

2023 INTERIM REPORT 中期報告



XD Inc. 心动有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

Stock Code 股份代號 : 2400

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01

CORPORATE
INFORMATION

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Liu Wei

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Huang Yimeng (*Chairman*)
Mr. Dai Yunjie
Mr. Liu Wei
Mr. Pei Dapeng

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang
Mr. Chung Ming Fai

AUTHORIZED REPRESENTATIVES

Mr. Fan Shuyang
Mr. Chung Ming Fai

AUDITOR

PricewaterhouseCoopers
(*Registered Public Interest Entity Auditors*)

REGISTERED OFFICE

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

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Shanghai
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

HONG KONG LEGAL ADVISER

Clifford Chance

PRINCIPAL BANKS

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

WEBSITE

2400.hk

STOCK CODE

2400

02

HIGHLIGHTS

HIGHLIGHTS

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the six months ended June 30,		
	2023 (RMB'000) (Unaudited)	2022 (RMB'000) (Unaudited)	Change %
Revenue	1,753,102	1,594,037	10.0
Gross profit	1,037,261	782,915	32.5
Profit/(loss) for the period	102,788	(381,395)	N/A
Profit/(loss) attributable to equity holders of the Company	90,194	(386,056)	N/A
Adjusted profit/(loss) for the period*	129,647	(332,732)	N/A
Adjusted profit/(loss) attributable to equity holders of the Company*	112,979	(342,502)	N/A

* To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted profit/(loss) for the period and adjusted profit/(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,		
	2023 (in thousands)	2022 (in thousands)	Change %
Online Games			
Average MAUs ⁽¹⁾	13,269	15,346	-13.5
Average MPUs ⁽²⁾	1,389	1,530	-9.2
TapTap			
Average App MAUs in TapTap PRC	33,967	41,730	-18.6
Average App MAUs in TapTap International	7,135	8,973	-20.5

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

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

03

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

In the first half of 2023, we maintained a steady growth in terms of our revenue benefiting from the increased advertising revenue on TapTap and the successful launch of two games, Torchlight: Infinite (火炬之光：無限) and T3 Arena (火力蘇打), in China. Moreover, with the strict cost control discipline this year, we have successfully turned losses into profits. In the first half of this year, our adjusted EBITDA was RMB184.8 million, while it was an adjusted loss before interests, taxes, depreciation and amortization of RMB246.4 million for the corresponding period of the last year.

Although the average App MAUs of TapTap PRC decreased as compared to the corresponding period of the last year, we believe that this was mainly due to one-off factors and the App MAUs of TapTap PRC have returned to growth momentum after certain adjustments. In the first half of 2023, we have initially applied the AIGC (Artificial Intelligence Generated Content) technology to our research and development of new games and have achieved favorable results. In the future, we plan to further deploy it to improve game content production efficiency and enhance our customer service capabilities. In the long run, we will continue to adhere to our vision of “to impact each and every gamer by promoting the spirit of craftsmanship,” and are committed to consistently providing high-quality games for players worldwide, while also continuously supporting developers in creating and distributing games more conveniently.

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

Our Games

As of June 30, 2023, our portfolio consisted of 20 online games and 29 premium games.

Online Games

During the first half of 2023, the average MAUs of our online games decreased by 13.5% period-over-period, while the average MPUs decreased by 9.2% period-over-period. The decrease in these two figures was primarily attributable to a decrease in number of users of Sausage Man (香腸派對) as compared to the corresponding period of the last year. Such decline was partially offset by an increase in number of users as a result of the launch of two games, T3 Arena (火力蘇打) and Torchlight: Infinite (火炬之光：無限), in China during the first half of the year. For the six months ended June 30, 2023, Sausage Man (香腸派對), Ragnarok M (仙境傳說M), Torchlight: Infinite (火炬之光：無限), Ulala (不休的烏拉拉) and Shen Xian Dao (HD) (神仙道高清重製版) were our top five games in terms of its revenue contribution. An overview of our major games is as follows:

- Sausage Man (香腸派對): the game was launched in China in April 2018 and has been nearly five years since it was released. During the Chinese New Year of 2023, the game had a record high number of active users and revenue. However, after the Chinese New Year, both MAUs and MPUs of the game declined as compared to the corresponding period of the last year due to (i) the decrease in the amount of time that people spent on online games after the PRC's restrictive policies related to the pandemic being lifted; and (ii) the impact of several competing games being launched. However, as a battle arena game, we believe that the game still maintains a huge number of players in China market and has potential for further growth.
- Ragnarok M (仙境傳說M): the game was launched in China in January 2017, and was subsequently released in many countries and regions worldwide, the game is currently at its maturity stage. Due to the impact of the life cycle of the game, its revenue was decreased to a certain extent during the six months ended June 30, 2023 as compared to the corresponding period of last year.
- Ulala (不休的烏拉拉): the game was launched in Taiwan in May 2019, and was subsequently released in many countries and regions worldwide, which is now at its maturity stage. Due to the life cycle of the game, the revenue of the game for the six months ended June 30, 2023 was decreased to a certain extent as compared with the corresponding period of last year.
- Torchlight: Infinite (火炬之光：無限) and T3 Arena (火力蘇打) were launched in China in May and June 2023, respectively, therefore, both of them have a relatively limited impact on the financial result for the first half of the year.

Games in Development

We regard our self-developed games as one of the cornerstones of our growth, and we have made a large scale of investment in research and development of games. As at June 30, 2023, we had 828 employees engaged in game development, representing a decrease of 209 employees from June 30, 2022. The decrease was mainly due to the termination or optimization of the research and development of several games during the second half of 2022, with the goal of the cost reduction and efficiency enhancement. As of June 30, 2023, we had 4 online games in development, including: Sword of Convallaria (鈴蘭之劍), which was launched in Hong Kong, Macau and Taiwan in August 2023, and is expected to be launched in China in the fourth quarter of 2023. In addition, the incremental game GoGo Muffin (出發吧麥芬) is expected to be launched in the fourth quarter of this year or the first quarter of next year.

Premium Games

Premium games constitute an important component of TapTap's unique ecosystem, enabling us to achieve differentiation and foster a more diversified active user base. In the first half of 2023, the successive launch of several overseas games after obtaining the ISBN (International Standard Book Number) and the commercialization of cross-platform games enabled us to obtain new sources of revenue. Currently, games such as Terraria (泰拉瑞亞), Carto (無盡旅圖), Gorogoa (畫中世界) and Sands of Salzaar (部落與彎刀) continued to maintain steady performance and stabilize the market share of TapTap in the segment of mobile premium games. In the second half of this year, it is also expected that a number of high-profile premium games entering beta testing or being officially released.

TapTap

TapTap is our key competitiveness and one of the cornerstones of our growth. We rely on game development and publishing to provide TapTap with high-quality exclusive content, which drives TapTap's user growth. In the meantime, TapTap's own product and operation advantages will help retain users and generate revenue, which will then feed the content creation of both first-party and third-party developers through TapTap and in turn generate more quality content and continue to drive the further growth of TapTap.

TapTap PRC

During the six months ended June 30, 2023, the average App MAUs of TapTap PRC was approximately 34.0 million, representing a decrease of 18.6% on a period-over-period basis. The decrease in MAUs on a period-over-period basis in the first half of this year was mainly attributable to (i) the decrease in the amount of time that people spent on online games after the restrictive policies related to the pandemic in China being lifted; and (ii) the decrease in the number of new users on a period-over-period basis due to the reduction of our marketing activities for the purpose of cost control. We implemented several strategic adjustments to TapTap in June and July 2023, and App MAUs of TapTap PRC regained growth momentum, reaching 39.3 million in July 2023.

In July 2023, we successfully hosted the 4th Annual TapTap Presents and Developers Workshop, which received a positive response.

TapTap International

During the six months ended June 30, 2023, the average App MAUs of TapTap International was approximately 7.1 million, representing a decrease of 20.5% on a period-over-period basis. The decrease in MAUs on a period-over-period basis in the first half of this year was mainly attributable to (i) the decrease in number of users from India due to the effects of certain popular games; and (ii) the significant reduction in our overseas marketing investment for cost control purposes.

We will continue to improve the international team and dedicate to the development and operation of versions specifically for certain key overseas markets one by one. Currently, we do not set the overall MAUs growth as our target, but build up a good community ambiance and increase the user penetration rate by targeting specific key markets instead.

TapTap Developer Services

TapTap Developer Services (TDS) aims to provide developers with technical and product support through our platform to help developers develop and distribute games more conveniently.

In the first half of 2023, we released new testing features that comprehensively improved the ease of use for developers. We also started testing overseas payment features and invited the first batch of games to implement such features. We added more features for exclusive games to the “Bonfire Program” to achieve a win-win situation for developers, players and the platform. As of the end of July 2023, there were more than 2,000 active games using the TDS on a daily basis, with a daily user base exceeding 3 million players.

FINANCIAL REVIEW

Revenue

Our revenue is mainly derived from (i) games, the 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, 2023 and 2022.

	For the six months ended June 30, 2023		2022	
	Amount	% of revenue	Amount	% of revenue
(Unaudited)	(RMB in thousands, except for percentages)			
Games	1,149,870	65.6	1,126,287	70.7
Game operating	1,144,657	65.3	1,114,697	70.0
Online games	1,080,122	61.6	1,042,055	65.4
Premium games	64,535	3.7	72,642	4.6
Others	5,213	0.3	11,590	0.7
Information services	603,232	34.4	467,750	29.3
Total revenue	1,753,102	100.0	1,594,037	100.0

Games

Our revenue from game business increased by 2.1% to RMB1,149.9 million for the six months ended June 30, 2023 on a period-over-period basis. In particular,

- Our revenue from online games increased by 3.7% to RMB1,080.1 million for the six months ended June 30, 2023 on a period-over-period basis, primarily due to increases in revenue from Sausage Man (香腸派對) and newly launched games, such as Torchlight: Infinite (火炬之光:無限) and T3 Arena (火力蘇打), and partially offset by decrease in revenue from certain existing games in maturity stage, such as Ulala (不休的烏拉拉) and Ragnarok M (仙境傳說M); and
- Our revenue from premium games decreased by 11.2% to RMB64.5 million for the six months ended June 30, 2023 on a period-over period basis, primarily due to decrease 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, 2023 and 2022.

