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01

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CORPORATE  
INFORMATION

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Huang Yimeng (*Chairman and Chief Executive Officer*)  
Mr. Dai Yunjie  
Mr. Fan Shuyang  
Mr. Shen Sheng (retired on June 25, 2021)

### Non-executive Director

Mr. Liu Wei  
Mr. Tong Weiliang (retired on June 25, 2021)

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION AND APPRAISAL COMMITTEE

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

## NOMINATION COMMITTEE

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

## STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Huang Yimeng (*Chairman*)  
Mr. Dai Yunjie  
Mr. Liu Wei  
Mr. Pei Dapeng  
Mr. Tong Weiliang (retired on June 25, 2021)

## 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., Dah Sing Financial Centre  
248 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL SHARE REGISTRAR

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

## HONG KONG SHARE REGISTRAR

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

## HONG KONG LEGAL ADVISER

Clifford Chance

## PRINCIPAL BANKS

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

## WEBSITE

2400.hk

## STOCK CODE

2400

02

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HIGHLIGHTS

# HIGHLIGHTS

## FINANCIAL PERFORMANCE HIGHLIGHTS

	For the six months ended June 30,		
	2021 (RMB'000) (Unaudited)	2020 (RMB'000) (Unaudited)	Change %
Revenues	<b>1,378,707</b>	1,440,481	-4.3
Gross profit	<b>676,699</b>	825,800	-18.1
(Loss)/profit for the period	<b>(322,351)</b>	259,912	-224.0
(Loss)/profit attributable to equity holders of the Company	<b>(325,147)</b>	206,546	-257.4

## KEY OPERATING INFORMATION

	For the six months ended June 30,		
	2021 (in thousands)	2020 (in thousands)	Change %
<b>ONLINE GAMES</b>			
Average MAUs <sup>(1)</sup>	<b>15,690</b>	30,474	-48.5
Average MPUs <sup>(2)</sup>	<b>811</b>	982	-17.4
<b>TAPTAP</b>			
Average App MAUs of TapTap PRC	<b>28,671</b>	24,796	15.6
Average App MAUs of TapTap International	<b>13,183</b>	2,256	484.4

(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

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## MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

Our premium games and TapTap divisions have maintained steady growth throughout the first half of 2021, however, as our major titles were at the mature stage of their life cycles, and as our newest projects were still in development, the overall revenue declined as compared to the corresponding period of the previous year. We have continued to increase investments into research and development (R&D) for our 13 projects in development, as well as restructuring the technical framework behind TapTap to lay its foundation for future growth. During this time, we expanded our global brand and established an operations center in Singapore to provide better services for players and promote the brand recognition of TapTap in Southeast Asia (SEA). In the long term, the company will stay true to the mission “To impact each and every gamer by promoting the spirit of craftsmanship” by delivering high-quality content to gamers around the world, and supporting game developers in the creative and distribution processes.

Despite the deficit from the first half of 2021, we hold over RMB4.3 billion in cash, cash equivalents, and short-term investments as of June 30, 2021, which is an abundance of capital to support our business endeavors.

Below is an overview of our main products and services:

### Games

As of June 30, 2021, our portfolio consists of 24 online games and 14 premium games.

### Online Games

In the six months ended on June 30, 2021, the average monthly active users (MAU) for our online games decreased by 48.5% as compared to the corresponding period of the previous year, while their monthly paying users (MPU) decreased by 17.4% as compared to the corresponding period of the previous year. This trend was primarily due to the evident MAU drop of Sausage Man (香腸派對) compared to the same period last year. In the six months ended on June 30, 2021, the five games that generated the most revenues were Ragnarok M (仙境傳說M), Ulala (不休的烏拉拉), Sausage Man (香腸派對), Arkknights (明日方舟), and Lan Yan Qing Meng (藍顏清夢). Here is an overview of our existing major games:

- **Ragnarok M:** Initially launched in China in January 2017, and subsequently released in many countries and regions around the world; the game is now in its maturity stage. Due to the game’s current standing in its life cycle, its revenue from the six months ended June 30, 2021, was lower compared to the same period last year. Since Q1 2021, a major update, RO 2.0, has been rolled out in China and overseas with positive results. The crossover event with Disney also went live towards the end of June 2021, which will be available in other regions later this year.

- **Ulala:** Initially launched in Taiwan in May 2019, and subsequently released in many countries and regions around the world; the game is now in its maturity stage. Due to the game's current standing in its life cycle, its revenue from the six months ended June 30, 2021, was lower compared to the same period last year.
- **Sausage Man:** The game was launched in China in April 2018; since launching over three years ago, this intrinsically competitive battle arena game has remained rather popular and exhibits tremendous potential for further growth. Following the pandemic and the stay-at-home order in the first half of 2020, the game attracted a large influx of new players and recorded a significant surge in MAU. Then, in the first half of 2021, as the spread of the pandemic in China eased and the stay-at-home order lifted, while the game's MAU took a notable dip, its gross billing was comparable to the same period last year. During July and August this year, the game's user activity and gross billing in China were remarkably higher compared to the average from the first half of 2021. Meanwhile, the game was launched in Southeast Asia at the end of June and quickly became popular with players, receiving over 15 million downloads within 30 days since its launch.

## Games in Development

For us, in-house development capabilities have been one of the fundamental driving forces behind the growth of the company, and we will continue to boost investments into R&D. By the end of June 2021, we employed more than 1,270 game developers — a net increase of 140 from the end of 2020. There are currently a total of 13 projects in R&D, four of which have already entered the "TapTap Campfire Project" (篝火測試), where select TapTap users can test out new game prototypes and volunteer to participate in the early stages of development. Another three of the games in our pipeline are expected to enter closed beta in the second half of 2021.

## Premium Games

In addition to expanding our product portfolio and the ecosystem around our platform, our premium games have been a major gateway to securing positive brand recognition within the player community. We achieved significant growth of premium games in the first half of the year compared to the same period last year, among which Carto (無盡旅圖) and Sands of Salzaar (部落與彎刀), both PC games, have been very well received by gamers on the platform; Human: Fall Flat (人類跌落夢境) surpassed 2 million in sales on TapTap, and Muse Dash (喵斯快跑) sold over 6 million copies across all platforms. In the second half of 2021, we are planning to launch Terraria Mobile (泰拉瑞亞移動版) and Eastward (風來之國), along with other highly anticipated games covering multiple platforms.

## TapTap

Our company's core competitive advantage comes from our platform TapTap. By developing high-quality content and then distributing it exclusively on TapTap, the platform is able to continuously draw new users into the community. TapTap's large user base has also inspired many third-party content creators to distribute their content exclusively on the platform. As a result, TapTap's recent growth can be defined as a cycle between new content and new users that steadily feed into each other.

### *TapTap PRC*

Within the first half of 2021, TapTap PRC had 28.7 million mobile App MAUs and accounted for 248.1 million game downloads. This is a 15.6% and 12.8% increase as compared to the corresponding period of the previous year, respectively.

We continued to build TapTap's product and technical teams throughout the first half of 2021. We have also restructured TapTap's product and technical framework. Our investments into machine learning have been notably promising, especially with its implementation into TapTap's advertising framework and recommendation systems earlier this year. Our tech stack behind TapTap will continue to improve throughout the latter half of 2021 with more programs and initiatives being completed.

We began to grant third-party developers access to our TapTap Developer Services (TDS) in the second quarter of 2021. Currently, nearly 100 games have integrated the TapSDK and may use TapTap ecosystem features such as TapTap accounts login and embedded dynamics, among other TapTap game development tools. Throughout the coming half of 2021, we will be introducing a new friends system, an internal testing platform, a leaderboard tool, and a team formation tool within TDS. We hope that TDS can optimize the game development process for game developers such that they can focus on making better content.

In July 2021, we held the second annual TapTap presents which introduced 27 new games to our gamer community and generated over 170 million online impressions.

### *TapTap International*

TapTap International continued the growth we have seen since last year, with an average of 13.2 million mobile App MAUs for the first half of 2021. This was a 484.4% growth as compared to the corresponding period of the previous year.

Throughout the coming half of 2021, we will gradually implement new features onto TapTap International that have been tested and proven within TapTap PRC to improve the user experience, such as intelligent recommendation systems. TapTap International is currently not yet monetized.

## FINANCIAL REVIEW

### Revenues

Our revenue is mainly derived from (i) games, principally operating business where we generate revenue primarily from sales of in-game virtual items in online games and sales of premium games through third-party and our proprietary distribution platforms, and (ii) information services where we generate revenue primarily from providing online marketing services on TapTap. The following table sets forth our revenue by line of business for the six months ended June 30, 2021 and 2020.

