



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

2022 INTERIM REPORT 中期報告



CONTENTS

01 P 2
CORPORATE INFORMATION

08 P 38
CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN
EQUITY

02 P 4
HIGHLIGHTS

09 P 41
CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS

03 P 6
MANAGEMENT DISCUSSION
AND ANALYSIS

10 P 43
NOTES TO THE CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS

04 P 19
OTHER INFORMATION

11 P 86
DEFINITIONS AND GLOSSARY

05 P 30
REPORT ON REVIEW OF
INTERIM FINANCIAL
INFORMATION

06 P 32
CONDENSED CONSOLIDATED
STATEMENT OF
COMPREHENSIVE LOSS

07 P 35
CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL
POSITION

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. Yim Lok Kwan (resigned with effect from August 31, 2022)
Mr. Chung Ming Fai (appointed with effect from August 31, 2022)

AUTHORIZED REPRESENTATIVES

Mr. Fan Shuyang
Mr. Yim Lok Kwan (resigned with effect from August 31, 2022)
Mr. Chung Ming Fai (appointed with effect from August 31, 2022)

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

HEAD OFFICE AND PRINCIPAL PLACE IN THE PRC

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Wanrong Road
Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F., Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

HONG KONG LEGAL ADVISER

DLA Piper Hong Kong

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,		
	2022 (RMB'000) (Unaudited)	2021 (RMB'000) (Unaudited)	Change %
Revenues	1,594,037	1,378,707	15.6
Gross profit	782,915	676,699	15.7
Loss for the period	(381,395)	(322,351)	18.3
Loss attributable to equity holders of the Company	(386,056)	(325,147)	18.7
Adjusted loss for the period*	(332,732)	(325,753)	2.1
Adjusted loss attributable to equity holders of the Company*	(342,502)	(328,783)	4.2

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

KEY OPERATING INFORMATION

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

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

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

03

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

Our Games

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

Online Games

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

- **Sausage Man (香腸派對)**: Although this title was launched in China over 4 years ago since April 2018, as a successful battle arena game, it has strong vitality and potential for continued growth. During the first half of 2022, both MAUs and MPUs of the game hit the record high while building on performance successes on a period-over-period basis. In the second quarter of 2022, Sausage Man has launched in Japan, Hong Kong, Macao, Taiwan and South Korea, which further established initial user portfolios in overseas markets.
- **Ragnarok M (仙境傳說M)**: This title launched in China in January 2017, and was subsequently released in many countries and regions all over the world. As this title has entered the mature phase of its lifecycle, its revenue was decreased to a certain extent during the six months ended June 30, 2022 compared to the corresponding period of last year. To ensure that Ragnarok M is a long-term success and to continue providing players with a refined experience, we began making adjustments to the title's development and operation teams at the beginning of this year.
- **Ulala (不休的烏拉拉)**: This title launched in Taiwan in May 2019, and has since been made available in many markets around the world. As this title has entered the mature phase of its lifecycle, its revenue for the six months ended June 30, 2022 was lower compared to the corresponding period of last year.

Titles in Development

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

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

Premium Games

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

TapTap

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

TapTap PRC

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

TapTap International

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

Currently, we have yet monetized TapTap International.

TapTap Developer Services

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

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

FINANCIAL REVIEW**Revenues**

Our revenue is mainly derived from (i) games, our principal operating business where we generate revenue primarily from sales of in-game virtual items in online games and sales of premium games through third-party and our proprietary distribution platforms; and (ii) information services where we generate revenue primarily from providing online marketing services on TapTap. The following table sets forth our revenue by line of business for the six months ended June 30, 2022 and 2021.

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

Games

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

- Our revenue from online games increased by 10.9% to RMB1,042.1 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to increases in revenue from Sausage Man (香腸派對), and was partially offset by the decreases of revenue from certain existing games under maturity stage, such as Ragnarok M (仙境傳說M) and Ulala (不休的烏拉拉); and
- Our revenue from premium games decreased by 18.0% to RMB72.6 million for the six months ended June 30, 2022 on a period-over-period basis, primarily due to decreases in revenue from certain existing premium games.

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

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

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

Information services

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

We have yet monetized TapTap International.

Cost of Revenues

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

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

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

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

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

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

Gross Profit and Gross Margin

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

Selling and Marketing Expenses

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

Our selling and marketing expenses increased by 17.2% to RMB403.7 million for the six months ended June 30, 2022 on a period-over-period basis. This was primarily due to (i) the increased marketing expenses of RMB47.7 million for TapTap, as we continued to attract new users and bring in high quality exclusive games in both PRC and overseas; and (ii) the increased marketing expenses of RMB11.5 million for game segment, as we newly launched two online games Flash Party (派對之星) and T3 Arena in the first half of 2022.