	For the six months ended June 30, 2023		2022	
	Amount	%	Amount	%
(Unaudited)	(RMB in thousands, except for percentages)			
Revenue recognized on a gross basis	1,044,393	91.2	971,753	87.2
Revenue recognized on a net basis	100,264	8.8	142,944	12.8
Total game operating revenue	1,144,657	100.0	1,114,697	100.0

Our game operating revenue recognized on a gross basis increased by 7.5% to RMB1,044.4 million for the six months ended June 30, 2023 on a period-over-period basis, primarily due to the increase in revenue from Sausage Man (香腸派對) and newly launched games such as Torchlight: Infinite (火炬之光:無限) and T3 Arena (火力蘇打), and partially offset by decrease in revenue from Ulala (不休的烏拉拉) and certain premium game. Our game operating revenue recognized on a net basis decreased by 29.9% to RMB100.3 million for the six months ended June 30, 2023 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 29.0% to RMB603.2 million for the six months ended June 30, 2023 on a period-over-period basis. While the average App MAUs of TapTap PRC decreased by 18.6% to 34.0 million for the six months ended June 30, 2023 on a period-over-period basis, the increase in revenue is mainly attributable to (i) more new games launched in PRC market in the first half of 2023 compared to the corresponding period of last year, resulting in increased marketing demand; and (ii) the improvements of our advertising system and client coverage.

We have yet monetized TapTap International.

Cost of Revenues

Our cost of revenues decreased by 11.7% to RMB715.8 million for the six months ended June 30, 2023 on a period-over-period basis. The following table sets forth our cost of revenues by line of business for the six months ended June 30, 2023 and 2022.

	For the six months ended June 30, 2023		2022	
	Amount	% of segment revenue	Amount	% of segment revenue
(Unaudited)	(RMB in thousands, except for percentages)			
Games	606,367	52.7	674,263	59.9
Information services	109,474	18.1	136,859	29.3
Total	715,841	40.8	811,122	50.9

Our cost of revenues for game business primarily consists of sharing of proceeds to game developers and commissions charged by distribution platforms and payment channels where we act as a principal, bandwidth and servers custody fee and employee benefits expenses. Our cost of revenues for information services business primarily consists of bandwidth and servers custody fee and employee benefits expenses. The following table sets forth our cost of revenues by nature for the six months ended June 30, 2023 and 2022.

	For the six months ended June 30, 2023		2022	
	Amount	%	Amount	%
(Unaudited)	(RMB in thousands, except for percentages)			
Sharing of proceeds to game developers	295,049	41.2	328,877	40.5
Commissions charged by distribution platforms and payment channels	172,765	24.1	187,390	23.1
Bandwidth and servers custody fee	120,495	16.8	177,474	21.9
Employee benefits expenses	60,268	8.4	70,709	8.7
Professional and technical services fee	37,231	5.2	18,245	2.2
Amortization of intangible assets	16,357	2.3	12,615	1.6
Others	13,676	2.0	15,812	2.0
Total	715,841	100.0	811,122	100.0

Our cost of revenues for game business decreased by 10.1% to RMB606.4 million for the six months ended June 30, 2023 on a period-over-period basis, primarily attributable to (i) the decreases in sharing of proceeds to game developers and commissions charged by distribution platforms, which were due to the decreases in revenue from Ulala (不休的烏拉拉) and other licensed games; and (ii) the decreases in bandwidth and servers custody fee and employee benefits expenses, which were due to our cost control and efficiency improvement measures.

Our cost of revenues for information services business decreased by 20.0% to RMB109.5 million for the six months ended June 30, 2023 on a period-over-period basis, primarily attributable to the decrease in bandwidth and servers custody fee, which was due to (i) the decrease in the average App MAUs of TapTap PRC and TapTap International; and (ii) the improvement of internet technology.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 32.5% to RMB1,037.3 million for the six months ended June 30, 2023 on a period-over-period basis. Our gross margin was 59.2% for the six months ended June 30, 2023, which was higher than the gross margin for the six months ended June 30, 2022, primarily due to (i) an increase in our gross margin of game segment from 40.1% for the six months ended June 30, 2022 to 47.3% in the corresponding period of 2023, as a result of the increases in self-developed games such as Torchlight: Infinite (火炬之光:無限) and T3 Arena (火力蘇打), which in general enjoyed higher gross margin than licensed games; and (ii) an increase in gross margin of information services segment from 70.7% for the six months ended June 30, 2022 to 81.9% in the corresponding period of 2023. This increase was also benefited from the increase in the contribution of revenue from our information services business to our total revenue from 29.3% for the six months ended June 30, 2022 to 34.4% in the same corresponding period of 2023, which in general enjoyed a higher gross margin than the game business.

Selling and Marketing Expenses

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

Our selling and marketing expenses decreased by 18.2% to RMB330.4 million for the six months ended June 30, 2023 on a period-over-period basis. This was primarily attributable to the decreased marketing expenses for both TapTap and game segments, due to cost reduction measures.

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 decreased by 19.6% to RMB527.8 million for the six months ended June 30, 2023 on a period-over-period basis. This was primarily due to the decrease in employee benefits expenses. The number of our research and development personnel decreased from 1,387 as at June 30, 2022 to 1,143 as at June 30, 2023, as a result of game projects restructuring and staff optimization.

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 and right-of-use assets in connection with our office space in Shanghai.

Our general and administrative expenses decreased by 2.6% to RMB101.8 million for the six months ended June 30, 2023 on a period-over-period basis. This was primarily due to (i) the decrease in the number of back office personnel; and (ii) was partially offset by the increases in office expenses, rental and utilities expenses, as our office spaces were benefited from the rent reduction policy under the impact of pandemic last year.

Other Gains/(Losses), Net

Our other gains/(losses), net primarily consist of foreign exchange gains/(losses), net.

Our net foreign exchange gains was RMB1.2 million for the six months ended June 30, 2023, comparing a net foreign exchange losses of RMB32.5 million for the six months ended June 30, 2022. This was primarily due to appreciation of RMB/USD and RMB/HKD exchange rates in the first half of 2023.

Income Tax Expenses/(Credits)

We recorded income tax expenses of RMB45.0 million for the six months ended June 30, 2023, compared to income tax credits of RMB17.1 million for the corresponding period in 2022. Among which, we recorded a current income tax expense of RMB7.3 million and a deferred income tax expense of RMB37.7 million in relation to the deferred tax assets we recognized in previous years.

Profit/(Loss) for the Period

Our profit for the period was RMB102.8 million for the six months ended June 30, 2023, comparing a net loss of RMB381.4 million for the six months ended June 30, 2022.

Profit/(Loss) for the Period Attributable to Equity Holders of the Company

Our profit for the period attributable to equity holders of the Company was RMB90.2 million for the six months ended June 30, 2023, comparing a net loss for the period attributable to equity holders of the Company of RMB386.1 million for the corresponding period of 2022.

Our profit for the period attributable to non-controlling interests belonged 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); (ii) Shanghai Longcheng Network Technology Co., Ltd. (上海龍成網絡科技有限公司); (iii) X.D. Global (HK) Limited; (iv) Hyper Times Limited; and (v) Taptap Holding Limited.

Other Financial Information

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

	For the six months ended June 30,	
	2023 (RMB'000) (Unaudited)	2022 (RMB'000) (Unaudited)
Operating profit/(loss)	122,693	(406,427)
Adjustments		
Fair value changes on investments measured at fair value through profit or loss	(3,439)	4,903
Other income	(39,365)	(12,813)
Other (gains)/losses, net	(731)	32,606
Depreciation of property, plant and equipment and right-of-use assets	57,666	72,020
Amortization of intangible assets	21,352	23,060
EBITDA	158,176	(286,651)
Share-based compensation expenses	26,636	40,280
Adjusted EBITDA	184,812	(246,371)

Non-IFRS Measures

To supplement our consolidated financial information which is presented in accordance with IFRS, we set forth below our adjusted profit/(loss) for the period and adjusted profit/(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 investments measured at fair value through profit or loss; and (ii) share-based compensation expenses. The following table reconciles our adjusted profit/(loss) for the period and adjusted profit/(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,	
	2023	2022
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	102,788	(381,395)
Add:		
Fair value changes on long-term investments measured at fair value through profit or loss	298	9,346
Share-based compensation expenses	26,636	40,280
Less:		
Income tax effects	(75)	(963)
Adjusted profit/(loss) for the period	129,647	(332,732)

	For the six months ended June 30,	
	2023	2022
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company	90,194	(386,056)
Add:		
Fair value changes on long-term investments measured at fair value through profit or loss	242	8,613
Share-based compensation expenses	22,603	35,721
Less:		
Income tax effects	(60)	(780)
Profit/(loss) attributable to equity holders of the Company	112,979	(342,502)

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, 2023 and December 31, 2022 are as follows:

	As at	As at
	June 30,	December 31,
	2023	2022
	(RMB'000)	(RMB'000)
	(Unaudited)	(Audited)
Cash and cash equivalents	3,301,473	3,098,084
Short-term investments		
— Term deposits with initial terms over three months	—	295,999
— Wealth management products	428,174	194,780
	3,729,647	3,588,863

As at June 30, 2023, our short-term investments are mainly consist of wealth management products issued by large reputable commercial banks. These wealth management products invest principally in low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China. The returns of such wealth management products are not guaranteed or protected by the issuing banks.

The effective rates of return of these wealth management products ranges from 2.35% to 3.86% per annum. The increase of our cash positions and short-term investments was primarily due to net cash flows generated from operating activities of RMB133.5 million for the six months ended June 30, 2023.

As of June 30, 2023, saved for the convertible bonds issued on April 12, 2021, we did not have any borrowings or unutilized banking facilities. These convertible bonds are in the specified denomination of USD200,000 each and integral multiples of USD1,000 thereof 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.

Gearing Ratio

Our gearing ratio was 58.1% as at June 30, 2023, comparing a gearing ratio of 60.3% as at December 31, 2022. This ratio was calculated as total liabilities divided by total assets.