	For the six months ended June 30,			
	2021		2020	
	Amount	% of revenue	Amount	% of revenue
(Unaudited)	(RMB in thousands, except for percentages)			
<b>Games</b>	<b>1,042,985</b>	<b>75.6</b>	1,187,567	82.4
Game operating	<b>1,028,557</b>	<b>74.6</b>	1,161,717	80.6
Online games	<b>939,995</b>	<b>68.2</b>	1,111,264	77.1
Premium games	<b>88,562</b>	<b>6.4</b>	50,453	3.5
In-game marketing and promotion	<b>10,096</b>	<b>0.7</b>	23,463	1.6
Others	<b>4,332</b>	<b>0.3</b>	2,387	0.2
<b>Information services</b>	<b>335,722</b>	<b>24.4</b>	252,914	17.6
<b>Total revenue</b>	<b>1,378,707</b>	<b>100.0</b>	1,440,481	100.0

### Games

Our revenue from game business decreased by 12.2% to RMB1,043.0 million for the six months ended June 30, 2021 on a period-on-period basis. In particular,

- Our revenue from online games decreased by 15.4% to RMB940.0 million for the six months ended June 30, 2021 on a period-on-period basis, primarily due to decreases in revenue from certain existing games under maturity stage, such as Ragnarok M (仙境傳說M) and Ulala (不休的烏拉拉), and
- Our revenue from premium games increased by 75.5% to RMB88.6 million for the six months ended June 30, 2021 on a period-on-period basis, primarily due to (i) solid performance of Muse Dash (喵斯快跑), and (ii) the launch of Human: Fall Flat (人類跌落夢境) in TapTap in November 2020.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the six months ended June 30, 2021 and 2020.

(Unaudited)	For the six months ended June 30, 2021		2020	
	Amount	%	Amount	%
	(RMB in thousands, except for percentages)			
Revenue recognized on a gross basis	<b>811,587</b>	<b>78.9</b>	847,778	73.0
Revenue recognized on a net basis	<b>216,970</b>	<b>21.1</b>	313,939	27.0
Total game operating revenue	<b>1,028,557</b>	<b>100.0</b>	1,161,717	100.0

Our game operating revenue recognized on a gross basis decreased by 4.3% to RMB811.6 million for the six months ended June 30, 2021 on a period-on-period basis, primarily due to the decreases in revenue from Ulala (不休的烏拉拉), and partially offset by the increase of revenue from premium games. Our game operating revenue recognized on a net basis decreased and that recognized on a net basis decreased by 30.9% to RMB217.0 million for the six months ended June 30, 2021 on a period-on-period basis, primarily due to the decreases in revenue from Ragnarok M in overseas markets.

We started to offer in-game marketing and promotion services in Sausage Man (香腸派對) to diversify our revenue sources since January 2020. Our in-game marketing and promotion revenue decreased by 57.0% to RMB10.1 million for the six months ended June 30, 2021 on a period-on-period basis, primarily due to the average MAUs of Sausage Man (香腸派對) had gradually declined to normal level, comparing to the historical-high level in the first half 2020.

### Information services

Our revenue from information services business increased by 32.7% to RMB335.7 million for the six months ended June 30, 2021 on a period-on-period basis, primarily due to (i) new machine learning technologies adopted to our advertisement system early this year to enhance efficiency, and (ii) the growth of the average MAUs on our TapTap mobile app, which increased by 15.6% to 28.7 million for the six months ended June 30, 2021 on a period-on-period basis.

## Cost of Revenues

Our cost of revenue increased by 14.2% to RMB702.0 million for the six months ended June 30, 2021 on a period-on-period basis. The following table sets forth our cost of revenue by line of business for the six months ended June 30, 2021 and 2020.

	For the six months ended June 30, 2021		2020	
	Amount	% of segment revenue	Amount	% of segment revenue
(Unaudited)	(RMB in thousands, except for percentages)			
Games	636,105	61.0	577,928	48.7
Information services	65,903	19.6	36,753	14.5
Total	702,008	50.9	614,681	42.7

Our cost of revenue for game business primarily consists of commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers where we act as a principal, bandwidth and servers custody fee and employee benefits expenses. Our cost of revenue for information services business primarily consists of bandwidth and servers custody fee and employee benefits expenses. The following table sets forth our cost of revenue by nature for the six months ended June 30, 2021 and 2020.

	For the six months ended June 30, 2021		2020	
	Amount	%	Amount	%
(Unaudited)	(RMB in thousands, except for percentages)			
Sharing of proceeds to game developers	222,173	31.6	221,406	36.0
Commissions charged by distribution platforms and payment channels	196,212	28.0	205,954	33.5
Bandwidth and servers custody fee	108,688	15.5	88,827	14.4
Employee benefits expenses	67,173	9.6	28,670	4.7
Professional and technical services fee	30,767	4.4	16,809	2.7
Amortization of intangible assets	29,412	4.2	24,357	4.0
Others	47,583	6.7	28,658	4.7
Total	702,008	100.0	614,681	100.0

Our cost of revenue for game business increased by 10.1% to RMB636.1 million on a period-on-period basis, primarily due to (i) a number of expertise had been hired in our newly established Singapore office to conduct local operation in Southeast Asian, and (ii) the increased level of employee benefits of our game operation staff.

Our cost of revenue for information services business increased by 79.3% to RMB65.9 million on a period-on-period basis, primarily due to an increase in bandwidth and servers custody fee, which was generally in line with the growth in the average MAUs of TapTap mobile app in both PRC and overseas, and the growth in gamers' activities in TapTap.

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

As a result of the foregoing, our gross profit decreased by 18.1% to RMB676.7 million in the six months ended June 30, 2021 on a period-on-period basis. Our gross margin decreased to 49.1% in the six months ended June 30, 2021 from 57.3% in the same period of 2020, primarily due to (i) a decrease in our gross margins of game segment from 51.3% in the six months ended June 30, 2020 to 39.0% in the same period of 2021, mainly as a result of the decrease in the contribution from game operating revenue recognized on a net basis to total game operating revenue from 27.0% in the six months ended June 30, 2020 to 21.1% in the same period of 2021, mainly due to the decreases in revenue from Ragnarok M in overseas markets, (ii) a decrease in gross margin of information services segment from 85.5% in the six months ended June 30, 2020 to 80.4% in the same period of 2021, mainly because we incurred relevant costs for TapTap's overseas version but have yet started to monetize it. This decrease was partially offset by an increase in the contribution of revenue from our information services business to our total revenue from 17.6% in the six months ended June 30, 2020 to 24.4% in the same period of 2021, which in general enjoys a higher gross margin than the game business.

### **Selling and Marketing Expenses**

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

Our selling and marketing expenses increased by 23.8% to RMB344.5 million for the six months ended June 30, 2021 on a period-on-period basis. This was primarily due to (i) the increased marketing expenses of RMB41.1 million for TapTap, as we continued to attract new users and bring in high quality exclusive games in both PRC and overseas, and (ii) the increased marketing expenses of RMB25.3 million for game segment, as we further enhance our marketing activities for existing games through IP collaborations and social media market campaigns.

## 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 164.0% to RMB575.9 million for the six months ended June 30, 2021 on a period-on-period basis. This was primarily due to an increase in the number of our research and development personnel from 1,065 as of June 30, 2020 to 1,565 as of June 30, 2021, and the increased levels of employee benefits during the six months ended June 30, 2021, 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 increased by 37.1% to RMB111.6 million for the six months ended June 30, 2021 on a period-on-period basis. This was primarily due to (i) the increased backoffice personnel and the increased level of employee benefits, (ii) the increased rental and utilities expenses as our office spaces enlarged, and (iii) the increased depreciation of property, plant and equipment as our office equipment increased.

## Income Tax Credits/(Expenses)

We had income tax credits of RMB5.5 million for the six months ended June 30, 2021 compared to income tax expenses of RMB25.3 million for the corresponding period of the previous year. For the first half of 2021, we recorded current income tax expense of RMB15.5 million for some of our profit-making subsidiaries, and recorded deferred income tax of RMB21.0 million for some of our loss-making subsidiaries.

## (Loss)/Profit for the Period

Our net loss for the period was RMB332.3 million for the six months ended June 30, 2021, comparing a net profit of RMB259.9 million for the six months ended June 30, 2020.

## (Loss)/Profit for the Period attributable to Equity holders of the Company

Our net loss for the period attributable to equity holders of the Company was RMB325.1 million for the six months ended June 30, 2021, comparing a net profit attributable to equity holders of the Company of RMB206.6 million for the six months ended June 30, 2020.

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, 2021 and December 31, 2020 are as follows:

	<b>As at June 30, 2021 (RMB'000) (Unaudited)</b>	As at December 31, 2020 (RMB'000) (Audited)
Cash and cash equivalents	<b>1,905,214</b>	2,319,512
Short-term investments		
— Term deposits with initial terms over three months	<b>1,892,036</b>	—
— Wealth management products	<b>572,253</b>	—
	<b>4,369,503</b>	2,319,512

Our short-term investments as at June 30, 2021 consist of (i) term deposits with initial terms ranging from three months to twelve months, and (ii) wealth management products issued by large reputable commercial banks. The principle and returns of such term deposits are guaranteed by relevant 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 2.90% to 4.27% per annum.

