



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

2020 INTERIM REPORT

中期 報告



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01

CORPORATE
INFORMATION

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Huang Yimeng (*Chairman and Chief Executive Officer*)
Mr. Dai Yunjie
Mr. 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
Floor 4, Willow House, Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE IN THE PRC

Unit A2, No. 700
Wanrong Road
Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F., Sunlight Tower
248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

HONG KONG LEGAL ADVISER

Clifford Chance

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

HIGHLIGHTS

HIGHLIGHTS

SUMMARY

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the six months ended June 30		
	2020 (RMB'000) (Unaudited)	2019 (RMB'000) (Unaudited)	Change %
Revenues	1,440,481	1,309,815	10.0
Gross profit	825,800	877,620	-5.9
Profit for the period	259,912	326,918	-20.5
Profit attributable to equity holders of the Company	206,546	236,663	-12.7

KEY OPERATING INFORMATION

	For the six months ended June 30		
	2020 (in thousands)	2019 (in thousands)	Change %
ONLINE GAMES			
Average MAUs ⁽¹⁾	30,474	18,428	65.4
Average MPUs ⁽²⁾	982	645	52.2
TapTap			
Average App MAUs	24,796	16,320	51.9

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

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

03

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

Here is an overview of our main products and services:

Our Games

As of June 30, 2020, our game portfolio includes 35 online games and 11 premium games.

Online Game

For the six months ended June 30, 2020, average MAUs and MPUs of our online games increased by 65.4% and 52.2%, respectively, compared to the same period of 2019. The increases were primarily attributable to the significantly increased popularity of Sausage Man (香腸派對) during the "stay-at-home period". In the first half of 2020, "Ragnarok M", "Ulala", "Sausage Man", "Lan Yan Qing Meng" (藍顏清夢) and "Girls' Frontline" (少女前線) are our top five games in terms of revenue generation. Here is an overview of our major existing games:

- "Ragnarok M" (仙境傳說 M) : It has been three and a half years since its official launch. As the game's life cycle matures, the game's revenue in the first half of 2020 has declined compared to the same period in 2019. We still have a team of more than 150 people to maintain and support the game service, and we will continue to update high-quality content for gamers. At the same time, a major game version update is in the works, to push forward the game's quality to a whole new level and attract new players.
- "Ulala" (不休的烏拉拉) : Since May 2019, the game has been launched in more than 50 overseas countries and regions and China. At the beginning of its launch, the game had rapidly entered the top ten best-selling game list in many countries. At present, the monthly turnover of the game has dropped significantly compared to the period immediately after its launch, but we are working with developers to continue to provide high-quality updates and third-party collaboration activities for the game.

- “Sausage Man” (香腸派對) : The game has been online for more than three and a half years, but due to its nature as a battle arena game, the game is still going strong and has great potential. In the first quarter of this year, the game’s user base grew rapidly with a total downloading volume exceeding 100 million times. The monetization of the game has been successful, owing to continuously optimizing the Game Season system and Golden Season Ticketing system. In addition, the team has also added in-game incentive ads to boost the monetization aspect of this highly popular game.

At the end of June 2020, we launched “Arknights” (明日方舟) in Hong Kong, Macau and Taiwan, and topped the list of the best-selling games in both Taiwan and Hong Kong.

Games Under Development

We regard game research and development capabilities as one of the company’s core competitiveness, and self-developed games as one of the core driving forces behind the company’s development. In the first half of this year, we hired more than 250 game developers, and as at the end of June 2020, there were more than 880 employees engaged in game development. We have a total of 11 games currently in the research phase, and three of them are expected to enter the mass production phase within the next 6 months:

- “Torchlight: Infinity” (火炬之光：無限) : This is a dark themed mobile game authorized by the well-known PC game “Torchlight” (火炬之光) using the UE4 engine. The game was opened for a playtest at ChinaJoy in July this year, where more than 1,000 people experienced the game, and the game was generally well-received.
- “Fantasy World” (心動小鎮 tentative name): The original “創想世界” project has been renamed as “心動小鎮”. This project is a life simulation social game. Currently, this game has completed the construction of the core framework and a small-scale internal test.
- “Project A” (tentative name): This game is a youthful Japanese teenage girl themed MMORPG made with the UE4 engine. The game is expected to finalize its name and release a trailer this year.

Premium Games

Premium games further enrich our game portfolio and increase our brand recognition among the core gamers. In the first half of 2020, our premium game business grew rapidly compared to the same period last year. We launched the Nintendo Switch version of “Juicy Realm” (惡果之地) in November 2019 and the mobile version of this game in May 2020. In addition, “Muse Dash” (喵斯快跑) and “ICEY” (艾希) also continued to perform well.

In the second half of 2020, we expect to release two highly anticipated games — “Human: Fall Flat” (人類跌落夢境) and “Terraria” (泰拉瑞亞) on mobile phones.

TapTap

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

For Gamers

Since the beginning of 2020, we have continuously added a large number of products and technical staff for TapTap, and have carried out multiple version iterations with the goal of increasing user activity. In the first half of 2020, the average monthly active users of the TapTap mobile app was 24.8 million, with a period-on-period increase of 51.9%; the number of game downloads on TapTap was 219.9 million, with a period-on-period increase of 26.4%; the number of new TapTap posts was 3.4 million, with a period-on-period increase of 143.0%. In the near future, we plan to concentrate on the operation and research & development of the TapTap community, so as to complete the integration of community dynamics and game forums, improve the community content recommendation algorithm, and increase the function of community's popular rankings.

In the first half of 2020, we provided TapTap users with a wide array of games (exclusive or limited-time exclusive on the PRC Android platform). Among them, "Pasical's Wager" (帕斯卡契約) was the first Chinese game to appear at the Apple conference, which caught the attention of a large number of gamers. In July 2020, TapTap also exclusively released a free-to-play game "Canal Towns" (江南百景圖) on PRC Android platform. This game has been continuously ranked among the top three free games in the App Store for 36 days after its launch.

For Game Developers

As of June 30, 2020, TapTap has approximately 13,000 registered developers. TapTap is committed to becoming a communication bridge between developers and gamers. The TapTap platform aims to help developers reduce the difficulties of making and publishing games. In the first half of 2020, we reorganized the technical department (originally providing general product services for our games) into the developer service department of the TapTap platform. We also plan to launch more component tools for third-party developers to utilize and strengthen the connection between the game and our TapTap gamer community. We have unified and integrated services for developers into TDS (TapTap Developer Service). In the future, we plan to gradually provide developers with functions such as targeted testing invitation, data analysis, accounts login-in, friend synchronization, embedded community services and more into TDS.

FINANCIAL REVIEW

The following table sets forth the comparative figures for the first half of 2020 and the first half of 2019:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenues	1,440,481	1,309,815
Cost of revenues	(614,681)	(432,195)
Gross profit	825,800	877,620
Selling and marketing expenses	(278,158)	(311,201)
Research and development expenses	(218,146)	(129,661)
General and administrative expenses	(81,393)	(87,689)
Net impairment losses on financial assets	(1,311)	(1,010)
Fair value changes on investments measured at fair value through profit or loss	7,073	8,225
Other income	13,796	8,489
Other gains/(losses), net	5,554	(2,234)
Operating profit	273,215	362,539
Finance income	6,846	4,737
Finance costs	(1,442)	(1,549)
Finance income/(costs), net	5,404	3,188
Share of results of investments accounted for using the equity method	6,607	(2,093)
Profit before income tax	285,226	363,634
Income tax expenses	(25,314)	(36,716)
Profit for the period	259,912	326,918

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other comprehensive income:		
<i>Items that may not be reclassified to profit or loss</i>		
— Currency translation differences	9,052	(232)
<i>Items that may be reclassified to profit or loss</i>		
— Currency translation differences	3,218	2,865
Total comprehensive income for the period	272,182	329,551
Profit for the period attributable to:		
Equity holders of the Company	206,546	236,663
Non-controlling interests	53,366	90,255
	259,912	326,918
Total comprehensive income for the period attributable to:		
Equity holders of the Company	216,824	238,518
Non-controlling interests	55,358	91,033
	272,182	329,551
Earnings per share for profit for the period attributable to the equity holders of the Company		
Basic and diluted earnings per share (RMB)	0.49	0.67

Revenues

Our revenues 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 six months ended June 30, 2020 and 2019.

