordance with International Standards on Auditing, and have also been reviewed by the Audit Committee.

### **FINANCIAL PERFORMANCE HIGHLIGHTS**

	<b>For the year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>%</i>
Revenues	<b>2,847,553</b>	2,838,097	0.3
Gross profit	<b>1,532,028</b>	1,771,777	-13.5
Profit for the year	<b>55,788</b>	513,429	-89.1
Profit attributable to equity holders of the Company	<b>9,145</b>	346,563	-97.4

### **KEY OPERATING INFORMATION**

	<b>For the year ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<i>(in thousands)</i>	<i>(in thousands)</i>	<i>%</i>
<b>ONLINE GAMES</b>			
Average MAUs <sup>(1)</sup>	<b>25,177</b>	19,579	28.6
Average MPUs <sup>(2)</sup>	<b>917</b>	720	27.4
<b>TAPTAP</b>			
Average App MAUs in PRC	<b>25,700</b>	17,883	43.7
Average App MAUs in overseas	<b>4,813</b>	1,117	330.9

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In 2020, the global pandemic COVID-19 has affected everyone's work and lives. The outbreak brought new challenges to everyone, including us. During that period, we have attracted more users to our online games (especially "Sausage Man") and TapTap. We will continue to uphold our long-term vision of "to impact each and every gamer by promoting the spirit of craftsmanship" through our unwavering commitment to bring high-quality games to gamers, as well as supporting developers to create and publish games with ease.

Here is an overview of our main products and services:

### Our Games

As of December 31, 2020, our existing game portfolio includes 33 online games and 13 premium games.

#### *Online Game*

For the year ended December 31, 2020, average MAUs and MPUs of our online games increased by 28.6% and 27.4%, respectively, on a year-on-year basis. The increases were primarily attributable to the significantly increased popularity of Sausage Man (香腸派對). For the year ended December 31, 2020, "Ragnarok M", "Ulala", "Sausage Man", "Lan Yan Qing Meng" (藍顏清夢) and "Arknights" (明日方舟) were our top five games in terms of revenue generation. Here is an overview of our major existing games:

- **"Ragnarok M"** (仙境傳說 M): It has been four years since its official launch. As the game's life cycle matures, the game's revenue in the year ended December 31, 2020 has declined compared to that in the year ended December 31, 2019. A major game version update "RO 2.0" had been prepared in 2020, and was gradually launched in China and several overseas regions in the first quarter of 2021, which had significantly increased gamers' engagement in Ragnarok M. We still have a team of more than 150 people to maintain and support the game service, and we are committed to continually creating high-quality content for gamers.
- **"Ulala"** (不休的烏拉拉): Since May 2019, the game has been launched in more than 50 overseas countries and regions and in China. At the beginning of its launch, the game had consistently entered the top ten best-selling game list. The monthly gross income of the game had dropped significantly in the first half of 2020 compared to that in the period immediately after its launch, but then became stable in recent months, as we are continuously providing high-quality updates and third-party collaboration activities for the game.

- **“Sausage Man” (香腸派對)**: The game has been launched for three years, but due to its nature as a battle arena game, the game is still going strong with the potential of further growth. During the “stay-at-home” period, the game’s user base grew rapidly with a total downloading volume exceeding 100 million times. The monetization of the game has been successful, owing to our continuous optimization of the Game Season system and Golden Season Ticketing system. In addition, we also added in-game incentive ads to boost the monetization aspect of this highly popular game.

### ***Games Under Development***

We regard game research and development capabilities as one of the Company’s core competitivenesses, and self-developed games as one of the core driving forces behind the Company’s development. For the year ended December 31, 2020, we hired more than 500 game developers, and as at the end of December 2020, there were more than 1,120 employees engaged in game development. We have a total of 13 games currently in the research and development phase, and two of them are taking “TapTap Campfire Project” (篝火測試), a kind of game test project in TapTap, through which gamers in TapTap can explore the game and participate in the early stage of game development: one of them is a platform fighting game and the other one is a TPS (third-person shooter) game.

Another four of our games are expected to enter the closed test stage in 2021: “Torchlight: Infinity” (火炬之光：無限), a dark-themed mobile game produced for the well-known game title “Torchlight” (火炬之光) using the UE4 engine; “Fantasy World” (心動小鎮 tentative name), a life simulation social game; “Project A” (tentative name), a youthful Japanese teenage girl themed MMORPG made with the UE4 engine; and “Project: SSRPG” (tentative name: 代號：SSRPG), a pixel-style strategy role-playing game.

In general, we believe our games under development are on the right track and will make significant progress in 2021.

## *Premium Games*

Premium games could further enrich our game portfolio and increase our brand recognition among the core gamers. Our commitment to premium games was rewarded in 2020 with several successful cases: “Human: Fall Flat” (人類跌落夢境) sold over 2 million units within one week since its launch; “Muse Dash” (喵斯快跑) quickly got popular in social media, leading to the game’s total unit sales surging over 4 million; “Sands of Salzaar” (部落與彎刀) and a handful of other titles were highly acclaimed among gamers; “Juicy Realm” (惡果之地), “ICEY” (艾希) and numerous other releases were highlighted in the Nintendo China eShop.

In 2021, we have a promising pipeline including the highly anticipated “Terraria mobile” (泰拉瑞亞移動版) and “Eastward” (風來之國), among others.

## **TapTap**

TapTap is also one of our core competitivenesses and driving forces. We rely on game development and distribution to provide TapTap with exclusive content with highest quality. This exclusive content base in turn drives TapTap’s user growth. TapTap’s exclusive products and operational advantages further help to retain users and generate revenue, which is seeded back to the first-party and third-party content creators, who can continue to produce more high-quality content, which will eventually continue to drive TapTap to grow.

