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

2019

ANNUAL REPORT 年度報告

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CORPORATE INFORMATION

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-executive Directors
Mr. Tong Weiliang
Mr. Chen Feng

Independent Non-executive Directors
Mr. Pei Dapeng
Mr. Xin Quandong
Mr. Gao Shaoxing

AUDIT COMMITTEE

Mr. Xin Quandong *(Chairman)*
Mr. Pei Dapeng
Mr. Gao Shaoxing

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Gao Shaoxing *(Chairman)*
Mr. Dai Yunjie
Mr. Xin Quandong

NOMINATION COMMITTEE

Mr. Pei Dapeng *(Chairman)*
Mr. Huang Yimeng
Mr. Gao Shaoxing

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Huang Yimeng *(Chairman)*
Mr. Dai Yunjie
Mr. Tong Weiliang
Mr. Chen Feng
Mr. Pei Dapeng

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang
Mr. Yim Lok Kwan

AUTHORIZED REPRESENTATIVES

Mr. Fan Shuyang
Mr. Yim Lok Kwan

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

Campbells Corporate Services Limited
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Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR

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Floor 4, Willow House, Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HONG KONG SHARE REGISTRAR

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Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

HONG KONG LEGAL ADVISER

Clifford Chance

COMPLIANCE ADVISER

Guotai Junan Capital Limited

PRINCIPAL BANKS

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

WEBSITE

www.xd.com

STOCK CODE

2400

02

CHAIRMAN'S LETTER

CHAIRMAN'S LETTER

Dear investors, stakeholders, and all the friends caring about us,

2019 is the first year after the Company listed on the Stock Exchange. I am pleased to take this opportunity to share the latest development of the Company with you in this annual report.

Last year, we proudly established our vision to impact each and every gamer by promoting the spirit of craftsmanship, and adhere to our corporate strategy of game development, publishing and platform development.

OUR VISION

Our vision "to Impact Each and Every Gamer by Promoting the Spirit of Craftsmanship" originates from our dream, as well as our knowledge of and belief in the future of this industry. As gamers, we started playing games when we were young. We love these entertaining games as they have offered us countless meaningful moments, and we cherish the craftsmen who have been constantly creating gaming masterpieces. Moreover, we firmly believe the creators and craftsmen in the game industry have also been advancing technological and cultural development in the world.

"Proudly earning rewards and remuneration from gamers through craftsmanship and techniques as a game developer" is the philosophy guiding us during the launch of RO. XD has been constantly striving to realize this philosophy over the years and by upholding the vision of "to Impact Each and Every Gamer by Promoting the Spirit of Craftsmanship", we are making greater efforts to attract more skillful craftsmen, offering them more opportunities for realizing their strengths, thereby earning higher respect and reward. The mission stated above not only applies to our in-house R&D but also covers the responsibilities of craftsmen and roles of gamers across the entire industry.

OUR STRATEGY

In a nutshell, our strategy is to offer the most premium and exclusive content for TapTap through game development and publishing, boost the growth of TapTap users with exclusive contents, retain users and generate income based on TapTap's strengths in product operation, and reward and encourage proprietary content creation and third parties content creation through TapTap to deliver more quality contents, so as to continuously boost the growth of TapTap.

Highlight of the advantages this strategy for our game development and publishing:

Before the launch of TapTap, our game development was based on the most simple and traditional business model. We invested in game development and promotion, generated certain revenues and then reinvested a portion of profit in the next game. This model is vulnerable and may quickly run into a vicious cycle if income is unable to cover the development and promotion expenses, even if there is concern of this kind, investment in development and promotion will be cut, resulting in less product competitiveness, and eventually leads to poorer market performance. This vulnerable business model poses as a direct threat to the success of a game.

The games we developed after the advent of TapTap bring us return which is remarkably different from the past. In addition to the income generated by the games, accumulation of game IP and growth of R&D teams, more importantly, the game exclusively launched on TapTap can attract more users for TapTap. The value of these users can be quantified, and the majority of them will be retained on TapTap, generating long-term income and creating value for us.

Given the additional return brought by the platform, our return on investment (ROI) of each game is substantially increased. As such, we are more willing to scale up our development investment for the improvement of product competitiveness and R&D capability. On the other hand, we are more willing to explore the genres that are not proved under the traditional business model, such as games with low initial ROI but huge market potential, or game products with great production challenges and required relatively longer time for optimization and cultivation. Such genres of product often boast a niche market with less competition but higher expectation from users.

Meanwhile, the accumulation of TapTap users can also provide significant assistance for our initiation, positioning and pre-publishing promotion to each game we developed and continuous help and support to our games under testing. TapTap's goal is not to use games as a tool for traffic monetization, but to develop games as exclusive content that sustainably drives user growth. Therefore, TapTap offers continuous support to quality games with potential without considering ROI based on income generated by games (either self-developed games or third party developed games).

Therefore, our game creation could leverage on the advantages of TapTap and obtained continuous support since the initiation of our project. The additional value created platform enables us to invest more resources in game development and make bold decisions on game initiation, which are the largest strengths for our game creation, laying a solid foundation for our mission "to impact each and every gamer by promoting the spirit of craftsmanship". Only if game development creates more revenue, can we better incentivize the game developers. Only if we have more freedom in game development, can we grant the craftman more space to create.

Strengths of this strategy brought to TapTap platform:

We established a free-to-distribute business model on the first day when TapTap was founded. We are certain that the future will be determined by the game creators. When selecting a game, the content itself is the key consideration to the gamers, rather than the platform or whether the game is recommended by the platform. Therefore, we must fully stand with game creators. We believe TapTap shall not share any profit from games but should put more resources to help and subsidize games instead.

Based on the same rationale, we are certain that the main driving force of TapTap will definitely be its exclusive content. In fact, it is not something novel. As for both the decades of competition among console game platforms and the race among video streaming platforms recently, it eventually enters the endgame of self-made content. By investing in self-developed games, we are capable of not only creating quality and exclusive contents sustainably but also improving our development capability and accumulating IPs. Meanwhile, we can deliver more returns as our self-developed games generate income itself and create extra value by bringing users to TapTap. As a result, we can make more investments in R&D to fully exert the strengths of XD as a game company with a decade history, and constantly offering quality and exclusive products for TapTap.

In addition to self-development, we actively partner with third-party companies and introduce top games into TapTap. TapTap does not request any revenue sharing from free-to-distribute model, instead TapTap willingly offers greatest support to game developers on operation, promotion and technical support. Ultimately, these actions benefit game developers and attract more contents and boost the long-term growth of TapTap.

GOALS FOR THE YEAR

An encouraging financial forecast for 2020 is expected by many stakeholders but we are sorry that we may not be in a position to promise.

With years of experience in this industry, we are certain that an accurate financial forecast is something what we are unable to render. Warren Buffett once said, "Charlie and I not only don't know today what our businesses will earn next year — we don't even know what they will earn next quarter. We are suspicious of those CEOs who regularly claim they do know the future— and we become downright incredulous if they consistently reach their declared targets".

Although we are unable to present figures to everyone, we will sincerely present our plans and goals.

TAPTAP'S GOALS FOR THE YEAR

The product modality of TapTap has never been changed substantially since its establishment. Based on our prior experience and thorough consideration over the future, we are going to make some significant adjustments this year:

1. Product and technology

(1) For the games recommended on the homepage of TapTap, we will introduce a deep learning-based recommendation algorithm, through which, games on the homepage will be recommended and ranked in view of habits and preference of different users and based on editor's recommendations and community ratings.

(2) TapTap community will embrace the most significant renovation, as we are going to integrate previous comment, forum, video, photo and other contents through a user-centric way, with an aim of encouraging active interaction between users and their friends, as well as users and games. With such social network, we can integrate and send messages to further improve the efficiency of collecting information, and the quality of the information.

(3) A global underlying framework will be introduce. We ceased the plan to develop an independent overseas version. We will redesign 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 design products will be able to support the global version platform.

2. Developer services and tools

TapTap never adopts the business model of charging commission from games, which aligns the long term interest of the platform, game developers and players. Furthermore, we plan to build a bridge between developers and players, so that game developers may use TapTap to publish games more easily and directly exchange and communicate with gamers. Thus, we will coordinate publishing and operation resources throughout the Group to provide more detailed and effective services to developers and facilitate them to publish games on TapTap. We will restructure the technology department which provided universal product services for games of XD into the developer service department of TapTap with an intention of rendering more technical tools and services for developers and lowering the difficulty and burden of game development. At the same time, we will launch more tools for developers to use in their development, and foster a connection between games and TapTap communities. These products will be firstly used in our self-developed games or licensed games, and will be delivered to third-party developers upon completion of testing.

We believe that all these adjustments will be completed within this year. We believe there will be an all-rounded improvement for all TapTap users and developers in terms of product experience.

EXISTING MAJOR GAME PRODUCTS

Ragnarok M

Ragnarok Online: Eternal Love ("仙境傳說RO:守護永恒的愛, "), launched three years ago and has been released in more than 50 countries and regions globally, and achieved great success. As of December 31, 2019, it has totally 33 million registered users and over 5 million monthly active users (MAUs), becoming one of the most popular mobile MMO games across the world. As of now, we deploy a team consisting of over 150 members to provide maintenance and support for RO. Also, we expect more input in the hope of building RO as a benchmark mobile MMO game to attract more new players and invigorating RO with a continuous quality content upgrade.

Sausage Man

Sausage Man (香腸派對) has been launched on the market for almost three years, during which both operating data and income maintain growth. It also serves as the best case study for the synergetic growing between our games and TapTap. We have established a model of stable content upgrade and monetization for Sausage Man. We believe that it will maintain stable growth with output improvement and content accumulation through continuous investment. Meanwhile, we will integrate player accounts, friendship and in-game community of both Sausage Man and TapTap this year to enhance their user experience.

MAJOR SELF-DEVELOPED GAMES DURING THE YEAR

With respect to self-developed games, we have eight R&D pipeline projects under different phases. Three games will be launched in this year, including those set out below.

Fantasy World (tentative name)

Fantasy World is a life simulation social game in which the player plays as a resident of a small town, and works, lives, socializes, dresses up and builds his own home. The project has been in on relatively small scale of the development phase for two years. At present, the basic framework has been completed and it has been tested on a small scale, which received highly positive feedback. The popular game Animal Crossing recently gives us a deeper understanding of games of this genre and a greater expectation for market share. We planned to invest more resources this year to push forward the R&D progress of the project and launch testing as soon as possible in order to upgrade and make growth for the game through the participation of players. The launch of Fantasy World is hopefully similar to that of Sausage Man three years ago. Instead of pursuing short-term income returns, we will gradually develop it as a big category with high DAU.

Project A (tentative name)

Project A, the largest game project invested by us since RO, has been prepared for more than a year and is a Japanese girl-style MMORPG. We aim to combine the high-quality content of an MMO with the ease of use and mild system of a card game. The game developed via UE4 engine is scheduled to be officially announced during ChinaJoy this year.

Torchlight: Infinity

Torchlight: Infinity (火炬之光：無限) is a dark themed mobile game we developed using UE4 engine under the license of the famous IP "Torchlight". It emphasizes the infinite match of equipments and skills and continuous competition season which brings players long-term game pursuit and fresh experience. We believe that dark themed game is an extensive genre, but there has been a lack of high-quality games on mobile phones. Leveraging on TapTap's strategic strengths, we won't turn the game into an MMO with microtransactions, but will increase the game's reputation and user scale through abundant and better contents.

Other Games

In addition, we have several pipeline projects, while the core gameplay of which has not been finished. There is a wide range of genres, such as casual and competitive games with high DAU expectation like Sausage Man, high-quality RPG games developed with UE4 engine, placement games developed by the RO: Idle Poring team, and pixel style SRPG. Despite the variety of genres, all of our games have one thing in common: they are unique style games driven by core gameplay with globalized themes. In the design of the monetization system, we prefer to earn gratuity from players by continuously offering abundant and playable content rather than adding up the microtransactions, to progressively and steadily cultivate users and create a positive and healthy cycle based on synergy with TapTap.

OUR GAME PUBLISHING BUSINESS

A directional optimization will be made in our mobile online game publishing business.

We are well positioned as a global publishing partner who is deeply involved in the initiation stage of a game project. Our value is to empower the game development and help it prosper and offer more support to our game partners by leveraging upon the strength of strategic synergy of TapTap.

Therefore, we will merge the domestic publishing team with the overseas publishing team and unify the XD Brand globally. XD will be directly responsible for the game publishing business worldwide.

Additionally, we will guadually optimize the original business model of publishing and promoting Chinese games to overseas markets. Looking ahead we will invest further more resources on the globalization of TapTap instead. We will eliminate the information gap in different markets around the world with TapTap and assist developers to use TapTap and our existing publishing and operating resources, to publish games through human resource investment, tool development and refined operation.

We are confident in the global competitiveness of Chinese game developers and look forward to going global together.

With regard to the publishing businesses of premium games, we will cooperate with high quality game developers more actively, provide them with more R&D funds and promotion resources, and introduce more quality exclusive games for TapTap.

The above is the basic description and direction of the Company's platform, R&D and publishing business for the year 2020. We have full confidence in our strategy and future despite the daunting challenge. The biggest challenge for us lies in the current business direction, which places higher requirements for our own R&D capability, operation ability and management capabilities. More resources must be invested in the cultivation, recruitment and management of talents, otherwise it is impossible to develop the games and platforms we desire.

Thanks to our confidence in the strategy logic and expectations about future growth, this year, we will lay more emphasis on the improvement of R&D capability instead of the increase in revenue, and the user growth rather than merely the rise in profits.

These decisions will exert influence on the revenue and profits of the Company this year, as well as the development and growth for years to come. Investors' judgment on the Company's value will also be affected, so we need to share our strategy with you.

As for the Company, we care about the long-term "value" of XD instead of merely the short-term "share price", and strive to ensure that all decisions are consistent with our long-term "value" growth. The most important responsibility of us is to disclose information to our investors as transparent as possible, regardless of the profit or loss on shares held by you next week, next month and next year.

Thank you for going through my lengthy statement. I hope these contents are helpful for you to gain a better understanding of XD and our insights, and make your independent investment judgment.

Looking forward to the next annual report.

HUANG Yimeng
Chairman
XD Inc.

03

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Our mission is to impact each and every gamer by promoting the spirit of craftsmanship.

We develop and operate quality games in China and Overseas. We also operate TapTap, a leading game community and platform in China. In 2019, we achieved growth in both our game and TapTap businesses.

Our Games

We have a diverse portfolio of games across different genres. As of December 31, 2019, our game portfolio consisted of 38 online games and 11 premium games.

Our Online Games

We focus on developing, publishing and operating online games. Our online games consist of mobile games and web games. Since 2012, we began to shift our business focus to mobile games. In 2019, 96.6% of online games operating revenue was derived from mobile games. As one of the pioneers of China-based game developers and operators that entered the overseas markets, we committed ourselves to introducing excellent games to more people across different countries and regions. In 2019, we have launched 11 new online games, such as LifeAfter (明日之後) in South Korea and Europe, Langrisser (夢幻模擬戰) in South Korea and Ulala (不休的烏拉拉) in China and more than 50 overseas countries and regions. In 2019, we also brought our existing games to more countries and regions, for example, Ragnarok M (仙境傳說) was successfully launched in North America, South America and Oceania in January 2019, in Japan in June 2019 and in Europe in October 2019. In terms of revenue contribution, Ragnarok M (仙境傳說), Ulala (不休的烏拉拉), Langrisser (夢幻模擬戰), Girls' Frontline (少女前線) and Heng Sao Qian Jun (橫掃千軍) were our top five games in 2019.

The following table sets forth average MAUs and MPUs of our online games for the years ended December 31, 2018 and 2019:

	For the year ended December 31		
	2019 (in thousands)	2018 (in thousands)	Change %
Average MAUs[(1)]	**19,579.4**	8,760.8	123.5
Average MPUs[(2)]	**720.5**	412.2	74.8

(1) Average MAUs 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) Average MPUs 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.

The increases in average MAUs and MPUs of our online games are primarily attributable to: (i) the average MAUs of Sausage Man (香腸派對) continued to grow in the year ended December 31, 2019 and the monetization of this game since February 2019, (ii) the successive launch of Ragnarok M in several overseas markets, and (iii) the successive launch of a number of new online games, such as Ulala (不休的烏拉拉) and Langrisser (夢幻模擬戰). The growth rate of average MPUs of our online games is smaller than the growth rate of average MAUs, primarily due to the Pay-Users-Rate of Sausage Man (香腸派對) is relative low at the start of its monetization.

We have invested and will continue to invest substantial resources in our in-house development capabilities. In 2019, our game Ragnarok M, which was jointly developed by GRAVITY CO., Ltd., The Dream Network Technology Co., Ltd. and us had achieved great success globally, which demonstrated our strong R&D capabilities. As of December 31, 2019, we had seven game development studios supported by a game development team of 620 employees, accounting for 50.2% of our total number of employees. In 2019, we invested more research and development resources in studying and developing new games and technologies, as well as the ongoing development, optimization and version updates of launched games. As of December 31, 2019, we had eight online game projects under development stage. We believe those new game projects are crucial to our future success.

Our Premium Games

Our premium games usually adopt pay-to-play mode, which means that gamers need to pay initial fees to purchase access to such games. We believe premium games further enrich our game portfolio and enhance our brand recognition among core gamers. Our premium games, such as ICEY (艾希) and Muse Dash (喵斯快跑), support various types of devices, including but not limited to mobile, PC and Switch, and enjoy international recognition and awards. As of December 31, 2019, we had sold over 3.0 million copies of ICEY (艾希) and over 1.4 million copies of Muse Dash (喵斯快跑) across all platforms globally.

TapTap

TapTap is a leading game community and platform in China. "TapTap" mobile app is available on both iOS and Android system, with the latter being the main gateway of TapTap's user traffic. Gamers can also visit www.taptap.com on PC.

Gamers and Activities

TapTap provides gamers with a vast and diverse library of mobile game resources, such as game information, game recommendation and downloadable games. It also offers gamers various social and community functions such as game review and rating and community forum. For the year ended December 31, 2019, TapTap mobile app had on average 17.9 million MAUs, increased by 19.6% on a year-on-year basis.