Research and Development Expenses

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

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

General and Administrative Expenses

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

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

Other Losses, Net

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

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

Income Tax Credits

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

Loss for the Period

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

Loss for the Period Attributable to Equity Holders of the Company

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

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

Other Financial Information

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

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

Non-IFRS Measures

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

	For the six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Loss for the period	(381,395)	(322,351)
Add:		
Fair value changes on long-term investments measured at fair value through profit or loss	9,346	(3,018)
Share-based compensation expenses	40,280	—
Less:		
Income tax effects	(963)	(384)
Adjusted loss for the period	(332,732)	(325,753)

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

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

Liquidity and Capital Resources

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

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

Our short-term investments as at June 30, 2022 consisted of (i) term deposits with initial terms ranging from three months to twelve months; and (ii) wealth management products issued by large reputable commercial banks. The principle and returns of such term deposits were guaranteed by relevant banks. These wealth management products invested principally in low risk and liquid fixed-income instruments that were quoted on the interbank market or exchanges in China. The returns of such wealth management products were not guaranteed or protected by the issuing banks. The effective rates of return of these wealth management products ranged from 1.12% to 3.06% per annum.

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

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

Our gearing ratio was 58.6% as at June 30, 2022, comparing a gearing ratio of 52.8% as at December 31, 2021. The increase in gearing ratio was mainly attributable to the decrease of total equity from RMB2,382.4 million as at December 31, 2021 to RMB2,051.5 million as at June 30, 2022. This ratio was calculated as total liabilities divided by total assets.

The Company completed an issue of convertible bonds and a placing of new shares in April 2021. Please refer to the announcements of the Company dated March 31, 2021, April 12, 2021 and April 13, 2021 published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (2400.hk) for details.

Significant Investments Held, Material Acquisitions and Disposals

For the six months ended June 30, 2022, 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, 2022, we did not pledge any of our assets.

Future Plans for Material Investments or Capital Assets

As of June 30, 2022, 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, 2022, we did not have any material contingent liabilities.

04

OTHER
INFORMATION

OTHER INFORMATION

PURCHASES, 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, 2022.

INTERIM DIVIDEND

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

USE OF PROCEEDS

Issuance of convertible bonds in April 2021

The net proceeds received from the convertible bonds issue was approximately US\$275.6 million. The amount of the net proceeds brought forward in the beginning of the reporting period was approximately US\$219.7 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2022:

Use of proceeds	Amount of net proceeds received from convertible bonds issue (US\$ million)	Amount of net proceeds brought forward in the beginning of the reporting period (US\$ million)	Actual usage for the six months ended June 30, 2022 (US\$ million)	Unutilized net proceeds as of June 30, 2022 (US\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	148.8	99.9	6.1	93.8	By December 31, 2023
• marketing and promoting games and TapTap	99.2	92.2	5.5	86.7	By December 31, 2023
• general corporate purposes	27.6	27.6	0	27.6	By December 31, 2023

Placing of shares in April 2021

The net proceeds received from the placing of shares was approximately HK\$1,113.0 million. The amount of the net proceeds brought forward in the beginning of the reporting period was approximately HK\$497.6 million. The table below sets out the details of actual usage of the net proceeds as of June 30, 2022:

Use of proceeds	Amount of net proceeds received from the placing of shares (HK\$ million)	Amount of net proceeds brought forward in the beginning of the reporting period (HK\$ million)	Actual usage for the six months ended June 30, 2022 (HK\$ million)	Unutilized net proceeds as of June 30, 2022 (HK\$ million)	Expected timeline of full utilization
• further enhancing the Company's R&D capability and game portfolios	556.5	133.4	133.4	0	By December 31, 2023
• potential acquisition and strategic investments	222.6	136.4	8.9	127.5	By December 31, 2023
• general corporate purposes	333.9	227.8	8.8	219.0	By December 31, 2023

EVENT AFTER THE REPORTING PERIOD

On August 31, 2022, the Board announced that Mr. Yim Lok Kwan has tendered his resignation as the joint company secretary, the authorized representative and the process agent of the Company with effect from August 31, 2022, and that Mr. Chung Ming Fai has been appointed as a joint company secretary, the authorized representative and the process agent with effect from August 31, 2022. For details, please refer to the announcement of the Company dated August 31, 2022.

Save as disclosed above, there is no other material event after the reporting period undertaken by the Group after June 30, 2022 and up to the date of this report.