Significant Investments Held, Material Acquisitions and Disposals

For the six months ended June 30, 2023, neither the Group held any significant investments, nor was there any material acquisition and disposal of subsidiaries, associated companies and joint ventures.

Pledge of Assets

As of June 30, 2023, we did not pledge any of our assets.

Future Plans for Material Investments or Capital Assets

As of June 30, 2023, we did not have any plans for material investments and capital assets.

Foreign Exchange Risk Management

We generate revenue from overseas markets in relation to our international business, and therefore, we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Hong Kong dollar. We also pay licensing fees for foreign game developers and intellectual property providers, which are primarily in US dollars. We currently do not adopt any long-term contracts, currency borrowings or other means to hedge our foreign currency exposure.

Contingent Liabilities

As of June 30, 2023, we did not have any material contingent liabilities.

04

OTHER
INFORMATION

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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, 2023.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2023.

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 amount of unutilized net proceeds brought forward as of January 1, 2023 was approximately US\$147.5 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2023:

Use of proceeds	Amount of net proceeds received from convertible bonds issue (US\$ million)	Amount of net proceeds brought forward as of January 1, 2023 (US\$ million)	Actual usage for the six months ended June 30, 2023 (US\$ million)	Amount of unutilized net proceeds as of June 30, 2023 (US\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	148.8	64.5	33.7	30.8	By December 31, 2023
• marketing and promoting games and TapTap	99.2	55.4	32.0	23.4	By December 31, 2023
• general corporate purposes	27.6	27.6	3.2	24.4	By December 31, 2023
	275.6	147.5	68.9	78.6	

Placing of shares in April 2021

The net proceeds received from the placing of shares was approximately HK\$1,113.0 million. The amount of unutilized net proceeds brought forward as of January 1, 2023 was HK\$127.5 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2023:

Use of proceeds	Amount of net proceeds received from the placing of shares <i>(HK\$ million)</i>	Amount of net proceeds brought forward as of January 1, 2023 <i>(HK\$ million)</i>	Actual usage for the six months ended June 30, 2023 <i>(HK\$ million)</i>	Amount of unutilized net proceeds as of June 30, 2023 <i>(HK\$ million)</i>	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	556.5	0	0	0	—
• potential acquisition and strategic investments	222.6	127.5	10.6	116.9	By December 31, 2023
• general corporate purposes	333.9	0	0	0	—
	1,113.0	127.5	10.6	116.9	

EVENT AFTER THE REPORTING PERIOD

On July 6, 2023, a total of 852,678 share options (the “Options”) were granted by the Company under the Share Option Plan adopted on June 25, 2021 to certain eligible participants to subscribe for ordinary shares of US\$0.0001 each of the Company, including 133,626 Options granted to Mr. Huang Yimeng, an executive Director, and 66,813 Options granted to Mr. Dai Yunjie, an executive Director, respectively. For details, please refer to the announcement of the Company dated July 6, 2023.

Save as disclosed, there is no material event after the Reporting Period undertaken by the Group after June 30, 2023 and up to the date of this report.

EMPLOYEES, REMUNERATION AND PENSION SCHEME

We had 1,576 employees as of June 30, 2023, substantially all of which were based in Shanghai. The remuneration of employees during the six months ended June 30, 2023 is set out in note 7 to the condensed consolidated financial statements.

We offer our employees competitive compensation packages and a collaborative working environment and, as a result, we have generally been able to attract and retain qualified personnel and maintain a stable, core management team. We compensate our employees with basic salaries, subsidies, and performance-based and annual bonuses, and pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund. We also adopted a share option plan on June 25, 2021 for the purpose of providing incentives and rewards to the participants for their contributions to the Group.

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

As disclosed in 2022 annual report, the Group has established an adequate remuneration and incentive system. The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. Further, the Group's principal retirement benefits scheme available to its Hong Kong and Singapore employees, namely the Mandatory Provident Fund or Central Provident Fund, is also a defined contribution scheme. Both the Group and the employees contribute respectively to the Mandatory Provident Fund or Central Provident Fund sums which represent a certain percentage of the employees' salaries.

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

During the year ended December 31, 2022 and six months ended June 30, 2023, there were no forfeited contributions under the defined contribution schemes above. Accordingly, no forfeited contribution was utilized during the year and a half, and there was no forfeited contribution available as of December 31, 2022 and June 30, 2023, to reduce the level of contributions.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has complied with all applicable code provisions of the CG Code during the six months ended June 30, 2023 except for a deviation from code provision C.2.1 of part 2 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 of the Board 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 of the Board 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 of the Board and chief executive officer is necessary.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code for dealing in securities in the Company by the Directors. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the six months ended June 30, 2023.

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 D.3 of part 2 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, 2023. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

CHANGE IN DIRECTORS' INFORMATION

There has been no change in the Directors' information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published annual report.

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

As at June 30, 2023, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were otherwise required, to be notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

(i) Interest in Shares and underlying Shares

Name of Director	Capacity/Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
Mr. Huang Yimeng ("Mr. Huang")	Settlor of a discretionary trust ⁽²⁾	157,605,000 (L)	32.80%
	Beneficial owner	3,232,951 (L) ⁽³⁾	0.67%
	Interest of spouse	2,100,000 (L)	0.44%
Mr. Dai Yunjie ("Mr. Dai")	Settlor of a discretionary trust ⁽⁴⁾	53,245,000 (L)	11.08%
	Beneficial owner	1,065,651 (L) ⁽⁵⁾	0.22%

Notes:

- (1) The letter "L" denotes long position in the shares of the Company. The percentage figures disclosed under "Approximate percentage of shareholding" were calculated based on the 480,453,107 Shares, being the number of total issued Shares of the Company as of June 30, 2023.
- (2) Happy Today Holding Limited is a company incorporated in the British Virgin Islands and is wholly-owned by Happy Today Company Limited. Happy Today Company Limited is held by the Happy Today Trust, which was established by Mr. Huang as the settlor. J.P. Morgan Trust Company (Singapore) Pte. Ltd. is the trustee of the Happy Today Trust, and Mr. Huang and his family members are the beneficiaries of the Happy Today Trust. Mr. Huang is also a director of Happy Today Holding Limited. As such, each of Mr. Huang, J.P. Morgan Trust Company (Singapore) Pte. Ltd. and Happy Today Company Limited is deemed to be interested in our Shares held by Happy Today Holding Limited under the SFO.
- (3) Mr. Huang Yimeng was interested in 3,232,951 Shares, of which inclusive of the interest in 746,951 Shares underlying the share options granted pursuant to the share option plan which was adopted by Shareholders on June 25, 2021.

- (4) Kros Dai Inc. is a company incorporated in the British Virgin Islands and is wholly-owned by Danger and Sons Inc. Danger and Sons Inc. is held by the Dai & Sons Trust, which was established by Mr. Dai as the settlor. J.P. Morgan Trust Company of Delaware is the trustee of the Dai & Sons Trust, and Mr. Dai and his family members are the beneficiaries of the Dai and Sons Trust. Mr. Dai is also a director of Kros Dai Inc. As such, each of Mr. Dai, J.P. Morgan Trust Company of Delaware and Danger & Sons Inc. is deemed to be interested in our Shares held by Kros Dai Inc. under the SFO.
- (5) Mr. Dai Yunjie was interested in 1,065,651 Shares, of which inclusive of the interest in 499,851 Shares underlying the share options granted pursuant to the share option plan which was adopted by Shareholders on June 25, 2021.

(ii) Interest in associated corporation

Name of Director	Nature of interest	Associated corporation	Number of Shares	Approximate percentage of shareholding
Mr. Huang Yimeng	Interest in controlled corporation ⁽²⁾	X.D. Network ⁽¹⁾	165,900,000 (L)	55.98% ⁽²⁾
	Beneficial owner ⁽²⁾	X.D. Network ⁽¹⁾	47,281,500 (L)	15.95% ⁽²⁾
Mr. Dai Yunjie	Beneficial owner ⁽³⁾	X.D. Network ⁽¹⁾	20,263,500 (L)	6.84% ⁽³⁾

Notes:

- (1) On September 1, 2023, X.D. Network completed its share capital reduction and the number of the issued shares of X.D. Network was reduced from 236,197,420 Shares to 213,181,500 shares.
- (2) Following the completion of share capital reduction of X.D. Network on September 1, 2023, the approximate percentage of shareholding held by Mr. Huang Yimeng in X.D. Network was 77.82% (interest in controlled corporation) and 22.18% (beneficial owner) respectively.
- (3) 20,263,500 shares of X.D. Network held by Mr. Dai Yunjie were repurchased and cancelled by X.D. Network as a result of the share capital reduction of X.D. Network on September 1, 2023. As of September 1, 2023, Mr. Dai Yunjie did not held any interests in X.D. Network.

Save as disclosed above, as at June 30, 2023, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Company, as at June 30, 2023, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following persons, other than a Director or chief executive of the Company, had an interest of 5% or more in the Shares or underlying Shares:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
J.P. Morgan Trust Company (Singapore) Pte. Ltd. ⁽²⁾	Trustee	157,605,000 (L)	32.80%
Happy Today Company Limited	Interest in controlled corporation	157,605,000 (L)	32.80%
Happy Today Holding Limited	Beneficial owner	157,605,000 (L)	32.80%
J.P. Morgan Trust Company of Delaware	Trustee	53,245,000 (L)	11.08%
Danger and Sons Inc.	Interest in controlled corporation	53,245,000 (L)	11.08%
Kros Dai Inc.	Beneficial owner	53,245,000 (L)	11.08%

Notes:

- (1) The letter "L" denotes long position in the shares of the Company. The percentage figures disclosed under "Approximate percentage of shareholding" were calculated based on the 480,453,107 Shares, being the number of total issued Shares of the Company as of June 30, 2023.
- (2) On March 2, 2023, the interests held by Credit Suisse Trust Limited under Happy Today Trust has transferred to J.P. Morgan Trust Company (Singapore) Pte. Ltd. under Happy Today Trust.

Save as disclosed above, as at June 30, 2023, the Company had not been notified of any persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares that were recorded in the register required to be kept under section 336 of the SFO.