Gamers search and download games from TapTap. For the year ended December 31, 2019, games on TapTap had been downloaded 352.0 million times, increased by 36.8% on a year-on-year basis.

Gamers post reviews and ratings of games on TapTap, and share their game experience in TapTap's forum. The numbers of game reviews and forum posts increased from 7.3 million and 3.0 million, respectively, as of December 31, 2018 to 11.6 million and 6.5 million, respectively, as of December 31, 2019.

To strengthen our bond with gamers from online to offline, we held the first TapTap Carnival in Shanghai in April 2019.

Developers

TapTap serves as an open and convenient distribution platform for game developers. The number of registered developers increased from 7,662 as of December 31, 2018 to 11,006 as of December 31, 2019.

To extend and deep on our connection with game developers, we cooperate with them in offering game related merchandise on TapTap. For example, TapTap released the game-related merchandise in its collaboration with Arknights in September 2019.

Outlook

We believe the strong synergy between our games and TapTap not only brings us an unique advantage, but also empowers us with the key for our long-term success. Our diverse game portfolio has attracted a growing user base for TapTap who are passionate about discussing games and sharing gameplay experiences, while TapTap's game community allows us to better understand and meet gamers' needs for high-quality games and effectively follow market trends.

In 2020, our strategic focus is on enhancing our game development capabilities, further enriching our game portfolio and increasing active user base and engagement of TapTap.

Our Games

In 2020, we will continually improve our in-house development capabilities through increasing investment in information technology infrastructure, recruiting experienced and talented development personnel, and enhancing our expertise in visual designs and sound effects. We believe the substantial progress will be made in a number of our self-developed online game currently under development, for examples, Fantasy World (創想世界), a simulation game, Torchlight: Infinite (火炬之光：無限), an ARPG game, together with an innovative MMORPG game are expected to enter into beta-testing stage in the second half of 2020. Meanwhile, we are committed to make version updates for our existing games. For example, we plan to release an important updated version of Ragnarok M in the second half of 2020, in which we will significantly improve picture quality and add new game contents.

We have launched and will launch a number of new online games this year. For examples, we launched Lan Yan Qing Meng (藍顏清夢) in Hong Kong, Macau and Taiwan in January 2020, and will launch Arknights (明日方舟) in the same regions in the second or the third quarter of 2020.

Sausage Man (香腸派對), a battle arena game which we launched in China in April 2018 and started to monetize in February 2019, was experienced significant increases in both MAUs and revenue in the first quarter of 2020. We believe this game is still in the growth stage of its life cycle.

TapTap

In 2020, we intend to continually attract both gamers and developers to join the community of TapTap and further improve its engagement through the following measures:

— improving and upgrading the content recommendation algorithm of TapTap to more effectively capture and serve gamers' needs,

— enhancing the search function of TapTap to help gamers locate useful resources efficiently,

— strengthening its community function, such as adding more sub-forums, and implementing both online and offline marketing strategies to increase gamer engagement,

— providing more advanced developer tools on TapTap that facilitate game developers to better interact with gamers to improve their game experience,

— improving overseas version of TapTap with localized features to serve gamers and game developers globally, and

— seeking strategic investments in, and acquisitions of, business in China and overseas that can be synergistic to TapTap, including game studios, game publishers, game communities and distribution platforms.

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) information services where we generate revenue primarily from providing online marketing services on TapTap. The following table sets forth our revenues by line of business for the years ended December 31, 2019 and 2018.

	For the year ended December 31			
	2019		2018	
	Amount	**% of revenues**	Amount	% of revenues
	(RMB in thousands, except for percentages)			
Games	**2,378,516**	**83.8**	1,592,347	84.4
Game operating	**2,375,307**	**83.7**	1,588,115	84.2
Online games	**2,319,643**	**81.7**	1,544,485	81.8
Premium games	**55,664**	**2.0**	43,630	2.3
Others	**3,209**	**0.1**	4,232	0.2
Information services	**459,581**	**16.2**	294,761	15.6
Total revenues	**2,838,097**	**100.0**	1,887,108	100.0

Games

Our revenue from game business increased by 49.4% to RMB2,378.5 million for the year ended December 31, 2019 on a year-on-year basis. In particular,

— Our revenue from online games increased by 50.2% to RMB2,319.6 million for the year ended December 31, 2019 on a year-on-year basis, primarily due to solid performance of our popular existing games add newly launched games, such as (i) successive launches of Ragnarok M in Southeast Asia in October 2018, in North America, South America and Oceania in January 2019, in Japan in June 2019 and in Europe in October 2019, (ii) Ulala (不休的烏拉拉) launched in Hong Kong, Taiwan and Macau in May 2019, in more than 50 overseas countries and regions in September 2019, and in PRC in October 2019, and (iii) Langrisser (夢幻模擬戰) launched in South Korea in June 2019; and

— Our revenue from premium games increased by 27.6% to RMB55.7 million for the year ended December 31, 2019 on a year-on-year basis, primarily due to solid performance of Muse Dash (喵斯快跑) launched in China 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, 2018 and 2019.

	For the year ended December 31			
	2019		2018	
	Amount	**%**	Amount	%
	(RMB in thousands, except for percentages)			
Revenue recognized on a gross basis	**1,450,502**	**61.1**	1,100,627	69.3
Revenue recognized on a net basis	**924,805**	**38.9**	487,488	30.7
Total game operating revenues	**2,375,307**	**100.0**	1,588,115	100.0

During the years ended December 31, 2018 and 2019, as a percentage of the total game operating revenue, our game operating revenue recognized on a gross basis decreased and that recognized on a net basis increased, mainly as a results of the increased revenues from Ragnarok M in overseas markets, and Langrisser (夢幻模擬戰) in South Korea.

Information services

Our revenue from information service business increased by 55.9% to RMB459.6 million for the year ended December 31, 2019 on a year-on-year basis, primarily due to (i) TapTap mobile app had on average 17.9 million MAUs for the year ended December 31, 2019, increased by 19.6% on a year-on-year basis; and (ii) increased online marketing services to game developers after the suspension of the NAPP preapproval of domestic and foreign online games from April 2018 was lifted in December 2018.

Cost of Revenue

Our cost of revenue increased by 37.4% to RMB1,066.3 million for the year ended December 31, 2019 on a year-on-year basis. The following table sets forth our cost of revenues by line of business for the years ended December 31, 2019 and 2018.

	For the year ended December 31			
	2019		2018	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except for percentages)			
Games	**1,013,780**	**42.6**	740,911	46.5
Information services	**52,540**	**11.4**	35,398	12.0
Total	**1,066,320**	**37.6**	776,309	41.1

Our cost of revenue for game business primarily consists of commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers where we act as a principal, bandwidth and servers custody fee and employee benefits expenses. Our cost of revenue for information service 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, 2019 and 2018. The following table sets forth our cost of revenue by nature for the years ended December 31, 2019 and 2018.

	For the year ended December 31			
	2019		2018	
	Amount	**%**	Amount	%
	(RMB in thousands, except for percentages)			
Commissions charged by distribution platforms and payment channels	**385,241**	**36.1**	331,081	42.6
Sharing of proceeds to game developers	**282,982**	**26.6**	193,694	25.0
Bandwidth and servers custody fee	**184,549**	**17.3**	85,080	11.0
Amortization of intangible assets	**58,974**	**5.5**	42,540	5.4
Others	**154,574**	**14.5**	123,914	16.0
Total	**1,066,320**	**100.0**	776,309	100.0

Our cost of revenue for game business increased by 36.8% to RMB1,013.8 million on a year-on-year basis, primarily due to increases in (i) sharing of proceeds to game developers, which was mainly attributable to Ulala (不休的烏拉拉) and other licensed games newly launched in 2019, (ii) bandwidth and servers custody fee of RMB85.8 million, which was generally in line with our growth in game revenues, and (iii) commissions charged by distribution platforms and payment channels, which was generally in line with our growth in game revenues recognized on a gross basis.

Our cost of revenue for information service business increased by 48.4% to RMB52.5 million on a year-on-year basis, primarily due to an increase in bandwidth and servers custody fee of RMB13.7 million, 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 increased by 59.5% to RMB1,771.8 million in the year ended December 31, 2019 on a year-on-year basis. Our gross margin increased to 62.4% in the year ended December 31, 2019 from 58.9% in the same period of 2018, primarily due to (i) increases in our gross margins of game business from 53.5% in the year ended December 31, 2018 to 57.4% in the same period of 2019, as a result of the increase in the contribution from game operating revenue recognized on a net basis to total game operating revenue from 30.7% in the year ended December 31, 2018 to 38.9% in the same period of 2019, mainly arising from the solid performances of Ragnarok M in overseas markets and Langrisser (夢幻模擬戰) in South Korea, (ii) an increase in gross margin of information service business from 88.0% in the year ended December 31, 2018 to 88.6% in the same period of 2019, as our cost of operations remained relatively stable as our information service business expanded, and (iii) an increase in the contribution of revenue from our information service business to total revenue from 15.6% in the year ended December 31, 2018 to 16.2% in the same period of 2019, 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 increased by 66.3% to RMB745.1 million for the year ended December 31, 2019 on a year-on-year basis. This was primarily due to (i) increased marketing activities in relation to launch of new games such as LifeAfter (明日之後) in South Korea, Ulala (不休的烏拉拉) in China and overseas markets, Langrisser (夢幻模擬戰) in South Korea, and continued marketing activities of Ragnarok M in China and overseas markets, (ii) increased professional and technical service fees, mainly in relation to game-related animation production and voice acting, and (iii) continued marketing activities of TapTap to attract new users.

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 translation services for our games.

Our research and development expenses increased by 60.6% to RMB317.6 million for the year ended December 31, 2019 on a year-on-year basis. This was primarily due to an increase in the number of our research and development personnel from 550 as of December 31, 2018 to 806 as of December 31, 2019, increased levels of employee benefits, and an increase in expenses relating to professional and technical services during the years ended December 31, 2018 and 2019, as we continued to improve our research and development capabilities to enhance game quality and gameplay experience.

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) employee benefits expenses relating to our administrative employees, and (ii) depreciation of property, plant and equipment in connection with our office space in Shanghai and right-of-use assets pursuant to IFRS 16, (iii) professional and technical services, such as fees paid to audit and law firms, and (iv) office expenses incurred in the ordinary course of business.

Our general and administrative expenses increased by 88.9% to RMB202.7 million for the year ended December 31, 2019 on a year-on-year basis. This was primarily due to (i) one-off listing expenses, (ii) increased levels of employee benefits of our general and administrative personnel, (iii) one-off share based payments for stock repurchase, and (iv) increased depreciation of property, plant and equipment as our office spaces increased.

Income Tax Expenses

Our income tax expenses decreased by 12.8% to RMB32.0 million for the year ended December 31, 2019 on a year-on-year basis. Our effective income tax rate (calculated as income tax expense divided by profit before income tax) decreased to 5.9% for the year ended December 31, 2019 from 9.4% for the same period of 2018. This was primarily due to (i) the tax exemption entitlement received by Yiwan in late 2018, and (ii) the Super Deduction for research and development expenses.

Profit for the Year

Our profit for the year increased by 45.6% to RMB513.4 million for the year ended December 31, 2019 on a year-on-year basis. Our adjusted profit for the year increased by 61.1% to RMB572.0 million for the year ended December 31, 2019 on a year-on-year basis.

Profit for the Year attributable to Equity holders of the Company

Our profit for the year attributable to equity holders of the Company increased by 21.6% to RMB346.6 million for the year ended December 31, 2019 on a year-on-year basis. Our adjusted profit attributable to equity holders of the Company increased by 41.0% to RMB405.2 million for the year ended December 31, 2019 on a year-on-year basis.

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

Non-IFRS Measures

To supplement our consolidated financial information which is presented in accordance with IFRS, we set forth below our adjusted profit for the year and adjusted profit 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 one-off items, namely (i) listing expenses, and (ii) share-based payments. The following table reconciles our adjusted profit for the year and adjusted profit 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	
	2019	2018
	(RMB'000)	(RMB'000)
Profit for the year	**513,429**	352,721
Add:		
Listing expenses	**53,549**	2,415
Share-based payment	**5,890**	—
Less:		
Income tax effects	**(820)**	—
Adjusted profit for the year	**572,048**	355,136

	For the year ended December 31	
	2019	2018
	(RMB'000)	(RMB'000)
Profit attributable to the equity holders of the Company	**346,563**	285,028
Add:		
Listing expenses	**53,549**	2,415
Share-based payment	**5,890**	—
Less:		
Income tax effects	**(820)**	—
Adjusted profit attributable to the equity holders of the Company	**405,182**	287,443

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, 2019 and December 31, 2018 are as follows:

	As at December 31,	
	2019 (RMB'000)	2018 (RMB'000)
Cash and cash equivalents	**1,336,869**	573,233
Short-term investments	**497,363**	156,647
	1,834,232	729,880

Our short-term investments as at December 31, 2019 are primarily consisted of wealth management products issued by large reputable commercial banks. None of such investments constitute a significant investment of the Company on a standalone basis. These wealth management products invest principally in low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China. Neither the principal or returns of such wealth management products is guaranteed or protected by the issuing banks in general. The effective rate of return of these wealth management products are 2.00% to 4.00% and the term are 7 to 91 days.

The increase of our cash positions and short-term investments as at December 31, 2019 was primarily due to (i) net cash generated from operating activities of RMB860.8 million, and (ii) IPO proceeds of RMB629.3 million.

As of December 31, 2019, we did not have any borrowings or unutilized banking facilities.

Gearing Ratio

This ratio is calculated as total liabilities divided by total assets. As of December 31, 2019, our gearing ratio is 20.2%.

Significant Investments

For the year ended December 31, 2019, we did not have any significant investment.

Material acquisitions and Disposals of Subsidiaries, Associates and Joint ventures

For the year ended December 31, 2019, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Pledge of Assets

As of December 31, 2019, we did not pledge any of our assets.

Future Plans for Material Investments or Capital Assets

As of December 31, 2019, we did not have any plans for material investments and 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 dollar and Hong Kong dollar. We also pay licensing fees for foreign game developers and intellectual property providers, which are primarily in US dollars. In 2019, we did not adopt any long-term contracts, currency borrowings or other means to hedge our foreign currency exposure.

Contingent Liabilities

As of December 31, 2019, 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 38, is an executive Director, the Chairman of the Board and the Chief Executive Officer of our Company. Mr. Huang has over 13 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 37, is an executive Director and the President of our Company. Mr. Dai has over 13 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 has been the president of X.D. Network since July 2011. 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. Shen Sheng (沈晟), aged 42, is an executive Director and Chief Technology Officer of our Company. Mr. Shen has more than seven years of experience in games, telecommunications, technology and internet and is primarily responsible for the overall technological policies, product research and development and the establishment of technological platforms of our Group. Mr. Shen has been a director of X.D. Network since July 2011. Mr. Shen has served as an executive director of Shanghai Yuanzhi Investment Management Co., Ltd. (上海源志投資管理有限公司) since September 2014, the chairman of the board of directors of Shanghai Pinzhi Culture Communication Co., Ltd. (上海品志文化傳播有限公司) since October 2011, and the chairman of Shanghai Archer Information Technology Co., Ltd. (上海射手信息科技有限公司) since March 2010. Mr. Shen attended Shanghai Finance College in China from September 1995 to June 1998 studying International Finance.

Mr. Fan Shuyang (樊舒暘), aged 36, 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 twelve 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 Directors

Mr. Tong Weiliang (童瑋亮), aged 46, is a non-executive Director of our Company. Mr. Tong has extensive experience in investment and technology industries. Mr. Tong has also served as a director of X.D. Network since May 2015. He founded Beijing Tonghang Investment Management Co., Ltd. (北京桐行投資管理有限公司) in October 2013. He founded Phoenix Tree Capital Partners (天津金梧桐投資管理合夥企業(有限合夥)) in December 2014 and currently serves as the founding partner. Before that, Mr. Tong was a partner of Beijing Gebi Investment Advisory Co., Ltd. (北京戈壁投資諮詢有限公司) and its related companies and Beijing Zhitong Wuxian Technology Co., Ltd. (北京智通無限科技有限公司) and its related companies from January 2011 to September 2013 and December 2005 to December 2010, respectively. Mr. Tong obtained his college's degree in computer applications from Jinling Institute of Technology (金陵科技學院) in September 1993 and MBA from Concordia University Wisconsin in the United States in September 2011.

Mr. Chen Feng (陳豐), aged 47, is a non-executive Director of our Company. Mr. Chen has extensive industry experience in the telecommunications and games industries. Mr. Chen has been a director of Tap Media Inc. and Chinese ABC Inc. since November 2014 and September 2017, respectively. Mr. Chen has been an executive director and a senior vice president of IGG Inc. (a company listed on the Main Board of the Stock Exchange (Stock Code: 799)) since June 2016 and May 2014, respectively, where he is responsible for strategic investment business. Before that, Mr. Chen served as a senior vice president of 91.com from March 2011 to March 2014, a senior vice president of NetDragon Websoft Inc. (a company listed on the Main Board of the Stock Exchange (Stock Code: 777)) from May 2002 to June 2007. Mr. Chen obtained his bachelor's degree and master's degree in electronic engineering from University of California Los Angeles in the United States in June 1993 and June 1995, respectively.

Independent non-executive Directors

Mr. Pei Dapeng (裴大鵬), aged 42, 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 and 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 and 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 46, 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.

Mr. Gao Shaoxing (高少星), aged 41, is our independent non-executive Director. Mr. Gao also serves as an independent director of X.D. Network since October 2017. Mr. Gao has extensive industry experience in investment and network technology. In addition to his positions in our Group, Mr. Gao has been the general manager of Beijing iDremo Technology Co., Ltd. (北京卓萌科技有限公司) and Beijing Mengbao Technology Co. Ltd. (北京萌寶科技有限公司) since November 2013 and May 2015. Before that, Mr. Gao served as the managing director of Beijing Shunwei Capital Investment Consulting Co., Ltd. (北京順為資本投資諮詢有限公司) from April 2012 to July 2014. Mr. Gao graduated from Xi'an No. 83 High School in China in July 1997.