The increase of our cash positions and short-term investments was primarily due to net cash generated from financing activities of RMB2,493.3 million for the six months ended June 30, 2021, and partially offset by the net cash used in operating activities of RMB284.7 million.

As of June 30, 2021, saving for the convertible bonds issued on April 12, 2021, we did not have any borrowings or unutilized banking facilities. These convertible bonds are at a par value of USD200,000 each with the aggregate principal amounts of USD280.0 million, bearing an interest of 1.25% per annum payable semi-annually and will mature on April 12, 2026.

Our gearing ratio was 45.1% as at June 30, 2021. This ratio was calculated as total liabilities divided by total assets.

The Company completed an issue of convertible bonds and a placing of new shares in April 2021. Please refer to the section headed "Other Information — Issue of Convertible Bonds under General Mandate", "Other Information — Placing of New Shares under General Mandate", and the announcements of the Company dated March 31, 2021, April 12, 2021 and April 13, 2021 published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) for details.

### **Significant Investments**

For the six months ended June 30, 2021, we did not have any significant investment.

### **Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures**

On May 12, 2021, X.D. Network entered into the equity transfer agreement with Shanghai Xinhe, pursuant to which, X.D. Network has conditionally agreed to purchase, and Shanghai Xinhe has conditionally agreed to sell, 6.86% equity interest in Yiwan held by them for a consideration of RMB171,610,290.98. For further details, please refer to the announcement of the Company dated May 12, 2021.

### **Pledge of Assets**

As of June 30, 2021, we did not pledge any of our assets.

### **Future Plans for Material Investments or Capital Assets**

As of June 30, 2021, 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, 2021, we did not have any material contingent liabilities.

04

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OTHER  
INFORMATION

## OTHER INFORMATION

### ISSUE OF CONVERTIBLE BONDS UNDER THE GENERAL MANDATE

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

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

There had not been any exercise of the Convertible Bonds as of June 30, 2021, and no redemption right had been exercised by the bondholders or the Company as of June 30, 2021.

Assuming the Convertible Bonds were fully exercised on June 30, 2021, the shareholding of the Company immediately before and after the full exercise of the Convertible Bonds are set out below for illustration purposes:

Shareholder	Shareholding immediately before the full exercise of the convertible bonds		Assuming the convertible bonds are fully converted into new Shares at the initial conversion price of HK\$63.45 each	
	No. of Shares	Approximate % of total issued Shares	No. of Shares	Approximate % of total issued Shares
<b>Shares held by Substantial Shareholders</b>				
Mr. Huang Yimeng	163,520,600	34.04	163,520,600	31.77
Mr. Dai Yunjie	68,110,800	14.18	68,110,800	13.23
<b>Sub-total:</b>	231,631,400	48.22	231,631,400	45.00
<b>Shares held by public Shareholders</b>				
Bondholders	0	0	34,308,715	6.67
Other public Shareholders	248,799,300	51.78	248,799,300	48.33
<b>Sub-total:</b>	248,799,300	51.78	283,108,015	55.00
<b>Total:</b>	480,430,700	100	514,739,415	100

Notes:

Based on the cash and cash equivalents as on June 30, 2021 and the cash flow from operating activities of the Company, the Company has the ability to meet its redemption obligation under the Convertible Bonds.

Pursuant to the terms and conditions of the Convertible Bonds, the implied rate of the Convertible Bonds is 2.4%.

## PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

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

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

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

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

For further details of the Convertible Bonds and the Placing, please refer to the announcements of the Company dated March 31, 2021, April 12, 2021 and April 13, 2021.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended June 30, 2021.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2021.

## USE OF PROCEEDS

### Initial global offering

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. The amount of the net proceeds brought forward to the six months ended June 30, 2021 was approximately HK\$48.5 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2021:

Use of proceeds	Actual usage up to June 30, 2021 (HK\$ million)	Unutilized net proceeds as of June 30, 2021 (HK\$ million)	Expected timeline of full utilization
• working capital and general corporate uses	48.5	0	N/A

### Placing of shares in June 2020

The net proceeds received from the placing was approximately HK\$767.33 million. The amount of the net proceeds brought forward to the six months ended June 30, 2021 was approximately HK\$523.5 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2021:

Use of proceeds	Actual usage up to June 30, 2021 (HK\$ million)	Unutilized net proceeds as of June 30, 2021 (HK\$ million)	Expected timeline of full utilization
• developing TapTap	257.5	52.7	By December 31, 2023
• working capital and general corporate uses	213.3	0	N/A

### Issue of convertible bonds in April 2021

The net proceeds received from the bonds issue was approximately US\$275.6 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2021:

Use of proceeds	Actual usage up to June 30, 2021 <i>(US\$ million)</i>	Unutilized net proceeds as of June 30, 2021 <i>(US\$ million)</i>	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	17.2	131.6	By December 31, 2023
• marketing and promoting games and TapTap	3.8	95.4	By December 31, 2023
• general corporate purposes	0	27.6	By December 31, 2023

### Placing of shares in April 2021

The net proceeds received from the placing was approximately HK\$1,113.0 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2021:

Use of proceeds	Actual usage up to June 30, 2021 <i>(HK\$ million)</i>	Unutilized net proceeds as of June 30, 2021 <i>(HK\$ million)</i>	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	104.0	452.5	By December 31, 2023
• potential acquisition and strategic investments	29.5	193.1	By December 31, 2023
• general corporate purposes	32.2	301.7	By December 31, 2023

## SUBSEQUENT EVENT

### Share Option Plan

On April 30, 2021, the Board resolved to propose the adoption of the share option plan of the Company for the approval by the Shareholders (the "Share Option Plan"). On June 25, 2021 ("Adoption Date"), the Share Option Plan was considered and approved by the Shareholders at the annual general meeting of the Company which will be valid and effective for a period of 10 years commencing on the adoption date. For further details of the Share Option Plan, please refer to the announcements of the Company dated April 30, 2021, June 25, 2021 and the circular of the Company dated May 21, 2021, respectively.

From the Adoption Date up to June 30, 2021, there were no share options ("Options") granted, exercised, cancelled or lapsed pursuant to the Share Option Plan and no Option was outstanding as of June 30, 2021. Subsequent to June 30, 2021 and on July 12, 2021, a total of 347,234 Options were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of US\$0.0001 each of the Company, including 16,049 Options granted to Mr. Huang Yimeng, an executive Director, and 9,924 Options granted to Mr. Dai Yunjie, an executive Director. Please refer to the announcement of the Company dated July 12, 2021 for further details of the grant.

## EMPLOYEES, REMUNERATION AND PENSION SCHEME

We had 2,207 full-time employees as of June 30, 2021, substantially all of which were based in Shanghai.

We offer our employees competitive compensation packages and a collaborative working environment and, as a result, we have generally been able to attract and retain qualified personnel and maintain a stable, core management team. We compensate our employees with basic salaries, subsidies, and performance-based and annual bonuses, and pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund.

We design and implement in-house training programs tailored to each job function and a set of responsibilities to enhance performance. Specific training is provided during orientation for new employees to familiarize them with our working environment and operational procedures. We also provide professional on-the-job training to our existing employees on various topics such as channel management, marketing and promotion strategies, product operations and operational support. We believe our training offers employees sustainable, organized and target-oriented quality training, and which can enhance the productivity of our employees.

As disclosed in 2020 annual report, the Group has established an adequate remuneration and incentive system. The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. Further, the Group's principal retirement benefits scheme available to its Hong Kong and Singapore employees, namely the Mandatory Provident Fund or Central Provident Fund, is also a defined contribution scheme. Both the Group and the employees contribute respectively to the Mandatory Provident Fund or Central Provident Fund sums which represent a certain percentage of the employees' salaries.

The contributions by the Group for the defined contribution schemes above are expensed as incurred. Other than such contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees.

During the year ended December 31, 2020 and six months ended June 30, 2021, there were no forfeited contributions under the defined contribution schemes above. Accordingly, no forfeited contribution was utilized during the year and a half, and there was no forfeited contribution available as of December 31, 2020, and June 30, 2021, to reduce the level of contributions.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has complied with all applicable code provisions of the CG Code during the six months ended June 30, 2021 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 three executive Directors (including Mr. Huang Yimeng), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

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

## COMPLIANCE WITH LAWS AND REGULATIONS

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

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

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code for dealing in securities in the Company by the Directors. The Directors have confirmed, following specific enquiry by the Company, compliance with the required standard set out in the Model Code during the six months ended June 30, 2021.

## 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 Ms. Liu Qianli. 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, 2021. 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 since the Company's last published annual report.