## *For Gamers*

Since the beginning of 2020, we have continuously added a large number of products and technical staff for TapTap, and have carried out multiple version iterations with the goal of increasing user activity. In 2020, we have iterated the original pages into an infographic format, and rebuilt the overall user interface. In 2020, for TapTap’s PRC version, the average monthly active users of mobile app were 25.7 million, with a year-on-year increase of 43.7%; the number of game downloads was 407.6 million, with a year-on-year increase of 15.8%; the number of new posts was 5.8 million, with a year-on-year increase of 64.0%.

In 2020, we provided TapTap users with a wide array of games exclusively or limited-time exclusively on the PRC Android platform. Among them, “Pasical’s Wager” (帕斯卡契約) was the first PRC game to appear at the Apple conference, which caught the attention of a large number of gamers; and “Canal Towns” (江南百景圖) was very popular with a total downloading volume exceeding 11 million times in TapTap.

We launched the “Instant Play” feature in TapTap beta version in early 2021, allowing users to play the game without having to download an installer. This feature allows players to immediately experience the game content, and also allows players using mobile phones with lower specifications to play the games which they could not play before. We plan to continue iterating on this feature to enhance the user experience in 2021. We also plan to continue to promote the reshaping of the user discovery page and the game page in 2021 in order to compensate for the weaknesses of the existing pages, hoping to more effectively manage and meet the users’ need of exploring and discovering new games. In the process of iteration, we plan to update the video recommendation and community recommendation algorithm strategy simultaneously with the operation work, hoping to achieve the improvement of the accuracy of content provision.

### ***For Game Developers***

As of December 31, 2020, TapTap has over 15,000 registered developers. TapTap is committed to becoming a communication bridge between developers and gamers. The TapTap platform aims to help developers reduce the difficulties of making and publishing games. In 2020, we reorganized the technical department (originally providing general product services for our games) into the developer service department of the TapTap platform. We also plan to launch more component tools for third-party developers to utilize and strengthen the connection between the game and our TapTap gamer community. We have unified and integrated services for developers into TDS (TapTap Developer Service). In the future, we plan to gradually provide developers with functions such as targeted testing invitation, data analysis, accounts login-in, friend synchronization, embedded community services and more into TDS.

In 2020, we provide “TapTap Campfire Project” to developers. By taking this project, games under development can be provided to a number of gamers in a controllable semi-open environment, and developers can identify game design defects in an early stage and reduce development risk.

### ***Overseas Version of TapTap***

In 2020, we have redesigned a multi-language and multi-protocol suitable underlying framework of TapTap to timely follow up the product update of the Chinese version platform, better interconnect data of global users, and to grant overseas users more access to effective information of Chinese game developers and players and any newly-designed products will be able to support the overseas version platform. We experienced a booming growth of TapTap’s overseas version. For the year ended December 31, 2020, the average MAUs of mobile app for overseas version were 4.8 million, with a year-on-year increase of 330.9%. And for the three months ended December 31, 2020, the average MAUs were 10.7 million.

We have yet monetized the overseas version of TapTap, and in the near future, we will continuously focus on user growth and user experience improvement.

## FINANCIAL REVIEW

### Revenues

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) information services where we generate revenue primarily from providing online marketing services on TapTap. The following table sets forth our revenue by line of business for the years ended December 31, 2020 and 2019.

	For the year ended December 31,			
	2020		2019	
	Amount	% of revenue	Amount	% of revenue
	<i>(RMB in thousands, except for percentages)</i>			
<b>Games</b>	<b>2,331,967</b>	<b>81.9</b>	2,378,516	83.8
Game operating	<b>2,291,990</b>	<b>80.5</b>	2,375,307	83.7
Online games	<b>2,148,320</b>	<b>75.4</b>	2,319,643	81.7
Premium games	<b>143,670</b>	<b>5.1</b>	55,664	2.0
In-game marketing and promotion	<b>36,044</b>	<b>1.3</b>	—	—
Others	<b>3,933</b>	<b>0.1</b>	3,209	0.1
<b>Information services</b>	<b>515,586</b>	<b>18.1</b>	459,581	16.2
<b>Total revenue</b>	<b><u>2,847,553</u></b>	<b><u>100.0</u></b>	<b><u>2,838,097</u></b>	<b><u>100.0</u></b>

### Games

Our revenue from game business decreased by 2.0% to RMB2,332.0 million for the year ended December 31, 2020 on a year-on-year basis. In particular,

- Our revenue from online games decreased by 7.4% to RMB2,148.3 million for the year ended December 31, 2020 on a year-on-year basis, primarily due to decreases in revenue from certain existing games under maturity stage, such as Ragnarok M (仙境傳說), and partially offset by solid performance of our popular existing games and newly launched games, such as (i) successive monetization of Sausage Man (香腸派對), (ii) the launch of Lan Yan Qing Meng (藍顏清夢) in Hong Kong, Macau and Taiwan in January 2020, and in South Korea in March 2020, and (iii) the launch of Arknights (明日方舟) in Hong Kong, Macau and Taiwan in June 2020.

- Our revenue from premium games increased by 158.1% to RMB143.7 million for the year ended December 31, 2020 on a year-on-year basis, primarily due to (i) the launch of Human: Fall Flat (人類跌落夢境) in TapTap in November 2020, (ii) the launch of Juicy Realm (惡果之地) in Nintendo Switch in December 2019 and in TapTap in May 2020, respectively, and (iii) solid performance of Muse Dash (喵斯快跑) launched in the PRC and overseas since June 2018.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the years ended December 31, 2020 and 2019.