SENIOR MANAGEMENT

For biographical details of Mr. Huang Yimeng, Mr. Dai Yunjie, Mr. Shen Sheng 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 34, 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 10 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 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. Saved as disclosed in this annual report, the Company has complied with all applicable code provisions of the CG Code since the listing of the Company on December 12, 2019 to December 31, 2019, the Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

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 executives. The Board has established four committees and has delegated to the audit committee, the remuneration and appraisal committee, the strategy and development committee and the nomination committee (collectively, the "Board Committees") various duties. All the Board Committees perform their distinct roles in accordance with their respective terms of reference.

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. Shen Sheng
Mr. Fan Shuyang

Non-executive Directors
Mr. Tong Weiliang
Mr. Chen Feng

Independent Non-executive Directors
Mr. Pei Dapeng
Mr. Xin Quandong
Mr. Gao Shaoxing

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 "Directors and Senior Management" in this annual report.

Chairman and Chief Executive Officer

Under code provision A.2.1 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 four executive directors (including Mr. Huang Yimeng), two non-executive directors and four 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 judgement 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, 2019, 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 the Company considers such Directors to be independent from the Listing Date to December 31, 2019.

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, 2019, 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, 2019:

Name of Director	Attending Training Courses	Reading Legal and Regulatory Updates and other Reference Materials
Executive Directors		
Mr. Huang Yimeng	√	√
Mr. Dai Yunjie	√	√
Mr. Shen Sheng	√	√
Mr. Fan Shuyang	√	√
Non-executive Directors		
Mr. Tong Weiliang	√	√
Mr. Chen Feng	√	√
Independent Non-executive Directors		
Mr. Pei Dapeng	√	√
Mr. Xin Quandong	√	√
Mr. Gao Shaoxing	√	√

BOARD DIVERSITY POLICY

We have adopted a diversity policy of the Board which sets out the objective 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 our Board, our Board has a balanced mix of knowledge, skills and experiences, including experiences in games, technology, internet, investment, accounting and financial markets. Our Directors have a diverse education background including business administration, accounting, automation engineering, electric engineering, computer applications, international finance, informatics.

We recognize that the gender diversity at the Board level can be improved given its current composition of all male Directors. Our nomination committee will use its best efforts to, within three years from the Listing Date, identify and recommend at least one female candidate to the Board for its consideration to appoint as a Director. While we recognize that any Board appointment will be based on meritocracy and candidates will be considered against objective criteria having due regard for the benefits of diversity on the Board, we will strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommendation best practices, with the ultimate goal of bringing our Board to gender parity. 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.

Our nomination committee is delegated by our 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 A.1.1 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.

As the Company was listed on December 12, 2019, the Board did not have any matters to discuss during the period from Listing Date to December 31, 2019, which is less than one month, and no Board meeting or general meeting of the Company was held during the year ended December 31, 2019. The Company will fully comply with the requirement under the code provision A.1.1 of the CG Code to convene Board meetings at least four times a year at approximately quarterly intervals.

On March 30, 2020, a Board meeting was held, to consider and approve, among other things, the consolidated financial statements in this annual report.

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.

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.

Audit Committee

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

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; and 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, half-year reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained therein. 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; and

r) conducting any other matters related to the Audit Committee in accordance with the instructions from the Board from time to time.

The Audit Committee did not hold any meetings during the year ended December 31, 2019.

On March 30, 2020, the Audit Committee has held a meeting which was also with the presence of the external auditor. During the said meeting, the following major tasks were performed:

a. reviewed and had discussion on the annual consolidated financial statements for the year ended December 31, 2019, annual results announcements and this annual report, the related accounting principles and practices adopted by the Group and the relevant audit findings;

b. reviewed and had discussion on the risk management and the effectiveness of the Group's internal control systems for the year ended December 31, 2019; and

c. had discussion and recommendation on the 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 Mr. Gao Shaoxing (Chairman) 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 find, 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; and

j) reviewing the Group's policy on expense reimbursements for the Directors and Senior Management.

The Remuneration and Appraisal Committee did not hold any meetings during the year ended December 31, 2019.

On March 30, 2020, the Remuneration and Appraisal Committee has held a meeting to review the Group's remuneration policy and the remuneration package of the executive Directors and senior management for the reporting period.

Strategy and Development Committee

The Strategy and Development Committee consists of two executive Directors, namely Mr. Huang Yimeng (Chairman) and Mr. Dai Yunjie, two non-executive Directors, namely Mr. Tong Weiliang and Mr. Chen Feng 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.

The Strategy and Development Committee did not hold any meetings during the year ended December 31, 2019.

On March 30, 2020, the Strategy and Development Committee has held a meeting to discuss on the long-term development strategies, major financing plans and other strategic issues of the Company.

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 Mr. Gao Shaoxing.

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.

The Nomination Committee did not hold any meetings during the year ended December 31, 2019.

On March 30, 2020 the Nomination Committee has held a meeting. During the said meeting, the Nomination Committee has mainly performed the following duties:

(a) reviewed the annual confirmations of independence submitted by the independent non-executive Directors and assessed their independence;

(b) reviewed the structure, size and composition of the Board during the reporting period and whether the composition of the Board complied with the requirements of the Board Diversity Policy; and

(c) reviewed the background of the retiring Directors and determined whether the retiring Directors continues to meet the criteria to be re-elected at the forthcoming Annual General Meeting and made recommendations to the Board on the re-election of retiring Directors.

Nomination Policy for Directorship

In light of Article 16 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 these Articles and the Companies Law, 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 these Articles 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 (if applicable) professional qualifications, 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 (f) 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 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 A.5.5 of Appendix 14 to the Listing Rules 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 of the Company.

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 the compliance with applicable laws, regulations and policies. The Board acknowledges that it is its responsibility to ensure that 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.

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, 2019.

Business Risk

The Group conducts business globally and faces business risks includes reputation risks, investment and acquisition risks, taxation risks and corporate responsibility and sustainability 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 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 of directors (the "Board") of the Company and subject to the Company's 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, 2019, the fee paid/payable to the external auditor of the Company in respect of audit services and non-audit services is set out as follows:

PricewaterhouseCoopers	Thousand HKD
Assurance service — IPO	4,656
Assurance service — annual report	4,543
Non-assurance service	2,942
Total	12,141

COMPLIANCE WITH THE 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 compliance with the required standard set out in the Model Code since the listing of the Company on December 12, 2019 to December 31, 2019.

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang and Mr. Yim Lok Kwan 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 at the Company is Mr. Fan Shuyang, the executive Director and joint company secretary of the Company.

For the year ended December 31, 2019, Mr. Fan Shuyang and Mr. Yim Lok Kwan 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 be convened on the requisition of two or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within three months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) 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, No. 700 Wanrong Road, Shanghai, China or 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong
(For the attention of the Board of Directors/Company Secretary)
Email: ir@xindong.com

CONSTITUTIONAL DOCUMENTS

The Company adopted amended and restated memorandum and articles of association on November 19, 2019, which has been effective from the Listing Date. During the period from the Listing Date to the date of this annual report, there has not been any change to the said amended and restated memorandum and articles of association.

06

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental, Social and Governance Report

ABOUT THIS REPORT

XD Inc. hereby issues the 2019 Environmental, Social and Governance ("ESG") Report of the Company and its subsidiaries (hereinafter collectively the "Group" or "we"), to demonstrate the Group's concept and practice for sustainable development and social responsibility to its stakeholders from both environmental and social areas.

For detailed corporate governance related information of the Group, please refer to the Corporate Governance Report of the year.

Reporting Scope

This report covers the Company and its subsidiaries, including the Group's main business (game development and operation, game distribution, game community and platform information service, etc.). The reporting period for this report is from January 1, 2019 to December 31, 2019 ("the reporting period"). The environmental KPIs in this report mainly cover the office area of Shanghai headquarters of the Group.

Reference and Principles

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited*. This report is in compliance with the disclosure requirement of "comply or explain", and inapplicable disclosure rules have been interpreted. This report is prepared in accordance with the following Reporting Principles:

- **Materiality:** The Group determines material ESG issues by stakeholder engagement and materiality assessment which is disclosed in this report;
- **Quantitative:** Information on the standards, methodologies and source of conversion factors used for the reporting of emission and energy consumption is disclosed in this report;
- **Consistency:** This report is the first ESG report disclosed by the Group. The reporting methods and key performance indicators of the report are determined and will be consistent with this reporting period in the following years.

GOVERNANCE

ESG Strategy

We are fully aware of the importance of improving our environmental and social benefits for the sustainable operation of the Group and incorporates ESG risks and opportunities into our business strategy. The Group established an effective and sound ESG management system. The Board of Directors of the Group (the "Board") is the highest decision-maker of ESG management in the Group. The Board oversees the Group's ESG issues and takes full responsibility for the Group's ESG strategy and reporting. The Board develops ESG management approach and strategy including evaluating, prioritizing, and managing material ESG-related issues and their risks to the Group' business. The Board regularly reviews the Group's ESG performance and approves the Group's annual ESG report.

The management of the Group arranges the work of ESG working group based on the ESG management approach and strategy established by the Board. The management reports ESG-related risks and opportunities to the Board, and provides the Board with the annual ESG performance and annual ESG report of the Group.

The Group established the ESG working group to comprehensively carry out ESG work. The ESG working group involves the head of each department, and designated special staff to carry out daily ESG work and prepare annual ESG report. The ESG working group reports to the management on the daily ESG performance and the progress of annual ESG report.

Stakeholders Engagement

The Group actively communicates with core stakeholders and establishes a diverse and smooth communication channel to learn the opinions and suggestions from stakeholders on the Group's sustainable development performance and development strategy. The stakeholders of the Group include government and regulators, shareholders, players, employees, communities and environment, etc.

Stakeholder	Expectations and requirements	Communication channels
Government and regulators	• Implementing the policies and regulatory rules of the government • Operating by the law • Paying tax according to the law • Advocating employment	• Daily management • Work meeting • Supervision and inspection
Shareholders	• Earning returns on investment • The status of the development of corporate business • Corporate governance • Risk management and control	• General meetings • Annual reports, interim reports and announcements • Investor relation activities • Company website
Players	• Providing high quality games and services • Privacy protection • Anti-cheating and fair gaming	• Customer service online communication • Improvement in client complaint response mechanism • Social media communication
Employees	• Salaries and welfare • Healthy and safe working environment • Fair opportunity for promotion and development	• Sound compensation management • Smooth internal communication channel • Complete staff training system • Healthy and safe working environment
Communities	• Enhancing public benefit • Facilitating the harmonious development of the community	• Participating in social charity
Environment	• Reduce emissions • Energy conservation	• Waste classification • Green office

Materiality Assessment

In accordance with the ESG Reporting Guide, we constructed a materiality assessment model to screen and assess issues that have significant impacts on the Group and stakeholders, and made key disclosures and responses in this report.

	Environment	Employee	Operation
Material issues		• Development and training • Employee rights and interests • Health and safety	• Healthy gaming • Player communication • Information security and privacy protection • Compliance operation • Supplier management
Related issues	• Resource management • Emission management	• Labour standards	• Anti-corruption • Public benefit activities

OPERATION

Healthy Gaming

The Group strictly complies with the *Interim Measures for the Administration of Online Games,* the *Interim Provisions on the Administration of Internet Culture*, the *Notice of the Ministry of Culture on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation* and other laws and regulations. We established a fully-fledged game anti-addiction system to promote our healthy online game culture and to protect the physical and mental health of players, while we provide series of high quality game products.

For our game products, we adopts the following measures to protect the physical and mental health of the under-age players from being harmed:

- All users are required to complete real-name registration. The gaming time set for each user under the guest experience mode is limited to one hour every 15 days;
- A gaming time recording mechanism is in place. It limits the gaming time for underage players to 3 hours on holidays and 1.5 hours on other days. It also denies their access to our games from 10 p.m. to 8 a.m. the next day;
- The charging system is restricted for the underage users. It limits the amount of one-time payment and total payment for one month.

Player Communication

In accordance with the laws and regulations such as the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, etc., the Group formulated and implemented policies such as the *Processes for Customer Service Complaints and the Operational Specifications on Satisfaction Survey*. We listen to the players' demands, and collect their opinions in a timely manner to better fulfil the promise to players and protect the legitimate rights and interests of consumers.

We attach great importance to the players' gaming experience and thus built a specialised customer service team to provide multilingual customer services. Our players can obtain our customer service and technical support through online messaging tools, online forums, customer service hotline, email and our 24/7 game customer service system.

Our customer service representatives are responsible for receiving, recording and managing complaints, summarising the contents of complaints (such as charging, server exception and punishment dissatisfaction) in a timely manner, and coordinating with relevant departments to handle these complaints. A specialist is assigned to coordinate with the users about the solution, follow up the handling results, and conduct after-sales feedback collection and satisfaction survey after the complaints are resolved, and regularly analyses the statistical complaint data to improve our service quality. In 2019, we collected a total of 80,998 players' comments through various channels, and the customer satisfaction degree reached 99.64%.

Information Security and Privacy Protection

The Group strictly complies with the *Cybersecurity Law of the People's Republic of China*, the *Provisions on Protection of Personal Information of Telecommunications and Internet Users*, the *Administrative Measures for Internet Information Services* and other laws and regulations. We formulated the *Information Security Policy*, the *Regulations on Management of Data Backup* and other internal policies to continuously improve the information security, strengthen the network information security capabilities and reduce the risk of information leakage and loss. In addition, the Group also issued the Privacy Policy and other policies, defining the collection scope and use rules of user information, rules for disclosure of users' personal information, user information protection measures, etc., to protect the user privacy from being violated.

In line with the information security policy of "putting safety first, focusing on comprehensive prevention, and making continuous improvement", the Group protects user information through establishing network and information security teams, disaster recovery, firewall equipment, data access authentication and authority management, etc. Our data centre conforms to the *Code for Design of Electronic Information System Room (GB50174–2008 and Code for Construction and Acceptance of Electronic Information System Room (GB50462–2008)*. Special personnel is assigned to be responsible for the daily maintenance, monitoring, alarm and fault handling of the data centre. The users' information is protected from the perspective of hardware and facilities.

Besides, in order to protect customers' information from disclosure and abuse, the Group signed non-disclosure agreements with our partners and employees, and regularly organises employees to participate in information security trainings to raise their awareness of information security, so as to improve security skills and define the information security accountability.

Compliance Operation

Advertising management

In accordance with the requirements of laws and regulations such as the *Advertising Law of the People's Republic of China and the Interim Measures for the Administration of Internet Advertising*, the Group formulated the Advertisement Management Policy to strictly control the release of marketing information through the Internet, newspapers, media and other channels, and thus ensure the compliance of publicity, promotion and advertising releases.

The legal department and public relations department of the Group regularly carries out seminars or marketing trainings for colleagues in marketing department and colleagues in charge of advertising content through WeChat and other channels to ensure the legal compliance of the released publicity content, and to prevent our publicity materials from containing content that may deceive or mislead consumers, so as to effectively protect the rights and interests of users. The daily advertising materials are reviewed by the marketing department, and the uncertain contents such as trivia and miscellaneous doubts are finally reviewed by the legal department and the public relations department before being released to the public. If any third-party partner needs to place advertisements on the Group's "TapTap" and other platforms, the marketing department reviews its relevant qualifications, including business license, product ownership relationship certificate, software copyright certificate, game edition number and others that prove the legitimate authorisation of the products, and then release them on our platforms after confirmation. Based on the nature of our business, product labelling is not applicable to the Group.

Intellectual property rights

The Group strictly complies with 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 People's Republic of China,* the *Measures for the Administration of Internet Domain Names of China*, the *Administrative Measures for Software Products* and other laws and regulations. We formulated the Intellectual Property Management Policy to regulate the intellectual property management, respect the intellectual achievements of our employees, and protect the legitimate rights and interests of the Company and our employees.

The legal department of the Group is responsible for intellectual property management. It is responsible for protecting intellectual property, handling intellectual property-related legal affairs, and regularly organising intellectual property trainings to enhance employees' awareness of intellectual property protection. The Group also requires each subordinate department of subsidiaries to appoint an employee to serve as the intellectual property liaison officer, who is responsible for collecting and reporting the intellectual property information of each department, giving feedback and suggestions on their intellectual property work, and implementing intellectual property protection work jointly with the legal department.

In addition, we also have signed non-disclosure agreements with our employees and business partners to ensure the security of our intellectual property. We take measures to prevent infringement of the intellectual property rights of third parties, and conduct frequent monitoring and review. If any potential infringement risk is found, the legal department will set up an urgent working team to investigate the potential infringement, and cease the infringement activities against third parties through legal actions, while protecting the legitimate rights and interests of the Group.

As of December 31, 2019, the Group had a total of 363 trademarks, 11 patents, 105 software copyrights and 124 registered artwork copyrights.

Anti-corruption

In accordance with the *Anti-Money Laundering Law of the People's Republic of China*, the *Interim Provisions on Banning Commercial Bribery*, the *Anti-Unfair Competition Law of the People's Republic of China* and other laws and regulations, the Group formulated policies such as the *Measures and Policy on Anti-money Laundering and Anti-terrorist and the Anti-fraud Procedures and Control Manual* to prohibit bribery, extortion, fraud, money laundering, etc. The Group also, based on the *Employee Handbook*, requires our employees not to solicit or accept any benefits from customers or related parties under any circumstance, and forbids our employees to take kickbacks and commissions, embezzle funds, etc. In addition, in order to eliminate the possible money-laundering risks caused by offline transactions of virtual goods, the Group does not set up functions such as exchange of game currency, props and account number for cash, and cash return in all game products operated by the Group.

The audit committee of the Group provides a unified whistle-blowing e-mail (accusation@xindong.com) to accept complaints or reports about any alleged corruption and violation of the Company's interests. The Group investigates and handles the complaints received, and according to the severity, punishes the relevant responsible persons or hands them over to the judicial organs. Furthermore, the Group holds at least one staff integrity education and training activity every year to build staff's awareness of anti-corruption.

Supplier Management

Our major suppliers include game developers and distribution platforms. We have a standard supplier management mechanism, prefer to work with socially responsible and sustainable partners, improve environmental and social performance with suppliers, so as to manage environmental and social risks in the supply chain.