RSU SCHEME

The RSU Scheme was adopted on June 3, 2019. A summary of the principal terms of the RSU Scheme is set out in the section headed “Statutory and General Information — D. RSU Scheme” in Appendix IV to the prospectus of the Company dated November 29, 2019.

The aggregate number of Shares held by Heart Assets Limited (the “**RSU Holding Entity**”) pursuant to the RSU Scheme for and on behalf of the grantees was 8,437,540, representing approximately 1.76% of the issued share capital of our Company as at the date of the annual report of the Company for the year ended December 31, 2022, and no RSUs had been granted by the Company.

The aggregate number of Shares held by RSU Holding Entity pursuant to the RSU Scheme for and on behalf of the grantees was 8,437,540, representing approximately 1.76% of the issued share capital of our Company as at June 30, 2023, and no RSUs had been granted by the Company, and no RSUs had been vested, cancelled or lapsed under the RSU Scheme as at June 30, 2023. The RSU Holding Entity will not exercise the voting rights attached to the Shares of the Company underlying the RSU Scheme.

SHARE OPTION PLAN

On April 30, 2021, the Board resolved to propose the adoption of the share option plan of the Company for the approval by the Shareholders (the “**Share Option Plan**”). On June 25, 2021 (“**Adoption Date**”), the Share Option Plan was considered and approved by the Shareholders at the annual general meeting of the Company which will be valid and effective for a period of 10 years commencing on the Adoption Date. As of June 30, 2023, the remaining life of the Share Option Plan is approximately 8 years.

Purpose

The purpose of the Share Option Plan is to provide incentives and rewards to the directors and employees of the Group for their contributions to, and continuing efforts to promote the interest of, the Company.

Eligible Participants

The eligible participants for the Share Option Plan include any employee (whether full time or part time), executives or officers, Directors (including executive, non-executive and independent non-executive Directors) of any member of the Group, who, in the sole opinion of the Board, have contributed or will contribute to the growth and development of the Group.

Maximum Number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Plan and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Adoption Date that is, 48,043,070 Shares. 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 Shares from time to time.

Maximum Entitlement of Eligible Participants

No option may be granted to any eligible participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Share Option Plan (including exercised, cancelled and outstanding options) in the 12-month period up to and including the grant date of such new grant exceeding 1% in aggregate of the issued share capital of the Company as at the grant date of such new grant. Any grant of further options above this limit shall be subject to the requirements provided under the Listing Rules.

Vesting Period and Exercise Period

The Share Option Plan provides that the Board may specify the vesting period and exercise period of the options and does not provide for any minimum vesting period. The option must be exercised no more than 10 years from the grant date. There is no minimum period for which an option must be held before it can be exercised. The Board and the Remuneration and Appraisal Committee will take into account of the purpose of the Share Option Plan as part of the remuneration package of eligible participants to incentivize their performance and to make continuous contributions to the growth and development of the Group, as well as maintaining the competitiveness of the remuneration package offered by the Group as compared with those offered by the industry peers.

Performance Target

There is no performance target attached to the options under the Share Option Plan. For the grant of options, the Board and the Remuneration and Appraisal Committee will consider the ability of eligible participants for their contributions to the overall operations, development and long-term growth of the Group with reference to their tenure with the Group and their industry experience. It is the common practice of gaming industry of granting options without performance target. The grant of options aligns the interest of eligible participants with that of the Company and the Shareholders and reinforces the eligible participants' commitment to the Group and thus aligns with the purpose of the Share Option Plan.

Clawback Mechanism

Any options shall lapse and not exercisable with immediate effect on the following dates:

- (a) on which the grantee ceases to be an eligible participant (including any employees, executives or officers and directors of any members of the Group) in accordance with the Share Option Plan; or
- (b) on the date on which the Board exercises the Company's right to cancel or forfeit the options if the grantee commits any breach of non-transferrable provision of the options and confidentiality clause of the Share Option Plan.

Subscription Price and Consideration for the Options

The Board shall be entitled at any time during the operation of the Share Option Plan, at its/his/her sole and absolute discretion, to make an offer of options to an eligible participant by letter in such form as the Board may from time to time determine. Unless otherwise determined by the Board, RMB1.00 shall be payable by the grantee to the Company upon acceptance of the offer of options, and such remittance shall not be refundable.

The total number of securities available for issue under the plan is 48,020,663 (representing 10% of the issued shares) as at the date of this report.

The exercise price shall be a price determined by the Board and notified to any grantee and will be the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the grant date of the relevant options, which must be a business day;
- (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the grant date of the relevant options; or
- (c) the nominal value per Share on the grant date.

Movements of Options during the Reporting Period

Pursuant to Rule 17.07 of the Listing Rules, particulars and movements of share options under the Share Option Plan during the period from the Adoption Date to June 30, 2023 (the “**Period**”) by category of grantees were as follows:

Category of grantees	Date of grant	Exercise price per Share	Closing price immediately before the date of grant	Vesting period/ Exercisable period	Outstanding as at January 1, 2023	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	Outstanding as at June 30, 2023	
Directors and substantial Shareholders	Mr. Huang Yimeng	July 12, 2021	HK\$62.60	HK\$60.20	July 12, 2021 to July 11, 2031	16,049	—	—	—	16,049	
		October 11, 2021	HK\$46.90	HK\$42.85	October 11, 2021 to October 10, 2031	64,705	—	—	—	64,705	
		January 10, 2022	HK\$37.01	HK\$35.60	January 10, 2022 to January 9, 2032	83,213	—	—	—	83,213	
		April 11, 2022	HK\$25.04	HK\$23.35	April 11, 2022 to April 10, 2032	122,982	—	—	—	122,982	
		July 5, 2022	HK\$21.64	HK\$20.60	July 5, 2022 to July 4, 2032	135,331	—	—	—	135,331	
		October 14, 2022	HK\$16.09	HK\$15.04	October 14, 2022 to October 13, 2032	138,900	—	—	—	138,900	
		January 11, 2023	HK\$25.86	HK\$26.80	January 11, 2023 to January 10, 2033	—	83,210	—	—	—	83,210
		April 12, 2023	HK\$27.79	HK\$27.55	April 12, 2023 to April 11, 2033	—	102,561	—	—	—	102,561
Mr. Dai Yunjie	Mr. Dai Yunjie	July 12, 2021	HK\$62.60	HK\$60.20	July 12, 2021 to July 11, 2031	9,924	—	—	—	9,924	
		October 11, 2021	HK\$46.90	HK\$42.85	October 11, 2021 to October 10, 2031	40,009	—	—	—	40,009	
		January 10, 2022	HK\$37.01	HK\$35.60	January 10, 2022 to January 9, 2032	51,453	—	—	—	51,453	
		April 11, 2022	HK\$25.04	HK\$23.35	April 11, 2022 to April 10, 2032	122,982	—	—	—	122,982	
		July 5, 2022	HK\$21.64	HK\$20.60	July 5, 2022 to July 4, 2032	99,243	—	—	—	99,243	
		October 10, 2022	HK\$16.72	HK\$16.76	October 10, 2022 to October 9, 2032	121,244	—	—	—	121,244	
		January 11, 2023	HK\$25.86	HK\$26.80	January 11, 2023 to January 10, 2033	—	3,715	—	—	—	3,715
		April 12, 2023	HK\$27.79	HK\$27.55	April 12, 2023 to April 11, 2033	—	51,281	—	—	—	51,281

Category of grantees	Date of grant	Exercise price per Share	Closing price immediately before the date of grant	Vesting period/ Exercisable period	Outstanding as at January 1, 2023	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	Outstanding as at June 30, 2023
Employees	July 12, 2021	HK\$62.60	HK\$60.20	July 12, 2021 to July 11, 2031	321,261	—	—	—	—	321,261
	October 11, 2021	HK\$46.90	HK\$42.85	October 11, 2021 to October 10, 2031	919,107	—	—	—	—	919,107
	January 10, 2022	HK\$37.01	HK\$35.60	January 10, 2022 to January 9, 2032	5,541,245	—	—	—	—	5,541,245
	April 11, 2022	HK\$25.04	HK\$23.35	April 11, 2022 to April 10, 2032	660,838	—	—	—	—	660,838
	July 5, 2022	HK\$21.64	HK\$20.60	July 5, 2022 to July 4, 2032	834,463	—	—	—	—	834,463
	October 10, 2022	HK\$16.72	HK\$16.76	October 10, 2022 to October 9, 2032	1,092,232	—	(22,407) ⁽¹⁾	—	—	1,069,825
	January 11, 2023	HK\$25.86	HK\$26.80	January 11, 2023 to January 10, 2033	—	855,625	—	—	—	855,625
	April 12, 2023	HK\$27.79	HK\$27.55	April 12, 2023 to April 11, 2033	—	460,404	—	—	—	460,404
Total					10,375,181	1,556,796	(22,407)	—	—	11,909,570

Note:

- (1) The weighted average closing price immediately before the date on which the options were exercised was HK\$26.00 per Share.

On July 12, 2021, a total of 347,234 options were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of US\$0.0001 each of the Company, including 16,049 options granted to Mr. Huang Yimeng, an executive Director, and 9,924 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated July 12, 2021.

On October 11, 2021, a total of 1,023,821 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 64,705 options granted to Mr. Huang Yimeng, an executive Director, and 40,009 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated October 11, 2021.

On January 10, 2022, a total of 5,675,911 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 83,213 options granted to Mr. Huang Yimeng, an executive Director, and 51,453 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated January 10, 2022.

On April 11, 2022, a total of 906,802 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 122,982 options granted to Mr. Huang Yimeng, an executive Director, and 122,982 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated April 11, 2022.

On July 5, 2022, a total of 1,069,037 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 135,331 options granted to Mr. Huang Yimeng, an executive Director, and 99,243 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated July 5, 2022.

On October 10, 2022, a total of 1,378,808 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 165,332 options granted to Mr. Huang Yimeng, an executive Director, and 121,244 options granted to Mr. Dai Yunjie, an executive Director. As disclosed in the announcement of the Company dated October 14, 2022, the Board has resolved to cancel the 165,332 options which were granted to Mr. Huang Yimeng and further announced that a total of 138,900 share options were granted by the Company under the Share Option Plan to Mr. Huang Yimeng. For details, please refer to the announcements of the Company dated October 10, 2022 and October 14, 2022.