	For the year ended December 31,			
	2020		2019	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Revenue recognized on a gross basis	1,719,833	75.0	1,450,502	61.1
Revenue recognized on a net basis	572,157	25.0	924,805	38.9
Total game operating revenue	<u>2,291,990</u>	<u>100.0</u>	<u>2,375,307</u>	<u>100.0</u>

As a percentage of the total game operating revenue, our game operating revenue recognized on a gross basis increased and that recognized on a net basis decreased for the year ended December 31, 2020 on a year-on-year basis, mainly as a result of the increased revenue from Sausage Man (香腸派對), Lan Yan Qing Meng (藍顏清夢) and Arkknights (明日方舟), and the decreased revenue from Ragnarok M in overseas markets.

Since January 2020, we started to offer in-game marketing and promotion services to diversify our revenue sources. We launched for the year ended December 31, 2020 on a year-on-year basis targeted advertisement placements in our Sausage Man (香腸派對) for third party advertisers in January 2020 and generated a revenue of RMB36.0 million for the year ended December 31, 2020.

### Information services

Our revenue from information services business increased by 12.2% to RMB515.6 million for the year ended December 31, 2020 on a year-on-year basis, primarily due to the growth of the average MAUs on our Chinese version of TapTap mobile app, which increased by 43.7% to 25.7 million for the year ended December 31, 2020 on a year-on-year basis.

## Cost of Revenues

Our cost of revenue increased by 23.4% to RMB1,315.5 million for the year ended December 31, 2020 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, 2020 and 2019.

	For the year ended December 31, 2020		2019	
	Amount	% of segment revenue	Amount	% of segment revenue
Games	1,240,906	53.2	1,013,780	42.6
Information services	74,619	14.5	52,540	11.4
Total	<u>1,315,525</u>	<u>46.2</u>	<u>1,066,320</u>	<u>37.6</u>

Our cost of revenue for game business primarily consists of sharing of proceeds to game developers and commissions charged by distribution platforms and payment channels where we act as a principal, bandwidth and servers custody fee, employee benefits expenses and amortization of game license fees. Our cost of revenue for information services business primarily consists of bandwidth and servers custody fee and employee benefits expenses. The following table sets forth our cost of revenue by nature for the years ended December 31, 2020 and 2019.

	For the year ended December 31, 2020		2019	
	Amount	%	Amount	%
Sharing of proceeds to game developers	477,262	36.3	282,982	26.6
Commissions charged by distribution platforms and payment channels	423,825	32.2	385,241	36.1
Bandwidth and servers custody fee	189,151	14.4	184,549	17.3
Employee benefits expenses	66,464	5.1	49,293	4.6
Amortization of intangible assets	58,927	4.5	58,974	5.5
Others	99,896	7.5	105,281	9.9
Total	<u>1,315,525</u>	<u>100.0</u>	<u>1,066,320</u>	<u>100.0</u>



Our cost of revenue for game business increased by 22.4% to RMB1,240.9 million on a year-on-year basis, primarily due to increases in (i) sharing of proceeds to game developers, which was mainly attributable to licensed games newly launched or monetized in 2019 and 2020, such as Ulala (不休的烏拉拉), Sausage Man (香腸派對), Lan Yan Qing Meng (藍顏清夢) and Arknights (明日方舟), and (ii) commissions charged by distribution platforms and payment channels, which was generally in line with our growth in game revenue recognized on a gross basis.

Our cost of revenue for information services business increased by 42.0% to RMB74.6 million on a year-on-year basis, primarily due to an increase in bandwidth and servers custody fee, which was generally in line with the growth in the average MAUs of TapTap mobile app, and the growth in gamers' activities in TapTap.

### **Gross Profit and Gross Margin**

As a result of the foregoing, our gross profit decreased by 13.5% to RMB1,532.0 million in the year ended December 31, 2020 on a year-on-year basis. Our gross margin decreased to 53.8% in the year ended December 31, 2020 from 62.4% in 2019, primarily due to (i) a decrease in our gross margins of game segment from 57.4% in the year ended December 31, 2019 to 46.8% in 2020, as a result of the increase in the contribution from game operating revenue recognized on a gross basis to total game operating revenue from 61.1% in the year ended December 31, 2019 to 75.0% in 2020, mainly arising from the solid performances of our licensed games, such as Ulala (不休的烏拉拉), Sausage Man (香腸派對), Lan Yan Qing Meng (藍顏清夢) and Arknights (明日方舟), (ii) a decrease in gross margin of information services segment from 88.6% in the year ended December 31, 2019 to 85.5% in 2020, as the growth rate of TapTap's average MAUs was higher than the growth rate of TapTap's revenue. This decrease was partially offset by an increase in the contribution of revenue from our information services business to our total revenue from 16.2% in the year ended December 31, 2019 to 18.1% in 2020, which in general enjoys 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 15.0% to RMB633.4 million for the year ended December 31, 2020 on a year-on-year basis. This was primarily due to (i) decreased marketing expenses of RMB212.0 million for game segment, as we launched fewer new games in the year ended December 31, 2020 as compared to 2019, and (ii) partially offset by increased marketing expenses of RMB100.3 million for TapTap, as we continued to attract new users and bring in high-quality exclusive games during the "stay-at-home" period.

## **Research and Development Expenses**

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

Our research and development expenses increased by 107.0% to RMB657.5 million for the year ended December 31, 2020 on a year-on-year basis. This was primarily due to an increase in the number of our research and development personnel from 806 as of December 31, 2019 to 1,355 as of December 31, 2020, increased levels of employee benefits, and an increase in expenses relating to professional and technical services during the year ended December 31, 2020, as we continued to enhance our game development capabilities and TapTap's user experience.