## 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, 2021, 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 <sup>(1)</sup>	Approximate percentage of shareholding
Mr. Huang Yimeng	Settlor of a discretionary trust <sup>(2)</sup>	157,605,000 (L)	32.80%
	Beneficial owner	3,815,600 (L)	0.79%
	Interest of spouse	2,100,000 (L)	0.44%
Mr. Dai Yunjie	Settlor of a discretionary trust <sup>(3)</sup>	67,545,000 (L)	14.06%
	Beneficial owner	565,800 (L)	0.12%

Notes:

- (1) The letter "L" denotes long position in the shares of the Company.
- (2) Happy Today Holding Limited is a company incorporated in the British Virgin Islands and is wholly owned by Happy Today Company Limited. Happy Today Company Limited is held by the Happy Today Trust, which was established by Mr. Huang as the settlor. 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.
- (3) 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.

**(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 2021, 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, 2021, 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 <sup>(1)</sup>	Approximate percentage of shareholding
Credit Suisse Trust Limited	Trustee	229,484,865 (L)	47.77%
Happy Today Company Limited	Interest in controlled corporation	157,605,000 (L)	32.80%
Happy Today Holding Limited	Beneficial owner	157,605,000 (L)	32.80%
Danger & Sons Inc.	Interest in controlled corporation	67,545,000 (L)	14.06%
Aiks Danger Inc.	Beneficial owner	67,545,000 (L)	14.06%
Credit Suisse Group AG	Interest in controlled corporation	30,539,398 (L)	6.36%
		28,459,491 (S)	5.92%
	Investment manager	180,425 (L)	0.04%

Note:

(1) The letters “L” and “S” denote long position and short position in the shares of the Company respectively.

Save as disclosed above, as at June 30, 2021, 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, 2021, the aggregate number of Shares held by the RSU Holding Entity pursuant to the RSU Scheme for and on behalf of the grantees was 8,437,540, representing approximately 1.76% of the issued share capital of our Company and no RSUs had been granted by the Company.

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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 32 to 87, which comprises the condensed consolidated statement of financial position of XD Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2021 and the condensed consolidated statement of comprehensive (loss)/income, the condensed consolidated statement of changes in equity and the 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, August 26, 2021

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CONDENSED  
CONSOLIDATED  
STATEMENT OF  
COMPREHENSIVE  
(LOSS)/INCOME

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

	Notes	Six months ended June 30,	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenues	6	1,378,707	1,440,481
Cost of revenues	6, 7	(702,008)	(614,681)
<b>Gross profit</b>		<b>676,699</b>	825,800
Selling and marketing expenses	7	(344,468)	(278,158)
Research and development expenses	7	(575,938)	(218,146)
General and administrative expenses	7	(111,567)	(81,393)
Net impairment reversal/(losses) on financial assets	7	1,709	(1,311)
Fair value changes on investments measured at fair value through profit or loss	8	8,271	7,073
Other income	9	11,108	13,796
Other (losses)/gains, net	10	(2,729)	5,554
<b>Operating (loss)/profit</b>		<b>(336,915)</b>	273,215
Finance income		5,072	6,846
Finance costs		(13,381)	(1,442)
Finance (costs)/income, net	11	(8,309)	5,404
Share of results of investments accounted for using the equity method	17	17,394	6,607
<b>(Loss)/profit before income tax</b>		<b>(327,830)</b>	285,226
Income tax credits/(expenses)	12	5,479	(25,314)
(Loss)/profit for the period		<b>(322,351)</b>	259,912
<b>Other comprehensive (loss)/income:</b>			
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		(26,388)	9,052
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		(1,860)	3,218
<b>Total comprehensive (loss)/income for the period</b>		<b>(350,599)</b>	272,182

	Notes	Six months ended June 30,	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<b>(Loss)/profit for the period attributable to:</b>			
Equity holders of the Company		<b>(325,147)</b>	206,546
Non-controlling interests		<b>2,796</b>	53,366
		<b>(322,351)</b>	259,912
<b>Total comprehensive (loss)/income for the period attributable to:</b>			
Equity holders of the Company		<b>(352,843)</b>	216,824
Non-controlling interests		<b>2,244</b>	55,358
		<b>(350,599)</b>	272,182
<b>(Loss)/earnings per share for (loss)/profit for the period attributable to the equity holders of the Company</b>			
Basic and diluted (loss)/earnings per share (RMB)	13	<b>(0.71)</b>	0.49

The notes on pages 43 to 87 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 June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	132,660	112,592
Right-of-use assets	15	142,285	129,555
Intangible assets	14	270,139	199,322
Deferred tax assets	16	35,912	16,810
Investments accounted for using the equity method	17	80,084	66,326
Long term investments measured at fair value through profit or loss	18	33,686	23,670
Prepayments, deposits and other assets	19	40,839	26,713
		<b>735,605</b>	574,988
<b>Current assets</b>			
Trade receivables	20	288,794	299,161
Income tax prepayment		34,764	30,254
Prepayments and other assets	19	101,140	120,827
Short-term investments	21	2,464,289	—
Cash and cash equivalents	22	1,905,214	2,319,512
		<b>4,794,201</b>	2,769,754
<b>Total assets</b>		<b>5,529,806</b>	3,344,742
<b>EQUITY</b>			
Share capital	23	323	306
Share premium	23	7,035,801	6,095,544
Other reserves	24	(4,501,541)	(4,444,279)
Retained earnings		319,741	644,888
<b>Equity attributable to equity holders of the Company</b>		<b>2,854,324</b>	2,296,459
Non-controlling interests	17	183,012	283,667
<b>Total equity</b>		<b>3,037,336</b>	2,580,126

	Notes	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	16	3,708	1,621
Lease liabilities	25	82,526	81,920
Convertible bonds	29	1,672,317	—
		<b>1,758,551</b>	83,541
<b>Current liabilities</b>			
Trade payables	26	169,300	164,560
Advance from customers		25,157	21,215
Other payables and accruals	27	247,082	239,968
Contract liabilities	28	138,387	128,546
Current income tax liabilities		70,839	78,713
Lease liabilities	25	60,857	48,073
Convertible bonds	29	22,297	—
		<b>733,919</b>	681,075
<b>Total liabilities</b>		<b>2,492,470</b>	764,616
<b>Total equity and liabilities</b>		<b>5,529,806</b>	3,344,742

The notes on pages 43 to 87 are an integral part of these condensed consolidated financial statements.

The financial statements on pages 43 to 87 were approved by the Board of Directors on August 26, 2021 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					Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000				
(Unaudited)									
<b>As of January 1, 2020</b>		284	5,357,114	(4,137,328)	651,800	1,871,870	414,660	2,286,530	
<b>Comprehensive income</b>									
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	
<b>Total comprehensive income for the period</b>		—	—	10,278	206,546	216,824	55,358	272,182	
<b>Transaction with owners in their capacity as owners</b>									
Issuance of ordinary shares upon IPO over allotment	23	3	38,922	—	—	38,925	—	38,925	
Dividend distribution of a subsidiary	30	—	—	—	—	—	(49,223)	(49,223)	
<b>Total transactions with owners in their capacity as owners for the period</b>		3	38,922	—	—	38,925	(49,223)	(10,298)	
<b>As of June 30, 2020</b>		287	5,396,036	(4,127,050)	858,346	2,127,619	420,795	2,548,414	

Attributable to equity holders of the Company								
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
<b>(Unaudited)</b>								
<b>As of January 1, 2021</b>		306	6,095,544	(4,444,279)	644,888	2,296,459	283,667	2,580,126
<b>Comprehensive loss</b>								
Loss for the period		—	—	—	(325,147)	(325,147)	2,796	(322,351)
Other comprehensive loss								
— Currency translation differences		—	—	(27,696)	—	(27,696)	(552)	(28,248)
<b>Total comprehensive loss for the period</b>		—	—	(27,696)	(325,147)	(352,843)	2,244	(350,599)
<b>Transaction with owners in their capacity as owners</b>								
Issuance of convertible bond	29	—	—	97,390	—	97,390	—	97,390
Acquisition of additional equity interests in a subsidiary	17(a)	—	—	(126,956)	—	(126,956)	(44,654)	(171,610)
Issuance of ordinary shares	23	17	940,257	—	—	940,274	—	940,274
Dividend distribution of subsidiaries	30	—	—	—	—	—	(58,245)	(58,245)
<b>Total transactions with owners in their capacity as owners for the period</b>		17	940,257	(29,566)	—	910,708	(102,899)	807,809
<b>As of June 30, 2021</b>		323	7,035,801	(4,501,541)	319,741	2,854,324	183,012	3,037,336

The notes on pages 43 to 87 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 June 30, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<b>Cash flows from operating activities</b>			
Cash (used in)/generated from operations		(259,930)	414,113
Income tax paid		(24,789)	(31,695)
<b>Net cash flows (used in)/generated from operating activities</b>		<b>(284,719)</b>	382,418
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(49,819)	(34,623)
Proceeds from disposals of property, plant and equipment		79	28
Purchase of intangible assets (including prepayments for intangible assets)		(33,109)	(9,484)
Net cash paid for business combinations	31	(67,695)	—
Acquisition of investments accounted for using the equity method	17(b)	—	(10,000)
Proceeds from disposal of investments accounted for using the equity method	17(b)	—	460
Acquisition of long-term investments measured at fair value	18	(8,500)	(1,000)
Purchase of short-term investments		(2,453,005)	(965,750)
Proceeds from disposals of short-term investments		—	1,257,914
Dividends received	17(b)	3,600	—
<b>Net cash (used in)/generate from investing activities</b>		<b>(2,608,449)</b>	237,545
<b>Cash flows from financing activities</b>			
Dividend paid to non-controlling shareholders	30	(58,245)	(49,223)
Issuance of convertible bond	29	1,810,512	—
Issuance of ordinary shares	23	940,274	38,925
Payment for acquisition of additional equity interests in a subsidiary	17(a)	(171,610)	—
Payment for lease liabilities (including interests)	25	(27,649)	(13,215)
Listing expense payment		—	(9,514)
<b>Net cash generate from/(used in) financing activities</b>		<b>2,493,282</b>	(33,027)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(399,886)</b>	586,936
Cash and cash equivalents at the beginning of the period		2,319,512	1,336,869
Effects of exchange rate changes on cash and cash equivalents		(14,412)	23,201
<b>Cash and cash equivalents at the end of the period</b>	22	<b>1,905,214</b>	1,947,006

The notes on pages 43 to 87 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 January 25, 2019.

