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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, 2022

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2022. 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,		
	2022	2021	Change
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	%
	(Unaudited)	(Unaudited)	
Revenues	1,594,037	1,378,707	15.6
Gross profit	782,915	676,699	15.7
Loss for the period	(381,395)	(322,351)	18.3
Loss attributable to equity holders of the Company	(386,056)	(325,147)	18.7
Adjusted loss for the period*	(332,732)	(325,753)	2.1
Adjusted loss attributable to equity holders of the Company*	(342,502)	(328,783)	4.2

* To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted loss for the period and adjusted loss attributable to equity holders of the Company as an additional financial measure to evaluate our financial performance by eliminating the impact of fair value changes on long-term investments measured at fair value through profit or loss, and share-based compensation expenses. See “Non-IFRS Measures” for details.

KEY OPERATING INFORMATION

	For the six months ended June 30,		
	2022	2021	Change
	(in thousands)	(in thousands)	%
ONLINE GAMES			
Average MAUs ⁽¹⁾	15,346	15,690	-2.2
Average MPUs ⁽²⁾	1,530	811	88.7
TapTap			
Average App MAUs of TapTap PRC	41,730	28,671	45.5
Average App MAUs of TapTap International	8,973	13,183	-31.9

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Due to the COVID-19 outbreak in Shanghai during the first half of 2022, the large majority of employees worked from home from March until May during the period. While this was unprecedented in the history of XD Inc. and a novel challenge for the Company, our employees dedicated themselves to maintaining the stability of existing games while successfully launching new titles and contributing to the rapid growth of TapTap. As this work-from-home status extended for over 2 months, we utilized the opportunity to further refine and improve our remote work processes and collaborative methods to confidently prepare for future challenges posed by global operations.

During the first half of 2022, our online game operating revenue increased on a period-over-period basis, primarily due to the increase in revenue from *Sausage Man* (香腸派對). In addition, improvements to technical architecture and machine learning algorithms led to a period-over-period increase in users and revenue on TapTap PRC. While TapTap International MAU decreased when compared with the same corresponding period last year, we have preliminarily built up a team responsible for and wholly focused on users growth in certain key international markets, which has already had some initial success. In 2022, we will strive to not only provide better gaming and service experiences for local Chinese audiences, but also harness the international market to ensure future growth. Our mission statement is “to impact each and every gamer by promoting the spirit of craftsmanship.” To accomplish this, we are committed to bringing high quality games to global gamers and must be instrumental in supporting developers so they can create and distribute their games more efficiently.

Although we recorded a net loss for the period in the first half of 2022, primarily due to the significant investments in research and development, our adjusted EBITDA deficit has narrowed. As of June 30, 2022, the Company holds approximately RMB3.8 billion in cash and cash equivalents, and short-term investments, ensuring that we have sufficient resources to continuously support the growth of our business. Currently, initial development and launches of the majority of our in-progress titles are planned to be completed in the second half of 2022 or 2023.

The following is an overview of our main products and services:

Our Games

As of June 30, 2022, our current titles portfolio include 20 online games and 22 premium games.

Online Games

During the first half of 2022, while the MAU of our online games fell by an average of 2.2%, our MPU grew by 88.7% on a period-over-period basis. Compared with the corresponding period last year, decreases in MAU can be attributed primarily to games entering their mature phase including *Ragnarok M* (仙境傳說M), but were partially offset by increases in MAU for *Sausage Man* (香腸派對). The overall growth of MPU was mainly due to a significant increase in pay rate of *Sausage Man* (香腸派對) when compared with the corresponding period last year. For the six months ended June 30, 2022, in terms of revenue contribution, *Sausage Man* (香腸派對), *Ragnarok M* (仙境傳說M), *Ulala* (不休的烏拉拉), *Lan Yan Qing Meng* (藍顏清夢), and *Shen Xian Dao (HD)* (神仙道高清重製版) were our top five titles. An overview of our major titles is as follows:

— *Sausage Man* (香腸派對): Although this title was launched in China over 4 years ago in April 2018, as a successful battle arena game, it has strong vitality and potential for continued growth. During the first half of 2022, both MAU and MPU of the game hit the record high while building on performance successes on a period-over-period basis. In the second quarter of 2022, *Sausage Man* launched in Japan, Hong Kong, Macao, Taiwan and South Korea, further establishing initial user portfolios in overseas markets.