	For the six months ended June 30,			
	2020		2019	
	Amount	% of revenues	Amount	% of revenues
(Unaudited)	(RMB in thousands, except for percentages)			
Games	1,187,567	82.4	1,098,838	83.9
Game operating	1,161,717	80.6	1,096,237	83.7
Online games	1,111,264	77.1	1,070,801	81.8
Premium games	50,453	3.5	25,436	1.9
In-game marketing and promotion	23,463	1.6	—	—
Others	2,387	0.2	2,601	0.2
Information services	252,914	17.6	210,977	16.1
Total revenues	1,440,481	100.0	1,309,815	100.0

Games

Our revenue from game business increased by 8.1% to RMB1,187.6 million for the six months ended June 30, 2020 on a period-on-period basis. In particular,

- Our revenue from online games increased by 3.8% to RMB1,111.3 million for the six months ended June 30, 2020 on a period-on-period basis, primarily due to solid performance of our popular existing games and newly launched games, such as (i) 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 the PRC in October 2019, (ii) successive monetization of Sausage Man (香腸派對), and (iii) Lan Yan Qing Meng (藍顏清夢) launched in Hong Kong, Macau and Taiwan in January 2020, and in South Korea in March 2020. This increase was partially offset by decreases of revenue from certain existing games under maturity stage, such as Ragnarok M (仙境傳說); and
- Our revenue from premium games increased by 98.4% to RMB50.5 million for the six months ended June 30, 2020 on a period-on-period basis, primarily due to (i) Juicy Realm (惡果之地) launched in Nintendo Switch in November 2019 and in TapTap in May 2020, respectively, and (ii) solid performance of Muse Dash (喵斯快跑) launched in the PRC and overseas since June 2018.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the six months ended June 30, 2020 and 2019.

(Unaudited)	For the six months ended June 30, 2020		2019	
	Amount	%	Amount	%
	(RMB in thousands, except for percentages)			
Revenue recognized on a gross basis	847,778	73.0	539,704	49.2
Revenue recognized on a net basis	313,939	27.0	556,533	50.8
Total game operating revenue	1,161,717	100.0	1,096,237	100.0

During the six months ended June 30, 2020 and 2019, as a percentage of the total game operating revenue, our game operating revenue recognized on a gross basis increased and that recognized on a net basis decreased, mainly as a result of the increased revenue from Sausage Man (香腸派對) and Lan Yan Qing Meng (藍顏清夢), and the decreased revenue from Ragnarok M in overseas markets.

Since January 2020, we started to offer in-game marketing and promotion services to diversify our revenue sources. We launched targeted advertisement placements in our Sausage Man (香腸派對) for third party advertisers in January 2020 and generated a revenue of RMB23.5 million for the six months ended June 30, 2020.

Information services

Our revenue from information services business increased by 19.9% to RMB252.9 million for the six months ended June 30, 2020 on a period-on-period basis, primarily due to the growth of the average MAUs on our TapTap mobile app, which increased by 51.9% to 24.8 million for the six months ended June 30, 2020 on a period-on-period basis.

Cost of Revenues

Our cost of revenues increased by 42.2% to RMB614.7 million for the six months ended June 30, 2020 on a period-on-period basis. The following table sets forth our cost of revenues by line of business for the six months ended June 30, 2020 and 2019.

	For the six months ended June 30, 2020		2019	
	Amount	% of segment revenue	Amount	% of segment revenue
(Unaudited)	(RMB in thousands, except for percentages)			
Games	577,928	48.7	410,535	37.4
Information services	36,753	14.5	21,660	10.3
Total	614,681	42.7	432,195	33.0

Our cost of revenues 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 revenues for information services business primarily consists of bandwidth and servers custody fee and employee benefits expenses. The following table sets forth our cost of revenues by nature for the six months ended June 30, 2020 and 2019.

	For the six months ended June 30, 2020		2019	
	Amount	%	Amount	%
(Unaudited)	(RMB in thousands, except for percentages)			
Sharing of proceeds to game developers	221,406	36.0	93,771	21.7
Commissions charged by distribution platforms and payment channels	205,954	33.5	154,452	35.7
Bandwidth and servers custody fee	88,827	14.4	88,121	20.4
Amortization of intangible assets	24,357	4.0	26,376	6.1
Others	74,137	12.1	69,475	16.1
Total	614,681	100.0	432,195	100.0

Our cost of revenues for game business increased by 40.8% to RMB577.9 million on a period-on-period basis, primarily due to increases in (i) sharing of proceeds to game developers, which was mainly attributable to licensed games newly launched or monetized in 2019 and the first half of 2020, such as Ulala (不休的烏拉拉), Sausage Man (香腸派對) and Lan Yan Qing Meng (藍顏清夢), and (ii) commissions charged by distribution platforms and payment channels, which was generally in line with our growth in game revenue recognized on a gross basis.

Our cost of revenues for information services business increased by 69.7% to RMB36.8 million on a period-on-period basis, primarily due to an increase in bandwidth and servers custody fee of RMB10.7 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 decreased by 5.9% to RMB825.8 million in the six months ended June 30, 2020 on a period-on-period basis. Our gross margin decreased to 57.3% in the six months ended June 30, 2020 from 67.0% in the same period of 2019, primarily due to (i) a decrease in our gross margins of game segment from 62.6% in the six months ended June 30, 2019 to 51.3% in the same period of 2020, as a result of the increase in the contribution from game operating revenue recognized on a gross basis to total game operating revenue from 49.2% in the six months ended June 30, 2019 to 73.0% in the same period of 2020, mainly arising from the solid performances of our licensed games, such as Ulala (不休的烏拉拉), Sausage Man (香腸派對) and Lan Yan Qing Meng (藍顏清夢); and (ii) a decrease in gross margin of information services segment from 89.7% in the six months ended June 30, 2019 to 85.5% in the same period of 2020, as the growth rate of TapTap's average MAUs was higher than the growth rate of TapTap's revenue. This decrease was partially offset by an increase in the contribution of revenue from our information services business to our total revenue from 16.1% in the six months ended June 30, 2019 to 17.6% in the same period of 2020, which in general enjoys a higher gross margin than the game business.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses paid to external advertising agencies and professional information dissemination companies, and (ii) employee benefit expenses relating to our selling and marketing personnel.

Our selling and marketing expenses decreased by 10.6% to RMB278.2 million for the six months ended June 30, 2020 on a period-on-period basis. This was primarily due to (i) decreased marketing expenses of RMB74.0 million for game segment, as we launched fewer new games in the six months ended June 30, 2020 as compared to the same period of 2019, and (ii) partially offset by increased marketing expenses of RMB41.3 million for TapTap, as we continued to attract new users and bring in high quality exclusive games during the "stay-at-home period".

Research and Development Expenses

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

Our research and development expenses increased by 68.2% to RMB218.1 million for the six months ended June 30, 2020 on a period-on-period basis. This was primarily due to an increase in the number of our research and development personnel from 618 as of June 30, 2019 to 1065 as of June 30, 2020, increased levels of employee benefits, and an increase in expenses relating to professional and technical services during the six months ended June 30, 2020, as we continued to enhance our game development capabilities and TapTap's product upgrades.