EMPLOYEES, REMUNERATION AND PENSION SCHEME

We had 1,890 employees as of June 30, 2022, substantially all of which were based in Shanghai. The remuneration of employees during the six months ended June 30, 2022 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 2021 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, 2021 and six months ended June 30, 2022, 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, 2021 and June 30, 2022, 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, 2022 except for a deviation from code provision C.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

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

COMPLIANCE WITH 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, 2022.

REVIEW OF THE INTERIM RESULTS BY THE AUDIT COMMITTEE

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

The Audit Committee, together with the Auditor, has reviewed the Group's unaudited consolidated financial statements for the six months ended June 30, 2022. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

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, 2022, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were otherwise required, to be notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

(i) Interest in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding
Mr. Huang Yimeng ("Mr. Huang")	Settlor of a discretionary trust ⁽²⁾	157,605,000 (L)	32.80%
	Beneficial owner	2,772,949 (L) ⁽³⁾	0.58%
	Interest of spouse	2,100,000 (L)	0.44%
Mr. Dai Yunjie ("Mr. Dai")	Settlor of a discretionary trust ⁽⁴⁾	66,745,000 (L)	13.89%
	Beneficial owner	790,168 (L) ⁽⁵⁾	0.16%

Notes:

- (1) The letter "L" denotes long position in the Shares of the Company.
- (2) Happy Today Holding Limited is a company incorporated in the British Virgin Islands and is wholly-owned by Happy Today Company Limited. Happy Today Company Limited is held by the Happy Today Trust, which was established by Mr. Huang as the settlor. Credit Suisse Trust Limited is the trustee of the Happy Today Trust, and Mr. Huang and his family members are the beneficiaries of the Happy Today Trust. Mr. Huang is also a director of Happy Today Holding Limited. As such, each of Mr. Huang, Credit Suisse Trust Limited and Happy Today Company Limited is deemed to be interested in our Shares held by Happy Today Holding Limited under the SFO.
- (3) Mr. Huang Yimeng was interested in 2,772,949 Shares, of which inclusive of the interest in 286,949 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. (formerly known as Aiks Danger Inc.) is a company incorporated in the British Virgin Islands and is wholly-owned by Danger & Sons Inc. Danger & Sons Inc. is held by the Danger and Sons Trust, which was established by Mr. Dai as the settlor. Credit Suisse Trust Limited is the trustee of the Danger and Sons Trust, and Mr. Dai and his family members are the beneficiaries of the Danger and Sons Trust. Mr. Dai is also a director of Kros Dai Inc.. As such, each of Mr. Dai, Credit Suisse Trust Limited and Danger & Sons Inc. is deemed to be interested in our Shares held by Kros Dai Inc. under the SFO.
- (5) Mr. Dai Yunjie was interested in 790,168 Shares, of which inclusive of the interest in 224,368 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 corporations

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

Save as disclosed above, as at June 30, 2022, 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, 2022, 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
Credit Suisse Trust Limited	Trustee	229,484,865 (L)	47.77%
Happy Today Company Limited	Interest in controlled corporation	157,605,000 (L)	32.80%
Happy Today Holding Limited	Beneficial owner	157,605,000 (L)	32.80%
Danger & Sons Inc.	Interest in controlled corporation	66,745,000 (L)	13.89%
Kros Dai Inc.	Beneficial owner	66,745,000 (L)	13.89%
Credit Suisse Group AG	Interest in controlled corporation	28,319,849 (L)	5.89%
		27,806,400 (S)	5.79%
	Investment manager	148,400 (L)	0.03%
The Goldman Sachs Group, Inc.	Interest in controlled corporation	23,226,463 (L)	4.83%
		11,861,800 (S)	2.47%

Note:

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

Save as disclosed above, as at June 30, 2022, the Company had not been notified of any persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares that were recorded in the register required to be kept under section 336 of the SFO.

RSU SCHEME

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

As at June 30, 2022, the aggregate number of Shares held by the RSU Holding Entity pursuant to the RSU Scheme for and on behalf of the grantees was 8,437,540, representing approximately 1.76% of the issued share capital of our Company and no RSUs had been granted by the Company.

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. The remaining life of the Share Option Plan is approximately 9 years.

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.

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.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme 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.

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.

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 scheme is 48,043,070 (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; and
- (c) the nominal value per Share on the grant date.

Details of movement during the six months ended June 30, 2022 of share options granted under the Share Option Plan 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, 2022	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	Outstanding as at June 30, 2022
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
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
Employees										
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
Total					1,371,055	6,582,713	—	—	—	7,953,768

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.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Plan during the six months ended June 30, 2022.