— *Ragnarok M* (仙境傳說M): This title launched in China in January 2017, and was subsequently released in many countries and regions all over the world. As this title has entered the mature phase of its lifecycle, revenues have decreased to a certain extent during the six months ended June 30, 2022 compared to the corresponding period last year. To ensure that *Ragnarok M* is a long-term success and to continue providing players with a refined experience, we began making adjustments to the title's development and operation teams at the beginning of this year.

— *Ulala* (不休的烏拉拉): This title launched in Taiwan in May 2019, and has since been made available in many markets around the world. As this title has entered the mature phase of its lifecycle, its revenue for the six months ended June 30, 2022 was lower compared to the same corresponding period last year.

Titles in Development

We regard our self-developed titles as one of the cornerstones of our growth, and have thus invested heavily in research and development of new titles. As of the end of June 2022, we had 1,037 employees engaged in game development, representing a decrease of 233 employees from the end of 2021. During the first half of 2022, our goal was to reduce costs and increase efficiency. As such, we adjusted processes and optimized team structures, while also terminated the development of 4 small-scale or unpromising titles. Our self-developed titles *Flash Party* (派對之星) and *T3 Arena* both launched in the first half of the year. As of June 30, 2022, we have 7 titles in development, including: *Torchlight: Infinite* (火炬之光：無限), which has completed its second global closed beta with a paid beta expected to be tested in the second half of 2022; *Sword of Convallaria* (鈴蘭之劍), which has completed its second closed beta in China with a global beta expected to be tested in the second half of 2022.

Among the self-developed titles newly launched in the first half of this year, *Flash Party* (派對之星) officially launched in overseas markets in February 2022 and has consistently been ranked among the Top 3 Free Games by downloads in the iOS App Store in Japan. *Flash Party* (派對之星) also launched in China in April of this year. When *T3 Arena* launched in overseas markets in May 2022, it was featured on the App Store in 171 countries and regions and became the No. 1 Free Game by downloads in 11 countries and regions.

Premium Games

Premium games not only enrich the ecosystem of TapTap, but also assist in building a strong reputation within the games industry. In the first half of 2022, our premium games are in a transitory phase while awaiting new title launches, leading to a period-over-period decrease in revenue. Of the games that have already launched, the mobile versions of *Terraria* (泰拉瑞亞) and *Human: Fall Flat* (人類跌落夢境) have performed well on TapTap and the App Store, and have become the backbone of our portfolio. In addition, *Sands of Salzaar* (部落與彎刀), *Otaku's Adventure* (少年的人間奇遇) and *Evoland 2* (進化之地2) received a warm welcome from our users. *Sands of Salzaar* itself has sold 1.5 million copies across all platforms, reinforcing our strategy of publishing cross-platform titles. We will expand our game portfolio while identifying titles that have high potential to succeed across all global markets. We will also continue to cultivate the premium games market in hopes of bringing superb game experiences to our users, both current and future.

TapTap

TapTap is our key competitiveness and one of the cornerstones of our growth. By harnessing the high quality TapTap-exclusive content created by developers and publishers, we can drive organic user growth; by relying on TapTap's merits as a product and platform, we can increase user retention and generate revenue. In-house and third-party titles and creators will reap the benefit of this growth, allowing them to create more high quality content for TapTap, thus further fostering the community.

TapTap PRC

During the six months ended June 30, 2022, TapTap PRC averaged 41.7 million MAU, representing a 45.5% period-over-period increase. Game downloads from TapTap exceeded 402.3 million, representing a 62.2% period-over-period increase. Over 4.3 million new posts were created, representing a 43.9% period-over-period increase. Benefiting from a series of upgrades of TapTap's architecture and in-app experiences since 2021 and in-depth engagement of machine learning technology, the efficiency of TapTap's game distribution system and ads system had been improved significantly. In July 2022, we hosted the *3rd Annual TapTap Presents* online to global players, showcasing 26 new high quality titles and their latest developments. Altogether, content related to the *3rd Annual TapTap Presents* conference generated over 400 million impressions online.

TapTap International

During the six months ended June 30, 2022, TapTap International averaged 9 million MAU, representing a decrease of 31.9% on a period-over-period basis. The higher growth of TapTap International in 2021 can be attributed primarily to the effects of certain popular titles and the global COVID-19 pandemic. In the first half of this year, we preliminarily built up a team focusing on the international market, and dedicated to the development and operation of versions specifically for certain key overseas markets. The team targets to build up the community ambiance and increase the user penetration rate of the target markets. We obtained initial progress in the market of North America.

Currently, we have yet monetized TapTap International.