## **General and Administrative Expenses**

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

Our general and administrative expenses decreased by 11.2% to RMB179.9 million for the year ended December 31, 2020 on a year-on-year basis. This was primarily due to (i) the elimination of one-off listing expenses of RMB53.5 million incurred during the year ended December 31, 2019, and partially offset by (ii) increased professional and technical service fees as we have become a listed company since December 2019, and (iii) increased back-office personnel as our total number of employees enlarged significantly.

## **Income Tax Expenses**

Our income tax expenses increased by 60.0% to RMB51.2 million for the year ended December 31, 2020 on a year-on-year basis. Our effective income tax rate (calculated as income tax expense divided by profit before income tax) increased to 47.9% for the year ended December 31, 2020 from 5.9% for 2019. This was primarily due to (i) our different subsidiaries have different profit profiles and different applicable tax rates. For example, in 2020, our subsidiaries that conduct overseas publishing and those that operate TapTap are profitable, while our subsidiaries that primarily conduct R&D activities are loss-making. Generally, the corporate income tax rate applicable to our operating subsidiaries ranges from 10% to 25%, (ii) we make a one-off provision for withholding tax on earnings expected to be remitted by subsidiaries, and (iii) the corporate income tax exemption applicable to Yiwan expired in 2019 and Yiwan is subject to a corporate income tax rate of 12.5% for the three-year period from 2020 to 2022.

## Profit for the Year

Our profit for the year decreased by 89.1% to RMB55.8 million for the year ended December 31, 2020 on a year-on-year basis.

## Profit for the Year attributable to Equity holders of the Company

Our profit for the period attributable to equity holders of the Company decreased by 97.4% to RMB9.1 million for the year ended December 31, 2020 on a year-on-year basis.

Our profit for the period attributable to non-controlling interests was mainly due to non-controlling interests in (i) Yiwan, (ii) Longcheng, (iii) X.D. Global (HK) Limited, and (iv) Hyper Times Limited.

## Liquidity and Capital Resources

Our cash positions and short-term investments as at December 31, 2020 and December 31, 2019 are as follows:

	As at December 31, 2020 (RMB'000)	As at December 31, 2019 (RMB'000)
Cash and cash equivalents	2,319,512	1,336,869
Short-term investments	—	497,363
	<u>2,319,512</u>	<u>1,834,232</u>

The increase of our cash positions was primarily due to (i) the top-up placing completed in July 2020 and received net proceeds of approximately HK\$767.3 million. Please refer to the announcements of the Company dated June 24, 2020 and July 3, 2020 published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) for details, (ii) net cash generated from operating activities of RMB348.2 million for the year ended December 31, 2020, and (iii) partially offset by the payment of approximately RMB330.2 million for acquisition of additional equity interests in Yiwan. Please refer to the announcement of the Company dated August 27, 2020 published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) for details.

As of December 31, 2020, we did not have any borrowings or unutilized banking facilities.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 December	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Revenues	3	2,847,553	2,838,097
Cost of revenues	4	<u>(1,315,525)</u>	<u>(1,066,320)</u>
<b>Gross profit</b>		<b>1,532,028</b>	<b>1,771,777</b>
Selling and marketing expenses	4	(633,394)	(745,101)
Research and development expenses	4	(657,506)	(317,596)
General and administrative expenses	4	(179,916)	(202,692)
Net impairment losses on financial assets	4	(1,624)	(1,889)
Fair value changes on investments measured at fair value through profit or loss		(1,426)	8,186
Other income	5	26,166	12,426
Other gains/(losses), net	6	<u>3,361</u>	<u>4,179</u>
<b>Operating profit</b>		<b>87,689</b>	<b>529,290</b>
Finance income		15,505	8,319
Finance costs		<u>(3,986)</u>	<u>(2,951)</u>
Finance income, net		<b>11,519</b>	<b>5,368</b>
Share of results of investments accounted for using equity method		14,915	10,767
Impairment of investments accounted for using equity method		<u>(7,137)</u>	<u>—</u>
<b>Profit before income tax</b>		<b>106,986</b>	<b>545,425</b>
Income tax expenses	7	<u>(51,198)</u>	<u>(31,996)</u>
<b>Profit for the year</b>		<b>55,788</b>	<b>513,429</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		(25,062)	7,999
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		<u>(96,170)</u>	<u>(592)</u>
<b>Total comprehensive income for the year</b>		<b><u>(65,444)</u></b>	<b><u>520,836</u></b>

	<i>Notes</i>	<b>Year ended 31 December</b>	
		<b>2020</b>	<b>2019</b>
		<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>Profit for the year attributable to:</b>			
Equity holders of the Company		<b>9,145</b>	346,563
Non-controlling interests		<b>46,643</b>	166,866
		<u><b>55,788</b></u>	<u>513,429</u>
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Company		<b>(103,896)</b>	351,933
Non-controlling interests		<b>38,452</b>	168,903
		<u><b>(65,444)</b></u>	<u>520,836</u>
<b>Earnings per share for profit for the year attributable to the equity holders of the Company</b>			
Basic and diluted earnings per share (RMB)	8	<u><b>0.02</b></u>	<u>0.98</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	2020	2019
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		112,592	86,938
Right-of-use assets		129,555	37,644
Intangible assets		199,322	198,938
Deferred tax assets		16,810	11,349
Investments accounted for using the equity method		66,326	52,800
Long term investments measured at fair value through profit or loss		23,670	29,918
Prepayments, deposits and other assets		26,713	74,156
		<u>574,988</u>	<u>491,743</u>
<b>Current assets</b>			
Trade receivables	9	299,161	406,143
Income tax prepayment		30,254	14,167
Prepayments and other assets		120,827	119,775
Short-term investments		—	497,363
Cash and cash equivalents		2,319,512	1,336,869
		<u>2,769,754</u>	<u>2,374,317</u>
<b>Total assets</b>		<u><b>3,344,742</b></u>	<u><b>2,866,060</b></u>