Our suppliers also include those engaged in administrative management, game development, art outsourcing, advertising, electronic equipment, decoration and property management. We formulated some internal policies such as the *General Materials Procurement Policy*, the *Procurement and Warehousing Management Policy*, and the *Arts Suppliers Management Policy*, which regulate the whole life-cycle management process for various suppliers from selection, access, evaluation to exit. In the process of selection and pre-engagement review of suppliers, we comprehensively evaluate their operation condition, business capability, quotation, management level and quality. At the end of each year, we also evaluate the products and services delivered by the suppliers. If the evaluation results are not satisfactory, we will communicate with the suppliers to assist them in correction and improvement, and monitor their progress, so as to promote our win-win cooperation.

Public Benefit Activities

The Group formulated the *Management Measures on Charity and Public Benefit Activities*, and actively participates in various public welfare activities to make contributions to society.

During the reporting period, we donated a total of RMB14,273 to society. Our charity practices are as follows:

On January 18, 2019, acting upon the government's "joint charity donation" activity, we donated to the Shanghai Charity Foundation Jing'an District Branch;

On June 14, 2019, in order to cope with the high temperature in summer, we donated 50 sets of anti-heat articles to the staffs of the children's welfare home — Home of Babies;

On September 9, 2019, we donated to the non-profit organisation — Shanghai QingCongquan Training Centre for Children with Special Needs through Tencent platform to support the 99 Giving Day.

Donation to children's welfare home — Home of Babies

EMPLOYEES

Development and Training

With the mission of "creating growth opportunities for employees", the Group developed the *Training Management Policy*, and provides training and development opportunities for all employees to help them maximise their potential. The human resources department of the Group makes training plans and organises employees to participate in 6 types of training courses covering general skills, technology, arts, application, planning and management, so as to help them improve their professional skills and comprehensive working capabilities. In 2019, we held 46 training sessions with a total training time of 114.5 hours.

The topics of our training programmes include:

- ✓ **New employee orientation:** We carried out this training when new employees join the Company. The main contents include the Company's history, corporate culture, responsibilities of each department, training mechanism, promotion system, product introduction. It helps new employees understand the Company and quickly integrate into the working atmosphere.

- ✓ **Action sharing session:** We that invite industry experts, scholars or senior mentors from external training institutions to carry out special trainings, so as to improve employees' skills and comprehensive capabilities.

- ✓ **Technical staff training series:** We regularly carry out themed trainings, experience sharing, seminars, etc., including technical modules such as engine, rendering and optimization, to enhance the professional capabilities in research and development of technical staff.

- ✓ **Management efficiency improvement training:** We carry out special training for the management, which deepens management personnel's understanding of corporate culture, hones their management skills, sharpens their communication skills, and thus raises management efficiency;

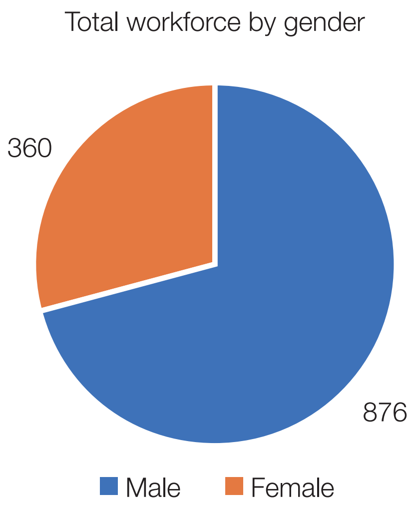
- ✓ **External training:** We organise our employees to participate in external trainings and studies, which equip employees with professional knowledge and skills relating to their duties and shares the most cutting-edge developments in the industry.

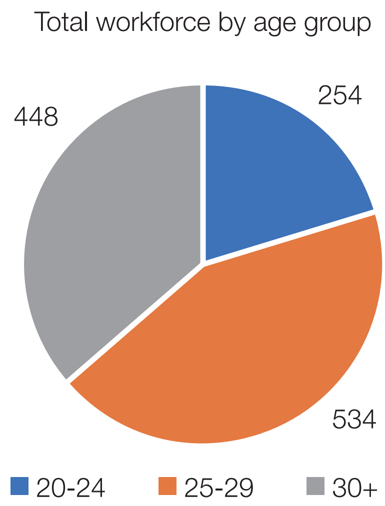
In addition, we have an internal mechanism in place for the selection, training, certification, rating, and incentive of internal trainers. We explore the internal training resources within the Group and encourage employees to share and communicate with each other in the Company as part-time trainers. This is conducive to the accumulation, sharing, and spread of knowledge within the Company, thus upskilling the workforce.

Employees' Rights and Interests

The Group strictly complies with laws and regulations such as the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China*, the *Employment Promotion Law of the Peoples Republic of China*, and the *Contract Law of the People's Republic of China*, etc. We constantly improve our talent management, and established a sound human resource management system, which provide detailed regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

As of December 31, 2019, the Group had 1,236 employees. Details are shown as below:





Recruitment and dismissal

We formulated the *Recruitment Management Policy* and adhere to the principle of "fair competition, selecting the best candidates; considering both current development and long-term needs", taking into account whether the ability of a candidate (such as industry knowledge and professional skills) fits the job, as well as whether the candidate's behaviour and comprehensive quality are consistent with the Company's culture and value. We guarantee open and fair recruitment. In order to satisfy the need for development, we effectively gather talents by selecting talents through traditional recruitment platforms, social media platforms, potential candidate/talent bank maintenance, internal/HR recommendation, targeted recruitment from peer companies, head-hunting, etc.

We enter into a *Labour Contract* with regular employees. Both the Labour Contract and the Staff Manual clearly state the conditions and procedures for termination of the contract. Arbitrary dismissal of employees is prohibited.

Compensation, benefits and promotion

We have a fair, reasonable and market-competitive compensation system to ensure that every employee receives the compensation and bonus that he or she deserves. Employee compensation consists of basic salary, monthly subsidy, performance bonus and year-end bonus. In addition to contributing to social security schemes such as pensions, medical, maternity, work injury, unemployment insurance and housing funds, we also buy commercial insurance for employees, together with additional subsidies such as marriage and parental benefits. We regularly evaluate the performance of employees, and raise salaries of outstanding employees according to the Company's operating conditions, labour market and other factors.

Based on the features of the game industry and the nature of work, we have set up management sequence, product/technology/creativity sequence, marketing/operational/functional sequence and set different levels in each sequence. We also established promotion paths, including a professional path and a management path. In addition, if a senior specialist turns to the management path and finally finds that he or she lacks capability in management, he or she can return to the professional path, which gives employees the opportunity of "trial and error" to explore their career, in order to fully tap employees' potential and help employees realise their personal ambitions.

Working hours and rest periods

According to the *Staff Manual*, the Group implements a standard working hour policy. The working time is 5 days a week, 8 hours a day, and 40 hours a week. Subject to the approval of relevant authorities, we also implement a comprehensive working hour policy or irregular working hour policy for certain positions in accordance with relevant national and local regulations. As required by national and local laws and regulations, employees are entitled to statutory paid holidays every year, as well as sick leave, wedding leave, maternity leave, paternity leave, funeral leave, leave for personal affairs, etc.

Equal opportunity, diversity and anti-discrimination

The Group upholds equal and fair employment. Discrimination on grounds of personal characteristics, such as race, gender, colour, age, family background, ethnic tradition, religion, physical fitness and original nationality is not allowed in recruitment. Employees are equally treated in terms of compensation and dismissal, recruitment and promotion, working hours, rest periods, and other benefits and welfare. We highly respect the human rights and take a zero tolerance approach to any form of discrimination, bullying, harassment, etc. in the workplace. In addition, our suppliers are required to subject to our policies on equal opportunities, diversity and anti-discrimination.

Labour standards

The Group respects employees' legitimate rights and interests. In accordance with laws and regulations, including the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of Minors*, the *Provisions on the Prohibition of Using Child Labour*, etc., the Group stipulates in the *Recruitment Management Policy* that hiring child labour is prohibited, and requires human resources department to check employees' ID certificate to prohibit child labour. The Group strictly complies with legal working hours. In order to protect the physical and mental health of employees, forced labour, corporal punishment, and confinement are prohibited.

In 2019, there was no recruitment of child labour or forced labour throughout the Group.

Health and Safety

In pursuit of a safe, healthy and comfortable working environment, the Group strictly complies with relevant laws and regulations, including but not limited to the *Work Safety Law of the People's Republic of China* and the *Fire Protection Law of the People's Republic of China*, etc. We regularly check the fire-fighting equipment in the office building to ensure safety in the workplace. We organise employees to participate in fire drills in the zone to improve their response and self-rescue capabilities. Due to our business characteristics, employees mainly work in office and they are not exposed to dust, radioactive materials and other toxic and harmful substances at work, so there is no occupational disease.

Due to enduring desk work, employees may suffer from symptoms such as cervical spine disease, muscle soreness and eye fatigue. Therefore, we provide employees with ergonomic desks and chairs, set up resting areas and fitness facilities in the office, and regularly organise employees to participate in annual meetings, community activities, team building for festivals, staff travel and other activities to help employees relax, as well as enhance cohesion and the sense of belonging among employees.

Annual meeting


Staff travel


Basketball game


Dancing club

ENVIRONMENT

Based on our business characteristics, the Group's emissions mainly consist of greenhouse gas emissions from electricity consumption in office and non-hazardous waste emissions from office. The resources used by the Group are mainly electricity and water in office. All our water comes from the municipal water system, so there is no issue in sourcing water.

We are fully aware of the importance of protecting the environment and conserving resources for the Company's sustainable development. We strictly complies with relevant laws and regulations, including but not limited to the *Environmental Protection Law of the People's Republic of China* and the *Energy Conservation Law of the People's Republic of China*, etc. We developed the *Management Policy on Energy Conservation and Environmental Protection* to promote green office, encourage each employee to help reduce emissions, save resources, and thus scaling down our impact on the environment in the daily course of operation.

The Group adopts the following measures to continuously reduce emissions, improve the efficiency of resource use, and thus reduce our impact on the environment:

Emissions management:

Acting upon the *Shanghai Municipal Regulations on Domestic Waste Management*, the Group places special trash bins for four types of rubbish in the workplace, i.e. "residual waste", "household food waste", "recyclable waste", and "hazardous waste", for centralised classification and management of domestic waste. In addition, the Group posts garbage classification labels and arranges cleaning workers to instruct employees. Property management personnel will double check the classification and the waste will be disposed of in a unified manner.

Resource management:

- ✓ The Group relies on natural wind to adjust the temperature in the office. In summer and winter, the office is properly air-conditioned to reduce electricity consumption;
- ✓ Security personnel check the office equipment every day to make sure that the power is turned off when staff leave the office. The Group prohibits employees from leaving stand-by equipment powered on for a long time.
- ✓ LED lamps are installed in the entire office area to reduce energy consumption;
- ✓ Videoconferencing is introduced to replace face-to-face meetings between the headquarter and the subsidiaries, or among employees, to reduce costs and resource consumption of meetings and business travels;
- ✓ The Group advocates paperless office, double-sided printing and use of thin and light paper to reduce the use of office paper;
- ✓ The Group regularly maintains water supply equipment to avoid leaking;
- ✓ The Group installs inductive faucets in the bathroom to reduce water waste.

Waste classification management

Key Performance Indicators

During the reporting period, the Group's emission data is shown as below:

Emissions[1, 2, 3]	2019
Scope 2: Energy indirect greenhouse gas emissions (tonnes of CO_2 equivalents)[3]	**1,177.81**
Greenhouse gas emission intensity (tonnes of CO_2 equivalents per capita)	**1.26**

Notes:

1. Due to our business characteristics, the Group did not generate exhaust gas emissions. Domestic waste water was discharged into the municipal pipe network, and the waste water emissions cannot be measured by the Group. Therefore, the KPI A1.1 (The types of emissions and respective emissions data) are not disclosed in this report.

2. The hazardous wastes generated by the Group include a small amount of waste toner cartridges, waste ink cartridges, etc. All the hazardous wastes were recycled by qualified recyclers. Therefore, there is limited impact on the environment and the KPI A1.3 (Total hazardous wastes produced and intensity) is not disclosed in this report.

3. The non-hazardous waste of the Group was domestic waste generated from the office, which was collected by the property management staff and handed over to the municipal hygiene agency for disposal. The waste disposal fee was also included in the property management fee and transferred to the property management company. The wastes produced cannot be measured by the Group. Therefore, KPI A1.4 (Total non-hazardous waste produced and intensity) is not disclosed in this report.

4. Greenhouse gas emissions were all Scope 2: energy indirect emissions, which came from purchased power. The emissions are presented in carbon dioxide equivalents. The calculation method and conversion factors are based on the *Guidelines for Accounting and Reporting Greenhouse Gas Emissions from China Public Building Operation Units (Enterprises)* issued by the National Development and Reform Commission.

During the reporting period, the Group's resource consumption data is shown as below:

Use of Resources[1, 2]	2019
Total indirect energy consumption (MWh)[3]	**1,674.21**
Intensity of energy consumption (MWh per capita)	**1.80**
Total water consumption (tonne)	**15,622.48**
Intensity of total water consumption (tonne per capita)	**16.76**

Notes:

1. Due to the business characteristics of the Group, we do not use packaging materials, so KPI A2.5 (Total packaging material used for finished products) is not applicable.

2. Large-scale use of non-renewable energy, forest resources, or impact on biodiversity are not involved in our operation, so A3. The Environment and Natural Resources is not applicable.

3. Energy consumption is all indirect energy consumption from purchased electricity, and is presented in MWh (kWh in 000's).

07

DIRECTORS' REPORT

DIRECTORS' REPORT

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended December 31, 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries and PRC Consolidated Affiliated Entities 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, 2019 by its principal activities is set out in Management discussion and analysis section.

RESULTS

The results of the Group for the year ended December 31, 2019 are set out in the consolidated statements of profit or loss and other comprehensive income of the Group on pages 66 to 67 of this annual report.

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last four financial years is set out on pages 144 to 145 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 financial year 2019 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 9 of this annual report. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 10 to 19 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 36 to 45 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 page 40 and the "Corporate Governance Report" on pages 24 to 35 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 33 to 34 of this annual report. All such discussions form part of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended December 31, 2019 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2019 are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year ended December 31, 2019 are set out in the consolidated statement of changes in equity. As at December 31, 2019, the amount of reserves available for distribution of the Company amounted to approximately was RMB5,374 million.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Shares of the Company were listed on the Main Board of the Stock Exchange on December 12, 2019. 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. In line with our strategies, we intend to use our proceeds for the purposes and in the amounts set forth below:

— approximately 35% of the net proceeds, or HK$253.3 million, for developing our games and game-related technology;

— approximately 30% of the net proceeds, or HK$217.0 million, for developing TapTap;

— approximately 15% of the net proceeds, or HK$108.6 million, for expanding our game publishing and operating business;

— approximately 10% of the net proceeds, or HK$72.4 million, for selective and strategic investments and acquisition; and approximately 10% of the net proceeds, or HK$72.4 million, for working capital and general corporate uses.

As at December 31, 2019, the net proceeds had not yet been utilised. In 2020, the Group will gradually apply the net proceeds in the next three years with the intended use and timetable as disclosed in the prospectus of the Company dated November 29, 2019.

DIRECTORS

The Directors during the year ended December 31, 2019 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. Shen Sheng
Mr. Fan Shuyang

Non-executive Directors
Mr. Tong Weiliang
Mr. Chen Feng

Independent Non-executive Directors
Mr. Pei Dapeng
Mr. Xin Quandong
Mr. Gao Shaoxing

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 additional Director. 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. Accordingly, Mr. Huang Yimeng, Mr. Dai Yunjie, Mr. Shen Sheng, Mr. Fan Shuyang, Mr. Tong Weiliang, Mr. Chen Feng, Mr. Pei Dapeng, Mr. Xin Quandong and Mr. Gao Shaoxing shall retire from office and, being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

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

Each of the non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date or until the third annual general meeting of the Company since the Listing Date, 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 a letter of appointment with the Company for an initial term of three years commencing from the Listing Date or until the third annual general meeting of the Company since the Listing Date, 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.

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).

EMPLOYEES, REMUNERATION AND PENSION SCHEME

We had 1,236 full-time employees as of December 31, 2019, substantially all of which were based in Shanghai.

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 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.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group 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, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individual in the Group are set out in note 7 to the consolidated financial statements.

For the years ended December 31, 2019, the emoluments of senior management team (which comprises our executive Directors and other senior management members) fell within the following bands:

	Year ended December 31, 2019
Emolument banks (in HKD)	
HKD0-HKD1,000,000	—
HKD1,000,001-HKD2,000,000	5
HKD2,000,001-HKD5,000,000	—
HKD5,000,0001-HKD10,000,000	—
Total	5

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2019, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Our non-executive Director, Mr. Chen Feng, held directorship and approximately 1.06% equity interests in IGG Inc as at December 31, 2019 (a listed company on the Main Board of the Stock Exchange under the stock code of 799), which engages in developments and publication of mobile games. On the basis that Mr. Chen Feng is not involved in the daily management and operation of our Company, the directorship held by Mr. Chen Feng would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Save as disclosed above, as at December 31, 2019, 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, 2019.

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, 2019, 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	Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Huang Yimeng	Settlor of a discretionary trust[1]	157,605,000	37.17%
Mr. Dai Yunjie	Settlor of a discretionary trust[2]	67,545,000	15.93%
Mr. Shen Sheng	Settlor of a discretionary trust[3]	1,188,000	0.28%
	Beneficial owner[4]	10,486,271	2.47%
Mr. Fan Shuyang	Administrator[5]	37,598,680	8.87%

Notes:

(1) 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. Credit Suisse Trust Limited 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, Credit Suisse Trust Limited and Happy Today Company Limited is deemed to be interested in our Shares held by Happy Today Holding Limited.

(2) Aiks Danger Inc. is a company incorporated in the British Virgin Islands and is wholly owned by Danger & Sons Inc. Danger & Sons Inc. is held by the Danger and Sons Trust, which was established by Mr. Dai as the settlor. Credit Suisse Trust Limited is the trustee of the Danger and Sons Trust, and Mr. Dai and his family members are the beneficiaries of the Danger and Sons Trust. Mr. Dai is also a director of Aiks Danger Inc.. As such, each of Mr. Dai, Credit Suisse Trust Limited and Danger & Sons Inc. is deemed to be interested in our Shares held by Aiks Danger Inc.