TapTap Developer Services

In the first half of 2022, TapTap Developer Services (TDS) continued to improve upon and grow existing products and services. New features were also added to TDS, including: a gifting system; an ads system; multiplayer battle support; improved synchronization between games and TapTap friends; and improvements in the developer center. We also released TDS for TapTap International, and now support approximately 500 developers that have already joined through the international developer center. Recently, TDS was used by over 500 games every day, resulting in approximately 2 million users engaging with TDS features daily.

The current business model for third-party developers accessing TDS includes both free of charge and a cost-based pricing model.

FINANCIAL REVIEW

Revenues

Our revenue is mainly derived from (i) games, our principal 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, 2022 and 2021.

	For the six months ended June 30,			
	2022		2021	
	Amount	% of revenue	Amount	% of revenue
(Unaudited)	<i>(RMB in thousands, except for percentages)</i>			
Games	1,126,287	70.7	1,042,985	75.6
Game operating	1,114,697	70.0	1,028,557	74.6
Online games	1,042,055	65.4	939,995	68.2
Premium games	72,642	4.6	88,562	6.4
Others	11,590	0.7	14,428	1.0
Information services	467,750	29.3	335,722	24.4
Total revenue	<u>1,594,037</u>	<u>100.0</u>	<u>1,378,707</u>	<u>100.0</u>

Games

Our revenue from game business increased by 8.0% to RMB1,126.3 million for the six months ended June 30, 2022 on a period-over-period basis. In particular,

- Our revenue from online games increased by 10.9% to RMB1,042.1 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to increases in revenue from *Sausage Man* (香腸派對), and partially offset by the decreases of 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 decreased by 18.0% to RMB72.6 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to decreases in revenue from certain existing premium games.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the six months ended June 30, 2022 and 2021.

(Unaudited)	For the six months ended June 30,			
	2022		2021	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>			
Revenue recognized on a gross basis	971,753	87.2	811,587	78.9
Revenue recognized on a net basis	142,944	12.8	216,970	21.1
Total game operating revenue	<u>1,114,697</u>	<u>100.0</u>	<u>1,028,557</u>	<u>100.0</u>

Our game operating revenue recognized on a gross basis increased by 19.7% to RMB971.8 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to the increase in revenue from *Sausage Man* (香腸派對), and partially offset by the decrease in revenue from premium games. Our game operating revenue recognized on a net basis decreased by 34.1% to RMB142.9 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to the decrease in revenue from *Ragnarok M* (仙境傳說M) in overseas markets.

Information services

Our revenue from information services business increased by 39.3% to RMB467.8 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to the growth of the average app MAUs of TapTap PRC, which increased by 45.5% to 41.7 million for the six months ended June 30, 2022 on a period-over-period basis. We also started to generate subscription revenue from TapTap Cloud Gaming service in the first half 2022, though not much.

We have yet monetized TapTap International.

Cost of Revenues

Our cost of revenue increased by 15.5% to RMB811.1 million for the six months ended June 30, 2022 on a period-over-period basis. The following table sets forth our cost of revenue by line of business for the six months ended June 30, 2022 and 2021.

	For the six months ended June 30,			
	2022		2021	
	Amount	% of segment revenue	Amount	% of segment revenue
(Unaudited)	<i>(RMB in thousands, except for percentages)</i>			
Games	674,263	59.9	636,105	61.0
Information services	136,859	29.3	65,903	19.6
Total	<u>811,122</u>	<u>50.9</u>	<u>702,008</u>	<u>50.9</u>

Our cost of revenue for game business primarily consisted of sharing of proceeds to game developers and commissions charged by distribution platforms and payment channels where we acted as a principal, bandwidth and servers custody fee and employee benefits expenses. Our cost of revenue for information services business primarily consisted 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, 2022 and 2021.

	For the six months ended June 30,			
	2022		2021	
	Amount	%	Amount	%
(Unaudited)	<i>(RMB in thousands, except for percentages)</i>			
Sharing of proceeds to game developers	328,877	40.5	222,173	31.6
Commissions charged by distribution platforms and payment channels	187,390	23.1	196,212	28.0
Bandwidth and servers custody fee	177,474	21.9	108,688	15.5
Employee benefits expenses	70,709	8.7	67,173	9.6
Professional and technical services fee	18,245	2.2	30,767	4.4
Amortization of intangible assets	12,615	1.6	29,412	4.2
Others	15,812	2.0	47,583	6.7
Total	<u>811,122</u>	<u>100.0</u>	<u>702,008</u>	<u>100.0</u>

Our cost of revenue for game business increased by 6.0% to RMB674.3 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to an increase of RMB106.7 million in sharing of proceeds to game developers, which was mainly attributable to the increase of revenue from *Sausage Man* (香腸派對).