		<b>As at 31 December</b>	
	<i>Notes</i>	<b>2020</b>	2019
		<b>RMB'000</b>	<b>RMB'000</b>
<b>EQUITY</b>			
Share capital	<i>10</i>	<b>306</b>	284
Share premium	<i>10</i>	<b>6,095,544</b>	5,357,114
Other reserves		<b>(4,444,279)</b>	(4,137,328)
Retained earnings		<b>644,888</b>	651,800
<b>Equity attributable to equity holders of the Company</b>		<b>2,296,459</b>	1,871,870
Non-controlling interests		<b>283,667</b>	414,660
<b>Total equity</b>		<b>2,580,126</b>	2,286,530
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>1,621</b>	2,135
Lease liabilities		<b>81,920</b>	23,056
		<b>83,541</b>	25,191
<b>Current liabilities</b>			
Trade payables	<i>11</i>	<b>164,560</b>	200,845
Advance from customers		<b>21,215</b>	15,756
Other payables and accruals		<b>239,968</b>	151,705
Contract liabilities		<b>128,546</b>	99,321
Current income tax liabilities		<b>78,713</b>	70,250
Lease liabilities		<b>48,073</b>	16,462
		<b>681,075</b>	554,339
<b>Total liabilities</b>		<b>764,616</b>	579,530
<b>Total equity and liabilities</b>		<b>3,344,742</b>	2,866,060

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1.1 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.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”) are principally engaged in the development, operation, publishing and distribution of mobile and web games and provision of information services (the “Listing Business”) in the People’s Republic of China (the “PRC”) and other countries and regions.

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

The consolidated financial statements for the year ended 31 December 2019 and 2020 are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated.

## 1.2 History and reorganisation of the Group

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”) as described below, the Listing Business was mainly carried out by X.D. Network Inc. (心動網絡股份有限公司) and its subsidiaries (the “X.D. Network Group”).

In preparing for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation, pursuant to which the beneficial interests in the companies engaged in the Listing Business were transferred to the Company. Details of the Reorganisation are set out below:

### 1.2.1 *Incorporation of the Company and the offshore holding structure*

On 25 January 2019, the Company was incorporated in the Cayman Islands and allotted and issued one share to the initial subscriber at par value of United States Dollar (“USD”) 0.0001, which was transferred to Happy Today Holding Limited, the holding vehicle of Mr. Huang Yimeng. The Company further allotted and issued 157,604,999 shares at par value to Happy Today Holding Limited on 10 April 2019.

On 11 February 2019, XD Holdings Limited was incorporated in the British Virgin Islands (“BVI”) as a wholly owned subsidiary of the Company.

On 28 February 2019, XD (HK) Limited was incorporated in Hong Kong as a wholly owned subsidiary of the XD Holdings Limited.



### ***1.2.2 Offshore shareholding restructuring***

From 10 April 2019 to 17 June 2019, to reflect the onshore shareholding structure of X.D. Network Group, 67,545,000, 10,961,250, 37,598,680, 8,437,540 and 78,211,030 shares were allotted and issued to Aiks Danger Inc., Dynasty Vision Limited, Jiexin Management Limited, Heart Assets Limited and other 15 offshore holders, respectively.

### ***1.2.3 Acquisition of X.D. Network Group with restricted operation***

On 6 June 2019, XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司, the “WFOE”) was incorporated in the PRC as a wholly owned subsidiary of XD (HK) Limited.

On 16 June 2019, the WFOE entered into a series of contractual agreements (collectively the “Contractual Arrangements”) with, among others, X.D. Network Inc. Pursuant to the Contractual Arrangements, the WFOE is able to effectively control the operating and financing decisions of X.D. Network Inc. and its PRC subsidiaries with restricted operation (collectively the “PRC Consolidated Affiliated Entities”) and receives substantially all the economic benefits generated by the PRC Consolidated Affiliated Entities. Accordingly, the PRC Consolidated Affiliated Entities are treated as controlled structured entities of the Company and consolidated by the Company.

### ***1.2.4 Restructuring of the non-restricted and/or non-prohibited operation***

To ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange of Hong Kong Limited, companies carried operations which are not subject to any foreign investment restrictions or prohibition were transferred to and controlled by the Company directly or indirectly.

On 27 March 2019, Xinxuan (Beijing) Network Technology Co., Ltd. (心炫 (北京) 網絡科技有限公司, “Xinxuan”) was incorporated in the PRC by X.D. Network Inc. and Hyunki Shen with 99% and 1% equity interests, respectively. On 15 May 2019, XD (HK) Limited, X.D. Network Inc. and Hyunki Shen entered into a share transfer agreement, pursuant to which XD (HK) Limited acquired the 100% equity interests in Xinxuan, and Xinxuan became a wholly owned subsidiary of XD (HK) Limited.

On 28 March 2019, X.D. Network Inc., Hyunki Shen and Xinxuan entered into a share transfer agreement, pursuant to which, Xinxuan acquired the 65% equity interests in Shanghai Longcheng Network Co., Ltd. (上海龍成網絡科技有限公司, “Longcheng”) from X.D. Network Inc.

The 100% equity interests of Xindong Korea Co. Ltd. and Xindong (Hong Kong) Company Limited were also transferred from X.D. Network Inc. to XD Holdings Limited.