On January 11, 2023, a total of 942,550 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 83,210 options granted to Mr. Huang Yimeng, an executive Director, and 3,715 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated January 11, 2023.

On April 12, 2023, a total of 614,246 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 102,561 options granted to Mr. Huang Yimeng, an executive Director, and 51,281 options granted to Mr. Dai Yunjie, an executive Director. For details, please refer to the announcement of the Company dated April 12, 2023.

A total of 22,407 options were exercised by eligible participants (other than a Director) of the Company under the Share Option Plan on January 10, 2023, January 11, 2023, January 13, 2023, January 16, 2023, and April 3, 2023.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Plan during the six months ended June 30, 2023.

Number of Options Available for Grant

The number of options available for grant under the Share Option Plan at the beginning and the end of the Reporting Period were 37,667,889 and 36,111,093, respectively. The total number of shares available for issue under the Share Option Plan is 36,111,093 Shares and representing 7.52% of the issued shares as at June 30, 2023.

The number of shares that may be issued in respect of options granted under the Share Option Plan during the Reporting Period divided by the weighted average number of issued shares for the Reporting Period was 0.3%.

Fair Value of the Options

The Group used Black-Scholes model to determine the fair value of the share option as of the grant dates. The fair value of Options granted by the Company during the six months ended June 30, 2023 to employee participants on January 11, 2023 and April 12, 2023 was HKD12.21 per Option and HKD13.10 per Option, respectively, at such dates of grant, and the fair value of Options granted to Directors was HKD13.42 per Option and HKD14.37 per Option, respectively, at such dates of grants. Key assumptions and the fair value of the Options are set out in note 31 to the condensed consolidated financial statements.

CHANGE IN CONSTITUTIONAL DOCUMENTS

In order to (a) reflect the core shareholder protection standards as set out in the revised Appendix 3 to the Listing Rules with effect from January 1, 2022; (b) bring the Articles in line with the Companies Act (As Revised) of the Cayman Islands; and (c) incorporate certain housekeeping amendments into the Articles, a special resolution of the Shareholders was passed on June 20, 2023 to adopt the second amended and restated memorandum and articles of association of the Company with effect from the same date. For details, please refer to the Company's announcements dated March 30, 2023 and June 20, 2023 and the Company's circular dated April 27, 2023.

The second amended and restated memorandum and articles of association of the Company are available on the website of the Stock Exchange and the website of the Company.

05

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of XD Inc.

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 38 to 93, which comprises the interim condensed consolidated statement of financial position of XD Inc. (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at June 30, 2023 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 31, 2023

06

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended June 30,	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenues	6	1,753,102	1,594,037
Cost of revenues	6, 7	(715,841)	(811,122)
Gross profit		1,037,261	782,915
Selling and marketing expenses	7	(330,402)	(403,719)
Research and development expenses	7	(527,784)	(656,373)
General and administrative expenses	7	(101,785)	(104,476)
Net impairment reversal/(losses) on financial assets	7	1,868	(78)
Fair value changes on investments measured at fair value through profit or loss	8	3,439	(4,903)
Other income	9	39,365	12,813
Other gains/(losses), net	10	731	(32,606)
Operating profit/(loss)		122,693	(406,427)
Finance income		45,022	9,482
Finance costs		(34,246)	(27,333)
Finance income/(costs), net	11	10,776	(17,851)
Share of results of investments accounted for using the equity method	17	14,348	25,820
Profit/(loss) before income tax		147,817	(398,458)
Income tax (expenses)/credits	12	(45,029)	17,063
Profit/(loss) for the period		102,788	(381,395)

	Notes	Six months ended June 30,	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Other comprehensive income:			
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		8,774	48,183
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		2,878	390
Total comprehensive income/(loss) for the period		114,440	(332,822)
Profit/(loss) for the period attributable to:			
Equity holders of the Company		90,194	(386,056)
Non-controlling interests		12,594	4,661
		102,788	(381,395)
Total comprehensive profit/(loss) for the period attributable to:			
Equity holders of the Company		102,104	(338,792)
Non-controlling interests		12,336	5,970
		114,440	(332,822)
Earnings/(loss) per share for profit/(loss) for the period attributable to the equity holders of the Company			
Basic earnings/(loss) per share (RMB)	13	0.19	(0.82)
Diluted earnings/(loss) per share (RMB)	13	0.19	(0.82)

The notes on pages 49 to 93 are an integral part of these condensed consolidated financial statements.

07

CONDENSED
CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	14	63,799	96,211
Right-of-use assets	15	213,826	271,256
Intangible assets	14	236,507	256,381
Deferred tax assets	16	38,468	76,184
Investments accounted for using the equity method	17	131,978	124,734
Long term investments measured at fair value through profit or loss	18	24,272	24,565
Prepayments, deposits and other non-current assets	19	44,614	56,219
		753,464	905,550
Current assets			
Trade receivables	20	252,678	249,444
Prepayments, deposits and other current assets	19	68,095	52,197
Short-term investments	21	428,174	490,779
Cash and cash equivalents	22	3,301,473	3,098,084
		4,050,420	3,890,504
Total assets		4,803,884	4,796,054
EQUITY			
Share capital	23	329	329
Share premium	23	7,036,290	7,035,801
Shares held for share award schemes	23	(6)	(6)
Other reserves	24	(4,338,873)	(4,377,255)
Accumulated deficit		(680,346)	(770,540)
Equity attributable to equity holders of the Company		2,017,394	1,888,329
Non-controlling interests		(6,722)	17,320
Total equity		2,010,672	1,905,649

	Notes	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities	25	177,205	213,951
Convertible bonds	29	—	1,805,948
		177,205	2,019,899
Current liabilities			
Trade payables	26	162,132	203,053
Advance from customers		57,060	59,411
Other payables and accruals	27	208,779	298,980
Contract liabilities	28	150,788	156,688
Current income tax liabilities		83,009	67,884
Lease liabilities	25	42,732	60,960
Convertible bonds	29	1,911,507	23,530
		2,616,007	870,506
Total liabilities		2,793,212	2,890,405
Total equity and liabilities		4,803,884	4,796,054

The notes on pages 49 to 93 are an integral part of these condensed consolidated financial statements.

The financial statements on pages 38 to 93 were approved by the Board of Directors on August 31, 2023 and were signed on its behalf.

Dai Yunjie
Director

Fan Shuyang
Director

08

CONDENSED
CONSOLIDATED
STATEMENT OF
CHANGES IN EQUITY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company							Total
		Share capital RMB'000	Share premium RMB'000	Shares held		Accumulated deficit RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
				award	Other				
				schemes RMB'000	reserves RMB'000				
(Unaudited)									
As of January 1, 2022		329	7,035,801	(6)	(4,512,959)	(218,923)	2,304,242	78,165	2,382,407
Comprehensive loss									
Loss for the period		—	—	—	—	(386,056)	(386,056)	4,661	(381,395)
Other comprehensive income									
— Currency translation differences		—	—	—	47,264	—	47,264	1,309	48,573
Total comprehensive loss for the period		—	—	—	47,264	(386,056)	(338,792)	5,970	(332,822)
Transaction with owners in their capacity as owners									
Share-based compensation expenses	31	—	—	—	40,280	—	40,280	—	40,280
Dividend distribution of subsidiaries	30	—	—	—	—	—	—	(38,317)	(38,317)
Total transactions with owners in their capacity as owners for the period		—	—	—	40,280	—	40,280	(38,317)	1,963
As of June 30, 2022		329	7,035,801	(6)	(4,425,415)	(604,979)	2,005,730	45,818	2,051,548

	Notes	Attributable to equity holders of the Company							Total
		Shares held					Sub-total	Non-controlling interests	
		Share capital	Share premium	award for share schemes	Other reserves	Accumulated deficit			
(Unaudited)									
As of January 1, 2023		329	7,035,801	(6)	(4,377,255)	(770,540)	1,888,329	17,320	1,905,649
Comprehensive income									
Profit for the period		—	—	—	—	90,194	90,194	12,594	102,788
Other comprehensive income									
— Currency translation differences		—	—	—	11,910	—	11,910	(258)	11,652
Total comprehensive income for the period		—	—	—	11,910	90,194	102,104	12,336	114,440
Transaction with owners in their capacity as owners									
Share-based compensation expenses	31	—	—	—	26,636	—	26,636	—	26,636
Exercise of share options		—*	489	—	(164)	—	325	—	325
Dividend distribution of subsidiaries	30	—	—	—	—	—	—	(36,378)	(36,378)
Total transactions with owners in their capacity as owners for the period		—*	489	—	26,472	—	26,961	(36,378)	(9,417)
As of June 30, 2023		329	7,036,290	(6)	(4,338,873)	(680,346)	2,017,394	(6,722)	2,010,672

* The amount is less than RMB1,000.

The notes on pages 49 to 93 are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended June 30,	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from/(used in) operations		129,592	(174,276)
Income tax refunded/(paid)		3,950	(211)
Net cash flows generated from/(used in) operating activities		133,542	(174,487)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,035)	(33,919)
Proceeds from disposals of property, plant and equipment		592	724
Purchase of intangible assets (including prepayments for intangible assets)		(7,306)	(20,703)
Net cash paid for business combination	27	(9,359)	(8,325)
Purchase of short-term investments		(230,000)	(1,548,100)
Proceeds from disposals of short-term investments		309,749	704,339
Dividends received from investments accounted for using the equity method	17	7,200	3,600
Net cash generated from/(used in) investing activities		69,841	(902,384)
Cash flows from financing activities			
Dividend paid to non-controlling shareholders	30	(36,378)	(38,317)
Payment for interest of convertible bonds	29	(11,892)	(11,745)
Proceeds from exercise of share options		325	—
Payment for lease liabilities (including interests)	15	(26,080)	(17,059)
Net cash used in financing activities		(74,025)	(67,121)
Net increase/(decrease) in cash and cash equivalents		129,358	(1,143,992)
Cash and cash equivalents at the beginning of the period		3,098,084	3,164,726
Effects of exchange rate changes on cash and cash equivalents		74,031	75,201
Cash and cash equivalents at the end of the period	22	3,301,473	2,095,935

The notes on pages 49 to 93 are an integral part of these condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

The condensed consolidated financial statements for the six months ended June 30, 2023 (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, 2022, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as set out in 2022 annual report of the Company dated March 30, 2023 (the “**2022 Financial Statements**”).