Our cost of revenue for information services business increased by 107.7% to RMB136.9 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to increases in bandwidth and servers custody fee, and employee benefits expenses of TapTap's operation staff, which was mainly attributed to (i) the growths in the average mobile app MAUs and gamers' activities in TapTap PRC, and (ii) the exploration and expansion of a few new businesses such as TDS, TapTap Cloud Gaming and international operations.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 15.7% to RMB782.9 million for the six months ended June 30, 2022 on a period-over-period basis. Our gross margin was 49.1% for the six months ended June 30, 2022, which was the same as the gross margin for the six months ended June 30, 2021, primarily due to (i) an increase in our gross margins of game segment from 39.0% for the six months ended June 30, 2021 to 40.1% in the corresponding period of 2022, and (ii) a decrease in gross margin of information services segment from 80.4% for the six months ended June 30, 2021 to 70.7% in the corresponding period of 2022, mainly arising from the relevant costs of a few new businesses such as TapTap International, TDS, TapTap Cloud Gaming and Tap Booster. This decrease was partially offset by an increase in the contribution of revenue from our information services business to our total revenue from 24.4% for the six months ended June 30, 2021 to 29.3% in the same corresponding period of 2022, which in general enjoyed a higher gross margin than the game business.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consisted 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 17.2% to RMB403.7 million for the six months ended June 30, 2022 on a period-over-period basis. This was primarily due to (i) the increased marketing expenses of RMB47.7 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 RMB11.5 million for game segment, as we newly launched two online games *Flash Party* (派對之星) and *T3 Arena* in the first half of 2022.

Research and Development Expenses

Our research and development expenses primarily consisted 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 14.0% to RMB656.4 million for the six months ended June 30, 2022 on a period-over-period basis. Although there was a decrease in the number of our research and development personnel from 1,565 as of June 30, 2021 to 1,387 as of June 30, 2022, mainly due to the projects restructuring in our game segment, the increase in R&D expenses was primarily due to (i) an increase of RMB31.7 million in share-based compensation expenses in relation to our share option plan, (ii) an increase of RMB21.6 million in employment termination compensation, and (iii) the increased levels of employee benefits.

General and Administrative Expenses

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

Our general and administrative expenses decreased by 6.4% to RMB104.5 million for the six months ended June 30, 2022 on a period-over-period basis. This was primarily due to (i) the decreased back office personnel, (ii) the decreased office expenses, rental and utilities expenses as our office spaces benefiting from the rent reduction policy under the impact of the COVID-19 pandemic, and (iii) the fact that it was partially offset by increases in share-based compensation expenses and employment termination compensation.

Other Losses, Net

Our other losses, net primarily consisted of foreign exchange loss, net.

Our foreign exchange net loss was RMB32.5 million for the six months ended June 30, 2022, comparing a foreign exchange net loss of RMB2.9 million for the six months ended June 30, 2021. This was primarily due to depreciations of RMB/USD and RMB/HKD exchange rates in the first half of 2022.

Income Tax Credits

We recorded income tax credits of RMB17.1 million for the six months ended June 30, 2022, compared to income tax credits of RMB5.5 million for the corresponding period of the previous year. For the first half of 2022, we recorded a current income tax expense of RMB10.9 million for some of our profit-making subsidiaries and a deferred income tax credit of RMB27.9 million for some of our loss-making subsidiaries.

Loss for the Period

Our net loss for the period was RMB381.4 million for the six months ended June 30, 2022, comparing a net loss of RMB322.4 million for the six months ended June 30, 2021.

Loss for the Period Attributable to Equity Holders of the Company

Our net loss for the period attributable to equity holders of the Company was RMB386.1 million for the six months ended June 30, 2022, comparing a net loss attributable to equity holders of the Company of RMB325.1 million for the six months ended June 30, 2021.

Our profit for the period attributable to non-controlling interests was due to non-controlling interests in (i) Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司) (“**Yiwan**”), (ii) Shanghai Longcheng Network Technology Co., Ltd. (“**Longcheng**”), (iii) X.D. Global (HK) Limited, and (iv) Hyper Times Limited.