## 2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

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

(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 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Conceptual Framework	Revised Conceptual Framework for Financial Reporting
IFRS 16 (amendments)	COVID-19 related rent concessions.
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS	Annual Improvements to IFRS Standards 2018–2020 Cycle

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 2020 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.

		<b>Effective for accounting year beginning on or after</b>
Amendments to IAS 28 and IFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — phase 2	1 January 2021
IAS 16 (amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
IAS 37 (amendments)	Onerous contract — cost of fulfilling a contract	1 January 2022
IAS 1 (amendments)	Classification of Liabilities as current and non-current	1 January 2023
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023

The Group has already commenced an assessment of the impact of these new or revised standards, and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

### 3 Segment information and revenue

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

#### *Game segment*

The game segment offers game publishing and operating services on its own and via other Distribution Channels. Revenues from the game segment are primarily derived from game publishing and operating services. The game segment also earns online marketing service revenue from in-game marketing and promotion services.

#### *Information service segment*

The information service segment offers online marketing services to game developers, game publishers or their agents. Revenues from the information service segment are primarily derived from performance-based online marketing services.

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

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

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

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

As at 31 December 2019 and 2020, 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 income statement.

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

	Year ended 31 December 2020		
	Information		
	Game segment <i>RMB'000</i>	service segment <i>RMB'000</i>	Total <i>RMB'000</i>
Game operating revenues			
— Online Games (free-to-play)	2,148,320	—	2,148,320
— Premium Games (pay-to-play)	143,670	—	143,670
<b>Subtotal</b>	<b>2,291,990</b>	<b>—</b>	<b>2,291,990</b>
Online marketing service revenue	36,044	514,490	550,534
Others	3,933	1,096	5,029
<b>Total revenues</b>	<b>2,331,967</b>	<b>515,586</b>	<b>2,847,553</b>
Cost of revenues	(1,240,906)	(74,619)	(1,315,525)
<b>Gross profit</b>	<b>1,091,061</b>	<b>440,967</b>	<b>1,532,028</b>
<b>Gross margin</b>	<b>47%</b>	<b>86%</b>	<b>54%</b>
	Year ended 31 December 2019		
	Information		
	Game segment <i>RMB'000</i>	service segment <i>RMB'000</i>	Total <i>RMB'000</i>
Game operating revenues			
— Online Games (free-to-play)	2,319,643	—	2,319,643
— Premium Games (pay-to-play)	55,664	—	55,664
<b>Subtotal</b>	<b>2,375,307</b>	<b>—</b>	<b>2,375,307</b>
Online marketing service revenue	—	459,019	459,019
Others	3,209	562	3,771
<b>Total revenues</b>	<b>2,378,516</b>	<b>459,581</b>	<b>2,838,097</b>
Cost of revenues	(1,013,780)	(52,540)	(1,066,320)
<b>Gross profit</b>	<b>1,364,736</b>	<b>407,041</b>	<b>1,771,777</b>
<b>Gross margin</b>	<b>57%</b>	<b>89%</b>	<b>62%</b>

Revenues of approximately RMB1,399 million and RMB1,060 million for the years ended 31 December 2019 and 2020, respectively, were from five largest single external customers.

The following table summarizes the percentage of revenue from two single customers individually exceeding 10% of the Group's revenue during the year ended 31 December 2019 and 2020, respectively.

	Year ended 31 December	
	2020	2019
<b>Game operating revenues</b>		
Customer A	14%	25%
<b>Information service revenue</b>		
Customer B	15%	12%

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the years ended 31 December 2019 and 2020, respectively:

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Service transferred overtime	1,506,594	1,502,595
Service transferred at a point of time	1,340,959	1,335,502
	<u>2,847,553</u>	<u>2,838,097</u>

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the years ended 31 December 2019 and 2020, respectively:

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Mainland China	999,578	860,664
Overseas (Note a)	1,292,412	1,514,643
<b>Total</b>	<u>2,291,990</u>	<u>2,375,307</u>

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

#### 4 Expenses by nature

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Employee benefits expenses	753,294	409,692
Promotion and advertising expenses	575,543	701,013
Sharing of proceeds to game developers	477,262	282,982
Commissions charged by Payment Channels and Distribution Channels	423,825	385,241
Bandwidth and server custody fee	192,817	186,257
Professional and technical services fee	115,991	110,374
Depreciation of property, plant and equipment and right-of-use assets	73,312	47,149
Amortization of intangible assets	68,311	60,650
Impairment of non-financial assets	30,833	15,860
Office expenses	27,013	21,334
Tax and surcharges	23,265	34,468
Rental expenses and utilities	13,541	8,664
Auditor's remuneration		
–Audit service	4,175	4,000
–Non-audit service	1,287	390
Net impairment losses on financial assets	1,624	1,889
Listing expenses (a)	—	53,549
Share based payments (b)	—	5,890
Others	5,872	4,196
<b>Total</b>	<b><u>2,787,965</u></b>	<b><u>2,333,598</u></b>

- (a) During the year ended 31 December 2019, listing expenses include auditor's remuneration of RMB6.3 million, of which RMB4.1 million was for IPO related audit service and RMB2.2 million was for IPO related non-audit service.
- (b) Pursuant to shareholder's resolution of X.D. Network Inc. dated on 18 February 2019, X.D. Network Inc. repurchased and cancelled 8,437,540 shares held by its certain then shareholders for an aggregate consideration of RMB92.30 million. The repurchase prices of shares were determined after arm's length negotiations among the parties based on the respective initial subscription and/or purchase prices of such shares or the average trading price of such shares for the 60 trading days preceding X.D. Network Inc. delisted from NEEQ, whichever is higher. The Group assessed and concluded that the repurchase consideration higher than the fair value of repurchased shares with amount of RMB5.89 million should be recognized as expenses to reflect the benefit received by X.D. Network Inc.'s then shareholders.