3 ACCOUNTING POLICY INFORMATION

The accounting policies adopted in the Interim Financial Statements are consistent with those applied in the preparation of 2022 Financial Statements, except for the estimation of income tax (Note 12) and the adoption of new and revised IFRSs that become applicable for the financial year commencing on January 1, 2023:

- Disclosure of Accounting Policies — Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates — Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to IAS 12

3 ACCOUNTING POLICY INFORMATION (Continued)

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, 2023 and have not been early adopted by the Group in preparing the Interim Financial Statements. None of these is expected to have a significant effect on the Interim Financial Statements based on the preliminary assessment made by management.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the 2022 Financial Statements.

There were no significant changes in any material risk management policies during the six months ended June 30, 2023.

4.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, issue new shares or sell assets to reduce debt.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.2 Capital management (Continued)

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets. As at June 30, 2023 and December 31, 2022, the gearing ratio of the Group is as follows:

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Total liabilities	2,793,212	2,890,405
Total assets	4,803,884	4,796,054
Gearing ratio (%)	58%	60%

4.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements.

(a) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as at June 30, 2023 and December 31, 2022, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value estimation (Continued)

(a) Fair value hierarchy (Continued)

As at June 30, 2023 and December 31, 2022, the Group did not have financial assets measured at fair value using level 1 or level 2 inputs or financial liabilities measured at fair value. The following table presents the Group's financial assets that are measured at fair value using level 3 inputs:

	Notes	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Long-term investments measured at fair value through profit or loss	18	24,272	24,565
Short-term investments measured at fair value through profit or loss	21	428,174	194,780
		452,446	219,345

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

The following table presents the changes in level 3 items including investments in unlisted companies and wealth management products issued by commercial banks for the six months ended June 30, 2023 and 2022.

(i) Investments in unlisted companies

	Six months ended June 30, 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
At the beginning of the period	24,565	30,102
Changes in fair value	(298)	(9,346)
Currency translation differences	5	6
At the end of the period	24,272	20,762
Net unrealized loss	(298)	(9,346)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value estimation (Continued)

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

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

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	194,780	689,518
Addition	230,000	100,000
Changes in fair value	3,737	4,443
Disposal	(343)	(601,354)
Currency translation differences	—	3,170
At the end of the period	428,174	195,777
Net unrealized gains	3,737	1,629

(c) Valuation process and techniques

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team uses valuation techniques to determine the fair value of the Group's level 3 instruments.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

- the use of quoted market prices or dealer quotes for similar instruments;
- the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- the latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- a combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

There was no change to valuation techniques during the Reporting Period.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value estimation (Continued)

(d) Valuation inputs and relationship to fair value

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value as at		Unobservable inputs	Range of inputs as at		Relationship of unobservable inputs to fair value
	June 30, 2023	December 31, 2022		June 30, 2023	December 31, 2022	
	RMB'000 (Unaudited)	RMB'000 (Audited)				
Investments in unlisted companies	24,272	24,565	Expected volatility	47.78%–57.78%	47.78%–57.78%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability (the "DLOM")	25%–30%	25%–30%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	428,174	194,780	Expected rate of return	2.35%–3.86%	2.60%–4.59%	The higher the expected rate of return, the higher the fair value

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2022 Financial Statements.

6 SEGMENT INFORMATION AND REVENUE

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

Game segment

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

Information service segment

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

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

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

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) professional and technical services fee.

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, 2023, 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 statement of comprehensive income.

6 SEGMENT INFORMATION AND REVENUE (Continued)

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

(Unaudited)	Six months ended June 30, 2023		
	Game segment	Information service segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,080,122	—	1,080,122
— Premium Games (pay-to-play)	64,535	—	64,535
Subtotal	1,144,657	—	1,144,657
Online marketing service revenue	—	582,107	582,107
Others	5,213	21,125	26,338
Total revenues	1,149,870	603,232	1,753,102
Cost of revenues	(606,367)	(109,474)	(715,841)
Gross profit	543,503	493,758	1,037,261
Gross margin	47%	82%	59%

6 SEGMENT INFORMATION AND REVENUE (Continued)

(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
Subtotal	1,114,697	—	1,114,697
Online marketing service revenue	—	451,703	451,703
Others	11,590	16,047	27,637
Total revenues	1,126,287	467,750	1,594,037
Cost of revenues	(674,263)	(136,859)	(811,122)
Gross profit	452,024	330,891	782,915
Gross margin	40%	71%	49%

Revenues of approximately RMB614 million and RMB505 million for the six months ended June 30, 2023 and 2022, respectively, were from five largest single external customers.

Revenue from one customer in information service segment accounts for 19% and 14% of the Group's total revenue during the six months ended June 30, 2023 and 2022, respectively.

6 SEGMENT INFORMATION AND REVENUE (Continued)

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the six months ended June 30, 2023 and 2022, respectively:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Service transferred at a point of time	1,118,159	860,775
Service transferred overtime	634,943	733,262
	1,753,102	1,594,037

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the six months ended June 30, 2023 and 2022, respectively:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	769,973	676,591
Other areas (Note a)	374,684	438,106
Total	1,144,657	1,114,697

Note:

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

7 EXPENSES BY NATURE

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Employee benefits expenses	570,811	688,829
Sharing of proceeds to game developers	295,049	328,877
Promotion and advertising expenses	273,306	349,621
Commissions charged by payment channels and distribution channels	172,765	187,390
Bandwidth and server custody fee	122,385	179,901
Professional and technical service fee	84,132	66,412
Depreciation of property, plant and equipment (Note 14) and right-of-use assets (Note 15)	57,666	72,020
Share-based compensation expenses (Note 31)	26,636	40,280
Amortization of intangible assets (Note 14)	21,352	23,060
Office expenses	19,312	14,665
VAT input transfer out and tax surcharges	13,820	12,523
Rental expenses and utilities	5,335	4,501
Auditor's remuneration		
— Audit service	2,120	2,320
— Non-audit service	390	1,186
Impairment of non-financial assets	6,025	1,197
Net impairment (reversal)/losses on financial assets	(1,868)	78
Others	4,708	2,908
Total	1,673,944	1,975,768

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

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Long-term investments	(298)	(9,346)
Short-term investments	3,737	4,443
Total	3,439	(4,903)

9 OTHER INCOME

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies	36,957	8,052
Interest income from short-term investments measured at amortized cost	2,212	4,536
Others	196	225
Total	39,365	12,813

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

10 OTHER GAINS/(LOSSES), NET

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Foreign exchange gains/(losses), net	1,236	(32,510)
Others	(505)	(96)
Total	731	(32,606)

11 FINANCE INCOME/(COSTS), NET

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income from bank deposits	45,022	9,482
Finance costs		
Interest expenses on convertible bond (Note 29)	(24,757)	(23,292)
Interest expenses on lease liabilities	(6,073)	(3,102)
Bank charges	(3,416)	(939)
Finance income/(costs), net	10,776	(17,851)

12 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.

12 INCOME TAX (Continued)

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, 2023 and 2022.

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, 2023 and 2022.

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 200% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the six months ended June 30, 2023 and 2022.

PRC Withholding Tax ("WHT")

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

12 INCOME TAX (Continued)

PRC Withholding Tax (“WHT”) (Continued)

Since the Group intends to permanently reinvest earnings to further expand its businesses in PRC, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued at the end of each reporting period. Cumulative undistributed earnings of the Company's PRC subsidiaries intended to be permanently reinvested were RMB1,348 million as of June 30, 2023.

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	7,321	10,876
Deferred income tax (Note 16)	37,708	(27,939)
Total income tax expenses/(credits)	45,029	(17,063)

13 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit/(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,	
	2023	2022
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company (RMB'000)	90,194	(386,056)
Weighted average number of shares in issue (thousands)	472,014	471,993
Basic earnings/(loss) per share (in RMB)	0.19	(0.82)

13 EARNINGS/(LOSS) PER SHARE (Continued)

Diluted earnings/(loss) 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, 2023, 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 were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution.

	Six months ended June 30,	
	2023	2022
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company (RMB'000)	90,194	(386,056)
Weighted average number of shares in issue (thousands)	472,014	471,993
Adjustments for share options (thousands)	915	—
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings/(loss) per share (thousands)	472,929	471,993
Diluted earnings/(loss) per share (in RMB)	0.19	(0.82)

14 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(Unaudited)	Property, plant and equipment RMB'000	Intangible assets (including goodwill) RMB'000
Six months ended June 30, 2022		
Opening net book amount	148,561	248,808
Additions	21,825	16,869
Depreciation	(41,881)	(23,060)
Disposal	(639)	—
Currency translation impact	59	789
Closing net book amount	127,925	243,406
Six months ended June 30, 2023		
Opening net book amount	96,211	256,381
Additions	1,035	964
Depreciation	(33,113)	(21,352)
Disposal	(377)	—
Currency translation impact	43	514
Closing net book amount	63,799	236,507

Impairment of goodwill

There is no indicator for impairment of goodwill as of June 30, 2023. For details of goodwill impairment assessment for the year ended December 31, 2022, please refer to the 2022 Financial Statements.