Other Financial Information

The following table reconciles our operating profit to our EBITDA and Adjusted EBITDA for the periods presented:

	For the six months ended	
	June 30,	
	2022	2021
	(RMB' 000)	(RMB' 000)
	(Unaudited)	(Unaudited)
Operating loss	(406,427)	(336,915)
Adjustment		
Fair value changes on investments measured at fair value through profit or loss	4,903	(8,271)
Other income	(12,813)	(11,108)
Other losses, net	32,606	2,729
Depreciation of property, plant and equipment and right-of-use assets	72,020	53,792
Amortization of intangible assets	23,060	38,226
EBITDA	(286,651)	(261,547)
Share-based compensation expenses	40,280	—
Adjusted EBITDA	(246,371)	(261,547)

Non-IFRS Measures

To supplement our consolidated financial information which is presented in accordance with IFRS, we set forth below our adjusted loss for the period and adjusted loss attributable to equity holders of the Company as an additional financial measure which is not presented in accordance with IFRS. We believe those non-IFRS financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain items, namely (i) fair value changes on long-term measured at fair value through profit or loss, and (ii) share-based compensation expenses. The following table reconciles our adjusted loss for the period and adjusted loss attributable to equity holders of the Company indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the six months ended	
	June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Loss for the period	(381,395)	(322,351)
Add:		
Fair value changes on long-term investments measured at fair value through profit or loss	9,346	(3,017)
Share-based compensation expenses	40,280	—
Less:		
Income tax effects	(963)	(385)
Adjusted loss for the period	<u>(332,732)</u>	<u>(325,753)</u>

	For the six months ended	
	June 30,	
	2022	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	(Unaudited)	(Unaudited)
Loss attributable to the equity holders of the Company	(386,056)	(325,147)
Add:		
Fair value changes on long-term investments measured at fair value through profit or loss	8,613	(3,329)
Share-based compensation expenses	35,721	—
Less:		
Income tax effects	(780)	(307)
Adjusted loss attributable to the equity holders of the Company	<u>(342,502)</u>	<u>(328,783)</u>

These unaudited non-IFRS financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

Liquidity and Capital Resources

Our cash positions and short-term investments as at June 30, 2022 and December 31, 2021 are as follows:

	As at June 30, 2022 (RMB'000) (Unaudited)	As at December 31, 2021 (RMB'000) (Audited)
Cash and cash equivalents	2,095,935	3,164,726
Short-term investments		
— Term deposits with initial terms over three months	1,500,671	102,920
— Wealth management products	195,777	689,518
	<u>3,792,383</u>	<u>3,957,164</u>

Our short-term investments as at June 30, 2022 consisted 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 were guaranteed by relevant banks. These wealth management products invested principally in low risk and liquid fixed-income instruments that were quoted on the interbank market or exchanges in China. The returns of such wealth management products were not guaranteed or protected by the issuing banks. The effective rates of return of these wealth management products ranged from 1.12% to 3.06% per annum.

The decrease of our cash positions and short-term investments was primarily due to net cash flows used in operating activities of RMB174.5 million for the six months ended June 30, 2022.

As of June 30, 2022, save as the convertible bonds issued on April 12, 2021, we did not have any borrowings or unutilized banking facilities. These convertible bonds were at a par value of USD200,000 each with the aggregate principal amounts of USD280.0 million, bearing an interest rate of 1.25% per annum payable semi-annually and will mature on April 12, 2026.

Our gearing ratio was 58.6% as at June 30, 2022, comparing a gearing ratio of 52.8% as at December 31, 2021. The increase in gearing ratio was mainly attributable to the decrease of total equity from RMB2,382.4 million as at December 31, 2021 to RMB2,051.5 million as at June 30, 2022. 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 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) and the Company's website (2400.hk) for details.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Six months ended June 30,	
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenues	4	1,594,037	1,378,707
Cost of revenues	4, 5	(811,122)	(702,008)
Gross profit		782,915	676,699
Selling and marketing expenses	5	(403,719)	(344,468)
Research and development expenses	5	(656,373)	(575,938)
General and administrative expenses	5	(104,476)	(111,567)
Net impairment (losses)/reversal on financial assets	5	(78)	1,709
Fair value changes on investments measured at fair value through profit or loss		(4,903)	8,271
Other income	6	12,813	11,108
Other losses, net	7	(32,606)	(2,729)
Operating loss		(406,427)	(336,915)
Finance income		9,482	5,072
Finance costs		(27,333)	(13,381)
Finance costs, net	8	(17,851)	(8,309)
Share of results of investments accounted for using the equity method		25,820	17,394
Loss before income tax		(398,458)	(327,830)
Income tax credits	9	17,063	5,479
Loss for the period		(381,395)	(322,351)
Other comprehensive income/(loss):			
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		48,183	(26,388)
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		390	(1,860)
Total comprehensive loss for the period		(332,822)	(350,599)