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 32 to 85, 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, 2022 and the interim condensed consolidated statement of comprehensive loss, 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 notes, comprising significant accounting policies and other explanatory information. 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, 2022

06

CONDENSED
CONSOLIDATED
STATEMENT OF
COMPREHENSIVE
LOSS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Notes	Six months ended June 30,	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenues	6	1,594,037	1,378,707
Cost of revenues	6, 7	(811,122)	(702,008)
Gross profit		782,915	676,699
Selling and marketing expenses	7	(403,719)	(344,468)
Research and development expenses	7	(656,373)	(575,938)
General and administrative expenses	7	(104,476)	(111,567)
Net impairment (losses)/reversal on financial assets	7	(78)	1,709
Fair value changes on investments measured at fair value through profit or loss	8	(4,903)	8,271
Other income	9	12,813	11,108
Other losses, net	10	(32,606)	(2,729)
Operating loss		(406,427)	(336,915)
Finance income		9,482	5,072
Finance costs		(27,333)	(13,381)
Finance costs, net	11	(17,851)	(8,309)
Share of results of investments accounted for using the equity method	17	25,820	17,394
Loss before income tax		(398,458)	(327,830)
Income tax credits	12	17,063	5,479
Loss for the period		(381,395)	(322,351)

	Notes	Six months ended June 30,	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Other comprehensive income/(loss):			
<i>Items that may not be reclassified to profit or loss</i>			
— Currency translation differences		48,183	(26,388)
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		390	(1,860)
Total comprehensive loss for the period		(332,822)	(350,599)
Loss for the period attributable to:			
Equity holders of the Company		(386,056)	(325,147)
Non-controlling interests		4,661	2,796
		(381,395)	(322,351)
Total comprehensive loss for the period attributable to:			
Equity holders of the Company		(338,792)	(352,843)
Non-controlling interests		5,970	2,244
		(332,822)	(350,599)
Loss per share for loss for the period attributable to the equity holders of the Company			
Basic and diluted loss per share (RMB)	13	(0.82)	(0.71)

The notes on pages 43 to 85 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, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	14	127,925	148,561
Right-of-use assets	15	161,307	139,900
Intangible assets	14	243,406	248,808
Deferred tax assets	16	103,260	75,518
Investments accounted for using the equity method	17	112,263	89,846
Long term investments measured at fair value through profit or loss	18	20,762	30,102
Prepayments, deposits and other assets	19	58,175	63,383
		827,098	796,118
Current assets			
Trade receivables	20	280,307	223,550
Income tax prepayment		—	2,258
Prepayments and other assets	19	57,081	64,746
Short-term investments	21	1,696,448	792,438
Restricted cash		—	296
Cash and cash equivalents	22	2,095,935	3,164,726
		4,129,771	4,248,014
Total assets		4,956,869	5,044,132
EQUITY			
Share capital	23	329	329
Share premium	23	7,035,801	7,035,801
Shares held for share award schemes	23	(6)	(6)
Other reserves	24	(4,425,415)	(4,512,959)
Accumulated deficit		(604,979)	(218,923)
Equity attributable to equity holders of the Company		2,005,730	2,304,242
Non-controlling interests		45,818	78,165
Total equity		2,051,548	2,382,407

	Notes	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	16	5,836	6,163
Lease liabilities	25	110,086	83,849
Convertible bonds	29	1,761,937	1,662,058
		1,877,859	1,752,070
Current liabilities			
Trade payables	26	323,041	205,390
Advance from customers		47,259	37,025
Other payables and accruals	27	238,420	341,578
Contract liabilities	28	276,215	206,642
Current income tax liabilities		53,736	42,740
Lease liabilities	25	65,627	54,275
Convertible bonds	29	23,164	22,005
		1,027,462	909,655
Total liabilities		2,905,321	2,661,725
Total equity and liabilities		4,956,869	5,044,132

The notes on pages 43 to 85 are an integral part of these condensed consolidated financial statements.

The financial statements on pages 43 to 85 were approved by the Board of Directors on August 31, 2022 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	Share premium	Shares held for share		Retained earnings	Sub-total	Non-controlling interests	
				award schemes	Other reserves				
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Unaudited)									
As of January 1, 2021		312	6,095,544	(6)	(4,444,279)	644,888	2,296,459	283,667	2,580,126
Comprehensive loss									
Loss for the period		—	—	—	—	(325,147)	(325,147)	2,796	(322,351)
Other comprehensive loss									
— Currency translation differences		—	—	—	(27,696)	—	(27,696)	(552)	(28,248)
Total comprehensive loss for the period		—	—	—	(27,696)	(325,147)	(352,843)	2,244	(350,599)
Transaction with owners in their capacity as owners									
Issuance of convertible bond	29	—	—	—	97,390	—	97,390	—	97,390
Issuance of ordinary shares	23	17	940,257	—	—	—	940,274	—	940,274
Acquisition of additional equity interests in a subsidiary	17(a)	—	—	—	(126,956)	—	(126,956)	(44,654)	(171,610)
Dividend distribution of subsidiaries	30	—	—	—	—	—	—	(58,245)	(58,245)
Total transactions with owners in their capacity as owners for the period		17	940,257	—	(29,566)	—	910,708	(102,899)	807,809
As of June 30, 2021		329	7,035,801	(6)	(4,501,541)	319,741	2,854,324	183,012	3,037,336