General and Administrative Expenses

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

Our general and administrative expenses decreased by 7.2% to RMB81.4 million for the six months ended June 30, 2020 on a period-on-period basis. This was primarily due to (i) the elimination of one-off listing expenses of RMB17.6 million incurred during the six months ended June 30, 2019, and partially offset by (ii) increased professional and technical service fees as we have become a listed company since December 2019, (iii) increased depreciation of property, plant and equipment as our office spaces increased, and (iv) increased back-office personnel as our total number of employees enlarged significantly.

Income Tax Expenses

Our income tax expenses decreased by 31.1% to RMB25.3 million for the six months ended June 30, 2020 on a period-on-period basis. Our effective income tax rate (calculated as income tax expense divided by profit before income tax) decreased to 8.9% for the six months ended June 30, 2020 from 10.1% for the same period of 2019. This was primarily due to the Super Deduction for research and development expenses.

Profit for the Period

Our profit for the period decreased by 20.5% to RMB259.9 million for the six months ended June 30, 2020 on a period-on-period basis.

Profit for the Period attributable to Equity holders of the Company

Our profit for the period attributable to equity holders of the Company decreased by 12.7% to RMB206.5 million for the six months ended June 30, 2020 on a period-on-period basis.

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

Liquidity and Capital Resources

Our cash positions and short-term investments as at June 30, 2020 and December 31, 2019 are as follows:

	As at June 30, 2020 (RMB'000) (Unaudited)	As at December 31, 2019 (RMB'000) (Audited)
Cash and cash equivalents	1,947,006	1,336,869
Short-term investments	212,032	497,363
	2,159,038	1,834,232

Our short-term investments as at June 30, 2020 primarily consist of wealth management products issued by large reputable commercial banks. These wealth management products invest principally in low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China. The returns of such wealth management products are not guaranteed or protected by the issuing banks. The effective rates of return of these wealth management products ranges from are 1.35% to 2.88% per annum and the term ranges from 39 to 182 days.

The increase of our cash positions and short-term investments was primarily due to net cash generated from operating activities of RMB382.4 million for the six months ended June 30, 2020.

As of June 30, 2020, we did not have any borrowings or unutilized banking facilities.

The Company completed a top-up placing in July 2020 and received net proceeds of approximately HK\$767.3 million. Please refer to the section headed "Other Information — Top-up Placing under General Mandate", and the announcements of the Company dated June 24, 2020 and July 3, 2020 published on the website of the Stock Exchange (www.hkexnews.hk) for details.

Gearing Ratio

This ratio was calculated as total liabilities divided by total assets. As of June 30, 2020, our gearing ratio was 18.3%.

Significant Investments

For the six months ended June 30, 2020, we did not have any significant investment.

Material acquisitions and Disposals of Subsidiaries, Associates and Joint ventures

For the six months ended June 30, 2020, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Pledge of Assets

As of June 30, 2020, none of our assets was pledged as a security for bank borrowing or any other financing activities.

Future Plans for Material Investments or Capital Assets

Save as disclosed in this report, as of June 30, 2020, 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. We currently do not have any long-term contracts, currency borrowings or other means to hedge our foreign currency exposure.

Contingent Liabilities

As of June 30, 2020, we did not have any material contingent liabilities.

04

OTHER
INFORMATION

OTHER INFORMATION

TOP-UP PLACING UNDER GENERAL MANDATE

On June 23, 2020 (after trading hours), the Company, the Top-up Vendor and the Placing Agents entered into the Placing and Subscription Agreement in connection with the Vendor Placing and Subscription.

Completion of the Vendor Placing took place on June 29, 2020. A total of 26,094,200 Shares held by the Top-up Vendor have been successfully placed at the vendor placing price of HK\$29.9 per Share to not less than six professional, institutional and/or individual investors who (to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries), together with their respective ultimate beneficial owners, are third parties independent of and not connected with our Company or our connected persons. The aggregate nominal value of the Vendor Placing Shares under the Vendor Placing was US\$2,609.42.

The vendor placing price is HK\$29.9 per Share and represents: (i) a discount of approximately 9.39% to the closing price of HK\$33.00 per Share as quoted on the Stock Exchange on June 23, 2020, the last trading day prior to the signing of the Placing and Subscription Agreement; and (ii) a discount of approximately 6.94% to the average closing price of approximately HK\$32.13 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including June 23, 2020. The vendor placing price was determined after arm's length negotiations among the Company, the Top-up Vendor and the Placing Agents, with reference to the prevailing market price of the Shares.

Completion of the Subscription took place on July 3, 2020. In connection with the Vendor Placing, a total of 26,094,200 Subscription Shares have been issued to the Top-up Vendor at the subscription price of HK\$29.9 per Share as all the conditions for the Subscription have been fulfilled. A total of 26,094,200 Subscription Shares (equal to the number of the Vendor Placing Shares successfully placed under the Placing) were subscribed by the Top-up Vendor at HK\$29.9 per Subscription Share. The net price of the Subscription Share is approximately HK\$29.41. The Company received total net proceeds from the Subscription of approximately HK\$767.33 million. Details of the use of such proceeds are set out below in the section headed "Use of Proceeds from Global Offering and Top-up Placing". For details, please refer to the announcements of the Company dated June 24, 2020 and July 3, 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save as the top-up placing disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the six months ended June 30, 2020 and up to the date of this report.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2020.

USE OF PROCEEDS FROM GLOBAL OFFERING AND TOP-UP PLACING

The net proceeds received from the Company's global offering was approximately HK\$723.7 million, including the net proceeds received from the full exercise of the over-allotment option. As at June 30, 2020, the Group had utilized:

- approximately HK\$31.3 million, for developing our games and game-related technology and approximately HK\$222 million remained unutilized;
- approximately HK\$15.8 million, for developing TapTap and approximately HK\$201.2 million remained unutilized;
- approximately HK\$22.6 million, for expanding our game publishing and operating business and approximately HK\$86 million remained unutilized;
- HK\$0, for selective and strategic investments and acquisition and approximately HK\$72.4 million remained unutilized; and
- approximately HK\$16.1 million, for working capital and general corporate uses and approximately HK\$56.3 million remained unutilized.

The Group will use the remaining net proceeds in the next three years as intended in the prospectus of the Company dated November 29, 2019.

On July 3, 2020, the Company completed the top-up placing of 26,094,200 new shares and raised net proceeds of approximately HK\$767.33 million, of which HK\$537.13 million will be used for further development of TapTap and HK\$230.20 million for working capital and general corporate purposes. As at the date of this report, the Company had not utilized such proceeds. The Company will apply the net proceeds in the next three years for the purposes as disclosed in the announcement of the Company dated July 3, 2020.

SUBSEQUENT EVENT

Save as otherwise disclosed below and the Subscription as disclosed above in the section headed "Top-up Placing under General Mandate", there are no material subsequent events undertaken by the Group after June 30, 2020 and up to the date of this report.

On August 27, 2020, X.D. Network entered into an equity transfer agreement with the Vendors, pursuant to which, X.D. Network has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, an aggregate of 18.34% equity interest in Yiwan held by them for a total consideration of RMB330,188,964. Upon the completion of such acquisition, X.D. Network will hold 74.12% equity interest in Yiwan. The acquisition will enable the Company to further strengthen the synergy between the game business and the TapTap platform.