## 5 Other income

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Government subsidies	25,832	12,426
Others	334	–
<b>Total</b>	<b>26,166</b>	<b>12,426</b>

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

Certain subsidiaries of the Group received rent exemption of RMB0.33 million in 2020 due to Covid-19. The exemption did not result in substantive change to other terms or conditions of the lease. The Group applied the exemption and did not account for as lease modifications. The lease payment exempted was recognized in “Other income”.

## 6 Other gains/(losses), net

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Foreign exchange gain, net	2,785	1,510
Others	576	2,669
<b>Total</b>	<b>3,361</b>	<b>4,179</b>

## 7 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%.



### *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 2019 and 2020.

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 2019 and 2020.

Certain subsidiary is accredited as a “software enterprise” under the relevant PRC Laws and regulations. They are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the “tax holiday”).

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the years ended 31 December 2019 and 2020.

### *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. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

Since the Group intends to permanently reinvest earnings to further expand its businesses in PRC, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period. Cumulative undistributed earnings of the Company’s PRC subsidiaries intended to be permanently reinvested were RMB812 million as of 31 December 2020.

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB’000</b>	<b>RMB’000</b>
Current income tax	<b>57,194</b>	34,682
Deferred income tax	<b>(5,996)</b>	(2,686)
<b>Total income tax expenses</b>	<b><u>51,198</u></b>	<b><u>31,996</u></b>

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2019 and 2020, being the tax rate of the major subsidiaries of the Group.

The difference is analysed as follows:

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<b>106,986</b>	545,425
Tax calculated at statutory income tax rate of 25% in mainland China	<b>26,746</b>	136,356
Tax effects of:		
Effect of different tax rates available to different jurisdictions	<b>(9,764)</b>	(10,850)
Withholding tax on earnings expected to be remitted by subsidiaries	<b>19,926</b>	—
Preferential income tax rates applicable to subsidiaries	<b>1,349</b>	(79,613)
Expenses not deductible for income tax purposes	<b>1,069</b>	3,103
Super Deduction for research and development expenses	<b>(50,361)</b>	(25,471)
Utilization of previously unrecognized tax losses and temporary differences	—	(2,246)
Tax losses for which no deferred income tax assets were recognized	<b>60,880</b>	7,668
Temporary differences for which no deferred income tax assets were recognized, net	<b>1,353</b>	3,049
	<hr/>	<hr/>
<b>Total income tax expenses</b>	<b><u>51,198</u></b>	<b><u>31,996</u></b>

## 8 Earnings per share

For the purpose of computing basic and diluted earnings per share, ordinary shares issued in the Reorganization were assumed to have been issued and allotted from the beginning of the periods presented, as if the Company has been established by then. The weighted average number of ordinary shares for such purpose has been retrospectively adjusted.

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

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to equity holders of the Company (RMB'000)	<b>9,145</b>	346,563
Weighted average number of shares in issue (thousands)	<b>432,452</b>	355,232
	<hr/>	<hr/>
<b>Basic earnings per share (in RMB)</b>	<b><u>0.02</u></b>	<b><u>0.98</u></b>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from IPO over-allotment option (the “OAO”).

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
Profit attributable to equity holders of the Company (RMB'000)	<b>9,145</b>	346,563
Weighted average number of shares in issue (thousands)	<b>432,452</b>	355,232
Adjustments for OAO (thousands)	<b>13</b>	38
Weighted average number of shares for the calculation of diluted EPS	<b>432,465</b>	355,270
<b>Diluted earnings per share (in RMB)</b>	<b><u>0.02</u></b>	<b><u>0.98</u></b>

## 9 Trade receivables

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Distribution Channels and game publishers	<b>199,002</b>	304,616
Online marketing service customers	<b>104,170</b>	104,488
Related parties	<b>505</b>	505
	<b><u>303,677</u></b>	<b><u>409,609</u></b>
Less: allowance for impairment	<b><u>(4,516)</u></b>	<b><u>(3,466)</u></b>
	<b><u>299,161</u></b>	<b><u>406,143</u></b>

- (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:

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within 3 months	<b>290,207</b>	385,318
3 months to 6 months	<b>6,507</b>	15,451
6 months to 1 year	<b>2,779</b>	5,683
1 to 2 years	<b>2,074</b>	2,089
Over 2 years	<b>2,110</b>	1,068
	<b><u>303,677</u></b>	<b><u>409,609</u></b>

## 10 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
<b>Authorized</b>				
<b>As at 31 December 2020 and 2019</b>	<u>1,000,000</u>	<u>100</u>	<u>–</u>	<u>–</u>
<b>Issued and fully paid</b>				
Issuance of ordinary shares in relation to the Reorganisation of the Group (Note a)	351,921	35	240	4,750,933
Issuance of ordinary shares upon IPO (Note b)	<u>63,600</u>	<u>6</u>	<u>44</u>	<u>606,181</u>
<b>As at 31 December 2019</b>	<u>415,521</u>	<u>41</u>	<u>284</u>	<u>5,357,114</u>
As at 1 January 2020	415,521	41	284	5,357,114
Issuance of ordinary shares upon exercise of OAO (Note c)	4,060	–	3	36,669
Issuance of ordinary shares (Note d)	<u>26,094</u>	<u>3</u>	<u>19</u>	<u>701,761</u>
<b>As at 31 December 2020</b>	<u>445,675</u>	<u>44</u>	<u>306</u>	<u>6,095,544</u>