		Six months ended June 30,	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Loss for the period attributable to:			
Equity holders of the Company		(386,056)	(325,147)
Non-controlling interests		4,661	2,796
		<u>(381,395)</u>	<u>(322,351)</u>
Total comprehensive loss for the period attributable to:			
Equity holders of the Company		(338,792)	(352,843)
Non-controlling interests		5,970	2,244
		<u>(332,822)</u>	<u>(350,599)</u>
Loss per share for loss for the period attributable to the equity holders of the Company			
Basic and diluted loss per share (RMB)	<i>10</i>	<u>(0.82)</u>	<u>(0.71)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at June 30, 2022	As at December 31, 2021
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		127,925	148,561
Right-of-use assets		161,307	139,900
Intangible assets		243,406	248,808
Deferred tax assets		103,260	75,518
Investments accounted for using equity method		112,263	89,846
Long term investments measured at fair value through profit or loss		20,762	30,102
Prepayments, deposits and other assets		58,175	63,383
		<hr/> 827,098	<hr/> 796,118
Current assets			
Trade receivables	<i>11</i>	280,307	223,550
Income tax prepayment		—	2,258
Prepayments and other assets		57,081	64,746
Short-term investments		1,696,448	792,438
Restricted cash		—	296
Cash and cash equivalents		2,095,935	3,164,726
		<hr/> 4,129,771	<hr/> 4,248,014
Total assets		<hr/> 4,956,869	<hr/> 5,044,132

	<i>Notes</i>	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
EQUITY			
Share capital		329	329
Share premium		7,035,801	7,035,801
Shares held for share award schemes		(6)	(6)
Other reserves		(4,425,415)	(4,512,959)
Accumulated deficit		(604,979)	(218,923)
Equity attributable to equity holders of the Company		2,005,730	2,304,242
Non-controlling interests		45,818	78,165
Total equity		<u>2,051,548</u>	<u>2,382,407</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		5,836	6,163
Lease liabilities		110,086	83,849
Convertible bonds		1,761,937	1,662,058
		<u>1,877,859</u>	<u>1,752,070</u>
Current liabilities			
Trade payables	12	323,041	205,390
Advance from customers		47,259	37,025
Other payables and accruals		238,420	341,578
Contract liabilities		276,215	206,642
Current income tax liabilities		53,736	42,740
Lease liabilities		65,627	54,275
Convertible bonds		23,164	22,005
		<u>1,027,462</u>	<u>909,655</u>
Total liabilities		<u>2,905,321</u>	<u>2,661,725</u>
Total equity and liabilities		<u>4,956,869</u>	<u>5,044,132</u>

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, 2022 (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, 2021, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as set out in 2021 annual report of the Company dated March 30, 2022 (the “**2021 Financial Statements**”).

3 Significant accounting policies

The accounting policies adopted in the Interim Financial Statements are consistent with those applied in the preparation of 2021 Financial Statements, except for the estimation of income tax (Note 9) and the adoption of new and revised IFRSs that become applicable for the financial year commencing on January 1, 2022:

- Reference to the Conceptual Framework — Amendments to IFRS 3
- Onerous Contracts — Cost of Fulfilling a Contract Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020

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, 2022 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 the management.

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 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, 2022, substantially all of the non-current assets of the Group were located in the PRC.

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

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

(Unaudited)	Six months ended June 30, 2022		
	Game segment	Information service segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,042,055	—	1,042,055
— Premium Games (pay-to-play)	72,642	—	72,642
	<hr/>	<hr/>	<hr/>
Subtotal	1,114,697	—	1,114,697
Online marketing service revenue	—	451,703	451,703
Others	11,590	16,047	27,637
	<hr/>	<hr/>	<hr/>
Total revenues	1,126,287	467,750	1,594,037
	<hr/>	<hr/>	<hr/>
Cost of revenues	(674,263)	(136,859)	(811,122)
	<hr/>	<hr/>	<hr/>
Gross profit	452,024	330,891	782,915
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Gross margin	40%	71%	49%

(Unaudited)	Six months ended June 30, 2021		
	Game segment <i>RMB'000</i>	Information service segment <i>RMB'000</i>	Total <i>RMB'000</i>
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%

Revenues of approximately RMB505 million and RMB534 million for the six months ended June 30, 2022 and 2021, 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, 2022 and 2021, respectively.

	Six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
Game operating revenues		
Customer A	*	11%
Information service revenue		
Customer B	14%	21%

* The amount of revenue from corresponding customer was less than 10% of the total revenue for the relevant period.