EMPLOYEES, REMUNERATION AND PENSION SCHEME

We had 1,545 full-time employees as of June 30, 2020, 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 can enhance the productivity of our employees.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to implementing high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance the corporate value as well as the responsibility commitments. The Company has adopted the CG Code set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Company has complied with all applicable code provisions of the CG Code during the six months ended June 30, 2020 except for a deviation from code provision A.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

The Board will continue to review the effectiveness of the corporate governance structure in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

COMPLIANCE WITH LAWS AND REGULATIONS

Under the supervision of the risk committee, since the end of 2019, we have implemented system upgrading works in respect of the anti-addiction systems for our online games and premium games operated in China in accordance with the requirements under 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), and continued to improve and optimize the game environment and health system for minors. As of the date of this report, all the domestically operated game products have successively launched relevant functions, and an external independent IT consultant team has been engaged to complete the review, testing and verification of the effectiveness of relevant functions and measures.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules 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 during the six months ended June 30, 2020.

REVIEW OF THE INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3 of the CG Code, and has adopted written terms of reference. The Audit Committee comprises three members, including Mr. Xin Quandong, Mr. Pei Dapeng and Mr. Gao Shaoxing. The Audit Committee is currently chaired by Mr. Xin Quandong, who possesses suitable professional qualifications.

The Audit Committee, together with the Auditor, has reviewed the Group's unaudited interim financial information for the six months ended June 30, 2020. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

CHANGE IN DIRECTORS' INFORMATION

There has been no change in the Directors' information which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

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

As at June 30, 2020, 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	36.82%
	Beneficial owner	2,100,000	0.49%
Mr. Dai Yunjie	Settlor of a discretionary trust ⁽²⁾	67,545,000	15.78%
Mr. Shen Sheng	Settlor of a discretionary trust ⁽³⁾	1,188,000	0.28%
	Beneficiary of a trust ⁽⁴⁾	10,486,271	2.45%
Mr. Fan Shuyang	Administrator ⁽⁵⁾	36,212,839	8.46%

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	55.98%
	Beneficial owner	X.D. Network	47,281,500	15.95%
Mr. Dai Yunjie	Beneficial owner	X.D. Network	20,263,500	6.84%

Save as disclosed above, as at June 30 2020, 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 June 30, 2020, 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	232,226,065	54.26%
Happy Today Company Limited	Interest in controlled corporation	157,605,000	36.82%
Happy Today Holding Limited	Beneficial owner	157,605,000	36.82%
Danger & Sons Inc.	Interest in controlled corporation	67,545,000	15.78%
Aiks Danger Inc.	Beneficial owner	67,545,000	15.78%
Trident Trust Company (HK) Limited	Trustee ⁽¹⁾	36,212,839	8.46%
Jiexin Management Limited	Beneficial owner ⁽¹⁾	36,212,839	8.46%
IGG Inc	Beneficial owner	24,648,000	5.76%

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 June 30, 2020, 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.

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 June 30, 2020, 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 1.97% of the issued share capital of our Company and no RSUs had been granted by the Company.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of XD Inc.

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 30 to 84, which comprises the interim condensed consolidated statement of financial position of XD Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2020 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 August 2020

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The following table sets forth the comparative figures for the first half of 2020 and the first half of 2019:

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenues	6	1,440,481	1,309,815
Cost of revenues	7	(614,681)	(432,195)
Gross profit		825,800	877,620
Selling and marketing expenses	7	(278,158)	(311,201)
Research and development expenses	7	(218,146)	(129,661)
General and administrative expenses	7	(81,393)	(87,689)
Net impairment losses on financial assets	7	(1,311)	(1,010)
Fair value changes on investments measured at fair value through profit or loss	8	7,073	8,225
Other income	9	13,796	8,489
Other gains/(losses), net	10	5,554	(2,234)
Operating profit		273,215	362,539
Finance income		6,846	4,737
Finance costs		(1,442)	(1,549)
Finance income/(costs), net	11	5,404	3,188
Share of results of investments accounted for using the equity method	17	6,607	(2,093)
Profit before income tax		285,226	363,634
Income tax expenses	12	(25,314)	(36,716)
Profit for the period		259,912	326,918

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Other comprehensive income:			
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		9,052	(232)
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		3,218	2,865
Total comprehensive income for the period		272,182	329,551
Profit for the period attributable to:			
Equity holders of the Company		206,546	236,663
Non-controlling interests		53,366	90,255
		259,912	326,918
Total comprehensive income for the period attributable to:			
Equity holders of the Company		216,824	238,518
Non-controlling interests		55,358	91,033
		272,182	329,551
Earnings per share for profit for the period attributable to the equity holders of the Company			
Basic and diluted earnings per share (RMB)	13	0.49	0.67

The notes on pages 41 to 84 are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	14	95,051	86,938
Right-of-use assets	15	55,095	37,644
Intangible assets	14	193,398	198,938
Deferred tax assets	16	16,035	11,349
Investments accounted for using the equity method	17	63,191	52,800
Long term investments measured at fair value through profit or loss	18	32,619	29,918
Prepayments, deposits and other assets	19	52,403	74,156
		507,792	491,743
Current assets			
Trade receivables	20	344,200	406,143
Prepayments and other assets	19	106,438	133,942
Short-term investments	21	212,032	497,363
Cash and cash equivalents	22	1,947,006	1,336,869
		2,609,676	2,374,317
Total assets		3,117,468	2,866,060
EQUITY			
Share capital	23	287	284
Share premium	23	5,396,036	5,357,114
Other reserves	24	(4,127,050)	(4,137,328)
Retained earnings		858,346	651,800
Equity attributable to equity holders of the Company		2,127,619	1,871,870
Non-controlling interests	17	420,795	414,660
Total equity		2,548,414	2,286,530

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	16	2,143	2,135
Lease liabilities	25	29,107	23,056
		31,250	25,191
Current liabilities			
Trade payables	26	193,555	200,845
Advance from customers		16,850	15,756
Other payables and accruals	27	110,419	151,705
Contract liabilities	28	130,281	99,321
Current income tax liabilities		59,426	70,250
Lease liabilities	25	27,273	16,462
		537,804	554,339
Total liabilities		569,054	579,530
Total equity and liabilities		3,117,468	2,866,060

The notes on pages 41 to 84 are an integral part of these condensed consolidated financial statements.

The financial statements on pages 30 to 84 were approved by the Board of Directors on 27 August 2020 and were signed on its behalf.

Dai Yunjie
Director

Fan Shuyang
Director

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CONDENSED
CONSOLIDATED
STATEMENT OF
CHANGES IN EQUITY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company						Non-controlling interests	Total
		Share capital	Share premium	Other reserves	Retained earnings	Sub-total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
(Unaudited)									
As of 1 January 2019		—	—	755,457	322,457	1,077,914	264,646	1,342,560	
Comprehensive income									
Profit for the period		—	—	—	236,663	236,663	90,255	326,918	
Other comprehensive income									
— Currency translation differences		—	—	1,855	—	1,855	778	2,633	
Total comprehensive income for the period		—	—	1,855	236,663	238,518	91,033	329,551	
Transaction with owners in their capacity as owners									
Share repurchase of a subsidiary	24	—	—	(86,408)	—	(86,408)	—	(86,408)	
Acquisition of additional equity interests in a subsidiary		—	—	(78,034)	—	(78,034)	(18,889)	(96,923)	
Issuance of ordinary shares in relation to the Reorganisation of the Group	23	240	4,750,933	(4,750,933)	—	240	—	240	
Total transactions with owners in their capacity as owners for the period		240	4,750,933	(4,915,375)	—	(164,202)	(18,889)	(183,091)	
As of 30 June 2019		240	4,750,933	(4,158,063)	559,120	1,152,230	336,790	1,489,020	