(3) Xochipilli Ltd is a company incorporated in the British Virgin Islands and is held by the Toliman Trust, which was established by Mr. Shen Sheng as the settlor. First American Trust of Nevada, LLC is the trustee of the Toliman Trust, and Mr. Shen Sheng, his spouse and his decedents (only after the death of Mr. Shen Sheng) are the beneficiaries of the Toliman Trust. Mr. Shen Sheng is also a director of Xochipilli Ltd. As such, Mr. Shen Sheng is deemed to be interested in the 1,188,000 Shares held by Xochipilli Ltd.

(4) Jiexin Management Limited was a company incorporated in the British Virgin Islands on June 4, 2019 and was held by the Jiexin Trust. The beneficiaries of the Jiexin Trust were Onshore Key Employee Shareholders and Mr. Shen Sheng is interested in 27.89% of the Shares held by the Jiexin Trust as one of the beneficiaries.

(5) Jiexin Management Limited was a company incorporated in the British Virgin Islands on June 4, 2019 and was held by the Jiexin Trust. Mr. Fan Shuyang is the administrator of the Jiexin Trust.

(ii) Interest in associated corporations

Name of Director	Nature of Interest	Associated corporations	Number of Shares	Approximate percentage of shareholding
Mr. Huang Yimeng	Interest in controlled corporation	X.D. Network	165,900,000	47.14%
	Beneficial owner	X.D. Network	47,281,500	13.44%
Mr. Dai Yunjie	Beneficial owner	X.D. Network	20,263,500	5.76%
Mr. Shen Sheng	Beneficial owner	X.D. Network	11,674,271	3.32%
Mr. Tong Weiliang	Beneficial owner	X.D. Network	431,750	0.12%
Mr. Fan Shuyang	Interest in controlled corporation	X.D. Network	37,598,680	10.68%

Save as disclosed above, as at December 31, 2019, 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, 2019, 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	Approximate percentage of shareholding
Credit Suisse Trust Limited	Trustee	225,150,000	53.11%
Happy Today Company Limited	Interest in controlled corporation	157,605,000	37.17%
Happy Today Holding Limited	Beneficial owner	157,605,000	37.17%
Danger & Sons Inc.	Interest in controlled corporation	67,545,000	15.93%
Aiks Danger Inc.	Beneficial owner	67,545,000	15.93%
Trident Trust Company (HK) Limited	Trustee(1)	37,598,680	8.87%
Jiexin Management Limited	Beneficial owner(1)	37,598,680	8.87%
IGG Inc	Beneficial owner	24,648,000	5.81%

Note:

(1) Jiexin Management Limited was a company incorporated in the British Virgin Islands on June 4, 2019 and was held by the Jiexin Trust. The beneficiaries of the Jiexin Trust were Onshore Key Employee Shareholders. Trident Trust Company (HK) Limited was the trustee of the Jiexin Trust.

Save as disclosed above, as at December 31, 2019, 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, 2019 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. A summary of the principal terms of the RSU Scheme is set out in the section headed "Statutory and General Information — D. RSU Scheme" in Appendix IV to the prospectus of the Company dated November 29, 2019.

As at December 31, 2019, 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 1.99% of the issued share capital of our Company and no RSUs had been granted by the Company.

EQUITY-LINKED AGREEMENTS

Other than the RSU Plan, during the year ended December 31, 2019, 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 16 to the Hong Kong Listing Rules).

CONTINUING CONNECTED TRANSACTIONS

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

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 our 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 shall commence on the Listing Date and expire on December 31, 2021.

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 our establishment, 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. Having considered our pervious purchasing experience with Shanghai Maichuang and our long-term and stable cooperation, our Directors believe that Shanghai Maichuang is capable of fulfilling our demands in a reliable and cost-effective manner and entering into the IDC Services Framework Agreement would minimize disruption to our operation and internal procedures.

The proposed annual caps for the service fees under the IDC Services Framework Agreement for each of the three years ending December 31, 2021 is 12.3 million, 14.6 million and 16.7 million respectively.

Shanghai Maichuang is held by Mr. Dai Yunjie's spouse and Independent Third Parties as to 32% and 68%, respectively, therefore Shanghai Maichuang is an associate of Mr. Dai and a connected person of the Company.

For the year ended December 31, 2019, 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 Company's 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 Company’s 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.

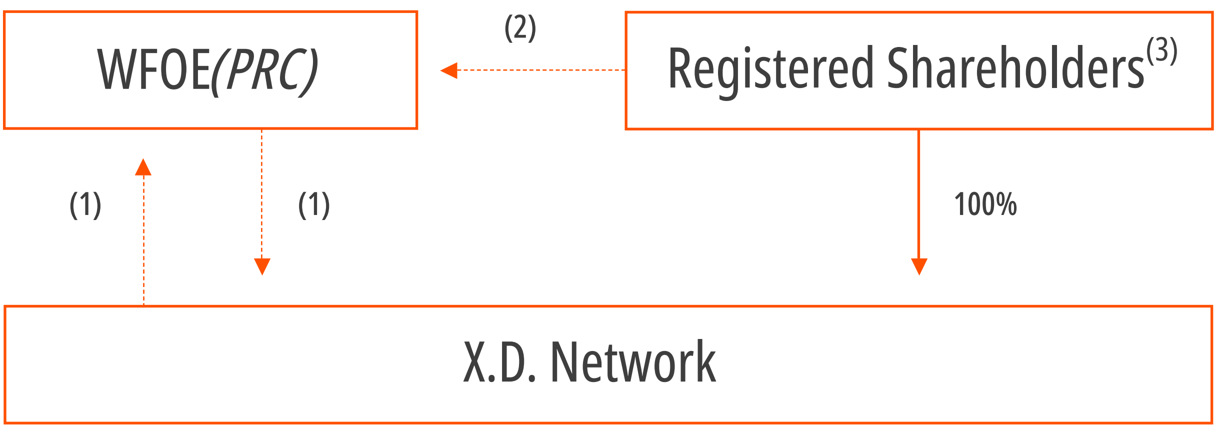
RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out in the normal course of business are set out in note 35 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.

CONTRACTUAL ARRANGEMENTS

Our Company has entered into a series of Contractual Arrangements with the WFOE and our 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 our 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 our PRC Consolidated Affiliated Entities during the year ended December 31, 2019 was approximately RMB1,726 million, and the total assets of our PRC Consolidated Affiliated Entities as at December 31, 2019 was approximately RMB1,989 million.

The following simplified diagram illustrates the flow of economic benefits from our 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), 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) are collectively 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 Agreements

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.
- Our 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. our 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 our 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, 2019 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;
ii. no dividends or other distributions had been made by our 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, 2019; 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.

Our 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, 2019 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 our 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 of the Company by reason of their holding of the Company's securities.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2019 are set out in note 1 to the consolidated financial statements.

PERMITTED INDEMNITY

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.

ISSUANCE OF DEBENTURES

During the year ended December 31, 2019, no issuance of debentures was made by the Company.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 24 to 35 of this annual report.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended December 31, 2019, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the issuance of 4,060,000 ordinary shares on January 8, 2020 pursuant to the full exercise of the over-allotment option as disclosed in the announcement of the Company dated January 5, 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the listing of the Company on December 12, 2019 to the date of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended December 31, 2019.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company will notify shareholders on a later date about the date of the annual general meeting for the year ended December 31, 2019 of the Company and the corresponding arrangement for closure of register of members.

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.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2019 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. The Company did not change its Auditor during the reporting period.

For and on behalf of the Board
XD Inc.
Huang Yimeng
Chairman
Hong Kong, March 30, 2020

08

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") set out on pages 66 to 143, which comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of comprehensive income 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, which include a summary of significant accounting policies.

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 December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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	How our audit addressed the Key Audit Matter
Revenue recognition on online game operating services — estimates of lifespan of in-game virtual items (Refer to notes 2.19 and note 5 to the consolidated financial statements.) During the year ended December 31, 2019, the majority of the Group's revenue generates 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 requires significant judgements and estimates by the management. These judgements and estimates included (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to 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.	Our procedures performed in relation to the estimation of lifespan of in-game virtual items included: We understood, evaluated and validated, on a sample basis, 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, marketing data and practice, and our industry knowledge. We also assessed, on a sample basis, the historical accuracy 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. Based on the procedures performed, we considered that the significant judgements and estimates adopted by management in the assessment of lifespan of in-game virtual items are supported by the evidence obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Notes 2.9, 4.6 and 16 to the consolidated financial statements. As at December 31, 2019, the net carrying amount of goodwill amounted to RMB101.67 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 the goodwill impairment assessment involved significant judgements and estimates which included key assumptions such as annual revenue growth rate, gross profit rate, terminal revenue growth rate and pre-tax discount rate.	Our procedures 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 understood, 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 assessed the reasonableness of the key 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 were 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. Based on the procedures performed, we considered that 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 the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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, 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.

Responsibilities of Directors and Those Charged with Governance 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 IFRSs 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.

Those charged with governance are 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 those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, 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, March 30, 2020

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, **2019** **RMB'000**	2018 RMB'000
Revenues	5	**2,838,097**	1,887,108
Cost of revenues	6	**(1,066,320)**	(776,309)
Gross profit		**1,771,777**	1,110,799
Selling and marketing expenses	6	**(745,101)**	(447,989)
Research and development expenses	6	**(317,596)**	(197,780)
General and administrative expenses	6	**(202,692)**	(107,315)
Net impairment losses on financial assets	6	**(1,889)**	(299)
Fair value changes on investments measured at fair value through profit or loss	8	**8,186**	(3,351)
Other income	9	**12,426**	8,141
Other gains/(losses), net	10	**4,179**	24,232
Operating profit		**529,290**	386,438
Finance income		**8,319**	4,993
Finance costs		**(2,951)**	(2,320)
Finance income/(costs), net	11	**5,368**	2,673
Share of results of investments accounted for using equity method	18	**10,767**	285
Profit before income tax		**545,425**	389,396
Income tax expenses	12	**(31,996)**	(36,675)
Profit for the year		**513,429**	352,721
Other comprehensive income:			
Items that may be reclassified to profit or loss			
— Currency translation differences		**7,407**	12,980
Total comprehensive income for the year		**520,836**	365,701
Profit for the year attributable to:			
Equity holders of the Company		**346,563**	285,028
Non-controlling interests		**166,866**	67,693
		513,429	352,721
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**351,933**	294,874
Non-controlling interests		**168,903**	70,827
		520,836	365,701
Earnings per share for profit for the year attributable to the equity holders of the Company			
Basic and diluted earnings per share (RMB)	13	**0.98**	0.81

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at December 31,	
		2019	2018
	Notes	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**86,938**	45,553
Right-of-use assets	15	**37,644**	59,290
Intangible assets	16	**198,938**	192,175
Deferred tax assets	17	**11,349**	8,393
Investments accounted for using the equity method	18	**52,800**	44,305
Long term investments measured at fair value through profit or loss	20	**29,918**	33,687
Prepayments, deposits and other assets	21	**74,156**	64,966
		491,743	448,369
Current assets			
Trade receivables	22	**406,143**	449,070
Prepayments and other assets	21	**133,942**	97,381
Short-term investments	23	**497,363**	156,647
Cash and cash equivalents	24	**1,336,869**	573,233
		2,374,317	1,276,331
		2,866,060	1,724,700
EQUITY			
Share capital	25	**284**	—
Share premium	25	**5,357,114**	—
Other reserves	26	**(4,137,328)**	755,457
Retained earnings		**651,800**	322,457
Equity attributable to equity holders of the Company		**1,871,870**	1,077,914
Non-controlling interests	18	**414,660**	264,646
Total equity		**2,286,530**	1,342,560

		As at December 31,	
		2019	2018
	Notes	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	17	**2,135**	1,894
Lease liabilities	27	**23,056**	37,859
		25,191	39,753
Current liabilities			
Trade payables	28	**200,845**	101,275
Advance from customers	29	**15,756**	9,089
Other payables and accruals	30	**151,705**	83,872
Contract liabilities	31	**99,321**	90,921
Current income tax liabilities		**70,250**	34,338
Lease liabilities	27	**16,462**	22,892
		554,339	342,387
Total liabilities		**579,530**	382,140
Total equity and liabilities		**2,866,060**	1,724,700

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

The financial statements on pages 66 to 75 were approved by the Board of Directors on March 30, 2020 and were signed on its behalf.

Gong Rui
CFO

Fan Shuyang
Director

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company						
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2018		—	—	727,437	110,523	837,960	119,795	957,755
Comprehensive income								
Profit for the year		—	—	—	285,028	285,028	67,693	352,721
Other comprehensive income								
— Currency translation differences		—	—	9,846	—	9,846	3,134	12,980
Total comprehensive income for the year		—	—	9,846	285,028	294,874	70,827	365,701
Transaction with owners in their capacity as owners								
Appropriation to statutory reserves	26	—	—	23,004	(23,004)	—	—	—
Dividend distribution	32	—	—	—	(50,090)	(50,090)	(2,806)	(52,896)
Capital injections from non-controlling shareholders	18	—	—	3,474	—	3,474	96,526	100,000
Acquisition of additional equity interests in a subsidiary	18	—	—	(8,304)	—	(8,304)	(19,696)	(28,000)
Total transactions with owners in their capacity as owners for the year		—	—	18,174	(73,094)	(54,920)	74,024	19,104
As of December 31, 2018		—	—	755,457	322,457	1,077,914	264,646	1,342,560

		Attributable to equity holders of the Company						
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2019		—	—	755,457	322,457	1,077,914	264,646	1,342,560
Comprehensive income								
Profit for the year		—	—	—	346,563	346,563	166,866	513,429
Other comprehensive income								
— Currency translation differences		—	—	5,370	—	5,370	2,037	7,407
Total comprehensive income for the year		—	—	5,370	346,563	351,933	168,903	520,836
Transaction with owners in their capacity as owners								
Share repurchase of a subsidiary	26	—	—	(86,408)	—	(86,408)	—	(86,408)
Acquisition of additional equity interests in a subsidiary	18	—	—	(78,034)	—	(78,034)	(18,889)	(96,923)
Issuance of ordinary shares in relation to the Reorganisation of the Group	25	240	4,750,933	(4,750,933)	—	240	—	240
Issuance of ordinary shares upon IPO	25	44	606,181	—	—	606,225	—	606,225
Appropriation to statutory reserves	18	—	—	17,220	(17,220)	—	—	—
Total transactions with owners in their capacity as owners for the year		284	5,357,114	(4,898,155)	(17,220)	442,023	(18,889)	423,134
As of December 31, 2019		284	5,357,114	(4,137,328)	651,800	1,871,870	414,660	2,286,530

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations		856,133	198,704
Income tax refunded/(paid)		4,641	(25,150)
Net cash generated from operating activities		860,774	173,554
Cash flows from investing activities			
Purchase of property, plant and equipment		(66,917)	(32,733)
Proceeds from disposals of property, plant and equipment		37	121
Purchase of intangible assets (including prepayments for intangible assets)		(72,952)	(140,233)
Acquisition of investments accounted for using the equity method	18(c)	—	(1,000)
Proceeds from disposal of long term investments measured at fair value through profit or loss		—	6,075
Purchase of short-term investments		(2,265,100)	(2,036,631)
Proceeds from disposals of short-term investments		1,936,301	2,004,833
Net cash used in investing activities		(468,631)	(199,568)
Cash flows from financing activities			
Payments for share repurchase of a subsidiary	6	(92,298)	—
Dividend paid to the then shareholders of subsidiaries	32	—	(52,896)
Capital injections from non-controlling shareholders	18(b)	—	100,000
Payment for acquisition of additional equity interests in a subsidiary	18(b)	(96,923)	(28,000)
Issuance of ordinary shares in relation to the Reorganisation of the Group	25	240	—
Issuance of ordinary shares upon IPO	25	629,294	—
Payment for lease liabilities (including interests)	15	(23,692)	(17,849)
Listing expense payment		(53,794)	—
Net cash generated from financing activities		362,827	1,255
Net increase/(decrease) in cash and cash equivalents		754,970	(24,759)
Cash and cash equivalents at the beginning of the year		573,233	577,972
Effects of exchange rate changes on cash and cash equivalents		8,666	20,020
Cash and cash equivalents at the end of the year	24	1,336,869	573,233

The notes on pages 76 to 143 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, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General information

XD Inc. (the "Company") is an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 25, 2019.

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

The Company has its primary listing on the Stock Exchange of Hong Kong Limited on December 12, 2019.

The consolidated financial statements for the year ended December 31, 2018 and 2019 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 January 25, 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 April 10, 2019.

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

On February 28, 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 April 10, 2019 to June 17, 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 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (Continued)

1.2 History and reorganisation of the Group (Continued)

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

On June 6, 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 June 16, 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. Further details of the Contractual Arrangements are set out in Note 2.2.1.

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 March 27, 2019, Xinxuan (Beijing) Network Technology Co., Ltd. (心玹(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 May 15, 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 March 28, 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.

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (Continued)

1.2 History and reorganisation of the Group (Continued)

1.2.4 Restructuring of the non-restricted and/or non-prohibited operation (Continued)

As at December 31, 2019, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of establishment and nature of legal entity	Particulars of issued/ paid-in capital	Effective interest held by the Group	Principal activities
Subsidiaries				
Directly held:				
XD Holdings Limited	BVI, limited liability company	USD1	100%	Investment holding
EWAN Holding Limited	BVI, limited liability company	USD1	100%	Investment holding
XDG Holding Limited	BVI, limited liability company	USD1	100%	Investment holding
Indirectly held:				
XD (HK) Limited	Hong Kong, limited liability company	HKD10,000	100%	Investment holding
Xinxuan	the PRC, limited liability company	RMB50,000	100%	Investment holding
Longcheng	the PRC, limited liability company	RMB1,000,000	65%	Game operation
Xindong Global Limited	Hong Kong, limited liability company	HKD12,213,000	65%	Game operation
XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司)	the PRC, limited liability company	RMB100,000,000	100%	Investment holding
Xindong (Hong Kong) Company Limited	Hong Kong, limited liability company	HKD1,000,000	100%	Game operation
Xindong Limited	BVI, limited liability company	USD50,000	100%	Investment holding
Xindong Korea Co., Ltd.	Korea, limited liability company	Korea Won ("KRW") 1,142,000,000	100%	Game operation
EWAN Global (HK) Limited	Hong Kong, limited liability company	HKD10,000	55.78%	Investment holding
X.D. Global (HK) Limited	Hong Kong, limited liability company	HKD10,000	65%	Investment holding
Structured entities controlled via the Contractual Arrangements				
X.D. Network Inc.	The PRC, limited liability company	RMB351,920,960	100%	Game operation
Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司, "Yiwan")	Shanghai, China, limited liability company	RMB1,819,549	55.78%	Game platform and information services
X.D. Investment Management Co., Ltd. (上海心動投資管理有限公司)	Shanghai, China, limited liability company	RMB81,100,000	100%	Investment in game development entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal 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 ("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 in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on January 1, 2019, are consistently applied to the Group throughout the years ended December 31, 2018 and 2019.