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the six months ended June 30, 2022 and 2021, respectively:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Service transferred overtime	733,262	689,438
Service transferred at a point of time	860,775	689,269
	<u>1,594,037</u>	<u>1,378,707</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, 2022 and 2021, respectively:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	676,591	463,193
Other area (<i>Note a</i>)	438,106	565,364
Total	<u>1,114,697</u>	<u>1,028,557</u>

Note:

- (a) Revenue from other area mainly includes revenue from local versions operated in Hong Kong, Macao, Taiwan province of China, Southeast Asia, North America and South Korea.

5 Expenses by nature

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefits expenses	688,829	661,645
Promotion and advertising expenses	349,621	292,645
Sharing of proceeds to game developers	328,877	222,173
Commissions charged by payment channels and distribution channels	187,390	196,212
Bandwidth and server custody fee	179,901	110,638
Depreciation of property, plant and equipment and right-of-use assets	72,020	53,792
Professional and technical service fee	66,412	83,475
Share-based compensation expenses (<i>Note 14</i>)	40,280	—
Amortization of intangible assets	23,060	38,226
Office expenses	14,665	23,146
VAT input transfer out and tax surcharges	12,523	11,269
Rental expenses and utilities	4,501	9,120
Auditor's remuneration		
— Audit service	2,320	2,263
— Non-audit service	1,186	1,126
Impairment of non-financial assets	1,197	25,693
Net impairment losses/(reversal) on financial assets	78	(1,709)
Others	2,908	2,558
	<hr/>	<hr/>
Total	<u>1,975,768</u>	<u>1,732,272</u>

6 Other income

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government subsidies	8,052	5,077
Interest income from short-term investments measured at amortized cost	4,536	6,031
Others	225	—
	<hr/>	<hr/>
Total	<u>12,813</u>	<u>11,108</u>

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

7 Other losses, net

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Foreign exchange losses, net	(32,510)	(2,922)
Others	(96)	193
	<hr/>	<hr/>
Total	<u>(32,606)</u>	<u>(2,729)</u>

8 Finance costs, net

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income from bank deposits	9,482	5,072
Finance costs		
Interest expenses on convertible bond	(23,292)	(9,976)
Interest expenses on lease liabilities	(3,102)	(3,110)
Bank charges	(939)	(295)
Finance costs, net	(17,851)	(8,309)

9 Income tax

Income tax expense is recognised based on the 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, 2022 and 2021.

Certain subsidiaries of the Group in the PRC, accordingly, are qualified as “high and new technology enterprise” and entitled to a preferential income tax rate of 15% during the six months ended June 30, 2022 and 2021.

One subsidiary is accredited as a “software enterprise” under the relevant PRC laws and regulations. It is exempt from CIT 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.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC which were effective from 2018 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, 2022 and 2021.

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 RMB738 million as of June 30, 2022.

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	10,876	15,546
Deferred income tax	(27,939)	(21,025)
	<hr/>	<hr/>
Total income tax credits	<u>(17,063)</u>	<u>(5,479)</u>

10 Loss per share

Basic loss per share is calculated by dividing the loss 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,	
	2022	2021
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company <i>(RMB'000)</i>	(386,056)	(325,147)
Weighted average number of shares in issue <i>(thousands)</i>	471,993	457,016
	<hr/>	<hr/>
Basic loss per share (in RMB)	<u>(0.82)</u>	<u>(0.71)</u>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares. For the six months ended June 30, 2022, the Group had potential dilutive ordinary shares arising from convertible bonds and share options. As the Group incurred losses for the six months ended June 30, 2022, the dilutive potential ordinary shares arising from convertible bonds and share options were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution.

11 Trade receivables

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Distribution channels and game publishers	213,276	153,688
Online marketing service customers	67,692	71,106
Others	1,172	505
	<u>282,140</u>	<u>225,299</u>
Less: allowance for impairment	(1,833)	(1,749)
	<u>280,307</u>	<u>223,550</u>

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, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Within 3 months	241,882	203,554
3 months to 6 months	34,808	20,420
6 months to 1 year	4,194	219
1 to 2 years	150	17
Over 2 years	1,106	1,089
	<u>282,140</u>	<u>225,299</u>

12 Trade payables

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Trade payables	<u>323,041</u>	<u>205,390</u>

Trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to game developers. The credit terms of trade payables granted to the Group are usually 0 to 90 days. Aging analysis of trade payables based on the recognition date of the trade payables at the respective reporting dates are as follows:

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Within 3 months	322,492	204,868
Over 3 months	<u>549</u>	<u>522</u>
	<u>323,041</u>	<u>205,390</u>

13 Dividends

No dividends have been paid or declared by the Company during the six months ended June 30, 2022 and 2021.