		Attributable to equity holders of the Company						Non-	
		Share	Share	Other	Retained		controlling	Total	
Notes		capital	premium	reserves	earnings	Sub-total	interests		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Unaudited)									
As of 1 January 2020		284	5,357,114	(4,137,328)	651,800	1,871,870	414,660	2,286,530	
Comprehensive income									
Profit for the period		—	—	—	206,546	206,546	53,366	259,912	
Other comprehensive income									
— Currency translation differences		—	—	10,278	—	10,278	1,992	12,270	
Total comprehensive income for the period		—	—	10,278	206,546	216,824	55,358	272,182	
Transaction with owners in their capacity as owners									
Issuance of ordinary shares upon IPO over allotment		23	38,922	—	—	38,925	—	38,925	
Dividend distribution of a subsidiary		29	—	—	—	—	(49,223)	(49,223)	
Total transactions with owners in their capacity as owners for the period		3	38,922	—	—	38,925	(49,223)	(10,298)	
As of 30 June 2020		287	5,396,036	(4,127,050)	858,346	2,127,619	420,795	2,548,414	

The notes on pages 41 to 84 are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		414,113	471,287
Income tax paid		(31,695)	(4,381)
Net cash generated from operating activities		382,418	466,906
Cash flows from investing activities			
Purchase of property, plant and equipment		(34,623)	(30,328)
Proceeds from disposals of property, plant and equipment		28	37
Purchase of intangible assets (including prepayments for intangible assets)		(9,484)	(37,615)
Acquisition of investments accounted for using the equity method		(10,000)	—
Proceeds from disposal of long term investments measured at fair value through profit or loss	17(b)	460	—
Acquisition of long-term investments measured at fair value	18	(1,000)	—
Purchase of short-term investments		(965,750)	(1,135,500)
Proceeds from disposals of short-term investments		1,257,914	1,011,452
Net cash generated from/(used in) investing activities		237,545	(191,954)
Cash flows from financing activities			
Payments for share repurchase of a subsidiary	7	—	(92,298)
Dividend paid to non-controlling shareholders	29	(49,223)	—
Issuance of ordinary shares in relation to the Reorganisation of the Group	23	—	240
Issuance of ordinary shares upon IPO over allotment	23	38,925	—
Payment for acquisition of additional equity interests in a subsidiary	17(a)	—	(96,923)
Payment for lease liabilities (including interests)	15	(13,215)	(11,110)
Listing expense payment		(9,514)	(7,269)
Net cash used in financing activities		(33,027)	(207,360)
Net increase in cash and cash equivalents		586,936	67,592
Cash and cash equivalents at the beginning of the period		1,336,869	573,233
Effects of exchange rate changes on cash and cash equivalents		23,201	(64)
Cash and cash equivalents at the end of the period	22	1,947,006	640,761

The notes on pages 41 to 84 are an integral part of these condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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 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 12 December 2019. In preparation for its primary listing, the Group underwent a reorganization (“the Reorganization”) to establish the Company as the ultimate holding company of the companies now comprising the Group.

The condensed consolidated financial statements for the six months ended 30 June 2020 and 2019 (the “Interim Financial Statements”) are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated.

2 BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”), “Interim Financial Reporting”.

The Interim Financial Statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as set out in 2019 annual report of the Company dated 30 March 2020 (the “2019 Financial Statements”).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the Interim Financial Statements are consistent with those applied in the preparation of 2019 Financial Statements, except for the adoption of new and revised IFRSs effective as of 1 January 2020:

- Definition of Materiality — amendments to IAS 1 and IAS 8
- Definition of a Business — amendments of IFRS 3

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Revised Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform — amendments to IFRS 9, IAS 39 AND IFRS 17

The new and revised standards above will not have a material effect on the Interim Financial Statements.

A number of new standards and amendments to standards have not come into effect for the financial year beginning 1 January 2020 and have not been early adopted by the Group in preparing the Interim Financial Statements. None of these is expected to have a significant effect on the Interim Financial Statements based on the preliminary assessment made by management.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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 Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the 2019 Financial Statements.

There were no significant changes in any material risk management policies during the six months ended 30 June 2020.

4.2 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 consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amounts 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.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 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 30 June 2020 and 31 December 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 30 June 2020 and 31 December 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:

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Short-term investments measured at fair value through profit or loss	21	212,032	497,363
Long-term investments measured at fair value through profit or loss	18	32,619	29,918
		244,651	527,281

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value estimation (Continued)

(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 periods ended 30 June 2020 and 2019.

(i) *Investments in unlisted companies*

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	29,918	33,687
Addition	2,500	—
Changes in fair value	240	4,072
Currency translation differences	(39)	(98)
At the end of the period	32,619	37,661
Net unrealized gains	240	4,072

(ii) *Wealth management products issued by commercial banks*

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	497,363	156,647
Addition	965,750	1,135,500
Changes in fair value	6,833	4,153
Disposal	(1,257,914)	(1,011,452)
At the end of the period	212,032	284,848
Net unrealized gains	732	748

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value estimation (Continued)

(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 was no change to valuation techniques during the reporting period.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 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		Unobservable inputs	Range of inputs as at		Relationship of unobservable inputs to fair value
	30 June	31 December		30 June	31 December	
	2020	2019		2020	2019	
	RMB'000	RMB'000				
Investments in unlisted companies	32,619	29,918	Expected volatility	52.50%-55.00%	40.00%-50.84%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability ("DLOM")	27%-30%	17%-27%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	212,032	497,363	Expected rate of return	1.35%-2.88%	2.00%-4.00%	The higher the expected rate of return, the higher the fair value

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 Financial Statements.

6 SEGMENT INFORMATION AND REVENUE

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

Game segment

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

Information service segment

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

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

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

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

6 SEGMENT INFORMATION AND REVENUE (Continued)

Information service segment (Continued)

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 30 June 2020, substantially all of the non-current assets of the Group were located in the PRC.

The reconciliation of gross profit to profit before income tax is shown in the condensed consolidated income statement.

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

(Unaudited)	Six months ended 30 June 2020		
	Game segment RMB'000	Information service segment RMB'000	Total RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,111,264	—	1,111,264
— Premium Games (pay-to-play)	50,453	—	50,453
Subtotal	1,161,717	—	1,161,717
Online marketing service revenues	23,463	252,127	275,590
Others	2,387	787	3,174
Total revenues	1,187,567	252,914	1,440,481
Cost of revenues	(577,928)	(36,753)	(614,681)
Gross profit	609,639	216,161	825,800
Gross margin	51%	85%	57%

6 SEGMENT INFORMATION AND REVENUE (Continued)

Information service segment (Continued)

(Unaudited)	Six months ended 30 June 2019		
	Game segment RMB'000	Information service segment RMB'000	Total RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,070,801	—	1,070,801
— Premium Games (pay-to-play)	25,436	—	25,436
Subtotal	1,096,237	—	1,096,237
Online marketing service revenues	—	210,902	210,902
Others	2,601	75	2,676
Total revenues	1,098,838	210,977	1,309,815
Cost of revenues	(410,535)	(21,660)	(432,195)
Gross profit	688,303	189,317	877,620
Gross margin	63%	90%	67%

6 SEGMENT INFORMATION AND REVENUE (Continued)

Information service segment (Continued)

Revenues of approximately RMB548 million and RMB741 million for the six months ended 30 June 2020 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 six months ended 30 June 2020 and 2019, respectively.