	Notes	Attributable to equity holders of the Company							Total RMB'000
		Shares held for share					Retained earnings RMB'000	Non- controlling interests RMB'000	
		Share capital RMB'000	Share premium RMB'000	award schemes RMB'000	Other reserves RMB'000	Sub-total 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 loss									
— 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

The notes on pages 43 to 85 are an integral part of these condensed consolidated financial statements.

09

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended June 30,	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash used in operations		(174,276)	(259,930)
Income tax paid		(211)	(24,789)
Net cash flows used in operating activities		(174,487)	(284,719)
Cash flows from investing activities			
Purchase of property, plant and equipment		(33,919)	(49,819)
Proceeds from disposals of property, plant and equipment		724	79
Purchase of intangible assets (including prepayments for intangible assets)		(20,703)	(33,109)
Net cash paid for business combination	27	(8,325)	(67,695)
Acquisition of long-term investments measured at fair value	18	—	(8,500)
Purchase of short-term investments		(1,548,100)	(2,453,005)
Proceeds from disposals of short-term investments		704,339	—
Dividends received	17(b)	3,600	3,600
Net cash used in investing activities		(902,384)	(2,608,449)
Cash flows from financing activities			
Dividend paid to non-controlling shareholders	30	(38,317)	(58,245)
Issuance of convertible bond	29	—	1,810,512
Payment for interest of convertible bonds	29	(11,745)	—
Issuance of ordinary shares	23	—	940,274
Payment for acquisition of additional equity interests in a subsidiary	17(a)	—	(171,610)
Payment for lease liabilities (including interests)	15	(17,059)	(27,649)
Net cash (used in)/generate from financing activities		(67,121)	2,493,282
Net decrease in cash and cash equivalents		(1,143,992)	(399,886)
Cash and cash equivalents at the beginning of the period		3,164,726	2,319,512
Effects of exchange rate changes on cash and cash equivalents		75,201	(14,412)
Cash and cash equivalents at the end of the period	22	2,095,935	1,905,214

The notes on pages 43 to 85 are an integral part of these condensed consolidated financial statements.

10

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, 2022 (the “Interim Financial Statements”) are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated.

2 BASIS OF PREPARATION

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

The Interim Financial Statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as set out in 2021 annual report of the Company dated March 30, 2022 (the “2021 Financial Statements”).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the Interim Financial Statements are consistent with those applied in the preparation of 2021 Financial Statements, except for the estimation of income tax (Note 12) and the adoption of new and revised IFRSs that become applicable for the financial year commencing on January 1, 2022:

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

3 SIGNIFICANT ACCOUNTING POLICIES (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, 2022 and have not been early adopted by the Group in preparing the Interim Financial Statements. None of these is expected to have a significant effect on the Interim Financial Statements based on the preliminary assessment made by 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 2021 Financial Statements.

There were no significant changes in any material risk management policies during the six months ended June 30, 2022.

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, 2022 and December 31, 2021, the gearing ratio of the Group is as follows:

	As at June 30, 2022	As at December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total liabilities	2,905,321	2,661,725
Total assets	4,956,869	5,044,132
Gearing ratio (%)	59%	53%

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, 2022 and December 31, 2021, 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, 2022 and December 31, 2021, none of the Group's financial liabilities are measured at fair value and none of the Group's financial assets are measured at fair value using level 1 or level 2 inputs. The following table presents the Group's financial assets that are measured at fair value using level 3 inputs:

	Notes	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Long-term investments measured at fair value through profit or loss	18	20,762	30,102
Short-term investments measured at fair value through profit or loss	21	195,777	689,518
		216,539	719,620

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

The following table presents the changes in level 3 items including investments in unlisted companies and wealth management products issued by commercial banks for the periods ended June 30, 2022 and 2021.