In April 2022, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a subsidiary of the Group, a dividend of USD16 million was approved and paid, USD5.6 million (equivalent to RMB38.32 million) of which was paid to non-controlling shareholders.

In April 2021, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, 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.

14 Share-based compensation expenses

On June 25, 2021, shareholders of the Company approved the Share Option Scheme, an equity-settled share-based compensation plan with the purpose of attracting, motivating, retaining and rewarding certain employees and Directors. The Share Option Scheme is valid and effective for 10 years from the date of approval by the shareholders. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over shares or other securities by the Company or any of its subsidiaries shall not in aggregate exceed 48,043,070 shares without shareholders' approval subject to a limit of 10% to the total number of issued shares at the date of approval of the refreshed limit. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other options granted and yet to be exercised under any other option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

As of June 30, 2022, the Group has authorized and reserved a total of 48,043,070 ordinary shares under the Share Option Scheme for awards of options of the Company's ordinary shares.

There is typically no performance target or minimum period for which an option must be held before it can be exercised, except for certain options which have graded vesting terms and vest in tranches from the grant date over the vesting period, on condition that employee remain in service without performance requirements. The option must be exercised no more than 10 years from the grant date.

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of share options	Weighted average exercise price per share option (HKD)
(Unaudited)		
Outstanding as of January 1, 2022	1,371,055	50.88
Granted during the period	6,582,713	35.36
	<hr/>	<hr/>
Outstanding as of June 30, 2022	7,953,768	38.04
	<hr/>	<hr/>
Vested and exercisable as of June 30, 2022	<u>3,238,571</u>	<u>38.04</u>

The weighted average remaining contractual life of outstanding share options is 10 years as of June 30, 2022.

The Group has used Black-Scholes model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Six months ended June 30, 2022
Risk-free interest rates	1.60%–2.63%
Expected term — years	10
Expected multiple	2.2–2.8
Expected volatility	47.52%–47.77%
Fair value of share options	HKD11.12–18.87
Exercise price	HKD25.04–37.01

The weighted average fair value of options granted during the six months ended 30 June 2022 was HKD16.08 per share option.

The share-based compensation expenses have been charged to the consolidated statements of comprehensive loss for the six months ended June 30, 2022 as follows:

	Six months ended June 30, 2022 <i>RMB'000</i> (Unaudited)
Cost of revenues	710
Selling and marketing expenses	285
Research and development expenses	31,704
General and administrative expenses	7,581
	<hr/>
	40,280
	<hr/> <hr/>

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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, 2022.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2022.

USE OF PROCEEDS

Issuance of convertible bonds in April 2021

The net proceeds received from the convertible 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, 2022:

Use of proceeds	Amount of net proceeds received from convertible bonds issue (US\$ million)	Actual usage up to June 30, 2022 (US\$ million)	Unutilized net proceeds as of June 30, 2022 (US\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	148.8	55.0	93.8	By December 31, 2023
• marketing and promoting games and TapTap	99.2	12.5	86.7	By December 31, 2023
• general corporate purposes	27.6	0	27.6	By December 31, 2023

Placing of shares in April 2021

The net proceeds received from the placing of shares 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, 2022:

Use of proceeds	Amount of net proceeds received from the placing of shares (HK\$ million)	Actual usage up to June 30, 2022 (HK\$ million)	Unutilized net proceeds as of June 30, 2022 (HK\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	556.5	556.5	0	By December 31, 2023
• potential acquisition and strategic investments	222.6	95.1	127.5	By December 31, 2023
• general corporate purposes	333.9	114.9	219.0	By December 31, 2023

EVENT AFTER THE REPORTING PERIOD

There is no material event after the reporting period undertaken by the Group after June 30, 2022 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, 2022 except for a deviation from code provision C.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 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, that they have complied with the Model Code during the six months ended June 30, 2022.

REVIEW OF THE INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision D.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 consolidated financial statements for the six months ended June 30, 2022. 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:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Audit Committee”	the audit committee of the Company;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“Board”	the board of Directors of the Company;
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
“Company”	XD Inc. (心动有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 25, 2019, the shares of which are listed on the Stock Exchange under stock code 2400;
“Director(s)”	the director(s) of the Company;
“Group”	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;
“MPU(s)”	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;
“USD” or “US\$”	the lawful currency of the United States of America; and
“%”	Percentage.

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

Shanghai, China, August 31, 2022

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.