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Game operating revenues		
Customer A	15%	34%
Online marketing service revenues		
Customer B	14%	13%

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the six months ended 30 June 2020 and 2019, respectively:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Service transferred overtime	725,543	753,209
Service transferred at a point of time	714,938	556,606
	1,440,481	1,309,815

6 SEGMENT INFORMATION AND REVENUE (Continued)

Information service segment (Continued)

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the six months ended 30 June 2020 and 2019, respectively:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	535,803	347,242
Overseas (Note a)	625,914	748,995
Total	1,161,717	1,096,237

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

7 EXPENSES BY NATURE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Promotion and advertising expenses	259,432	292,185
Employee benefits expenses	247,833	167,967
Sharing of proceeds to game developers	221,406	93,771
Commissions charged by payment channels and distribution channels	205,954	154,452
Bandwidth and server custody fee	90,578	88,947
Professional and technical service fee (a)	63,051	66,826
Depreciation of property, plant and equipment (Note 14) and right-of-use assets (Note 15)	34,214	21,747
Amortization of intangible assets (Note 14)	25,931	27,069
Office expenses	12,215	9,848
VAT input transfer out and tax surcharges	12,122	16,007
Impairment of non-financial assets	10,841	10,214
Rental expenses and utilities	5,382	2,932
Share based payments (b)	—	5,890
Auditor's remuneration		
— Audit service	1,950	2,000
— Non-audit service	240	195
Net impairment losses on financial assets	1,311	1,010
Others	1,229	696
Total	1,193,689	961,756

- (a) During the six months ended 30 June 2019, professional and technical service fee include auditor's remuneration of RMB2.1 million, of which RMB0.9 million was for IPO related audit service and RMB1.2 million was for IPO related non-audit service.
- (b) Pursuant to shareholder's resolution of X.D. Network Inc. dated on 18 February 2019, X.D. Network Inc. repurchased and cancelled 8,437,540 shares held by its certain then shareholders for an aggregate consideration of RMB92.30 million. The repurchase prices of shares were determined after arm's length negotiations among the parties based on the respective initial subscription and/or purchase prices of such shares or the average trading price of such shares for the 60 trading days preceding X.D. Network Inc. delisted from NEEQ, whichever is higher. The Group assessed and concluded that the repurchase consideration higher than the fair value of repurchased shares with amount of RMB5.89 million should be recognized as expenses to reflect the benefit received by X.D. Network Inc.'s then shareholders.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Long-term investments	240	4,072
Short-term investments	6,833	4,153
Total	7,073	8,225

9 OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies	13,525	8,489
Rent exemption	271	—
	13,796	8,489

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

A subsidiary of the Group received rent exemption of RMB0.27 million in April 2020 due to Covid-19. The exemption did not result in substantive change to other terms or conditions of the lease. The Group applied the practical expedient and did not account for the exemption as lease modifications. The lease payment exempted was recognized in "Other income".

10 OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Foreign exchange gain/(losses), net	10,560	(2,855)
Impairment of investments accounted for using the equity method	(5,443)	(2,509)
Others	437	3,130
Total	5,554	(2,234)

11 FINANCE INCOME/(COSTS), NET

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Finance income		
Interest income from bank deposits	6,846	4,737
Finance costs		
Interest expenses on lease liabilities	(1,241)	(1,356)
Bank charges	(201)	(193)
Finance income/(costs), net	5,404	3,188

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 six months ended 30 June 2020 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 six months ended 30 June 2020 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 six months ended 30 June 2020 and 2019.

12 INCOME TAX (Continued)

PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

Since the Group intends to permanently reinvest earnings to further expand its businesses in PRC, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued at the end of each reporting period. Cumulative undistributed earnings of the Company's PRC subsidiaries intended to be permanently reinvested were RMB846 million as of 30 June 2020.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	29,988	36,168
Deferred income tax (Note 16)	(4,674)	548
Total income tax expenses	25,314	36,716

12 INCOME TAX (Continued)

PRC Withholding Tax ("WHT") (Continued)

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 six months ended 30 June 2020 and 2019, being the tax rate of the major subsidiaries of the Group.

The difference is analysed as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	285,226	363,634
Tax calculated at statutory income tax rate of 25% in mainland China	71,307	90,909
Tax effects of:		
Effect of different tax rates available to different jurisdictions	(10,572)	(9,390)
Preferential income tax rates applicable to subsidiaries	(25,583)	(43,969)
Expenses not deductible for income tax purposes	6,028	1,265
Super Deduction for research and development expenses	(15,668)	(8,769)
Utilization of previously unrecognized tax losses and temporary differences	(2,955)	(1,799)
Tax losses for which no deferred income tax assets were recognized	1,715	1,704
Temporary differences for which no deferred income tax assets were recognized, net	1,042	6,765
Total income tax expenses	25,314	36,716

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 periods.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (RMB'000)	206,546	236,663
Weighted average number of shares in issue (thousands)	419,514	351,921
Basic earnings per share (in RMB)	0.49	0.67

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 six months ended 30 June 2020 and 2019 were the same as basic earnings per share of the respective periods because the Company does not have dilutive potential ordinary shares during the respective periods.

14 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(Unaudited)	Property, plant and equipment		Intangible assets
	RMB'000		RMB'000
Six months ended 30 June 2019			
Opening net book amount	45,553		192,175
Additions	32,105		37,760
Depreciation	(10,924)		(27,069)
Impairment	—		(1,146)
Disposal	(45)		—
Currency translation impact	—		370
Closing net book amount	66,689		202,090

(Unaudited)

Six months ended 30 June 2020			
Opening net book amount	86,938		198,938
Additions	30,763		30,279
Depreciation	(22,557)		(25,931)
Impairment	—		(10,841)
Disposal	(93)		—
Currency translation impact	—		953
Closing net book amount	95,051		193,398

Impairment of goodwill

The Group normally performs goodwill impairment test in the fourth quarter of each year, and there is no indicator for impairment of goodwill as of 30 June 2020. For details of goodwill impairment assessment for the year ended 31 December 2019, please refer to the 2019 Financial Statements.

15 RIGHT-OF-USE ASSETS

(Unaudited)	Properties RMB'000
Six months ended 30 June 2019	
Opening net book amount	59,290
Depreciation (Note 7)	(10,823)
Closing net book amount	48,467
Six months ended 30 June 2020	
Opening net book amount	37,644
Additions	29,108
Depreciation (Note 7)	(11,657)
Closing net book amount	55,095

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Depreciation charge of right-of-use assets	11,657	10,823
Interest expenses	1,241	1,356
Expenses relating to short-term leases	2,270	741
The cash outflow for leases payment related to short-term lease as operating activities	2,720	489
The cash outflow for leases as financing activities	13,215	11,110

16 DEFERRED INCOME TAXES

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

Deferred tax assets

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Tax losses	12,563	7,338
— Lease liabilities	8,894	6,190
— Long term investments measured at fair value through profit or loss	2,138	2,828
— Bad debt provision	688	464
— Intangible assets	40	45
Total gross deferred tax assets	24,323	16,865
Set-off of deferred tax liabilities pursuant to set-off provisions	(8,288)	(5,516)
Net deferred tax assets	16,035	11,349

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Deferred tax assets:		
— to be recovered within 12 months	13,291	8,353
— to be recovered after 12 months	2,744	2,996
	16,035	11,349

16 DEFERRED INCOME TAXES (Continued)

Deferred tax liabilities

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Right-of-use assets	8,092	5,431
— Intangible assets arising from business combinations	1,302	1,536
— Long term investments measured at fair value through profit or loss	1,037	684
Total gross deferred tax liabilities	10,431	7,651
Set-off of deferred tax assets pursuant to set-off provisions	(8,288)	(5,516)
Net deferred tax liabilities	2,143	2,135

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Deferred tax liabilities:		
— to be recovered within 12 months	349	—
— to be recovered after 12 months	1,794	2,135
	2,143	2,135

16 DEFERRED INCOME TAXES (Continued)

Deferred tax assets

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

(Unaudited)	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	Total RMB'000
At 1 January 2019	9,141	8,767	2,404	294	10	20,616
Recognized in profit or loss	(2,530)	(1,094)	(85)	29	(10)	(3,690)
Currency translation differences	7	—	—	—	—	7
At 30 June 2019	6,618	7,673	2,319	323	—	16,933
(Unaudited)						
At 1 January 2020	7,338	6,190	2,828	464	45	16,865
Recognized in profit or loss	5,223	2,704	(690)	222	(5)	7,454
Currency translation differences	2	—	—	2	—	4
At 30 June 2020	12,563	8,894	2,138	688	40	24,323

16 DEFERRED INCOME TAXES (Continued)

Deferred tax liabilities

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

(Unaudited)	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 1 January 2019	8,160	5,513	444	14,117
Recognized in profit or loss	(1,364)	(1,988)	210	(3,142)
At 30 June 2019	6,796	3,525	654	10,975
 (Unaudited)				
At 1 January 2020	5,431	1,536	684	7,651
Recognized in profit or loss	2,661	(234)	353	2,780
At 30 June 2020	8,092	1,302	1,037	10,431

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 30 June 2020 and 31 December 2019, the Group did not recognize deferred income tax assets of RMB1.43 million and RMB1.62 million, in respect of cumulative tax losses amounting to RMB5.71 million and RMB6.50 million. These tax losses will expire from 2020 to 2024.