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

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

The condensed consolidated financial statements for the six months ended June 30, 2021 (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 December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as set out in 2020 annual report of the Company dated March 25, 2021 (the “2020 Financial Statements”).

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the Interim Financial Statements are consistent with those applied in the preparation of 2020 Financial Statements, except for the estimation of income tax (Note 12) and the adoption of new and revised IFRSs that become applicable for the financial year commencing on January 1, 2021:

- 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. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

### 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

A number of new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2021 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.

#### **Accounting policy for convertible bonds**

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

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

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

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

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

## 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 2020 Financial Statements.

There were no significant changes in any material risk management policies during the six months ended June 30, 2021.

### 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.

### 4.3 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 June 30, 2021 and December 31, 2020, 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).

## 4 FINANCIAL RISK MANAGEMENT (Continued)

### 4.3 Fair value estimation (Continued)

#### (a) Fair value hierarchy (Continued)

As at June 30, 2021 and December 31, 2020, 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	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Wealth management products issued by commercial banks	21	<b>572,253</b>	—
Long-term investments measured at fair value through profit or loss	18	<b>33,686</b>	23,670
		<b>605,939</b>	23,670

#### (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 June 30, 2021 and 2020.

##### (i) Investments in unlisted companies

	<b>Six months ended June 30, 2021 RMB'000 (Unaudited)</b>	2020 RMB'000 (Unaudited)
<b>At the beginning of the period</b>	<b>23,670</b>	29,918
Addition	<b>7,000</b>	2,500
Changes in fair value	<b>3,018</b>	240
Currency translation differences	<b>(2)</b>	(39)
<b>At the end of the period</b>	<b>33,686</b>	32,619
Net unrealized gains	<b>3,018</b>	240

## 4 FINANCIAL RISK MANAGEMENT (Continued)

### 4.3 Fair value estimation (Continued)

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

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

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>At the beginning of the period</b>	—	497,363
Addition	<b>567,000</b>	965,750
Changes in fair value	<b>5,253</b>	6,833
Disposal	—	(1,257,914)
<b>At the end of the period</b>	<b>572,253</b>	212,032
Net unrealized gains	<b>5,253</b>	732

#### (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
	June 30,	December 31,		June 30,	December 31,	
	2021	2020		2021	2020	
	RMB'000	RMB'000				
Investments in unlisted companies	33,686	23,670	Expected volatility	47.10%-56.30%	51.23%-58.12%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability	28%	25%-30%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	572,253	—	Expected rate of return	2.90%-4.27%	N/A	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 2020 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 revenue from in-game marketing and promotion services.

### **Information service segment**

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

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

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

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

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

As at June 30, 2021, 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.

## 6 SEGMENT INFORMATION AND REVENUE (Continued)

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

(Unaudited)	Six months ended June 30, 2021		Total RMB'000
	Game segment RMB'000	Information service segment RMB'000	
Game operating revenues			
— Online Games (free-to-play)	939,995	—	939,995
— Premium Games (pay-to-play)	88,562	—	88,562
<b>Subtotal</b>	<b>1,028,557</b>	<b>—</b>	<b>1,028,557</b>
Online marketing service revenue	10,096	334,634	344,730
Others	4,332	1,088	5,420
<b>Total revenues</b>	<b>1,042,985</b>	<b>335,722</b>	<b>1,378,707</b>
Cost of revenues	(636,105)	(65,903)	(702,008)
<b>Gross profit</b>	<b>406,880</b>	<b>269,819</b>	<b>676,699</b>
<b>Gross margin</b>	<b>39%</b>	<b>80%</b>	<b>49%</b>

## 6 SEGMENT INFORMATION AND REVENUE (Continued)

(Unaudited)	Six months ended June 30, 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
<b>Subtotal</b>	<b>1,161,717</b>	<b>—</b>	<b>1,161,717</b>
Online marketing service revenue	23,463	252,127	275,590
Others	2,387	787	3,174
<b>Total revenues</b>	<b>1,187,567</b>	<b>252,914</b>	<b>1,440,481</b>
Cost of revenues	(577,928)	(36,753)	(614,681)
<b>Gross profit</b>	<b>609,639</b>	<b>216,161</b>	<b>825,800</b>
<b>Gross margin</b>	<b>51%</b>	<b>85%</b>	<b>57%</b>

Revenues of approximately RMB534 million and RMB548 million for the six months ended June 30, 2021 and 2020, respectively, were from five largest single external customers.

## 6 SEGMENT INFORMATION AND REVENUE (Continued)

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 June 30, 2021 and 2020, respectively.

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>(Unaudited)</b>	(Unaudited)
<b>Game operating revenues</b>		
Customer A	<b>11%</b>	15%
<b>Information service revenue</b>		
Customer B	<b>21%</b>	14%

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the six months ended June 30, 2021 and 2020, respectively:

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Service transferred overtime	<b>689,438</b>	725,543
Service transferred at a point of time	<b>689,269</b>	714,938
	<b>1,378,707</b>	1,440,481

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the six months ended June 30, 2021 and 2020, respectively:

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Mainland China	<b>463,193</b>	535,803
Overseas (Note a)	<b>565,364</b>	625,914
<b>Total</b>	<b>1,028,557</b>	1,161,717

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

## 7 EXPENSES BY NATURE

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Employee benefits expenses	<b>661,645</b>	247,833
Promotion and advertising expenses	<b>292,645</b>	259,432
Sharing of proceeds to game developers	<b>222,173</b>	221,406
Commissions charged by payment channels and distribution channels	<b>196,212</b>	205,954
Bandwidth and server custody fee	<b>110,638</b>	90,578
Professional and technical service fee	<b>83,475</b>	63,051
Depreciation of property, plant and equipment (Note 14) and right-of-use assets (Note 15)	<b>53,792</b>	34,214
Amortization of intangible assets (Note 14)	<b>38,226</b>	25,931
Impairment of non-financial assets	<b>25,693</b>	10,841
Office expenses	<b>23,146</b>	12,215
VAT input transfer out and tax surcharges	<b>11,269</b>	12,122
Rental expenses and utilities	<b>9,120</b>	5,382
Auditor's remuneration		
— Audit service	<b>2,263</b>	1,950
— Non-audit service	<b>1,126</b>	240
Net impairment (reversal)/losses on financial assets	<b>(1,709)</b>	1,311
Others	<b>2,558</b>	1,229
<b>Total</b>	<b>1,732,272</b>	1,193,689

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Long-term investments	3,018	240
Short-term investments	5,253	6,833
<b>Total</b>	<b>8,271</b>	<b>7,073</b>

## 9 OTHER INCOME

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies	5,077	13,525
Interest income from short-term investments measured at amortized cost	6,031	—
Others	—	271
<b>Total</b>	<b>11,108</b>	<b>13,796</b>

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

## 10 OTHER (LOSSES)/GAINS, NET

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Foreign exchange (losses)/gains, net	(2,922)	10,560
Others	193	(5,006)
<b>Total</b>	<b>(2,729)</b>	5,554

## 11 FINANCE (COSTS)/INCOME, NET

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<b>Finance income</b>		
Interest income from bank deposits	5,072	6,846
<b>Finance costs</b>		
Interest expenses on convertible bond	(9,976)	—
Interest expenses on lease liabilities	(3,110)	(1,241)
Bank charges	(295)	(201)
<b>Finance (costs)/income, net</b>	<b>(8,309)</b>	5,404

## 12 INCOME TAX

Income tax expense is recognised based on management's best knowledge of the effective income tax rates expected for the full financial year.

### **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 June 30, 2021 and 2020.

Certain subsidiary of the Group in the PRC, accordingly, is qualified as "high and new technology enterprise" and entitled to a preferential income tax rate of 15% during the six months ended June 30, 2021 and 2020.