(i) Investments in unlisted companies

	Six months ended June 30, 2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
At the beginning of the period	30,102	23,670
Addition	—	7,000
Changes in fair value	(9,346)	3,018
Currency translation differences	6	(2)
At the end of the period	20,762	33,686
Net unrealized (loss)/gains	(9,346)	3,018

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,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	689,518	—
Addition	100,000	567,000
Changes in fair value	4,443	5,253
Disposal	(601,354)	—
Currency translation differences	3,170	—
At the end of the period	195,777	572,253
Net unrealized gains	1,629	5,253

(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, 2022	December 31, 2021		June 30, 2022	December 31, 2021	
	RMB'000 (Unaudited)	RMB'000 (Audited)				
Investments in unlisted companies	20,762	30,102	Expected volatility	48.80%–51.10%	40.60%–50.10%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability	28%	23%–32%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	195,777	689,518	Expected rate of return	1.12%–3.06%	0.81%–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 2021 Financial Statements.

6 SEGMENT INFORMATION AND REVENUE

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

Game segment

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

Information service segment

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

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

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

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

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

As at June 30, 2022, substantially all of the non-current assets of the Group were located in the PRC.

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

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, 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%

6 SEGMENT INFORMATION AND REVENUE (Continued)

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

Revenues of approximately RMB505 million and RMB534 million for the six months ended June 30, 2022 and 2021, respectively, were from five largest single external customers.

6 SEGMENT INFORMATION AND REVENUE (Continued)

The following table summarizes the percentage of revenue from two single customers individually exceeding 10% of the Group's revenue during the six months ended June 30, 2022 and 2021, respectively.

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

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

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

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

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

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

(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,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefits expenses	688,829	661,645
Promotion and advertising expenses	349,621	292,645
Sharing of proceeds to game developers	328,877	222,173
Commissions charged by payment channels and distribution channels	187,390	196,212
Bandwidth and server custody fee	179,901	110,638
Depreciation of property, plant and equipment (Note 14) and right-of-use assets (Note 15)	72,020	53,792
Professional and technical service fee	66,412	83,475
Share-based compensation expenses (Note 31)	40,280	—
Amortization of intangible assets (Note 14)	23,060	38,226
Office expenses	14,665	23,146
VAT input transfer out and tax surcharges	12,523	11,269
Rental expenses and utilities	4,501	9,120
Auditor's remuneration		
— Audit service	2,320	2,263
— Non-audit service	1,186	1,126
Impairment of non-financial assets	1,197	25,693
Net impairment losses/(reversal) on financial assets	78	(1,709)
Others	2,908	2,558
Total	1,975,768	1,732,272

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

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Long-term investments	(9,346)	3,018
Short-term investments	4,443	5,253
Total	(4,903)	8,271

9 OTHER INCOME

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

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

10 OTHER LOSSES, NET

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

11 FINANCE COSTS, NET

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income from bank deposits	9,482	5,072
Finance costs		
Interest expenses on convertible bond (Note 29)	(23,292)	(9,976)
Interest expenses on lease liabilities	(3,102)	(3,110)
Bank charges	(939)	(295)
Finance costs, net	(17,851)	(8,309)

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, 2022 and 2021.

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

One subsidiary is accredited as a "software enterprise" under the relevant PRC laws and regulations. It is exempt from CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC which were effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during six months ended June 30, 2022 and 2021.

PRC Withholding Tax ("WHT")

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

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 RMB738 million as of June 30, 2022.

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	10,876	15,546
Deferred income tax (Note 16)	(27,939)	(21,025)
Total income tax credits	(17,063)	(5,479)

13 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of shares in issue during the respective periods.

	Six months ended June 30,	
	2022	2021
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company (RMB'000)	(386,056)	(325,147)
Weighted average number of shares in issue (thousands)	471,993	457,016
Basic loss per share (in RMB)	(0.82)	(0.71)

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

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, 2021		
Opening net book amount	112,592	199,322
Business combination	191	91,615
Additions	48,605	22,687
Depreciation	(28,593)	(38,226)
Impairment	—	(4,945)
Disposal	(79)	—
Currency translation impact	(56)	(314)
Closing net book amount	132,660	270,139
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

Impairment of goodwill

The Group normally performs goodwill impairment test in the fourth quarter of each year, and there is no indicator for impairment of goodwill as of June 30, 2022. For details of goodwill impairment assessment for the year ended December 31, 2021, please refer to the 2021 Financial Statements.