17 INTERESTS IN OTHER ENTITIES

(a) Transactions with non-controlling interests

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.

(b) Investments accounted for using the equity method

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
At the beginning of the period	52,800	44,305
Addition (Note i)	10,000	—
Share of results of associates	6,607	(2,093)
Impairment (Note ii)	(5,443)	(2,509)
Disposal	(460)	—
Currency translation differences	(313)	(3)
At the end of the period	63,191	39,700

(i) During the six months ended 30 June 2020, the Group acquired a new associate with a consideration of RMB10 million. The associate is principally engaged in game developing and operating.

(ii) During the six months ended 30 June 2020 and 2019, the Group recognized impairment provisions of RMB5.44 million and RMB2.51 million respectively of certain investment accounted for using the equity method (Note 10).

(c) 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.

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Aggregate carrying amount of individually immaterial associates	63,191	39,700
Aggregate amounts of the Group's share of:		
— Profit from operations	6,607	(2,093)

18 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 six months ended 30 June 2020 and 2019, are as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	29,918	33,687
Addition	2,500	—
Change in fair value (Note 8)	240	4,072
Currency translation differences	(39)	(98)
At the end of the period	32,619	37,661

As at 30 June 2020 and 31 December 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 4.3.

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

	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Investments in associates at fair value through profit or loss (Note a)	19,103	17,457
Other investments at fair value through profit or loss (Note b)	13,516	12,461
	32,619	29,918

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

- (a) During the six months ended 30 June 2020 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.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	17,457	19,873
Addition	2,500	—
Change in fair value	(854)	3,936
At the end of the period	19,103	23,809

- (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.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	12,461	13,814
Change in fair value	1,094	136
Currency translation differences	(39)	(98)
At the end of the period	13,516	13,852

As at 30 June 2020 and 31 December 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.

19 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current		
Prepayments for game licenses (a)	40,714	61,509
Rental and other deposits	7,054	6,653
Prepayments for equipment	4,635	5,994
	52,403	74,156
Current		
Prepayments for sharing of proceeds (a)	78,041	56,697
Tax prepayments	4,883	14,167
Prepayments for advertisements and marketing services	4,973	45,454
Rental and other deposits	7,560	7,382
Others	10,981	10,242
	106,438	133,942

- (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 six months ended 30 June 2020 and 2019, certain prepayments were impaired due to underperformance of these games. During the six months ended 30 June 2020 and 2019, the Group made an impairment provision on prepayments to game developers of nil and RMB6.56 million, respectively.

20 TRADE RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Distribution channels and game publishers	254,666	304,616
Online marketing service customers	93,637	104,488
Related parties	505	505
	348,808	409,609
Less: allowance for impairment	(4,608)	(3,466)
	344,200	406,143

- (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 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 3 months	323,180	385,318
3 months to 6 months	20,358	15,451
6 months to 1 year	1,243	5,683
1 to 2 years	1,827	2,089
Over 2 years	2,200	1,068
	348,808	409,609

20 TRADE RECEIVABLES (Continued)

- (b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 30 June 2020 and 31 December 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:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	3,466	1,565
Provision	1,311	1,010
Write off	(179)	—
Currency translation differences	10	2
At the end of the period	4,608	2,577

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.

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as at 30 June 2020 and 31 December 2019.

20 TRADE RECEIVABLES (Continued)

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
United States Dollar ("USD")	236,096	285,111
RMB	112,712	124,498
	348,808	409,609

(e) The maximum exposure to credit risk as at 30 June 2020 and 31 December 2019 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

21 SHORT-TERM INVESTMENTS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Short-term investments measured at — fair value through profit or loss	212,032	497,363

The short-term investments measured at fair value through profit or loss are wealth management products, of which returns are not guaranteed. The effective rates of return of these wealth management products are 1.35% to 2.88% per annum and the terms are 39 to 182 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 4.3). 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.

22 CASH AND CASH EQUIVALENTS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Cash on hand and cash in bank	1,648,463	569,668
Term deposit with initial terms within three months (Note a)	269,680	742,199
Cash held by other financial institutions (Note b)	28,863	25,002
	1,947,006	1,336,869

- (a) The interest rates of these deposits per annum were 0.32%–1.73%.
- (b) As at 30 June 2020 and 31 December 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 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
USD	736,338	579,330
RMB	606,215	66,864
HKD	583,143	688,999
Singapore Dollar ("SGD")	19,647	—
Korea Won ("KRW")	1,663	1,676
	1,947,006	1,336,869

23 SHARE CAPITAL AND SHARE PREMIUM

(Unaudited)	Number of shares '000	Nominal value of shares USD'000	Equivalent nominal value of shares RMB'000	Share premium RMB'000
Authorized				
As at 30 June 2020 and 31 December 2019	1,000,000	100	N/A	N/A
Issued and fully paid				
As at 1 January 2019	—	—	—	—
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)	—
As at 30 June 2019	351,921	35	240	4,750,933
As at 1 January 2020	415,521	41	284	5,357,114
Issuance of ordinary shares upon IPO over allotment (Note c)	4,060	1	3	38,922
As at 30 June 2020	419,581	42	287	5,396,036

- (a) From 10 April 2019 to 17 June 2019, as part of the Reorganization, the Company allotted and issued an aggregate of 351,920,960 shares of USD0.0001 each share at par value to offshore holding companies which are beneficially owned by the equity owners of X.D. Network Inc. as at that date. Upon the completion of the Reorganization, the amount of RMB4,751 million other reserves have been transferred to share premium accordingly.
- (b) On 17 June 2019, in order to incentivize 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 30 June 2020 and 2019, the shares are not granted and are represented as treasury shares of the Group.
- (c) On 3 January 2020, following the full exercise of over-allotment option available upon its IPO, the Company issued 4,060,000 new ordinary shares at HKD11.10 per share and raised gross proceeds of approximately HKD45 million (equivalent to RMB40 million). The net proceeds was approximately HKD44 million (equivalent to RMB39 million) after deducting listing expenses directly relating to the share issuance.