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

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during six months ended June 30, 2021 and 2020.

## 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 January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

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 RMB982 million as of June 30, 2021.

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current income tax	<b>15,546</b>	29,988
Deferred income tax (Note 16)	<b>(21,025)</b>	(4,674)
<b>Total income tax (credits)/expenses</b>	<b>(5,479)</b>	25,314

## 12 INCOME TAX (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 June 30, 2021 and 2020, being the tax rate of the major subsidiaries of the Group.

The difference is analysed as follows:

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
(Loss)/profit before income tax	<b>(327,830)</b>	285,226
Tax calculated at statutory income tax rate of 25% in mainland China	<b>(81,958)</b>	71,307
Tax effects of:		
Effect of different tax rates available to different jurisdictions	<b>(1,314)</b>	(10,572)
Preferential income tax rates applicable to subsidiaries	<b>149</b>	(25,583)
Expenses not deductible for income tax purposes	<b>959</b>	6,028
Super Deduction for research and development expenses	<b>(64,000)</b>	(15,668)
Utilization of previously unrecognized tax losses and temporary differences	<b>(18,823)</b>	(2,955)
Tax losses for which no deferred income tax assets were recognized	<b>159,281</b>	1,715
Temporary differences for which no deferred income tax assets were recognized, net	<b>227</b>	1,042
<b>Total income tax (credits)/expenses</b>	<b>(5,479)</b>	25,314

### 13 (LOSS)/EARNINGS PER SHARE

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.

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>(Unaudited)</b>	(Unaudited)
(Loss)/profit attributable to equity holders of the Company (RMB'000)	<b>(325,147)</b>	206,546
Weighted average number of shares in issue (thousands)	<b>457,016</b>	419,514
<b>Basic (loss)/earnings per share (in RMB)</b>	<b>(0.71)</b>	0.49

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from convertible bonds and IPO over-allotment option. As the Group incurred losses for the six months ended June 30, 2021, the dilutive potential ordinary shares arising from convertible bonds were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution.

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>(Unaudited)</b>	(Unaudited)
Loss/(profit) attributable to equity holders of the Company for the calculation of diluted (loss)/earnings per share (RMB'000)	<b>(325,147)</b>	206,546
Weighted average number of shares in issue (thousands)	<b>457,016</b>	419,514
Adjustment for IPO over-allotment option (thousands)	—	27
Weighted average number of ordinary shares for the calculation of diluted (loss)/earnings per share (thousands)	<b>457,016</b>	419,541
<b>Diluted (loss)/earnings per share (in RMB)</b>	<b>(0.71)</b>	0.49

## 14 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(Unaudited)	Property, plant and equipment	Intangible assets
	RMB'000	RMB'000
<b>Six months ended June 30, 2020</b>		
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
<b>Six months ended June 30, 2021</b>		
Opening net book amount	<b>112,592</b>	<b>199,322</b>
Business combination	<b>191</b>	<b>91,615</b>
Additions	<b>48,605</b>	<b>22,687</b>
Depreciation	<b>(28,593)</b>	<b>(38,226)</b>
Impairment	—	<b>(4,945)</b>
Disposal	<b>(79)</b>	—
Currency translation impact	<b>(56)</b>	<b>(314)</b>
Closing net book amount	<b>132,660</b>	<b>270,139</b>

### 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 June 30, 2021. For details of goodwill impairment assessment for the year ended December 31, 2020, please refer to the 2020 Financial Statements.

## 15 RIGHT-OF-USE ASSETS

(Unaudited)	<b>Properties</b> RMB'000
<b>Six months ended June 30, 2020</b>	
Opening net book amount	37,644
Additions	29,108
Depreciation (Note 7)	(11,657)
Closing net book amount	55,095
<b>Six months ended June 30, 2021</b>	
Opening net book amount	<b>129,555</b>
Additions	<b>37,929</b>
Depreciation (Note 7)	<b>(25,199)</b>
Closing net book amount	<b>142,285</b>

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

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Depreciation charge of right-of-use assets	<b>25,199</b>	11,657
Interest expenses	<b>3,110</b>	1,241
Expenses relating to short-term leases	<b>3,225</b>	2,270
The cash outflow for leases payment related to short-term lease as operating activities	<b>3,225</b>	2,720
The cash outflow for leases as financing activities	<b>27,649</b>	13,215

## 16 DEFERRED INCOME TAXES

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

### Deferred tax assets

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Lease liabilities	<b>34,789</b>	20,247
— Tax losses	<b>26,475</b>	13,713
— Promotional and advertising expenses	<b>13,418</b>	—
— Long term investments measured using the equity method or at fair value through profit or loss	<b>933</b>	2,138
— Bad debt provision	<b>391</b>	665
— Intangible assets	<b>30</b>	35
<b>Total gross deferred tax assets</b>	<b>76,036</b>	36,798
Set-off of deferred tax liabilities pursuant to set-off provisions	<b>(40,124)</b>	(19,988)
<b>Net deferred tax assets</b>	<b>35,912</b>	16,810
— to be recovered within 12 months	<b>18,145</b>	1,023
— to be recovered after 12 months	<b>17,767</b>	15,787
	<b>35,912</b>	16,810

## 16 DEFERRED INCOME TAXES (Continued)

### Deferred tax liabilities

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Right-of-use assets	<b>32,584</b>	19,793
— Intangible assets arising from business combinations	<b>7,633</b>	1,349
— Long term investments measured using the equity method or at fair value through profit or loss	<b>2,808</b>	467
— Short term investments measured at fair value through profit or loss	<b>807</b>	—
<b>Total gross deferred tax liabilities</b>	<b>43,832</b>	21,609
Set-off of deferred tax assets pursuant to set-off provisions	<b>(40,124)</b>	(19,988)
<b>Net deferred tax liabilities</b>	<b>3,708</b>	1,621
— to be recovered within 12 months	—	49
— to be recovered after 12 months	<b>3,708</b>	1,572
	<b>3,708</b>	1,621

## 16 DEFERRED INCOME TAXES (Continued)

### Deferred tax assets

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

	Lease liabilities	Tax losses	Promotional and advertising expenses	Long term investments measured using the equity method or at fair value through profit or loss	Bad debt provision	Intangible assets	Total
(Unaudited)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2020</b>	6,190	7,338	—	2,828	464	45	16,865
Recognized in profit or loss	2,704	5,223	—	(690)	222	(5)	7,454
Currency translation differences	—	2	—	—	2	—	4
<b>At June 30, 2020</b>	8,894	12,563	—	2,138	688	40	24,323
(Unaudited)							
<b>At January 1, 2021</b>	20,247	13,713	—	2,138	665	35	36,798
Business combination	—	2,615	—	—	—	—	2,615
Recognized in profit or loss	14,542	10,226	13,418	(1,205)	(273)	(5)	36,703
Currency translation differences	—	(79)	—	—	(1)	—	(80)
<b>At June 30, 2021</b>	34,789	26,475	13,418	933	391	30	76,036

## 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 using the equity method or at fair value through profit or loss RMB'000	Short term investments measured at fair value through profit or loss RMB'000	Total RMB'000
<b>At January 1, 2020</b>	5,431	1,536	684	—	7,651
Recognized in profit or loss	2,661	(234)	353	—	2,780
<b>At June 30, 2020</b>	8,092	1,302	1,037	—	10,431
(Unaudited)					
<b>At January 1, 2021</b>	19,793	1,349	467	—	21,609
Business combination	—	6,545	—	—	6,545
Recognized in profit or loss	12,791	(261)	2,341	807	15,678
<b>At June 30, 2021</b>	32,584	7,633	2,808	807	43,832

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 June 30, 2021 and December 31, 2020, the Group did not recognize deferred income tax assets of RMB252 million and RMB61 million, in respect of cumulative tax losses amounting to RMB1,179 million and RMB401 million. These tax losses will expire from 2021 to 2031.

## 17 INTERESTS IN OTHER ENTITIES

### (a) Transactions with non-controlling interests

In May 2021, the Group acquired an additional 6.86% equity interest in Yiwan (Shanghai) Network Science and Technology Co., Ltd. ("Yiwan"), a subsidiary of the Group, at a consideration of RMB171.61 million. Immediately prior to the purchase, the carrying amount of the existing 25.88% non-controlling interest in Yiwan was RMB168.37 million. The Group recognized a decrease in non-controlling interest of RMB44.65 million and a decrease in other reserves of RMB126.96 million.