The following new standards, amendments and interpretations to existing standards, which are relevant to the Group, have been issued and are effective for future reporting periods and have not been early adopted by the Group.

		Effective for accounting year beginning on or after
IFRS 17	Insurance contracts	January 1, 2021
Amendment to IAS 1 and IAS 8	Definition of material	January 1, 2020
Amendment to IFRS 3	Definition of a business	January 1, 2020
Conceptual Framework for Financial Reporting 2018		January 1, 2020
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associates or joint venture	No mandatory effective date yet determined but available for early adoption

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.

2.2 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Subsidiaries controlled through Contractual Arrangements

The wholly-owned subsidiary of the Company, the WFOE, has entered into the Contractual Arrangements with among others, X.D. Network Inc., which enable the WFOE and the Group to:

- exercise effective control over 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.

2.2.2 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 Business combination (Continued)

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.

2.2.3 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.

2.2.4 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 IFRSs.

2.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 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 and joint ventures 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 "Other gains/(losses), net" 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.

2.5 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.

2.6 Foreign currency translation

2.6.1 Functional and presentation currency

Items included in the financial information 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 outside mainland China are USD, while the functional currencies of the Company's subsidiaries in the mainland China are RMB. As the major operations of the Group during the reporting period are within the mainland China, the Group determined to present its Financial Information in RMB (unless otherwise stated).

2.6.2 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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

2.6.3 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.

2.7 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.

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

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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains/(losses), net" in the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

2.8.1 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.

2.8.2 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)	2–8 years
• User list	5 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) The 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) The 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 local market.

2.8.3 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 as of December 31, 2018, and 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they 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.

2.10 Financial assets

2.10.1 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.

2.10.2 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.

2.10.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

2.10.3 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 (losses)/gains 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 (losses)/gains. 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 (losses)/gains 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 (losses)/gains, 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 (losses)/gains 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.

2.10.4 Impairment

The Group has 2 types of financial assets subject to IFRS 9's new expected credit loss model:

- trade receivables; and
- other receivables

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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 if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 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.

2.16.1 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Current and deferred income tax (Continued)

2.16.2 Deferred income tax inside basis differences

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 assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.16.3 Deferred income tax outside basis differences

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, associates and joint arrangements 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.

2.16.4 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.

2.17 Employee benefits

2.17.1 Pension and social obligations

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant government authorities. The Group's liability in respect of these plans is limited to the contribution payable in each period. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

2.17.2 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.

2.17.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Employee benefits (Continued)

2.17.4 Share-based payments

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("RSUs") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense in the consolidated statement of comprehensive income with a corresponding increase in equity.

In terms of the shares, RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and 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.

Non-marketing performance and service conditions are included in calculation of the number of RSUs and options that are expected to vest. 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 RSUs and 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.

2.18 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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:

2.19.1 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

2.19.1 Game operating revenue (Continued)

(a) The Group acts as Principal (Continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

2.19.1 Game operating revenue (Continued)

(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.

2.19.2 Information service revenue

Information service revenue mainly represents revenue generated from information services, which mainly comprise revenues derived from performance based online marketing service provided to game developers, game publishers and their agencies.

Revenue from performance-based online marketing service is recognized when relevant specific performance measures (such as delivery of pay-for-click, pay-for-download etc.) are fulfilled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

2.19.3 Other revenues

Group's other revenues are primarily derived from licensing copyrights of game contents to other game publishing companies for agreed periods and other game publishers pay license fees for the right to operate the Group's games in specified geographic areas. The license fees normally comprise of a fixed lump sum and variable fees calculated based on a predetermined rate on the cash paid by game players collected by the publishers related to the licensed games.

The Group are responsible for providing game content, and when-and-if-available technical support and upgrades to the Publishers during the contract terms and determined that the Group's promise to grant a game license is the predominant item to which the license fees related. The game licenses granted by the Group are right to access licenses. Therefore, the fixed lump sum license fees are initially recorded as contract liability and then recognized as revenue rateably over contractual periods from the date the game is launched. The sales based license fees which are contingent upon future events (future cash paid by game players collected by the Publishers related to the licensed game title) are recognized when the subsequent sales occurs.

The Group also generates revenue from miscellaneous services provided by the Group to its customers. Revenue is recognized when the service is rendered.

2.19.4 Practical expedients applied

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been 1 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 1 year or less.

2.20 Contract liabilities

Contract liabilities primarily consists of i) 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, and ii) the unamortised balance of the initial license fee paid by licensees.

2.21 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. Interest income from wealth management products and term deposit above 3 months and within 1 year is included in "Other income".

2.22 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 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.

2.24 Leases

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

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. 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. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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.

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.

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 and leases with a remaining term of 12 months or less as of the date of initial adoption of IFRS 16.

The right-of-use assets and the lease liabilities are present separately on the consolidated statement of financial position.

The Group applied the practical expedient by electing not to separate the non-lease components, such as maintenance services provided by the landlord from lease components for the property rental contacts, and instead account for each lease component and any associated non-lease components as a single lease component.

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 primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. The Group does not hedge against any fluctuation in foreign currency during the years ended December 31, 2018 and 2019.

For the Group's subsidiaries in mainland China whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, net profits would have been approximately RMB25.2 million and RMB20.5 million, higher/lower for the years ended December 31, 2018 and 2019 respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD.

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 24 and Note 23, 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 investment measured

To manage risk arising from cash and cash equivalents and short-term investments, the Group only transacts with state-owned or reputable financial institutions in mainland China. 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)

(ii) Credit risk of trade receivables (Continued)

During the years ended December 31, 2018 and 2019 the Group analysed the credit risk related to amount due from related parties are performing and applied the expected credit loss rate at 0.49% to estimate the impairment provision for the 12 month expected credit loss of the amount due from related parties.

(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:

- internal credit rating;
- 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 value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- 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 90 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 categories 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 December 31, 2019				
Trade payables	**200,845**	**—**	**—**	**200,845**
Advance from customers	**15,756**	**—**	**—**	**15,756**
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	**35,048**	**—**	**—**	**35,048**
Lease liabilities	**17,036**	**16,784**	**8,203**	**42,023**
	268,685	**16,784**	**8,203**	**293,672**
As at December 31, 2018				
Trade payables	101,275	—	—	101,275
Advance from customers	9,089	—	—	9,089
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	25	—	—	25
Lease liabilities	23,692	17,035	24,988	65,715
	134,081	17,035	24,988	176,104

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.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

3 FINANCIAL RISK MANAGEMENT (Continued)

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 December 31, 2018 and 2019, 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 December 31, 2018 and 2019, 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:

		As at December 31,	
		2019	2018
	Notes	**RMB'000**	RMB'000
Short-term investments measured at fair value through profit or loss	23	**497,363**	156,647
Long-term investments measured at fair value through profit or loss	20	**29,918**	33,687
		527,281	190,334

(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 December 31, 2018 and 2019.

(i) Investments in unlisted companies

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**33,687**	36,451
Reclassify from investments accounted for using the equity method (Note 18(c))	**—**	15,577
Changes in fair value	**(3,731)**	(12,462)
Disposal	**—**	(5,911)
Currency translation differences	**(38)**	32
At the end of the year	**29,918**	33,687
Net unrealized losses	**(3,731)**	(12,462)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

(ii) Wealth management products issued by commercial banks

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**156,647**	115,738
Addition	**2,265,100**	2,036,631
Changes in fair value	**11,917**	9,111
Disposal	**(1,936,301)**	(2,004,833)
At the end of the year	**497,363**	156,647
Net unrealized gains	**1,663**	207

(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 December 31, 2019 RMB'000	2018 RMB'000	Unobservable inputs	Range of inputs as at December 31, 2019	2018	Relationship of unobservable inputs to fair value
Investments in unlisted companies	**29,918**	33,687	Expected volatility	**40.00%-50.84%**	39.35%-50.40%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability ("DLOM")	**17%-27%**	25%-26%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	**497,363**	156,647	Expected rate of return	**2.00%-4.00%**	3.88%-3.98%	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 RMB1.63 million and RMB0.15 million higher for the years ended December 31, 2018 and 2019 respectively, and the profit before tax will be RMB1.63 million and RMB0.15 million higher respectively.

If expected volatility is 10% lower, the fair value of investments in unlisted companies will be RMB1.18 million and RMB0.13 million lower for the years ended December 31, 2018 and 2019 respectively, and the profit before tax will be RMB1.18 million and RMB0.13 million lower respectively.

If DLOM is 10% higher/lower, the fair value of investments in unlisted companies will be RMB0.20 million and RMB0.94 million lower/higher for the years ended December 31, 2018 and 2019 respectively, and the profit before tax will be RMB0.20 million and RMB0.94 million lower/higher respectively.

If expected rate of return is 10% higher/lower, the fair value of wealth management products issued by commercial banks will be RMB0.02 million and RMB0.17 million higher/lower for the years ended December 31, 2018 and 2019 respectively, and the profit before tax will be RMB0.02 million and RMB0.17 million higher/lower 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 2.19, 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 (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine Distribution Channels and Payment Channels.

4.4 Expected credit loss for receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b) and Note 22. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of comprehensive income.

4.5 Income tax

The Group is subject to income taxes in the PRC 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)

4.6 Recoverability of non-financial assets

The Group tests whether goodwill has suffered any impairment on an annual basis. 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 amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period.

Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated in Note 16. The growth rate is consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 16.

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.

Information service segment

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

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

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

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

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

As at December 31, 2018 and 2019, 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.

5 SEGMENT INFORMATION AND REVENUE (Continued)

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

	Year ended December 31, 2019		
	Game segment RMB'000	Information service segment RMB'000	Total RMB'000
Game operating revenues			
— Online Games (free-to-play)	2,319,643	—	2,319,643
— Premium Games (pay-to-play)	55,664	—	55,664
Subtotal	2,375,307	—	2,375,307
Information service revenue	—	459,019	459,019
Others	3,209	562	3,771
Total revenues	2,378,516	459,581	2,838,097
Cost of revenues	(1,013,780)	(52,540)	(1,066,320)
Gross profit	1,364,736	407,041	1,771,777
Gross margin	57%	89%	62%

	Year ended December 31, 2018		
	Game segment RMB'000	Information service segment RMB'000	Total RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,544,485	—	1,544,485
— Premium Games (pay-to-play)	43,630	—	43,630
Subtotal	1,588,115	—	1,588,115
Information service revenue	—	294,502	294,502
Others	4,232	259	4,491
Total revenues	1,592,347	294,761	1,887,108
Cost of revenues	(740,911)	(35,398)	(776,309)
Gross profit	851,436	259,363	1,110,799
Gross margin	53%	88%	59%

5 SEGMENT INFORMATION AND REVENUE (Continued)

Revenues of approximately RMB758 million and RMB1,399 million for the years ended December 31, 2018 and 2019, 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 December 31, 2018 and 2019, respectively.

	Year ended December 31,	
	2019	2018
Game operating revenues		
Customer A	**25%**	22%
Information service revenue		
Customer B	**12%**	13%

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the years ended December 31, 2018 and 2019, respectively:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Service transferred overtime	**1,502,595**	933,311
Service transferred at a point of time	**1,335,502**	953,797
	2,838,097	1,887,108

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the years ended December 31, 2018 and 2019, respectively:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Mainland China	**860,664**	611,418
Overseas (Note a)	**1,514,643**	976,697
Total	**2,375,307**	1,588,115

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

6 EXPENSES BY NATURE

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Promotion and advertising expenses	701,013	426,189
Employee benefits expenses (Note 7)	409,692	273,312
Commissions charged by Payment Channels and Distribution Channels	385,241	331,081
Sharing of proceeds to game developers	282,982	193,694
Bandwidth and servers custody fee	186,257	86,128
Professional and technical services fee	110,374	54,180
Amortization of intangible assets (Note 16)	60,650	43,514
Listing expenses (a)	53,549	2,415
Depreciation of property, plant and equipment (Note 14) and right-of-use assets (Note 15)	47,149	30,953
VAT input transfer out and tax surcharges	34,468	24,462
Office expenses	21,334	15,953
Impairment of non-financial assets	15,860	41,564
Rental expenses and utilities	8,664	4,897
Share based payments (b)	5,890	—
Auditor's remuneration		
— Audit service	4,000	—
— Non-audit service	390	—
Net impairment losses on financial assets	1,889	299
Others	4,196	1,051
Total	2,333,598	1,529,692

(a) During the year ended December 31, 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. During the year ended December 31, 2018, listing expenses include auditor's remuneration of RMB2.02 million, all of which was for IPO related audit service.

(b) Pursuant to shareholder's resolution of X.D. Network Inc. dated on February 18, 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.

7 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	317,913	211,377
Pension and other social security costs	62,290	40,894
Other benefits	29,489	21,041
Total	409,692	273,312

7 EMPLOYEE BENEFITS EXPENSES (Continued)

(a) Directors' and chief executive's emoluments

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

	Year ended December 31, 2019			
	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Other benefits RMB'000	Total RMB'000
Chairman				
Huang Yimeng	1,235	100	—	1,335
Executive directors				
Dai Yunjie	1,435	100	—	1,535
Shen Sheng	1,213	100	—	1,313
Fan Shuyang	884	100	—	984
Independent directors				
Gao Shaoxing	80	—	—	80
Xin Quandong	80	—	—	80
Pei Dapeng	80	—	—	80
Total	5,007	400	—	5,407

	Year ended December 31, 2018			
	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Other benefits RMB'000	Total RMB'000
Chairman				
Huang Yimeng	1,409	95	—	1,504
Executive directors				
Dai Yunjie	1,400	95	—	1,495
Shen Sheng	1,116	16	—	1,132
Fan Shuyang	842	95	—	937
Independent directors				
Gao Shaoxing	80	—	—	80
Xin Quandong	80	—	—	80
Pei Dapeng	80	—	—	80
Total	5,007	301	—	5,308

7 EMPLOYEE BENEFITS EXPENSES (Continued)

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

(i) Benefits and interests of directors

Except for directors disclosed above, there is no other benefit offered to the other directors.

(ii) 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 December 31, 2018 and 2019.

(iii) 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 December 31, 2018 and 2019.

(iv) 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 December 31, 2018 and 2019.

(v) 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 December 31, 2018 and 2019.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2018 and 2019, include 0 and 0 directors respectively. The aggregate amounts of emoluments for the remaining 5 and 5 individuals for each of the years ended December 31, 2018 and 2019, are set out below:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**13,487**	18,794
Pension and other social security costs	**502**	477
Other benefits	**—**	559
Total	**13,989**	19,830

	Number of individuals	
	2019	2018
Emolument banks (in HKD)		
HKD2,000,001–HKD2,500,000	**2**	1
HKD2,500,001–HKD3,000,000	**1**	1
HKD3,000,001–HKD3,500,000	**1**	—
HKD3,500,001–HKD4,000,000	**—**	1
HKD4,000,001–HKD4,500,000	**1**	1
HKD10,000,001–HKD10,500,000	**—**	1
Total	**5**	5

8 FAIR VALUE CHANGES ON INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Long-term investments	**(3,731)**	(12,462)
Short-term investments	**11,917**	9,111
Total	**8,186**	(3,351)

9 OTHER INCOME

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Government subsidies	**12,426**	8,141

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

10 OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Foreign exchange gain, net	**1,510**	9,518
Re-measurement gain (Note 18(c)(i))	**—**	9,446
Dilution gain (Note 18(c)(ii))	**—**	5,127
Others	**2,669**	141
Total	**4,179**	24,232

11 FINANCE INCOME/(COSTS), NET

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	**8,319**	4,993
Finance costs		
Interest expenses on lease liabilities	**(2,459)**	(2,031)
Bank charges	**(492)**	(289)
Finance income/(costs), net	**5,368**	2,673

12 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 December 31, 2018 and 2019.

Certain subsidiary of the Group in the PRC, accordingly, is qualified as "high and new technology enterprise" and entitled to a preferential income tax rate of 15% during the years ended December 31, 2018 and 2019.

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 December 31, 2018 and 2019.

PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. 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.

12 INCOME TAX (Continued)

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 RMB607 million as of December 31, 2019.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Current income tax	**34,682**	40,315
Deferred income tax (Note 17)	**(2,686)**	(3,640)
Total income tax expenses	**31,996**	36,675

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 December 31, 2018 and 2019, being the tax rate of the major subsidiaries of the Group.

The difference is analysed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	**545,425**	389,396
Tax calculated at statutory income tax rate of 25% in mainland China	**136,356**	97,349
Tax effects of:		
Effect of different tax rates available to different jurisdictions	**(10,850)**	(7,463)
Preferential income tax rates applicable to subsidiaries	**(79,613)**	(60,202)
Expenses not deductible for income tax purposes	**3,103**	703
Super Deduction for research and development expenses	**(25,471)**	(15,613)
Utilization of previously unrecognized tax losses and temporary differences	**(2,246)**	(682)
Tax losses for which no deferred income tax assets were recognized	**7,668**	572
Temporary differences for which no deferred income tax assets were recognized, net	**3,049**	22,011
Total income tax expenses	**31,996**	36,675

13 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.

	Year ended December 31,	
	2019	2018
Profit attributable to equity holders of the Company (RMB'000)	**346,563**	285,028
Weighted average number of shares in issue (thousands)	**355,232**	351,921
Basic earnings per share (in RMB)	**0.98**	0.81

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. Diluted earnings per share for the years ended December 31, 2018 and 2019 were the same as basic earnings per share of the respective years because the Company does not have dilutive potential ordinary shares during the respective years.