24 OTHER RESERVES

(Unaudited)	Capital reserve RMB'000	Statutory reserves RMB'000	Currency translation differences RMB'000	Total RMB'000
As at 1 January 2019	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	(78,034)	—	—	(78,034)
Issuance of ordinary shares in relation to the Reorganisation of the Group	(4,750,933)	—	—	(4,750,933)
Currency translation differences	—	—	1,855	1,855
As at 30 June 2019	(4,207,732)	38,071	11,598	(4,158,063)
(Unaudited)				
As at 1 January 2020	(4,207,732)	55,291	15,113	(4,137,328)
Currency translation differences	—	—	10,278	10,278
As at 30 June 2020	(4,207,732)	55,291	25,391	(4,127,050)

25 LEASE LIABILITIES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	28,019	17,036
— Between 1 and 2 years	27,433	16,784
— Over 2 years	3,999	8,203
	59,451	42,023
Less: future finance charges	(3,071)	(2,505)
Present value of lease liabilities	56,380	39,518

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	27,273	16,462
— Between 1 and 2 years	25,507	15,590
— Over 2 years	3,600	7,466
	56,380	39,518

26 TRADE PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables	193,555	200,845

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 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
RMB	107,643	81,921
USD	85,800	118,924
SGD	112	—
	193,555	200,845

As at 30 June 2020 and 31 December 2019, the fair value of trade payables approximated to their carrying amount.

26 TRADE PAYABLES (Continued)

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 3 months	192,696	199,372
Over 3 months	859	1,473
	193,555	200,845

27 OTHER PAYABLES AND ACCRUALS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Salaries and benefits payables	65,841	95,912
Other tax payables	23,357	20,745
Professional service fee payables	15,467	24,980
Others	5,754	10,068
	110,419	151,705

As at 30 June 2020 and 31 December 2019, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

28 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 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Contract liabilities	130,281	99,321

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

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue recognized that was included in the contract liabilities balance at the beginning of the period	99,321	90,921

29 DIVIDENDS

No dividends have been paid or declared by the Company during the periods ended 30 June 2020 and 2019.

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

30 COMMITMENTS

(a) Capital commitments

The Group made capital expenditure in respect of purchase of game licenses which are in development as at 30 June 2020 and 31 December 2019. The Group has commitments to make the following future instalments under non-cancellable game purchase agreements are as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Game licenses	35,657	58,144

(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 30 June 2020 and 31 December 2019 is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 15.

31 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.

31 RELATED PARTY TRANSACTIONS (Continued)

(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 periods ended 30 June 2020 and 2019.

Name of related parties	Relationship
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 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
Jiexin Holdings Limited	Shareholder
Happy Today Holding Limited	Shareholder
Shanghai Maichuang Network Technology Limited	Associate of Mr. Dai Yunjie's spouse

(b) Significant transactions with related parties

(i) Sales of service

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Shanghai Fantablade Network Science and Technology Co., Ltd.	3	249

31 RELATED PARTY TRANSACTIONS (Continued)**(b) Significant transactions with related parties (Continued)****(ii) Purchase of service**

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Xiamen So Funny Information Technology Co., Ltd.	123,512	17,831
Shanghai Maichuang Network Technology Limited	6,827	6,645
Shanghai Bianyue Culture Communication Co., Ltd.	4,623	5,094
Shanghai Fantablade Network Science and Technology Co., Ltd.	3,092	3,560
Others	851	1,964
	138,905	35,094

(c) Period end balances with related parties**(i) Trade receivables from related parties**

	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Shanghai Xinyu Animation Design Co. Ltd.	505	505

31 RELATED PARTY TRANSACTIONS (Continued)

(c) Period end balances with related parties (Continued)

(ii) Prepayments to related parties

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Shanghai Qingyue Software Science and Technology Co., Ltd.	4,854	4,854
Shanghai Chatie Network Science and Technology Co., Ltd.	2,233	2,233
	7,087	7,087

(iii) Other receivables from related parties

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Jiexin Holdings Limited	264	260
Happy Today Holding Limited	9	9
	273	269

31 RELATED PARTY TRANSACTIONS (Continued)

(c) Period end balances with related parties (Continued)

(iv) Trade payables to related parties

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Xiamen So Funny Information Technology Co., Ltd.	65,985	58,006
Others	587	684
	66,572	58,690

32 CONTINGENCIES

The Group did not have any material contingent liabilities as of 30 June 2020 and 31 December 2019.

33 SUBSEQUENT EVENTS

- (a) On 3 July 2020, a total of 26,094,200 new shares were subscribed by the Top-up Vendor at HKD29.9 per share. The Company received net proceeds of approximately HKD767.33 million from the subscription. The subscription shares represent approximately 5.75% of the issued share capital of the Company as enlarged by the allotment and issue of the subscription shares.
- (b) On 27 August 2020, X.D. Network Inc., the Group's subsidiary, entered into a share purchase agreement with certain non-controlling shareholders of Yiwan, pursuant to which, X.D. Network Inc. will acquire 18.34% of the equity interests in Yiwan held by these non-controlling shareholders with a consideration amounting to RMB330 million. Upon completion of the purchase, the Group will hold 74.12% equity interest in Yiwan.

11

DEFINITIONS AND GLOSSARY

DEFINITIONS AND GLOSSARY

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Audit Committee”	the audit committee of the Company;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“Board”	the board of Directors of the Company;
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
“Company”	XD Inc. (心动有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 25, 2019, the shares of which are listed on the Stock Exchange under stock code 2400;
“Director(s)”	the director(s) of the Company;
“Group”, “we” or “our”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“Huzhou Yixin”	Huzhou Yixin Investment Management Partnership (Limited Partnership) (湖州易心投资管理合夥企業(有限合夥)), a limited partnership established in the PRC on 10 April 2017, whose limited partner was Huang Xiwei (holding 99.62% equity interest therein) and general partner was an independent third party as of the date of this report;
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

“MAU(s)”	monthly active user(s), which refers to the number of users who log into a particular game or all of our games, as applicable, in the relevant calendar month for games, and refers to the number of users who access the TapTap mobile app in the relevant calendar month for TapTap, both of which include multiple accounts held by one single user. Average MAUs for a particular period are calculated by dividing the aggregate of the MAUs during that period by the number of months of that period;
“MMORPG”	massively multiplayer online-role-playing games;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
“Placing Agents”	CLSA Limited and J.P. Morgan Securities (Asia Pacific) Limited;
“Placing and Subscription Agreement”	the agreement entered into among the Company, the Top-up Vendor, the Placing Agents in relation to the Vendor Placing and the Subscription on June 23, 2020;
“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 Entity(ies)”	the entities the Company controls through the contractual arrangements, namely X.D. Network and its respective subsidiaries. For further details of these entities and the contractual arrangements, see “History, Reorganization and Corporate Structure” and “Contractual Arrangements” of the Company’s prospectus dated November 29, 2019;
“Ragnarok M”	Ragnarok M: Eternal Love (仙境傳說：守護永恒的愛);
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription of the Subscription Shares by the Top-up Vendor;
“Subscription Shares”	26,094,200 new Shares to be issued by the Company to the Top-up Vendor under the Subscription pursuant to the general mandate of the Company;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;

“Top-up Vendor”	Aiks Danger Inc., being a shareholder of the Company interested in 67,545,000 Shares, representing approximately 15.78% of the existing issued share capital of the Company, as at the date of the Placing and Subscription Agreement;
“Vendor Placing”	the placing of Vendor Placing Shares on the terms and subject to the conditions set out in the Placing and Subscription Agreement;
“Vendor Placing Share(s)”	the Share(s) to be placed by the Placing Agents under the Vendor Placing pursuant to the Placing and Subscription Agreement;
“Vendors”	Mr. Huang Xiwei, Mr. Zhang Qian and Huzhou Yixin;
“WFOE”	XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司), a wholly foreign-owned enterprise established in the PRC on June 6, 2019 by XD (HK) Limited, an indirect wholly-owned company of our Company;
“X.D. Network”	X.D. Network Inc. (心動網絡股份有限公司), a company established in the PRC on July 29, 2011 and our PRC Consolidated Affiliated Entity;
“Yiwan”	Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩 (上海) 網絡科技有限公司), a company established in the PRC on March 28, 2016, and our PRC Consolidated Affiliated Entity; and
“%”	Percentage.