15 RIGHT-OF-USE ASSETS

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Properties		
Opening net book amount	271,256	139,900
Additions	1,251	51,546
Early termination	(34,158)	—
Depreciation (Note 7)	(24,553)	(30,139)
Currency translation differences	30	—
Closing net book amount	213,826	161,307

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

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation charge of right-of-use assets (Note 7)	24,553	30,139
Interest expenses (Note 11)	6,073	3,102
Expenses relating to short-term leases	1,044	1,084
The cash outflow for leases payment related to short-term lease as operating activities	1,044	1,084
The cash outflow for leases as financing activities	26,080	17,059

16 DEFERRED INCOME TAXES

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

Deferred tax assets

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Tax losses	41,262	77,620
— Lease liabilities	41,085	49,903
— Promotional and advertising expenses	13,841	14,937
— Expected credit loss provision	399	683
— Intangible assets	15	19
Total gross deferred tax assets	96,602	143,162
Set-off of deferred tax liabilities pursuant to set-off provisions	(58,134)	(66,978)
Net deferred tax assets	38,468	76,184
— to be recovered within 12 months	62,836	110,445
— to be recovered after 12 months	33,766	32,717
	96,602	143,162

16 DEFERRED INCOME TAXES (Continued)

Deferred tax liabilities

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Right-of-use assets	39,817	49,086
— Long-term investments measured at fair value through profit or loss	10,290	10,205
— Intangible assets arising from business combinations	5,983	6,578
— Short-term investments measured at fair value through profit or loss	2,044	1,109
Total gross deferred tax liabilities	58,134	66,978
Set-off of deferred tax assets pursuant to set-off provisions	(58,134)	(66,978)
Net deferred tax liabilities	—	—
— to be recovered within 12 months	10,775	19,500
— to be recovered after 12 months	47,359	47,478
	58,134	66,978

16 DEFERRED INCOME TAXES (Continued)

Deferred tax assets

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

(Unaudited)	Tax losses RMB'000	Promotional and advertising expenses RMB'000	Lease liabilities RMB'000	Long term investments measured at fair value through profit or loss RMB'000	Expected credit loss provision RMB'000	Intangible assets RMB'000	Total RMB'000
At January 1, 2022	67,719	11,139	26,183	—	250	26	105,317
Recognized in profit or loss	(13,439)	32,365	5,936	3,929	136	(4)	28,923
Currency translation differences	128	—	—	—	2	—	130
At June 30, 2022	54,408	43,504	32,119	3,929	388	22	134,370
(Unaudited)							
At January 1, 2023	77,620	14,937	49,903	—	683	19	143,162
Recognized in profit or loss	(36,358)	(1,096)	(8,815)	—	(284)	(4)	(46,557)
Currency translation differences	—	—	(3)	—	—	—	(3)
At June 30, 2023	41,262	13,841	41,085	—	399	15	96,602

16 DEFERRED INCOME TAXES (Continued)

Deferred tax liabilities

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

(Unaudited)	Right-of-use assets RMB'000	Intangible assets arising from business combinations RMB'000	Long term investments measured at fair value through profit or loss RMB'000	Short term investments measured at fair value through profit or loss RMB'000	Total RMB'000
At January 1, 2022	26,123	7,045	2,794	—	35,962
Recognized in profit or loss	3,607	(461)	(2,794)	632	984
At June 30, 2022	29,730	6,584	—	632	36,946
(Unaudited)					
At January 1, 2023	49,086	6,578	10,205	1,109	66,978
Recognized in profit or loss	(9,274)	(595)	85	935	(8,849)
Currency translation differences	5	—	—	—	5
At June 30, 2023	39,817	5,983	10,290	2,044	58,134

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at June 30, 2023 and December 31, 2022, the Group did not recognize deferred income tax assets of RMB622 million and RMB567 million, in respect of cumulative tax losses amounting to RMB3,718 million and RMB3,420 million. These tax losses will expire from 2023 to 2033.

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	124,734	89,846
Share of results of associates	24,512	26,589
Dividends	(7,200)	(3,600)
Impairment (Note a)	(10,164)	(769)
Currency translation differences	96	197
At the end of the period	131,978	112,263

Note:

- (a) During the six months ended June 30, 2023 and 2022, the Group recognized impairment provisions of RMB10 million and RMB0.8 million respectively against their carry amount of certain investments, which was based on their recoverable amounts. The Group determined the recoverable amounts of these investments based on their fair value less costs of disposal.

In the opinion of the directors, none of the associates is material to the Group. Aggregated amount of the Group's share of results of individually immaterial associates accounted for using the equity method is as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Aggregate amounts of the Group's share of:		
— Profit from operations	24,512	26,589

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

Movements in long term investments measured at fair value through profit or loss during the six months ended June 30, 2023 and 2022, are as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	24,565	30,102
Change in fair value (Note 8)	(298)	(9,346)
Currency translation differences	5	6
At the end of the period	24,272	20,762

As at June 30, 2023 and December 31, 2022, all long term investments measured at fair value through profit or loss are equity investments in unlisted companies held by the Group. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 4.3.

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

	As at	As at
	June 30,	December 31,
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Investments in associates at fair value through profit or loss (Note a)	19,461	19,759
Other investments at fair value through profit or loss (Note b)	4,811	4,806
	24,272	24,565

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

Notes:

- (a) During the six months ended June 30, 2023 and 2022, the Group made investments in associates in the form of redeemable instruments and designated them at fair value through profit or loss. The Group has significant influence in these companies.

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	19,759	22,326
Change in fair value	(298)	(8,204)
At the end of the period	19,461	14,122

- (b) The Group also has interests in certain investee companies in form of ordinary shares without significant influence, which are managed and their performance are evaluated on a fair value basis. The Company designated these instruments as long term investments measured at fair value through profit or loss.

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	4,806	7,776
Change in fair value	—	(1,142)
Currency translation differences	5	6
At the end of the period	4,811	6,640

As at June 30, 2023 and December 31, 2022, the balance of the Group's long term investments measured at fair value through profit or loss comprised a number of individual investments, none of the investment is material to the Group.

19 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Non-current		
Prepayments for game licenses (a)	32,569	38,933
Rental and other deposits	12,045	17,286
	44,614	56,219
Current		
Prepayments for sharing of proceeds (a)	26,136	13,982
Rental and other deposits	13,813	10,280
Prepayments for advertisements and marketing services	4,217	2,461
Prepayments to other service providers	4,159	8,666
Tax prepayments	5,441	4,077
Others	14,495	12,800
Less: allowance for impairment	(166)	(69)
	68,095	52,197

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

The Group regularly assesses the possibility whether relevant games could be successfully published and estimates the future return from these games to assess impairment indicator of those prepayments. During the six months ended June 30, 2023 and 2022, the Group made impairment provision for and write-off certain prepayments to game developers of RMB6.03 million and RMB1.20 million, respectively, due to underperformance of related games.

20 TRADE RECEIVABLES

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Distribution channels and game publishers	150,200	191,920
Online marketing service customers	100,878	59,536
Others	3,555	1,906
	254,633	253,362
Less: allowance for impairment	(1,955)	(3,918)
	252,678	249,444

- (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, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Within 3 months	230,599	205,439
3 months to 6 months	20,531	35,806
6 months to 1 year	2,479	8,652
1 to 2 years	357	2,849
Over 2 years	667	616
	254,633	253,362

20 TRADE RECEIVABLES (Continued)

- (b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. The expected loss rates are based on the payment profiles of sales over a period of 36 months before June 30, 2023 and December 31, 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the CPI and GDP of the countries in which it operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	3,918	1,749
(Reversal)/provision	(1,966)	78
Write-off	(3)	—
Currency translation differences	6	6
At the end of the period	1,955	1,833

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

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as at June 30, 2023 and December 31, 2022.

20 TRADE RECEIVABLES (Continued)

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

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
United States Dollar ("USD")	119,043	152,253
RMB	117,691	78,044
Hong Kong Dollar ("HKD")	11,974	13,995
Others	5,925	9,070
	254,633	253,362

(e) The maximum exposure to credit risk as at June 30, 2023 and December 31, 2022 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

21 SHORT-TERM INVESTMENTS

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Term deposits above three months and within one year (Note a)	—	295,999
Wealth management products issued by commercial banks (Note b)	428,174	194,780
Total	428,174	490,779

(a) Term deposits above three months and within one year are measured at amortized cost. They are neither past due nor impaired as at June 30, 2023.

21 SHORT-TERM INVESTMENTS (Continued)

- (b) Returns on these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are based on discounted cash flow using the expected return based on management judgment (Note 4.3). Changes in fair value of these financial assets had been recognized in "Fair value changes on investments measured at fair value through profit or loss" in the consolidated statement of comprehensive income.

Short-term investments are denominated in the following currencies:

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
USD	—	295,999
RMB	428,174	194,780
	428,174	490,779

22 CASH AND CASH EQUIVALENTS

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Cash on hand and cash in bank	1,663,490	1,791,212
Term deposit with initial terms within three months (Note a)	1,612,890	1,267,557
Cash held by other financial institutions (Note b)	25,093	39,315
	3,301,473	3,098,084

Note:

- (a) The interest rates of these deposits per annum were 0.625%~5.50%.

22 CASH AND CASH EQUIVALENTS (Continued)

- (b) As at June 30, 2023 and December 31, 2022, the Group had certain amounts of cash held in accounts managed by other financial institutions, such as Alipay and WeChat Pay in connection with the provision of online and mobile payment services which have been classified as cash and cash equivalents on the consolidated statement of financial position.

