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XD Inc.

心动有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2400)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2021. The results have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

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

KEY OPERATING INFORMATION

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

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), Arknights (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.

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

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	%
	<i>(RMB in thousands, except for percentages)</i>			
Revenue recognized on a gross basis	811,587	78.9	847,778	73.0
Revenue recognized on a net basis	216,970	21.1	313,939	27.0
Total game operating revenue	<u>1,028,557</u>	<u>100.0</u>	<u>1,161,717</u>	<u>100.0</u>

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)	<i>(RMB in thousands, except for percentages)</i>			
Games	636,105	61.0	577,928	48.7
Information services	65,903	19.6	36,753	14.5
Total	<u>702,008</u>	<u>50.9</u>	<u>614,681</u>	<u>42.7</u>

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)	<i>(RMB in thousands, except for percentages)</i>			
Sharing of proceeds to game developers	221,173	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	<u>702,008</u>	<u>100.0</u>	<u>614,681</u>	<u>100.0</u>

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:

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

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) for details.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

		Six months ended June 30,	
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenues	4	1,378,707	1,440,481
Cost of revenues	5	(702,008)	(614,681)
Gross profit		676,699	825,800
Selling and marketing expenses	5	(344,468)	(278,158)
Research and development expenses	5	(575,938)	(218,146)
General and administrative expenses	5	(111,567)	(81,393)
Net impairment losses on financial assets	5	1,709	(1,311)
Fair value changes on investments measured at fair value through profit or loss		8,271	7,073
Other income	6	11,108	13,796
Other (losses)/gains, net	7	(2,729)	5,554
Operating (loss)/profit		(336,915)	273,215
Finance income		5,072	6,846
Finance costs		(13,381)	(1,442)
Finance (costs)/income, net		(8,309)	5,404
Share of results of investments accounted for using the equity method		17,394	6,607
(Loss)/profit before income tax		(327,830)	285,226
Income tax credits/(expenses)	8	5,479	(25,314)
(Loss)/profit for the period		(322,351)	259,912
Other comprehensive (loss)/income:			
<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
Total comprehensive (loss)/income for the period		(350,599)	272,182

		Six months ended June 30,	
		2021	2020
<i>Notes</i>		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to:			
	Equity holders of the Company	(325,147)	206,546
	Non-controlling interests	<u>2,796</u>	<u>53,366</u>
		<u>(322,351)</u>	<u>259,912</u>
Total comprehensive (loss)/income for the period attributable to:			
	Equity holders of the Company	(352,843)	216,824
	Non-controlling interests	<u>2,244</u>	<u>55,358</u>
		<u>(350,599)</u>	<u>272,182</u>
(Loss)/earnings per share for (loss)/profit for the period attributable to the equity holders of the Company			
	Basic and diluted (loss)/earnings per share (RMB)	<u>(0.71)</u>	<u>0.49</u>
		9	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at June 30, 2021	As at December 31, 2020
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		132,660	112,592
Right-of-use assets		142,285	129,555
Intangible assets		270,139	199,322
Deferred tax assets		35,912	16,810
Investments accounted for using the equity method		80,084	66,326
Long term investments measured at fair value through profit or loss		33,686	23,670
Prepayments, deposits and other assets		40,839	26,713
		<hr/> 735,605 <hr/>	<hr/> 574,988 <hr/>
Current assets			
Trade receivables	<i>10</i>	288,794	299,161
Income tax prepayment		34,764	30,254
Prepayments and other assets		101,140	120,827
Short-term investments		2,464,289	—
Cash and cash equivalents		1,905,214	2,319,512
		<hr/> 4,794,201 <hr/>	<hr/> 2,769,754 <hr/>
Total assets		<hr/> 5,529,806 <hr/>	<hr/> 3,344,742 <hr/>