15 RIGHT-OF-USE ASSETS

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Properties		
Opening net book amount	139,900	129,555
Additions	51,546	37,929
Depreciation (Note 7)	(30,139)	(25,199)
Closing net book amount	161,307	142,285

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation charge of right-of-use assets (Note 7)	30,139	25,199
Interest expenses (Note 11)	3,102	3,110
Expenses relating to short-term leases	1,084	3,225
The cash outflow for leases payment related to short-term lease as operating activities	1,084	3,225
The cash outflow for leases as financing activities	17,059	27,649

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, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Tax losses	54,408	67,719
— Promotional and advertising expenses	43,504	11,139
— Lease liabilities	32,119	26,183
— Long term investments measured at fair value through profit or loss	3,929	—
— Bad debt provision	388	250
— Intangible assets	22	26
Total gross deferred tax assets	134,370	105,317
Set-off of deferred tax liabilities pursuant to set-off provisions	(31,110)	(29,799)
Net deferred tax assets	103,260	75,518
— to be recovered within 12 months	49,320	19,194
— to be recovered after 12 months	85,050	86,123
	134,370	105,317

16 DEFERRED INCOME TAXES (Continued)

Deferred tax liabilities

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
The balance comprises temporary differences attributable to:		
— Right-of-use assets	29,730	26,123
— Intangible assets arising from business combinations	6,584	7,045
— Long term investments measured at fair value through profit or loss	—	2,794
— Short term investments measured at fair value through profit or loss	632	—
Total gross deferred tax liabilities	36,946	35,962
Set-off of deferred tax assets pursuant to set-off provisions	(31,110)	(29,799)
Net deferred tax liabilities	5,836	6,163
— to be recovered within 12 months	9,172	9,116
— to be recovered after 12 months	27,774	26,846
	36,946	35,962

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	Bad debt provision RMB'000	Intangible assets RMB'000	Total RMB'000
At January 1, 2021	13,713	—	20,247	2,138	665	35	36,798
Business combination	2,615	—	—	—	—	—	2,615
Recognized in profit or loss	10,226	13,418	14,542	(1,205)	(273)	(5)	36,703
Currency translation differences	(79)	—	—	—	(1)	—	(80)
At June 30, 2021	26,475	13,418	34,789	933	391	30	76,036
(Unaudited)							
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

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, 2021	19,793	1,349	467	—	21,609
Business combination	—	6,545	—	—	6,545
Recognized in profit or loss	12,791	(261)	2,341	807	15,678
At June 30, 2021	32,584	7,633	2,808	807	43,832
(Unaudited)					
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

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, 2022 and December 31, 2021, the Group did not recognize deferred income tax assets of RMB397 million and RMB313 million, in respect of cumulative tax losses amounting to RMB2,395 million and RMB1,907 million. These tax losses will expire from 2022 to 2032.

17 INTERESTS IN OTHER ENTITIES

(a) Transactions with non-controlling interests

In May 2021, the Group acquired an additional 6.86% equity interest in Yiwan (Shanghai) Network Science and Technology Co., Ltd. (“Yiwan”), a subsidiary of the Group, at a consideration of RMB171.61 million. Immediately prior to the purchase, the carrying amount of the existing 25.88% non-controlling interest in Yiwan was RMB168.37 million. The Group recognized a decrease in non-controlling interest of RMB44.65 million and a decrease in other reserves of RMB126.96 million during the six months ended June 30, 2021.

(b) Investments accounted for using the equity method

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
At the beginning of the period	89,846	66,326
Share of results of associates	26,589	17,394
Dividends	(3,600)	(3,600)
Impairment	(769)	—
Currency translation differences	197	(36)
At the end of the period	112,263	80,084

(c) In the opinion of the directors, none of the associates is material to the Group. The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Aggregate carrying amount of individually immaterial associates	112,263	80,084
Aggregate amounts of the Group's share of:		
— Profit from operations	26,589	17,394

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, 2022 and 2021, are as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	30,102	23,670
Addition	—	7,000
Change in fair value (Note 8)	(9,346)	3,018
Currency translation differences	6	(2)
At the end of the period	20,762	33,686

As at June 30, 2022 and December 31, 2021, 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, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Investments in associates at fair value through profit or loss (Note a)	14,122	22,326
Other investments at fair value through profit or loss (Note b)	6,640	7,776
	20,762	30,102

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

- (a) During the six months ended June 30, 2022 and 2021, 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,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	22,326	16,784
Addition	—	7,000
Change in fair value	(8,204)	3,129
At the end of the period	14,122	26,913

- (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,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	7,776	6,886
Change in fair value	(1,142)	(111)
Currency translation differences	6	(2)
At the end of the period	6,640	6,773

As at June 30, 2022 and December 31, 2021, 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, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Non-current		
Prepayments for game licenses (a)	40,015	36,181
Rental and other deposits	17,799	16,765
Prepayments for equipment	361	10,437
	58,175	63,383
Current		
Prepayments for sharing of proceeds (a)	14,468	14,261
Rental and other deposits	10,250	9,160
Prepayments for advertisements and marketing services	9,013	8,852
Prepayments to other service providers	6,532	10,242
Tax prepayments	1,858	5,772
Others	15,029	16,528
Less: allowance for impairment	(69)	(69)
	57,081	64,746

- (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, 2022 and 2021, the Group made impairment provision for and write-off certain prepayments to game developers of RMB1.20 million and RMB25.69 million, respectively, due to underperformance of related games.