Cash and cash equivalents are denominated in the following currencies:

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
RMB	931,887	1,044,257
USD	2,162,457	1,855,680
HKD	173,161	176,084
Others	33,968	22,063
	3,301,473	3,098,084

23 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME

(Unaudited)	Number of shares '000	Nominal value of shares USD'000	Equivalent nominal value of shares RMB'000	Share premium RMB'000	Shares held for share award schemes RMB'000
Authorized					
As at June 30, 2023 and December 31, 2022	1,000,000	100	—	—	—
Issued and fully paid					
As at January 1 and June 30, 2022	480,431	48	329	7,035,801	(6)
As at January 1, 2023	480,431	48	329	7,035,801	(6)
Exercise of share options	22	— *	— *	489	—
As at June 30, 2023	480,453	48	329	7,036,290	(6)

* The amount is less than 1,000

24 OTHER RESERVES

(Unaudited)	Capital reserve RMB'000	Statutory reserves RMB'000	Currency translation differences RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
As at January 1, 2022	(4,456,712)	71,348	(155,214)	27,619	(4,512,959)
Share-based compensation expenses (Note 31)	—	—	—	40,280	40,280
Currency translation differences	—	—	47,264	—	47,264
As at June 30, 2022	(4,456,712)	71,348	(107,950)	67,899	(4,425,415)
(Unaudited)					
As at January 1, 2023	(4,452,620)	71,348	(98,263)	102,280	(4,377,255)
Share-based compensation expenses (Note 31)	—	—	—	26,636	26,636
Exercise of share options	—	—	—	(164)	(164)
Currency translation differences	—	—	11,910	—	11,910
As at June 30, 2023	(4,452,620)	71,348	(86,353)	128,752	(4,338,873)

25 LEASE LIABILITIES

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	48,774	62,624
— Between 1 and 2 years	46,227	51,258
— Between 2 and 5 years	140,250	156,785
— Over 5 years	14,720	43,990
	249,971	314,657
Less: future finance charges	(30,034)	(39,746)
Present value of lease liabilities	219,937	274,911

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	42,732	60,960
— Between 1 and 2 years	40,370	47,497
— Between 2 and 5 years	123,936	132,476
— Over 5 years	12,899	33,978
	219,937	274,911

26 TRADE PAYABLES

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Trade payables	162,132	203,053

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, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Within 3 months	161,392	202,387
Over 3 months	740	666
	162,132	203,053

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

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
RMB	134,596	146,206
USD	24,173	52,634
Others	3,363	4,213
	162,132	203,053

As at June 30, 2023 and December 31, 2022, the fair value of trade payables approximated to their carrying amount.

27 OTHER PAYABLES AND ACCRUALS

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Salaries and benefits payables	162,541	238,309
Other tax payables	27,272	31,179
Payables for investments (Note a)	—	9,359
Others	18,966	20,133
	208,779	298,980

Note:

- (a) In May 2021, the Group acquired 100% of the equity interests in Lean Cloud (Hong Kong) Limited, an unlisted entity which provides data storage and instant data transmission services in mainland China, with a total cash consideration of RMB87.60 million. During six months ended June 30, 2023, the Group paid RMB9.36 million of the remaining consideration.

As at June 30, 2023 and December 31, 2022, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

28 CONTRACT LIABILITIES

Contract liabilities primarily consist of the unamortised revenue from sales of virtual items for mobile games, where there is still obligation to be provided by the Group to game players.

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Contract liabilities	150,788	156,688

28 CONTRACT LIABILITIES (Continued)

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

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue recognized that was included in the contract liabilities balance at the beginning of the period	150,772	195,564

29 CONVERTIBLE BONDS

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

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

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

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

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

29 CONVERTIBLE BONDS (Continued)

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

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

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.

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

In November 2022, the Company repurchased convertible bonds with principal amounts of USD5.40 million. The repurchase price and transaction costs were allocated between the liability component and the equity component on the same basis that was used in the original allocation process.

	November 2022
	RMB'000
Repurchase price	27,198
Transaction cost	39
Liability component	(27,237)
Equity component	—

29 CONVERTIBLE BONDS (Continued)

The movement of the liability component and the equity component of the 2021 Convertible Bonds for the six months ended June 30, 2023 and 2022 is set out below:

(Unaudited)	Liability component RMB'000	Equity component RMB'000	Total RMB'000
As at January 1, 2022	1,684,063	97,390	1,781,453
Interest charged	23,292	—	23,292
Interest paid	(11,745)	—	(11,745)
Currency translation differences	89,491	—	89,491
As at June 30, 2022	1,785,101	97,390	1,882,491

(Unaudited)	Liability component RMB'000	Equity component RMB'000	Total RMB'000
As at January 1, 2023	1,829,478	95,512	1,924,990
Interest charged	24,757	—	24,757
Interest paid	(11,892)	—	(11,892)
Currency translation differences	69,164	—	69,164
As at June 30, 2023	1,911,507	95,512	2,007,019

As of June 30, 2023, RMB1,912 million of 2021 Convertible Bonds are reclassified as current liabilities because bondholders have a non-contingent option to require the Company to redeem all or some only of such holder's bonds on April 12, 2024 at 100% of the principal amount, together with accrued and unpaid interest thereon.

If the 2021 Convertible Bonds were fully converted, 33,647,047 ordinary shares will be issued as of June 30, 2023.

30 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended June 30, 2023 and 2022.

In May 2023, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a subsidiary of the Group, a dividend of USD15 million was approved and paid, USD5.25 million (equivalent to RMB36.38 million) of which was paid to non-controlling shareholders.

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, USD5.60 million (equivalent to RMB38.32 million) of which was paid to non-controlling shareholders.

31 SHARE-BASED COMPENSATION EXPENSES

As of June 30, 2023, the Group has authorized and reserved a total of 48,020,663 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:

(Unaudited)	Number of share options	Weighted average exercise price per share option (HKD)
Outstanding as of January 1, 2022	1,371,055	50.88
Granted during the period	6,582,713	35.36
Outstanding as of June 30, 2022	7,953,768	38.04
Vested and exercisable as of June 30, 2022	3,238,571	38.04
(Unaudited)		
Outstanding as of January 1, 2023	10,375,181	33.56
Granted during the period	1,556,796	26.62
Exercised during the period	(22,407)	16.72
Outstanding as of June 30, 2023	11,909,570	32.68
Vested and exercisable as of June 30, 2023	9,219,912	31.42

31 SHARE-BASED COMPENSATION EXPENSES (Continued)

The weighted average remaining contractual life of outstanding share options is 8.8 years as of June 30, 2023 (December 31, 2022: 9.2 years).

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,	
	2023	2022
Risk-free interest rates	2.90%–3.27%	1.60%–2.63%
Expected term — years	2.2–2.8	2.2–2.8
Expected volatility	47.00%–47.57%	47.52%–47.77%
Fair value of share options	12.21–14.37	11.12–18.87
Exercise price	25.86–27.79	25.04–37.01

The weighted average fair value of options granted during the six months ended June 30, 2023 and 2022 was HKD12.75 and HKD16.08 per share option, respectively.

The share-based compensation expenses have been charged to the consolidated statements of comprehensive income for the six months ended June 30, 2023 and 2022 as follows:

(Unaudited)	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
Cost of revenues	171	710
Selling and marketing expenses	87	285
Research and development expenses	22,255	31,704
General and administrative expenses	4,123	7,581
	26,636	40,280

32 COMMITMENTS

(a) Capital commitments

The Group made capital expenditure in respect of purchase of game licenses which are in development as at June 30, 2023 and December 31, 2022. The Group has commitments to make the following future instalments under non-cancellable game purchase agreements are as follows:

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Game licenses	—	5,223

(b) Operating lease commitments

The Group has non-cancellable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at June 30, 2023 and December 31, 2022 is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 15.

33 RELATED PARTY TRANSACTIONS

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

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the periods ended June 30, 2023 and 2022.

33 RELATED PARTY TRANSACTIONS (Continued)

(a) Names and relationships with related parties (Continued)

Name of related parties	Relationship
Shanghai Bianyue Culture Communication Co., Ltd.	Associate
Shanghai Chatie Network Science and Technology Co., Ltd.	Associate
Shanghai Fantablade Network Science and Technology Co., Ltd.	Associate
Gamecores (Beijing) Culture Communication Co. Ltd.	Associate
Shenzhen Shanshi Interactive Technology Co., Ltd.	Associate
Xiamen So Funny Information Technology Co., Ltd.	Associate
Jiexin Holdings Limited	Shareholder
Happy Today Holding Limited	Shareholder

(b) Significant transactions with related parties

(i) Sales of service

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Gamecores (Beijing) Culture Communication Co. Ltd.	—	166

(ii) Purchase of service

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Xiamen So Funny Information Technology Co., Ltd.	214,224	235,253
Shanghai Bianyue Culture Communication Co., Ltd.	6,792	3,019
Shanghai Fantablade Network Science and Technology Co., Ltd.	1,475	2,621
Shanghai Chatie Network Science and Technology Co., Ltd.	1,053	464
Gamecores (Beijing) Culture Communication Co. Ltd.	308	3,449
Others	409	1,218
	224,261	246,024

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

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
ShenZhen Shanshi Interactive Technology Co., Ltd.	1,200	1,438

(ii) Other receivables from related parties

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Jiexin Holdings Limited	270	260
Happy Today Holding Limited	9	9
	279	269

(iii) Trade payables to related parties

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Xiamen So Funny Information Technology Co., Ltd.	41,677	77,951
Shanghai Chatie Network Science and Technology Co., Ltd.	1,708	3,750
Others	564	2,339
	43,949	84,040

Receivables from and payables to related parties are unsecured, interest-free and repayable on demand.

33 RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Wages, salaries and bonuses	4,136	3,241
Post-employment benefits	173	219
Long-term benefits	—	—
Termination benefits	—	—
Share-based compensation expenses	3,304	5,086
	7,613	8,546

34 CONTINGENCIES

The Group did not have any material contingent liabilities as of June 30, 2023 and December 31, 2022.

35 SUBSEQUENT EVENTS

There is no material subsequent event occurred during the period from June 30, 2023 to August 31, 2023, the approval date of these consolidated condensed financial statements by the Board of Directors.

11

DEFINITIONS AND GLOSSARY

DEFINITIONS AND GLOSSARY

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

“Articles”	the articles of association of the Company;
“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;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“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, supplemented or otherwise modified from time to time;
“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;
“Reporting Period”	for the six months ended June 30, 2023;
“PRC” or “China”	the People’s Republic of China, which for the purposes of this report, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan, China;
“PRC Consolidated Affiliated Entities”	the entities we control through the contractual arrangements, namely X.D. Network and its respective subsidiaries;
“RMB”	Renminbi, the lawful currency of the PRC;
“RSU(s)”	restricted share unit(s);
“RSU Scheme”	the restricted share unit Scheme of our Company adopted on June 3, 2019;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Share(s)”	ordinary shares in the share capital of our Company with a par value of US\$0.0001;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;
“US\$” or “USD”	United States dollars, the lawful currency of the United States of America;
“X.D. Network”	X.D. Network Inc. (心動網絡股份有限公司), a company established in the PRC on July 29, 2011 and our PRC Consolidated Affiliated Entity; and
“%”	per cent.