		As at June 30, 2021 <i>RMB'000</i> (Unaudited)	As at December 31, 2020 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
EQUITY			
Share capital	<i>11</i>	323	306
Share premium	<i>11</i>	7,035,801	6,095,544
Other reserves		(4,501,541)	(4,444,279)
Retained earnings		319,741	644,888
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		2,854,324	2,296,459
Non-controlling interests		183,012	283,667
		<hr/>	<hr/>
Total equity		3,037,336	2,580,126
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		3,708	1,621
Lease liabilities		82,526	81,920
Convertible bonds	<i>13</i>	1,672,317	—
		<hr/>	<hr/>
		1,758,551	83,541
		<hr/>	<hr/>
Current liabilities			
Trade payables	<i>12</i>	169,300	164,560
Advance from customers		25,157	21,215
Other payables and accruals		247,082	239,968
Contract liabilities		138,387	128,546
Current income tax liabilities		70,839	78,713
Lease liabilities		60,857	48,073
Convertible bonds	<i>13</i>	22,297	—
		<hr/>	<hr/>
		733,919	681,075
		<hr/>	<hr/>
Total liabilities		2,492,470	764,616
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		5,529,806	3,344,742
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED 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 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.

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

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

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

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.

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.

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

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

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:

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

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

5 Expenses by nature

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

6 Other income

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

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

7 Other (losses)/gains, net

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

8 Income tax

Income tax credits/(expenses) are 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.

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.

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

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:

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

9 (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.

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

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.

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

10 Trade receivables

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

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

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

11 Share capital and share premium

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

- (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.

12 Trade payables

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

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

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

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

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:

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

13 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:

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

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:

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

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

As at June 30, 2021, 34,308,715 ordinary shares will be issued upon full conversion of the 2021 Convertible Bonds.

14 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 (Shanghai) Network Science and Technology Co., Ltd., 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.

15 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 TapTap and to achieve synergy from combining Lean Cloud's data 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:

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

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.

16 Subsequent events

On 25 June 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 12 July 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.

OTHER INFORMATION

ISSUANCE OF CONVERTIBLE BONDS UNDER THE GENERAL MANDATE

References are made to the announcements of the Company dated March 31, 2021 and April 12, 2021, respectively. On March 31, 2021, the Company and the joint managers have entered into the CB subscription agreement, pursuant to which, the joint managers have conditionally agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the US dollar-denominated 1.25% convertible bonds to be issued by the Company 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. 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 Company completed the issue of the Convertible Bonds on April 12, 2021, which 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 gross proceeds from the issue of the Convertible Bonds were US\$280 million and the net proceeds were approximately US\$275.6 million.

PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

References are made to the announcements of the Company dated March 31, 2021 and April 13, 2021, respectively. 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 net price per share for the Placing after deducting related fees and expenses is approximately HK\$42.29 per share.

On April 13, 2021, the Company completed the placing of a total of 26,318,000 new shares of the Company to placees, 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 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 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 announcement, 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
<ul style="list-style-type: none">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
<ul style="list-style-type: none">developing TapTap	257.5	52.7	By December 31, 2023
<ul style="list-style-type: none">working capital and general corporate uses	213.3	0	N/A

Issuance 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 (US\$ million)	Unutilized net proceeds as of June 30, 2021 (US\$ million)	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 (HK\$ million)	Unutilized net proceeds as of June 30, 2021 (HK\$ million)	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, 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. On July 12, 2021, a total of 347,234 share options (the “**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. For further details of the Share Option Plan and Grant of Options, please refer to the announcements of the Company dated April 30, 2021, June 25, 2021, July 12, 2021 and the circular of the Company dated May 21, 2021, respectively.

Save as disclosed above, there are no material subsequent events undertaken by the Group after June 30, 2021 and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has complied with all applicable code provisions of the CG Code during the 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 four executive Directors (including Mr. Huang Yimeng), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

DEFINITIONS

Unless the context otherwise requires, the following expressions in this announcement 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 announcement 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.

By order of the Board
XD INC.
HUANG Yimeng
Chairman and Chief Executive Officer

Hong Kong, August 26, 2021

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