- (a) From 10 April 2019 to 17 June 2019, as part of the Reorganization, the Company allotted and issued an aggregate of 351,920,960 shares of USD0.0001 each share at par value to offshore holding companies which are beneficially owned by the equity owners of X.D. Network Inc. as at that date. Upon the completion of the Reorganization, the amount of RMB4,751 million other reserves have been transferred to share premium accordingly.
- (b) On 12 December 2019, upon its listing on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued 63,600,000 new ordinary shares at HKD11.10 per share, and raised gross proceeds of approximately HKD706 million (equivalent to RMB629 million). The net proceeds was approximately HKD680 million (equivalent to RMB606 million) after deducting listing expenses directly relating to the share issuance.
- (c) On 3 January 2020, following the full exercise of over-allotment option available upon its IPO, the Company issued 4,060,000 new ordinary shares at HKD11.10 per share and raised gross proceeds of approximately HKD45 million (equivalent to RMB40 million). The net proceeds was approximately HKD42 million (equivalent to RMB37 million) after deducting listing expenses directly relating to the share issuance.

- (d) On 3 July 2020, a total of 26,094,200 new shares were subscribed at HKD29.90 per share under a general mandate granted during IPO. The Company raised gross proceeds of approximately HKD777 million (equivalent to RMB711 million) and received net proceeds of approximately HKD767 million (equivalent to RMB700 million) from the subscription.

## 11 Trade payables

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<u><b>164,560</b></u>	<u>200,845</u>

Trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to game developers. The credit terms of trade payables granted to the Group are usually 0 to 90 days.

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

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	<b>162,478</b>	199,372
Over 3 months	<u><b>2,082</b></u>	<u>1,473</u>
	<u><b>164,560</b></u>	<u>200,845</u>

## 12 Dividends

No dividends have been paid or declared by the Company during the years ended 31 December 2019 and 2020.

On May 22 2020, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a subsidiary of the Group, a dividend of USD20 million was approved and paid, USD7 million (equivalent to RMB49 million) of which was paid to non-controlling shareholders.

## **OTHER INFORMATION**

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Save for the issuance of 26,094,200 ordinary shares on July 3, 2020 pursuant to the placing and subscription agreement dated June 23, 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2020.

### **FINAL DIVIDEND**

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2020.

### **ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS**

The Company will notify the shareholders on a later date about the date of the annual general meeting for the year ended December 31, 2020 of the Company and the corresponding arrangement for closure of register of members.

### **USE OF PROCEEDS FROM GLOBAL OFFERING AND TOP-UP PLACING**

The net proceeds received from the Company's global offering was approximately HK\$723.7 million, including the net proceeds received from the full exercise of the over-allotment option. As at December 31, 2020, the Group had utilized:

- approximately HK\$253.3 million, for developing our games and game-related technology and approximately HK\$0 remained unutilized;
- approximately HK\$217.0 million, for developing TapTap and approximately HK\$0 remained unutilized;
- approximately HK\$108.6 million, for expanding our game publishing and operating business and approximately HK\$0 remained unutilized;
- HK\$72.4 million, for selective and strategic investments and acquisition and approximately HK\$0 remained unutilized; and
- approximately HK\$23.9 million, for working capital and general corporate uses and approximately HK\$48.5 million remained unutilized.

The net proceeds received from the top-up placing was approximately HK\$767.33 million. As at December 31, 2020, the Group had utilized:

- approximately HK\$227.0 million, for further development of TapTap and approximately HK\$310.2 million remained unutilized; and
- approximately HK\$16.9 million, for working capital and general corporate purposes and approximately HK\$213.3 million remained unutilized;

The Company will use the remaining net proceeds in the next three years for the purposes disclosed above.

## **SUBSEQUENT EVENT**

There are no material subsequent events undertaken by the Group after December 31, 2020 and up to the date of this announcement.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

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

The Company has complied with all applicable code provisions of the CG Code during the year ended December 31, 2020, except for a deviation from code provision A.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as its code for dealing in securities in the Company by the Directors. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year ended December 31, 2020.

## **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 C.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, 2020 and confirmed that it has complied with all applicable accounting principles, standards and requirements, and made sufficient disclosures. The Audit Committee has also discussed the matters of audit and financial reporting.

## **AUDITOR'S PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT**

The figures in respect of the announcement of the Group's results for the year ended December 31, 2020 have been agreed by the Auditor to the amounts set out in the Group's audit consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

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

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

## **CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

The Company's principal place of business in Hong Kong has been changed to 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong with effect from March 25, 2021.



## DEFINITIONS

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

“ARPG”	action role-playing game, which incorporates elements of action or action-adventure games and normally has real-time combat system rather than turn-based or menu-based combat system;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Audit Committee”	the audit committee of the Company;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“Board”	the board of Directors of the Company;
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
“Company”	XD Inc. (心动有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 25, 2019, the shares of which are listed on the Stock Exchange under stock code 2400;
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Group”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“IFRS”	International Financial Reporting Standards, which include standards and interpretations as issued from time to time by the International Accounting Standards Board;

“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;
“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;
“MMORPG”	massively multiplayer online-role-playing games;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
“MPUs”	monthly paying users, which refers to the number of paying users in the relevant calendar month in our games
“PRC” or “China”	the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;
“Ragnarok M”	Ragnarok M: Eternal Love (仙境傳說：守護永恆的愛);
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;

“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 by XD (HK) Limited, an indirect wholly-owned company of our Company; and

“%”

Percentage.

By order of the Board

**XD Inc.**

**HUANG Yimeng**

*Chairman and Chief Executive Officer*

Shanghai, the PRC

March 25, 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.*