### (b) Investments accounted for using the equity method

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>At the beginning of the period</b>	<b>66,326</b>	52,800
Addition	—	10,000
Share of results of associates	<b>17,394</b>	6,607
Dividends	<b>(3,600)</b>	—
Impairment	—	(5,443)
Disposal	—	(460)
Currency translation differences	<b>(36)</b>	(313)
<b>At the end of the period</b>	<b>80,084</b>	63,191

(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 June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Aggregate carrying amount of individually immaterial associates	<b>80,084</b>	63,191
Aggregate amounts of the Group's share of:		
— Profit from operations	<b>17,394</b>	6,607

## 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 June 30, 2021 and 2020, are as follows:

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>At the beginning of the period</b>	<b>23,670</b>	29,918
Addition	<b>7,000</b>	2,500
Change in fair value (Note 8)	<b>3,018</b>	240
Currency translation differences	<b>(2)</b>	(39)
<b>At the end of the period</b>	<b>33,686</b>	32,619

As at June 30, 2021 and December 31, 2020, 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:

	<b>As at</b>	As at
	<b>June 30, 2021</b>	December 31, 2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Investments in associates at fair value through profit or loss (Note a)	<b>26,913</b>	16,784
Other investments at fair value through profit or loss (Note b)	<b>6,773</b>	6,886
	<b>33,686</b>	23,670

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

- (a) During the six months ended June 30, 2021 and 2020, 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.

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>At the beginning of the period</b>	<b>16,784</b>	17,457
Addition	<b>7,000</b>	2,500
Change in fair value	<b>3,129</b>	(854)
<b>At the end of the period</b>	<b>26,913</b>	19,103

- (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.

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>At the beginning of the period</b>	<b>6,886</b>	12,461
Change in fair value	<b>(111)</b>	1,094
Currency translation differences	<b>(2)</b>	(39)
<b>At the end of the period</b>	<b>6,773</b>	13,516

As at June 30, 2021 and December 31, 2020, 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

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
<b>Non-current</b>		
Prepayments for game licenses (a)	<b>21,451</b>	11,837
Rental and other deposits	<b>17,085</b>	13,797
Prepayments for equipment	<b>2,303</b>	1,079
	<b>40,839</b>	26,713
<b>Current</b>		
Prepayments for sharing of proceeds (a)	<b>42,902</b>	57,544
Prepayments for advertisements and marketing services	<b>21,303</b>	32,042
Tax prepayments	<b>8,135</b>	3,608
Rental and other deposits	<b>7,957</b>	6,217
Others	<b>20,843</b>	21,416
	<b>101,140</b>	120,827

- (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.

The Group regularly assesses the possibility whether relevant games could be successfully published and estimates the future return from these games to assess impairment indicator of those prepayments. During the six months ended June 30, 2021 and 2020, the Group made an impairment provision on prepayments to game developers of RMB25.69 million and nil, respectively.

## 20 TRADE RECEIVABLES

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Distribution channels and game publishers	<b>184,098</b>	199,002
Online marketing service customers	<b>106,817</b>	104,170
Related parties	<b>505</b>	505
	<b>291,420</b>	303,677
Less: allowance for impairment	<b>(2,626)</b>	(4,516)
	<b>288,794</b>	299,161

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

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Within 3 months	<b>267,964</b>	290,207
3 months to 6 months	<b>18,937</b>	6,507
6 months to 1 year	<b>3,322</b>	2,779
1 to 2 years	<b>112</b>	2,074
Over 2 years	<b>1,085</b>	2,110
	<b>291,420</b>	303,677

## 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 June 30, 2021 and December 31, 2020 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:

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>At the beginning of the period</b>	<b>4,516</b>	3,466
(Reversal)/provision	<b>(1,887)</b>	1,311
Write off	—	(179)
Currency translation differences	<b>(3)</b>	10
<b>At the end of the period</b>	<b>2,626</b>	4,608

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

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as at June 30, 2021 and December 31, 2020.

## 20 TRADE RECEIVABLES (Continued)

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

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
United States Dollar ("USD")	<b>169,915</b>	180,059
RMB	<b>121,505</b>	123,618
	<b>291,420</b>	303,677

(e) The maximum exposure to credit risk as at June 30, 2021 and December 31, 2020 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

## 21 SHORT-TERM INVESTMENTS

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Term deposits above three months and within one year (Note a)	<b>1,892,036</b>	—
Wealth management products issued by commercial banks (Note b)	<b>572,253</b>	—
<b>Total</b>	<b>2,464,289</b>	—

(a) Term deposits above three months and within one year are measured at amortized cost. They are neither past due nor impaired as at June 30, 2021.

## 21 SHORT-TERM INVESTMENTS (Continued)

- (b) Returns on these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are based on discounted cash flow using the expected return based on management judgment (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 (loss)/income.

Short-term investments are denominated in the following currencies:

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
USD	<b>1,494,120</b>	—
RMB	<b>970,169</b>	—
	<b>2,464,289</b>	—

## 22 CASH AND CASH EQUIVALENTS

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Cash on hand and cash in bank	<b>1,568,342</b>	2,208,682
Term deposit with initial terms within three months (Note a)	<b>323,837</b>	84,423
Cash held by other financial institutions (Note b)	<b>13,035</b>	26,407
	<b>1,905,214</b>	2,319,512

- (a) The interest rates of these deposits per annum were 0.01%-0.61%.
- (b) As at June 30, 2021 and December 31, 2020, 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:

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
USD	<b>1,154,068</b>	627,211
RMB	<b>437,085</b>	1,065,461
Hong Kong Dollar ("HKD")	<b>301,961</b>	611,919
Others	<b>12,100</b>	14,921
	<b>1,905,214</b>	2,319,512

## 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
<b>Authorized</b>				
As at June 30, 2021 and December 31, 2020	1,000,000	100	N/A	N/A
<b>Issued and fully paid</b>				
As at January 1, 2020	415,521	41	284	5,357,114
Issuance of ordinary shares upon IPO over allotment (Note a)	4,060	1	3	38,922
<b>As at June 30, 2020</b>	<b>419,581</b>	<b>42</b>	<b>287</b>	<b>5,396,036</b>
As at January 1, 2021	<b>445,675</b>	<b>44</b>	<b>306</b>	<b>6,095,544</b>
Issuance of ordinary shares (Note b)	<b>26,318</b>	<b>3</b>	<b>17</b>	<b>940,257</b>
<b>As at June 30, 2021</b>	<b>471,993</b>	<b>47</b>	<b>323</b>	<b>7,035,801</b>

- (a) On January 3, 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.
- (b) On April 13, 2021, a total of 26,318,000 new ordinary shares were subscribed at HKD42.38 per share under a general mandate. The Company raised gross proceeds of approximately HKD1,115 million (equivalent to RMB942 million). The net proceeds was approximately HKD1,113 million (equivalent to RMB940 million) after deducting expenses directly relating to the share issuance.

## 24 OTHER RESERVES

(Unaudited)	<b>Capital reserve</b> RMB'000	<b>Statutory reserves</b> RMB'000	<b>Currency translation differences</b> RMB'000	<b>Total</b> RMB'000
<b>As at January 1, 2020</b>	(4,207,732)	55,291	15,113	(4,137,328)
Currency translation differences	—	—	10,278	10,278
<b>As at June 30, 2020</b>	(4,207,732)	55,291	25,391	(4,127,050)
(Unaudited)				
<b>As at January 1, 2021</b>	<b>(4,417,699)</b>	<b>71,348</b>	<b>(97,928)</b>	<b>(4,444,279)</b>
Issuance of convertible bond (Note 29)	<b>97,390</b>	—	—	<b>97,390</b>
Acquisition of additional equity interests in a subsidiary (Note 17(a))	<b>(126,956)</b>	—	—	<b>(126,956)</b>
Currency translation differences	—	—	<b>(27,696)</b>	<b>(27,696)</b>
<b>As at June 30, 2021</b>	<b>(4,447,265)</b>	<b>71,348</b>	<b>(125,624)</b>	<b>(4,501,541)</b>

## 25 LEASE LIABILITIES

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	<b>62,568</b>	50,171
— Between 1 and 2 years	<b>38,280</b>	38,975
— Over 2 years	<b>55,625</b>	54,531
	<b>156,473</b>	143,677
Less: future finance charges	<b>(13,090)</b>	(13,684)
Present value of lease liabilities	<b>143,383</b>	129,993

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	<b>60,857</b>	48,073
— Between 1 and 2 years	<b>35,551</b>	36,272
— Over 2 years	<b>46,975</b>	45,648
	<b>143,383</b>	129,993

## 26 TRADE PAYABLES

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Trade payables	<b>169,300</b>	164,560

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:

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
RMB	<b>92,288</b>	89,524
USD	<b>75,714</b>	75,036
Others	<b>1,298</b>	—
	<b>169,300</b>	164,560

As at June 30, 2021 and December 31, 2020, the fair value of trade payables approximated to their carrying amount.

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

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Within 3 months	<b>165,739</b>	162,478
Over 3 months	<b>3,561</b>	2,082
	<b>169,300</b>	164,560

## 27 OTHER PAYABLES AND ACCRUALS

	<b>As at June 30, 2021</b>	As at December 31, 2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Salaries and benefits payables	<b>176,732</b>	198,155
Other tax payables	<b>32,179</b>	22,216
Professional service fee payables	<b>20,329</b>	16,693
Payables for investments (Note 31)	<b>17,343</b>	—
Others	<b>499</b>	2,904
	<b>247,082</b>	239,968

As at June 30, 2021 and December 31, 2020, 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.