14 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 January 1, 2018						
Cost	49,070	10,635	607	—	22,664	82,976
Accumulated depreciation	(29,532)	(8,036)	(13)	—	(16,311)	(53,892)
Net book amount	19,538	2,599	594	—	6,353	29,084
Year ended December 31, 2018						
Opening net book amount	19,538	2,599	594	—	6,353	29,084
Additions	11,419	7,963	—	13,351	—	32,733
Depreciation	(11,950)	(1,253)	(152)	—	(2,788)	(16,143)
Transfers	—	—	—	(9,014)	9,014	—
Disposal	(48)	(73)	—	—	—	(121)
Closing net book amount	18,959	9,236	442	4,337	12,579	45,553
At December 31, 2018						
Cost	57,832	18,478	607	4,337	31,677	112,931
Accumulated depreciation	(38,873)	(9,242)	(165)	—	(19,098)	(67,378)
Net book amount	18,959	9,236	442	4,337	12,579	45,553

14 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 December 31, 2019						
Opening net book amount	18,959	9,236	442	4,337	12,579	45,553
Additions	11,170	3,834	711	51,247	—	66,962
Depreciation	(12,213)	(2,457)	(285)	—	(10,548)	(25,503)
Transfers	—	—	—	(55,584)	55,584	—
Disposal	(34)	(40)	—	—	—	(74)
Closing net book amount	17,882	10,573	868	—	57,615	86,938
At December 31, 2019						
Cost	69,013	22,110	1,318	—	86,804	179,245
Accumulated depreciation	(51,131)	(11,537)	(450)	—	(29,189)	(92,307)
Net book amount	17,882	10,573	868	—	57,615	86,938

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Cost of revenues	**10,191**	8,859
Selling and marketing expenses	**556**	—
Research and development expenses	**6,684**	1,074
General and administrative expenses	**8,072**	6,210
	25,503	16,143

15 RIGHT-OF-USE ASSETS

	Properties RMB'000
At January 1, 2018	
Cost	60,880
Accumulated depreciation	(28,443)
Net book amount	32,437
Year ended December 31, 2018	
Opening net book amount	32,437
Additions	41,663
Depreciation (Note 6)	(14,810)
Closing net book amount	59,290
At December 31, 2018	
Cost	102,543
Accumulated depreciation	(43,253)
Net book amount	59,290
Year ended December 31, 2019	
Opening net book amount	59,290
Additions	—
Depreciation (Note 6)	(21,646)
Closing net book amount	37,644
At December 31, 2019	
Cost	102,543
Accumulated depreciation	(64,899)
Net book amount	37,644

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

	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets	21,646	14,810
Interest expenses	2,459	2,031
Expenses relating to short-term leases	3,041	578
The cash outflow for leases payment related to short-term lease as operating activities	2,526	763
The cash outflow for leases as financing activities	23,692	17,849

16 INTANGIBLE ASSETS

	Game license RMB'000	**Domain name** RMB'000	**Software** RMB'000	**Trade name** RMB'000	**User list** RMB'000	**Goodwill** RMB'000	**Total** RMB'000
At January 1, 2018							
Cost	100,067	5,678	5,951	17,188	8,000	101,670	238,554
Accumulated amortization	(54,768)	(1,369)	(3,189)	(2,189)	(1,600)	—	(63,115)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037
Year ended December 31, 2018							
Opening net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037
Additions	58,451	—	697	—	—	—	59,148
Amortization	(37,506)	(528)	(1,743)	(2,137)	(1,600)	—	(43,514)
Currency translation differences	1,504	—	—	—	—	—	1,504
Closing net book amount	67,681	3,483	1,716	12,825	4,800	101,670	192,175
At December 31, 2018							
Cost	160,506	5,678	6,648	17,188	8,000	101,670	299,690
Accumulated amortization	(92,758)	(1,897)	(4,932)	(4,326)	(3,200)	—	(107,113)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	67,681	3,483	1,716	12,825	4,800	101,670	192,175
Year ended December 31, 2019							
Opening net book amount	67,681	3,483	1,716	12,825	4,800	101,670	192,175
Additions	63,152	—	4,413	—	—	—	67,565
Amortization	(53,852)	(555)	(2,506)	(2,137)	(1,600)	—	(60,650)
Impairment	(1,146)	—	—	—	—	—	(1,146)
Currency translation differences	994	—	—	—	—	—	994
Closing net book amount	76,829	2,928	3,623	10,688	3,200	101,670	198,938
At December 31, 2019							
Cost	224,368	5,289	11,056	17,100	8,000	101,670	367,483
Accumulated amortization	(146,393)	(2,361)	(7,433)	(6,412)	(4,800)	—	(167,399)
Impairment	(1,146)	—	—	—	—	—	(1,146)
Net book amount	76,829	2,928	3,623	10,688	3,200	101,670	198,938

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

	Year ended December 31,	
	2019 **RMB'000**	2018 RMB'000
Cost of revenues	**58,974**	42,540
General and administrative expenses	**1,676**	974
	60,650	43,514

16 INTANGIBLE ASSETS (Continued)

Impairment of goodwill

The Group carries out its annual impairment test on goodwill by comparing the recoverable amounts of CGU to the carrying amounts. The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period with a terminal value related to the future cash flows extrapolated using the estimated growth rates stated below beyond the 5-year period. 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. The management leveraged their extensive experiences in the industries and provided 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 segments:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Game Segment	**56,524**	56,524
Information Service Segment	**45,146**	45,146
	101,670	101,670

Impairment review on the goodwill of the Group has been conducted by the management as at December 31, 2018 and 2019 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a 5-year period. The key assumptions used in the significant CGU value-in-use calculations are as follows:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Game Segment		
Annual revenue growth rate for the 5-year period (%)	**3.0%-17.5%**	3.0%-21.6%
Gross profit rate (%)	**54.1%-56.4%**	52.2%-63.0%
Terminal revenue growth rate (%)	**3.0%**	3.0%
Pre-tax discount rate (%)	**18.5%**	19.7%
Information Service Segment		
Annual revenue growth rate for the 5-year period (%)	**5.0%-19.9%**	5.0%-39.9%
Gross profit rate (%)	**88.2%-90.3%**	89.9%-91.4%
Terminal revenue growth rate (%)	**3.0%**	3.0%
Pre-tax discount rate (%)	**22.0%**	21.6%

The budgeted gross margins used in the goodwill impairment testing, were determined by the management based on past performance and its expectation for market development. The expected revenue growth rate and gross profit rates are following the business plan approved by the Company. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

16 INTANGIBLE ASSETS (Continued)

Impairment of goodwill (Continued)

The headroom of the Game and Information Service CGUs are shown as below:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Game Segment	**3,485,625**	2,320,423
Information Service Segment	**1,378,776**	642,321

The Group performs the sensitivity analysis based on the assumption that revenue amount or the discount rate has been changed. Had the estimated key assumption during the forecast period been changed as below the headroom would be decreased to as below:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Game Segment		
Revenue growth rate decreased by 10%	**3,245,449**	2,153,367
Gross profit rate decreased by 10%	**2,320,956**	1,532,844
Terminal revenue growth rate decrease by 10%	**3,256,912**	2,167,989
Discount rate increased by 10%	**3,045,641**	2,025,207
Information Service Segment		
Revenue growth rate decreased by 10%	**1,283,931**	580,190
Gross profit rate decreased by 10%	**1,005,118**	337,201
Terminal revenue growth rate decrease by 10%	**1,290,397**	595,226
Discount rate increased by 10%	**1,200,359**	547,656

As at December 31, 2018, a 172% decrease in estimated revenue growth rate, a 29% decrease in estimated gross profit rate, a 429% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment.

As at December 31, 2019, a 184% decrease in estimated revenue growth rate, a 30% decrease in estimated gross profit rate, a 494% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment.

As at December 31, 2018, a 143% decrease in estimated revenue growth rate, a 21% decrease in estimated gross profit rate, a 240% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment.

As at December 31, 2019, a 219% decrease in estimated revenue growth rate, a 37% decrease in estimated gross profit rate, a 474% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment.

17 DEFERRED INCOME TAXES

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

Deferred tax assets

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
— Tax losses	**7,338**	9,141
— Lease liabilities	**6,190**	8,767
— Long term investments measured at fair value through profit or loss	**2,828**	2,404
— Bad debt provision	**464**	294
— Intangible assets	**45**	10
Total gross deferred tax assets	**16,865**	20,616
Set-off of deferred tax liabilities pursuant to set-off provisions	**(5,516)**	(12,223)
Net deferred tax assets	**11,349**	8,393

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Deferred tax assets:		
— to be recovered within 12 months	**8,353**	5,306
— to be recovered after 12 months	**2,996**	3,087
	11,349	8,393

17 DEFERRED INCOME TAXES (Continued)

Deferred tax liabilities

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
— Right-of-use assets	**5,431**	8,160
— Intangible assets arising from business combinations	**1,536**	5,513
— Long term investments measured at fair value through profit or loss	**684**	444
Total gross deferred tax liabilities	**7,651**	14,117
Set-off of deferred tax assets pursuant to set-off provisions	**(5,516)**	(12,223)
Net deferred tax liabilities	**2,135**	1,894

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Deferred liabilities assets:		
— to be recovered within 12 months	**—**	—
— to be recovered after 12 months	**2,135**	1,894
	2,135	1,894

17 DEFERRED INCOME TAXES (Continued)

Deferred tax assets

The movement on the gross deferred income tax assets is as follows:

	Tax losses RMB'000	Lease liabilities RMB'000	Long term investments measured at fair value through profit or loss RMB'000	Bad debt provision RMB'000	Intangible assets RMB'000	Contract liabilities and advance from customers RMB'000	Advertising and promotional expenses RMB'000	Total RMB'000
At January 1, 2018	10,885	5,431	1,418	242	10	2,002	1,488	21,476
Recognized in profit or loss	(1,935)	3,336	986	49	—	(2,002)	(1,488)	(1,054)
Currency translation differences	191	—	—	3	—	—	—	194
At December 31, 2018	9,141	8,767	2,404	294	10	—	—	20,616
Recognized in profit or loss	(1,830)	(2,577)	424	168	35	—	—	(3,780)
Currency translation differences	27	—	—	2	—	—	—	29
At December 31, 2019	7,338	6,190	2,828	464	45	—	—	16,865

Deferred tax liabilities

The movement on the gross deferred income tax liabilities is as follows:

	Right-of-use assets RMB'000	Intangible assets arising from business combinations RMB'000	Long term investments measured at fair value through profit or loss RMB'000	Total RMB'000
At January 1, 2018	4,865	13,946	—	18,811
Recognized in profit or loss	3,295	(8,433)	444	(4,694)
At December 31, 2018	8,160	5,513	444	14,117
Recognized in profit or loss	(2,729)	(3,977)	240	(6,466)
At December 31, 2019	5,431	1,536	684	7,651

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 December 31, 2018 and 2019, the Group did not recognize deferred income tax assets of RMB6.95 million and RMB7.64 million, in respect of cumulative tax losses amounting to RMB27.81 million and RMB42.95 million. These tax losses will expire from 2020 to 2024.

18 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) Yiwan

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Current assets	**613,298**	403,169
Non-current assets	**36,440**	32,845
Current liabilities	**(40,931)**	(30,748)
Non-current liabilities	**(16,780)**	(1,980)
Net assets	**592,027**	403,286
Accumulated non-controlling interests	**261,805**	193,999

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Revenue	**461,970**	299,963
Profit for the year	**189,637**	72,075
Profit and total comprehensive income for the year allocated to non-controlling interests	**86,695**	34,603
Cash flows from operating activities	**182,841**	(1,363)
Cash flows from investing activities	**(313,585)**	(110,827)
Cash flows from financing activities	**46,150**	150,000
Net (decrease)/increase in cash and cash equivalents	**(84,594)**	37,810

18 INTERESTS IN OTHER ENTITIES (Continued)

(a) Non-controlling interests (Continued)

(ii) Longcheng

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Current assets	373,047	353,796
Non-current assets	26,261	79,736
Current liabilities	(130,379)	(231,683)
Net assets	268,929	201,849
Accumulated non-controlling interests	94,125	70,647

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Revenue	743,204	752,338
Profit for the year	63,125	83,841
Other comprehensive income	3,957	7,900
Total comprehensive income	67,082	91,741
Profit for the year allocated to non-controlling interests	22,094	33,257
Total comprehensive income allocated to non-controlling interests	23,478	36,391
Cash flows from operating activities	104,251	(17,295)
Cash flows from investing activities	(51,416)	(34,436)
Exchange gain on cash and cash equivalents	367	—
Net increase/(decrease) in cash and cash equivalents	53,202	(51,731)

18 INTERESTS IN OTHER ENTITIES (Continued)

(a) Non-controlling interests (Continued)

(iii) X.D. Global (HK) Limited

	As at December 31, 2019 RMB'000
Current assets	351,002
Non-current assets	71,967
Current liabilities	(254,969)
Net assets	168,000
Accumulated non-controlling interests	58,800

	Year ended December 31, 2019 RMB'000
Revenue	583,857
Profit for the period	166,129
Other comprehensive income	1,871
Total comprehensive income	168,000
Profit allocated to non-controlling interests	58,145
Total comprehensive income allocated to non-controlling interests	58,800
Cash flows from operating activities	247,884
Cash flows from investing activities	(21,752)
Exchange gain on cash and cash equivalents	1,070
Net increase in cash and cash equivalents	227,202

18 INTERESTS IN OTHER ENTITIES (Continued)

(b) Transactions with non-controlling interests

(i) In April 2018, the Group acquired an additional 14% equity interest in Longcheng at a consideration of RMB28 million. Immediately prior to the purchase, the carrying amount of the existing 49% non-controlling interest in Longcheng was RMB68.94 million. The Group recognized a decrease in non-controlling interest of RMB19.70 million and a decrease in other reserves of RMB8.30 million.

(ii) In June 2018, X.D. Network Inc. and non-controlling shareholders consummated additional capital injection in Yiwan for RMB100 million (out of which RMB50 million was paid in January 2019) and RMB100 million, respectively. Immediately prior to the transaction, the carrying amount of the existing 47.91% non-controlling interest in Yiwan was RMB80.14 million. After the transaction, the Group's equity interest in Yiwan was diluted from 52.09% to 51.90% and retained control over Yiwan. Therefore, the Group recorded an increase in non-controlling interest of RMB96.53 million and an increase in other reserves of RMB3.47 million.

(iii) In May 2019, the Group acquired an additional 3.88% equity interest in Yiwan at a consideration of RMB96.92 million. Immediately prior to the purchase, the carrying amount of the existing 48.10% non-controlling interest in Yiwan was RMB234.45 million. The Group recognized a decrease in non-controlling interest of RMB18.89 million and a decrease in other reserves of RMB78.03 million.

(c) Investments in associates using the equity method

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**44,305**	43,259
Additions	—	1,000
Share of results of associates	**10,767**	285
Re-measurement gain (Note i)	—	9,446
Transferred to long-term investment measured at fair value through profit or loss (Note i)	—	(15,577)
Dilution gain (Note ii)	—	5,127
Impairment	**(2,509)**	—
Currency translation differences	**237**	765
At the end of the year	**52,800**	44,305

(i) On July 30, 2018, one independent third party completed capital injection in one associate of the Group which is accounted for using equity method. In this transaction, the Group's equity interest in the associate was diluted from 23.00% to 19.55% and the Group obtained redemption rights from the associate. The Group subsequently recorded this investment as long term investments measured at fair value through profit or loss (Note 20) and recognized a re-measurement gain of RMB9.45 million (Note 10).

(ii) On February 9, 2018, the Group's certain associates accounted for using equity method received capital injection from third parties. Subsequently, the Group's equity interest in theses investees was diluted, but the Group retained significant influence on these investees. The Group recognized dilution gain of RMB5.13 million during the years ended December 31, 2018.

(d) In the opinion of the directors, none of the associates is material to the Group. The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	**52,800**	44,305
Aggregate amounts of the Group's share of:		
— Profit from operations	**10,767**	285

19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at December 31,	
	2019	2018
	RMB'000	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 20)	**29,918**	33,687
— Short-term investments measured at fair value through profit or loss (Note 23)	**497,363**	156,647
	527,281	190,334
Financial assets at amortized costs:		
— Trade receivables (Note 22)	**406,143**	449,070
— Deposits and other assets (Note 21)	**24,277**	19,298
— Cash and cash equivalents (Note 24)	**1,336,869**	573,233
	1,767,289	1,041,601
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortized costs:		
— Trade payables (Note 28)	**200,845**	101,275
— Advance from customers (Note 29)	**15,756**	9,089
— Other payables (excluding salaries and benefits payable and other tax payables) (Note 30)	**35,048**	25
— Lease liabilities (Note 27)	**39,518**	60,751
	291,167	171,140

20 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 December 31, 2018 and 2019, are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**33,687**	36,451
Transfer from investments in associates (Note 18(c))	**—**	15,577
Change in fair value (Note 8)	**(3,731)**	(12,462)
Disposal	**—**	(5,911)
Currency translation differences	**(38)**	32
At the end of the year	**29,918**	33,687

As of December 31, 2018 and 2019, 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 December 31,	
	2019	2018
	RMB'000	RMB'000
Investments in associates at fair value through profit or loss (Note a)	**17,457**	19,873
Other investments at fair value through profit or loss (Note b)	**12,461**	13,814
	29,918	33,687

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

(a) During the years ended December 31, 2018 and 2019, 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 December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**19,873**	10,386
Transfer from investments in associates (Note 18(c))	**—**	15,577
Change in fair value	**(2,416)**	(6,090)
At the end of the year	**17,457**	19,873

(b) The Group also has interests in certain investee companies in form of ordinary shares without significant influence, 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 December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**13,814**	26,065
Change in fair value	**(1,315)**	(6,372)
Disposal	**—**	(5,911)
Currency translation differences	**(38)**	32
At the end of the year	**12,461**	13,814

As at December 31, 2018 and 2019, 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.

21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Non-current		
Prepayments for game licenses (a)	**61,509**	59,571
Rental and other deposits	**6,653**	5,395
Prepayments for equipment	**5,994**	—
	74,156	64,966
Current		
Prepayments for sharing of proceeds (a)	**56,697**	57,907
Prepayments for advertisements and marketing services	**45,454**	6,650
Tax prepayments	**14,167**	18,537
Rental and other deposits	**7,382**	7,302
Deferred listing expenses	—	384
Others	**10,242**	6,601
	133,942	97,381

(a) The Group licenses online games from game developers and pays game license fees and sharing of proceeds earned from end users to game developers. The prepayments for game license fees are transferred to intangible assets when the Group receives related licensed games. The prepayments for sales based sharing are expensed to cost of revenues if the Group acts as principle, or are offset against the revenues if the Group acts as agent, on incurred basis.

During the years ended December 31, 2018 and 2019, certain prepayments were fully impaired as the Group ceased to publish these licensed games due to their underperformance. During the year ended December 31, 2018 and 2019, the Group made an impairment provision on prepayments to game developers of RMB41.56 million and RMB12.21 million, respectively.

22 TRADE RECEIVABLES

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Distribution Channels and game publishers	**304,616**	351,966
Online marketing service customers	**104,488**	98,166
Related parties	**505**	503
	409,609	450,635
Less: allowance for impairment	**(3,466)**	(1,565)
	406,143	449,070

22 TRADE RECEIVABLES (Continued)

(a) Distribution Channels and game publishers and online marketing service customers usually settle the amounts within 30–120 days. Related parties are granted with a credit period of 90 days. Aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**385,318**	428,533
3 months to 6 months	**15,451**	19,581
6 months to 1 year	**5,683**	1,395
1 to 2 years	**2,089**	591
Over 2 years	**1,068**	535
	409,609	450,635

(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. During the years ended December 31, 2018 and 2019 the expected loss rate for related parties and online market service customers is 0.31%–0.49%; the expected credit loss rates for Distribution Channels and game publishers are determined according to provision matrix as follows:

	As of December 31,	
	2019	2018
Within 3 months	**0.09%**	0.09%
3 months to 6 months	**1.28%**	1.21%
6 months to 1 year	**6.80%**	8.70%
1 to 2 years	**69.40%**	73.22%
Over 2 years	**100.00%**	100.00%

The expected loss rates are based on the payment profiles of sales over a period of 36 month before December 31, 2018 and 2019 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 December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**1,565**	1,249
Provision	**1,889**	299
Currency translation differences	**12**	17
At the end of the year	**3,466**	1,565

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 income.

22 TRADE RECEIVABLES (Continued)

(c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of December 31, 2018 and 2019.

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

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
USD	**285,111**	336,557
RMB	**124,498**	114,078
	409,609	450,635

(e) The maximum exposure to credit risk as of December 31, 2018 and 2019 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

23 SHORT-TERM INVESTMENTS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Short-term investments measured at — fair value through profit or loss	**497,363**	156,647

The short-term investments measured at fair value through profit or loss are wealth management products, of which principal and returns are not guaranteed. The effective rate of return of these wealth management products are 2.00% to 4.00% and the term are 7 to 91 days. The fair values are based on discounted cash flow using the expected return based on management judgment and are within level 3 of the fair value hierarchy (Note 3.3). Changes in fair value of these financial assets had been recognized in "Fair value changes on investments measured at fair value through profit or loss" in the consolidated statement of comprehensive income.

The carrying amount of the Group's short-term investments is denominated in RMB.

24 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Cash on hand and cash in bank	**569,668**	179,307
Term deposit with initial terms within three months (Note a)	**742,199**	387,782
Cash held by other financial institutions (Note b)	**25,002**	6,144
	1,336,869	573,233

(a) The interest rates of these deposits per annum were 1.95%-3.45%.

(b) As at December 31, 2018 and 2019, 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 December 31,	
	2019	2018
	RMB'000	RMB'000
RMB	**66,864**	174,525
USD	**579,330**	367,454
HKD	**688,999**	29,388
KRW	**1,676**	1,866
	1,336,869	573,233

25 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
Authorized				
Ordinary shares of USD0.0001 each; January 25, 2019 (date of incorporation)	500,000	50	N/A	N/A
As at December 31, 2019	500,000	50	N/A	N/A
Issued and fully paid				
Issuance of ordinary shares in relation to the Reorganisation of the Group (Note a)	351,921	35	240	4,750,933
Shares allotted for RSU scheme (Note b)	8,438	1	6	—
Shares held for RSU scheme (Note b)	(8,438)	(1)	(6)	—
Issuance of ordinary shares upon IPO (Note c)	63,600	6	44	606,181
As at December 31, 2019	415,521	41	284	5,357,114

(a) From April 10, 2019 to June 17, 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 June 17, 2019, in order to incentive the employees for their contribution, the Company allotted and issued an aggregate of 8,437,540 shares to Heart Assets Limited, which hold shares on trust for and on behalf of the Company. As at December 31, 2019, the shares are not granted and are represented as treasury shares of the Group.

(c) On December 12, 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.

26 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserves RMB'000	Currency translation differences RMB'000	Total RMB'000
As at January 1, 2018	712,473	15,067	(103)	727,437
Appropriation to statutory reserves (Note a)	—	23,004	—	23,004
Capital injection from non-controlling shareholders (Note 18(b))	3,474	—	—	3,474
Acquisition of additional equity interests in a subsidiary (Note 18(b))	(8,304)	—	—	(8,304)
Currency translation differences	—	—	9,846	9,846
As at December 31, 2018	707,643	38,071	9,743	755,457
Share repurchase of a subsidiary	(86,408)	—	—	(86,408)
Acquisition of additional equity interests in a subsidiary (Note 18(b))	(78,034)	—	—	(78,034)
Issuance of ordinary shares in relation to the Reorganisation of the Group	(4,750,933)	—	—	(4,750,933)
Appropriation to statutory reserves (Note a)	—	17,220	—	17,220
Currency translation differences	—	—	5,370	5,370
As at December 31, 2019	(4,207,732)	55,291	15,113	(4,137,328)

(a) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalized as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered paid in capital.

27 LEASE LIABILITIES

	As at December 31, 2019 RMB'000	2018 RMB'000
Minimum lease payments due		
— Within 1 year	**17,036**	23,692
— Between 1 and 2 years	**16,784**	17,035
— Over 2 years	**8,203**	24,988
	42,023	65,715
Less: future finance charges	**(2,505)**	(4,964)
Present value of lease liabilities	**39,518**	60,751

	As at December 31, 2019 RMB'000	2018 RMB'000
Minimum lease payments due		
— Within 1 year	**16,462**	22,892
— Between 1 and 2 years	**15,590**	15,833
— Over 2 years	**7,466**	22,026
	39,518	60,751

28 TRADE PAYABLES

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Trade payables	**200,845**	101,275

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.

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

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
RMB	**81,921**	30,549
USD	**118,924**	70,726
	200,845	101,275

As of December 31, 2018 and 2019, the fair value of trade payables approximated to their carrying amount.

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

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**199,372**	98,664
Over 3 months	**1,473**	2,611
	200,845	101,275

29 ADVANCE FROM CUSTOMERS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Advance from customers	**15,756**	9,089

Advance from customers mainly represents advance from game developers, game publishers and their advertising agencies, which are usually received before displaying and will be refunded if not used.

30 OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Salaries and benefits payables	**95,912**	69,301
Other tax payables	**20,745**	14,546
Listing expenses	**24,980**	—
Others	**10,068**	25
	151,705	83,872

As at December 31, 2018 and 2019, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

31 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 December 31,	
	2019	2018
	RMB'000	RMB'000
Contract liabilities	**99,321**	90,921

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year	**90,921**	105,206

32 DIVIDENDS

Pursuant to the resolutions of the shareholders' meetings of X.D. Network Inc. on June 20, 2018, a dividend of RMB50.09 million was approved and paid to its then equity holders in the same year.

Pursuant to the resolutions of the shareholders' meetings of Shanghai Mingdong Network Co., Ltd. (上海鳴動網路科技有限公司), a subsidiary of the Group, on February 8, 2018, a dividend of RMB6.95 million was approved and paid, RMB2.81 million of which was paid to non-controlling shareholders. The subsidiary was dissolved in November 2018.

No dividends have been paid or declared by the Company during the years ended December 31, 2018 and 2019.

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from/(used in) operations

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Profit before income tax		545,425	389,396
Adjustments for			
Depreciation and amortization	6	107,799	74,467
Net impairment losses on financial assets	6	1,889	299
Impairment of long-term assets	6	15,860	41,564
Listing expenses	6	53,549	2,415
Share based payments	6	5,890	—
Share of results of investments accounted for using equity method	18	(10,767)	(285)
Fair value changes on investments measured at fair value through profit or loss	8	(8,186)	3,351
Re-measurement gain	10	—	(9,446)
Dilution gain	10	—	(5,127)
Losses/(gains) on disposal of non-current assets		37	(164)
Net exchange differences	10	(1,510)	(9,518)
Interest expenses on lease liabilities	11	2,459	2,031
		167,020	99,587
Changes in working capital			
— Trade receivables		41,026	(233,411)
— Prepayments, deposits and other assets		(50,945)	(40,960)
— Trade payables		101,726	(25,836)
— Advance from customers		6,667	1,010
— Contract liabilities		8,400	(14,285)
— Other payables and accruals		36,814	23,203
Cash generated from operations		856,133	198,704

(b) Net debt reconciliation — lease liabilities

	Year ended December 31, 2019 RMB'000	2018 RMB'000
At the beginning of the year	60,751	34,906
Cash flows	(23,692)	(17,849)
Increase of right-of-use assets	—	41,663
Accrual interest for lease liabilities	2,459	2,031
At the end of the year	39,518	60,751

34 COMMITMENTS

(a) Capital commitments

The Group made capital expenditure in respect of purchase of game licenses which are in development as at December 31, 2018 and 2019. The Group has commitments to make the following future instalments under non-cancellable game purchase agreements are as follows:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Game licenses	**58,144**	54,562

(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 December 31, 2018 and 2019 is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 15.

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods 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.

(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 December 31, 2018 and 2019.

Name of related parties	**Relationship**
Gamecores (Beijing) Culture Communication Co., Ltd.	Associate
Mengxiang (Cayman) Inc. and its Associates	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
Shanghai Jixin Network Science and Technology Co., Ltd.	Associate
Shanghai LinkedTune Culture Communication Co., Ltd.	Associate
Shanghai Qingyue Software Science and Technology Co., Ltd.	Associate
Shanghai Xinyu Animation Design Co. Ltd.	Associate
Xiamen So Funny Information Technology Co., Ltd.	Associate
Mr. Dai Yunjie	Shareholder and director
Mr. Zhao Yuyao	Shareholder and director
Jiexin Holdings Limited	Shareholder
Happy Today Holding Limited	Shareholder
Shanghai Maichuang Network Technology Limited	Associate of Mr. Dai Yunjie's spouse
Shanghai Xuerui Culture Media Limited	Associate of Mr. Zhao Yuyao

35 RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties

(i) Sales of service

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Shanghai Fantablade Network Science and Technology Co., Ltd.	**249**	315
Shanghai Jixin Network Science and Technology Co., Ltd.	—	677
Shanghai Xinyu Animation Design Co. Ltd.	—	218
Mengxiang (Cayman) Inc. and its Associates	—	438
	249	1,648

(ii) Purchase of service

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Xiamen So Funny Information Technology Co., Ltd.	**145,612**	232
Shanghai Maichuang Network Technology Limited	**12,248**	10,086
Shanghai Bianyue Culture Communication Co., Ltd.	**10,134**	—
Shanghai Fantablade Network Science and Technology Co., Ltd.	**6,725**	10,373
Gamecores (Beijing) Culture Communication Co. Ltd.	**2,628**	2,511
Shanghai Jixin Network Science and Technology Co., Ltd.	**918**	1,598
Shanghai LinkedTune Culture Communication Co., Ltd.	**313**	1,054
Shanghai Xuerui Culture Media Limited	—	5,917
Others	**1,323**	82
	179,901	31,853

(iii) Receipt of game licenses

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Shanghai LinkedTune Culture Communication Co., Ltd.	—	971

35 RELATED PARTY TRANSACTIONS (Continued)

(c) Year end balances with related parties

(i) Trade receivables from related parties

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Shanghai Xinyu Animation Design Co. Ltd.	**505**	505

(ii) Prepayments to related parties

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Shanghai Qingyue Software Science and Technology Co., Ltd.	**4,854**	3,495
Shanghai Chatie Network Science and Technology Co., Ltd.	**2,233**	1,748
Xiamen So Funny Information Technology Co., Ltd.	**—**	25,500
Others	**—**	1,091
	7,087	31,834

(iii) Other receivables to related parties

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Jiexin Holdings Limited	**260**	—
Happy Today Holding Limited	**9**	—
	269	—

(iv) Trade payables to related parties

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Xiamen So Funny Information Technology Co., Ltd.	**58,006**	15
Shanghai Fantablade Network Science and Technology Co., Ltd.	**—**	1,701
Others	**684**	1,023
	58,690	2,739

36 CONTINGENCIES

The Group did not have any material contingent liabilities as of December 31, 2018 and 2019.

37 SUBSEQUENT EVENTS

(a) Full Exercise of the over-allotment option

The Company announced that the over-allotment option was fully exercised on January 3, 2020 in respect of an aggregate of 9,540,000 shares, representing 15.0% of the offer shares initially available upon its IPO. The over-allotment shares comprise of the option new shares and the option existing shares. An aggregate number of 4,060,000 option new shares will be issued and allotted by the Company and an aggregate number of 5,480,000 option existing shares will be sold by Dynasty Vision Limited, at HK$11.10 per Share (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%). Listing and dealings in such shares commenced on the Main Board of the Stock Exchanges on January 8, 2020.

The Company received the net proceeds of HK$43.7 million on January 8, 2020 (after deducting the underwriting commissions and other estimated expenses in connection with the exercise of the over-allotment option) for the 4,060,000 option new shares to be issued and allotted following the full exercise of the over-allotment option.

(b) The outbreak of Coronavirus Disease 2019

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the countries and regions where the Group's main business at. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

38 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at December 31, 2019 RMB'000
ASSETS	
Non-current assets	
Investment in subsidiaries	4,821,076
	4,821076
Current assets	
Prepayments and other assets	20,231
Cash and cash equivalents	613,967
	634,198
Total assets	5,455,274
EQUITY	
Share capital	284
Share premium	5,357,114
Other reserves	69,552
Accumulated losses	(53,016)
Total equity	5,373,934
LIABILITIES	
Current liabilities	
Other payables and accruals	81,340
Total liabilities	81,340
Total equity and liabilities	5,455,274

The balance sheet of the Company was approved by the Board of Directors on March 30, 2020 and was signed on its behalf.

Gong Rui
CFO

Fan Shuyang
Director

38 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(b) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
As at January 1, 2019	—	—
Loss for the year	—	(53,016)
Currency translation differences	69,552	—
As at December 31, 2019	69,552	(53,016)

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FINANCIAL SUMMARY

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial statements, is set out below:

	Year ended December 31			
	2019	2018	2017	2016
Revenues	**2,838,097**	1,887,108	1,344,399	765,521
Cost of revenues	**(1,066,320)**	(776,309)	(741,651)	(424,797)
Gross profit	**1,771,777**	1,110,799	602,748	340,724
Selling and marketing expenses	**(745,101)**	(447,989)	(244,358)	(186,289)
Research and development expenses	**(317,596)**	(197,780)	(117,443)	(79,434)
General and administrative expenses	**(202,692)**	(107,315)	(83,840)	(66,693)
Net impairment losses on financial assets	**(1,889)**	(299)	(960)	(654)
Fair value changes on investments measured at fair value through profit or loss	**8,186**	(3,351)	(21,069)	(15,605)
Other income	**12,426**	8,141	958	6,386
Other gains/(losses), net	**4,179**	24,232	(2,091)	44,203
Operating Profit	**529,290**	386,438	133,945	42,638
Finance income	**8,319**	4,993	3,024	1,183
Finance costs	**(2,951)**	(2,320)	(2,085)	(1,987)
Finance income/(costs), net	**5,368**	2,673	939	(804)
Share of losses of investments accounted for using equity method	**10,767**	285	7,587	(18,509)
Profit before income tax	**545,425**	389,396	142,471	23,325
Income tax expenses	**(31,996)**	(36,675)	(21,934)	45
Profit for the year	**513,429**	352,721	120,537	23,370
Profit for the year attributable to:				
Equity holders of the Company	**346,563**	285,028	116,630	25,181
Non-controlling interests	**166,866**	67,693	3,907	(1,811)
Profit for the year	**513,429**	352,721	120,537	23,370

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Assets, Liabilities and Equity				
TOTAL ASSETS	**2,866,060**	1,724,700	1,310,581	710,016
TOTAL LIABILITIES	**579,530**	382,140	352,826	200,101
TOTAL EQUITY	**2,286,530**	1,342,560	957,755	509,915

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DEFINITIONS AND GLOSSARY

DEFINITIONS AND GLOSSARY

"Articles"/"Articles of Association"	the amended and restated articles of association of our Company, conditionally adopted on November 19, 2019 with effect from the Listing Date, and as amended from time to time;
"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;
"Auditor"	PricewaterhouseCoopers, the independent auditor of the Company;
"associate(s)"	has the meaning ascribed thereto under the Listing Rules;
"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 14 to the Listing Rules;
"Companies Law"	the Companies Law (2018 Revision), Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time;
"Company" or "our Company"	XD Inc. (心動有限公司), 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;
"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;

"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;
"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;
"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;
"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);
"IPO proceeds"	the net proceeds of approximately HK$770.9 million from the global offering of the shares of the Company, after deducting professional fees, underwriting commissions and other related listing expenses;
"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;
"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;
"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;
"NEEQ"	National Equities Exchange and Quotations (全國中小企業股份轉讓系統);
"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 29 November 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);
"Reorganization"	the offshore and onshore reorganization as set out in section headed "History, Reorganization and Corporate Structure — Corporate Reorganization" of the Prospectus;
"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;
"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;

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"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);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance;
"Tencent"	Tencent Holdings Limited (SEHK Stock Code: 700), or Tencent Holdings Limited and/or its subsidiaries, as the case may be;
"the reporting period"	period from January 1, 2019 to December 31, 2019;
"USD"	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;
"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;
"web games"	games that are played in a web browser on PC without downloading any client or app;
"%"	per cent;