	<b>As at June 30, 2021</b>	As at December 31, 2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Contract liabilities	<b>138,387</b>	128,546

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

	<b>Six months ended June 30,</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue recognized that was included in the contract liabilities balance at the beginning of the period	<b>128,546</b>	99,321

## 29 CONVERTIBLE BONDS

On April 12, 2021, the Company issued convertible bonds (the “2021 Convertible Bonds”) at a par value of USD200,000 each with the aggregate principal amounts of USD280 million. The 2021 Convertible Bonds bear an interest of 1.25% per annum payable semi-annually and will mature on April 12, 2026.

Upon the occurrence of certain events specified in the agreements, the bondholders will have the right, at such holder’s option, to require the Company to redeem all or some only of such holder’s bonds on the specified date at their principal amount, together with accrued and unpaid interest thereon.

Bondholders may convert their bonds into ordinary shares at any time on or after May 23, 2021 up to the close of business on the seventh day prior to April 12, 2026. Conversion shares will be issued upon full conversion of the 2021 Convertible Bonds based on the conversion price of HKD63.45 with a fixed exchange rate of 7.7746 HKD/USD.

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at its principal amount, together with accrued and unpaid interest thereon, on the April 12, 2026 or in certain circumstances specified in the agreements.

The 2021 Convertible Bonds is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the 2021 Convertible Bonds. Such embedded derivatives are deemed to be clearly and closely related to the host contract and therefore do not need to be separately accounted for.

As at the date of issue, the fair value of the liability component of the 2021 Convertible Bonds was disclosed as below:

	<b>April 12, 2021</b> <b>RMB’000</b> <b>(Unaudited)</b>
Principal amount	<b>1,836,184</b>
Transaction cost	<b>(28,659)</b>
Liability component	<b>(1,710,135)</b>
Equity component	<b>97,390</b>

## 29 CONVERTIBLE BONDS (Continued)

Subsequent to the initial recognition, the liability component of the 2021 Convertible Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the 2021 Convertible Bonds was 2.4% per annum as at June 30, 2021. The movement of the liability component and the equity component of the 2021 Convertible Bonds for the six months ended June 30, 2021 is set out below:

(Unaudited)	<b>Liability component</b>	<b>Equity component</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
<b>As at January 1, 2021</b>	—	—	—
Issuance	1,710,135	97,390	1,807,525
Interest charged	9,976	—	9,976
Currency translation differences	(25,497)	—	(25,497)
<b>As at June 30, 2021</b>	<b>1,694,614</b>	<b>97,390</b>	<b>1,792,004</b>

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the 2021 Convertible Bonds mature.

If the 2021 Convertible Bonds were fully converted, 34,308,715 ordinary shares will be issued as of June 30, 2021.

## 30 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended June 30, 2021 and 2020.

In April 2021, 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 RMB45.30 million) of which was paid to non-controlling shareholders.

In May 2021, pursuant to the resolution of the shareholders' meetings of Yiwan, a subsidiary of the Group, a dividend of RMB50 million was approved and paid, RMB12.94 million of which was paid to non-controlling shareholders.

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

### 31 BUSINESS COMBINATION

In May 2021, the Group acquired 100% of the equity interests in Lean Cloud (Hong Kong) Limited (“Lean Cloud”), an unlisted entity which provides data storage and instant data transmission services in mainland China. The goodwill of approximately RMB65.43 million recognized represents the excess of the purchase consideration over the fair value of the net identifiable assets acquired. The goodwill recorded, not deductible for tax purposes, is primarily attributable to the Group’s opportunity to strengthen Yiwan’s online platform, Taptap, and to achieve synergy from combining Lean Cloud’s data services with Taptap’s services to game developers.

The following table summarizes the consideration paid for Lean Cloud, the fair value of assets acquired, liabilities assumed at the acquisition date:

	<b>As at May 31, 2021 RMB’000 (Unaudited)</b>
Total purchase consideration	<b>87,602</b>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	<b>2,564</b>
Trade receivables	<b>50</b>
Prepayments and other assets	<b>2,028</b>
Property, plant and equipment	<b>191</b>
Intangible assets — Technologies	<b>26,181</b>
Deferred tax assets	<b>2,615</b>
Advance from customers	<b>(2,260)</b>
Other payables and accruals	<b>(2,656)</b>
Deferred tax liabilities	<b>(6,545)</b>
Add: Goodwill	<b>65,434</b>
	<b>87,602</b>

The acquisition-related costs were not significant and had been charged to general and administrative expenses in the consolidated statements of comprehensive (loss)/income for the six months ended June 30, 2021.

The revenue included in the consolidated statements of comprehensive (loss)/income since May 31, 2021 contributed by Lean Cloud was RMB0.72 million and Lean Cloud also contributed a loss of RMB0.79 million over the same period. Had Lean Cloud been consolidated from January 1, 2021, the consolidated revenue and loss of the Group would increase by approximately RMB3.98 million and RMB1.06 million respectively for the six months ended June 30, 2021.

As at June 30, 2021, RMB17.34 million of the purchase consideration remains unpaid (Note 27).

## 32 COMMITMENTS

### (a) Capital commitments

The Group made capital expenditure in respect of purchase of game licenses which are in development as at June 30, 2021 and December 31, 2020. The Group has commitments to make the following future instalments under non-cancellable game purchase agreements are as follows:

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Game licenses	<b>13,433</b>	27,496

### (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 June 30, 2021 and December 31, 2020 is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 15.

## 33 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.

### 33 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 June 30, 2021 and 2020.

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
Shanghai LinkedTune Culture Communication 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 June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Shanghai Bianyue Culture Communication Co., Ltd.	5	—
Shanghai Fantablade Network Science and Technology Co., Ltd.	1	3
	6	3

### 33 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Significant transactions with related parties (Continued)

##### (ii) Purchase of service

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Xiamen So Funny Information Technology Co., Ltd.	109,572	123,512
Shanghai Maichuang Network Technology Limited	5,127	6,827
Shanghai Bianyue Culture Communication Co., Ltd.	4,943	4,623
Shanghai Fantablade Network Science and Technology Co., Ltd.	2,839	3,092
Others	585	851
	123,066	138,905

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

##### (i) Trade receivables from related parties

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
	Shanghai Xinyu Animation Design Co. Ltd.	505

**33 RELATED PARTY TRANSACTIONS (Continued)****(c) Period end balances with related parties (Continued)****(ii) Prepayments to related parties**

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Shanghai Chatie Network Science and Technology Co., Ltd.	<b>3,829</b>	2,233
Shanghai LinkedTune Culture Communication Co., Ltd.	<b>669</b>	761
Shanghai Qingyue Software Science and Technology Co., Ltd.	<b>—</b>	4,854
	<b>4,498</b>	7,848

**(iii) Other receivables from related parties**

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Jiexin Holdings Limited	<b>241</b>	243
Happy Today Holding Limited	<b>8</b>	8
	<b>249</b>	251

### 33 RELATED PARTY TRANSACTIONS (Continued)

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

##### (iv) Trade payables to related parties

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Xiamen So Funny Information Technology Co., Ltd.	<b>32,390</b>	23,336
Shanghai Fantablade Network Science and Technology Co., Ltd.	<b>1,761</b>	1,569
Shanghai Maichuang Network Technology Limited	<b>1,008</b>	—
Others	<b>149</b>	581
	<b>35,308</b>	25,486

##### (v) Other payables and accruals to related parties

	<b>As at June 30, 2021 RMB'000 (Unaudited)</b>	As at December 31, 2020 RMB'000 (Audited)
Shanghai Framing Network Technology Co., Ltd.	—	1,500

### 34 CONTINGENCIES

The Group did not have any material contingent liabilities as of June 30, 2021 and December 31, 2020.

### 35 SUBSEQUENT EVENTS

On June 25, 2021, shareholders of the Company approved the adoption of a share option plan (the "Share Option Plan") at the annual general meeting. Aggregated number of shares which may be issued upon exercise of all options granted under the Share Option Plan shall not exceed 10% of the issued share capital of the Company. Options granted expire 10 years from the date of grant. On July 12, 2021, a total of 347,234 share options were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of USD0.0001 each of the Company with an exercise price of HKD62.60 per share. Options granted do not have service condition or vesting period, and are exercisable upon granted.

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## DEFINITIONS AND GLOSSARY

## DEFINITIONS AND GLOSSARY

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

“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”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“IFRS”	International Financial Reporting Standards, which include standards and interpretations as issued from time to time by the International Accounting Standards Board;
“Listing 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;

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
“MPUs”	monthly paying users, which refers to the number of paying users in the relevant calendar month in our games;
“PRC” or “China”	the People’s Republic of China, but for the purposes of this report only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules; and
“%”	Percentage.



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