20 TRADE RECEIVABLES

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

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

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, 2022 and December 31, 2021 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,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	1,749	4,516
Provision/(reversal)	78	(1,887)
Currency translation differences	6	(3)
At the end of the period	1,833	2,626

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

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as at June 30, 2022 and December 31, 2021.
- (d) The carrying amount of the Group's trade receivables is denominated in the following currencies:

	As at	As at
	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
United States Dollar ("USD")	171,262	108,656
RMB	92,086	87,062
Hong Kong Dollar ("HKD")	12,838	22,534
Others	5,954	7,047
	282,140	225,299

20 TRADE RECEIVABLES (Continued)

- (e) The maximum exposure to credit risk as at June 30, 2022 and December 31, 2021 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, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Term deposits above three months and within one year (Note a)	1,500,671	102,920
Wealth management products issued by commercial banks (Note b)	195,777	689,518
Total	1,696,448	792,438

- (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, 2022. The interest rates of these deposits per annum were 0.90%–3.41% and the terms are 6–12 months.
- (b) Returns on these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are based on discounted cash flow using the expected return based on management judgment (Note 4.3). Changes in fair value of these financial assets had been recognized in “Fair value changes on investments measured at fair value through profit or loss” in the consolidated statement of comprehensive loss.

Short-term investments are denominated in the following currencies:

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
USD	1,500,671	63,938
RMB	195,777	728,500
	1,696,448	792,438

22 CASH AND CASH EQUIVALENTS

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Cash on hand and cash in bank	1,955,042	3,108,155
Term deposit with initial terms within three months (Note a)	108,253	818
Cash held by other financial institutions (Note b)	32,640	55,753
	2,095,935	3,164,726

- (a) The interest rates of these deposits per annum were 0.01%–2.07%.
- (b) As at June 30, 2022 and December 31, 2021, 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, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
RMB	1,325,015	1,093,822
USD	551,594	1,605,742
HKD	211,319	455,739
Others	8,007	9,423
	2,095,935	3,164,726

23 SHARE CAPITAL AND SHARE PREMIUM

(Unaudited)	Number of shares '000	Nominal value of shares USD'000	Equivalent nominal value of shares RMB'000	Share premium RMB'000	Shares held for share award schemes (Note b) RMB'000
Authorized					
As at June 30, 2022 and December 31, 2021	1,000,000	100	—	—	—
Issued and fully paid					
As at January 1, 2021	454,113	45	312	6,095,544	(6)
Issuance of ordinary shares (Note a)	26,318	3	17	940,257	—
As at June 30, 2021	480,431	48	329	7,035,801	(6)
As at January 1, 2022 and June 30, 2022	480,431	48	329	7,035,801	(6)

- (a) On April 13, 2021, a total of 26,318,000 new ordinary shares were subscribed at HKD42.38 per share under a general mandate. The Company raised gross proceeds of approximately HKD1,115 million (equivalent to RMB942 million). The net proceeds was approximately HKD1,113 million (equivalent to RMB940 million) after deducting expenses directly relating to the share issuance.
- (b) On June 17, 2019, the Company allotted and issued an aggregate of 8,437,540 shares to Heart Assets Limited, which hold shares on trust for and on behalf of the Company. As at June 30, 2022 and December 31, 2021, the shares represented treasury shares of the Group and will be used for future shared based compensation to employee.

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, 2021	(4,417,699)	71,348	(97,928)	—	(4,444,279)
Issuance of convertible bond (Note 29)	97,390	—	—	—	97,390
Acquisition of additional equity interests in a subsidiary (Note 17(a))	(126,956)	—	—	—	(126,956)
Currency translation differences	—	—	(27,696)	—	(27,696)
As at June 30, 2021	(4,447,265)	71,348	(125,624)	—	(4,501,541)
(Unaudited)					
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)

25 LEASE LIABILITIES

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	67,545	55,805
— Between 1 and 2 years	36,939	36,922
— Between 2 and 5 years	75,772	55,323
— Over 5 years	14,260	3,354
	194,516	151,404
Less: future finance charges	(18,803)	(13,280)
Present value of lease liabilities	175,713	138,124

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Minimum lease payments due		
— Within 1 year	65,627	54,275
— Between 1 and 2 years	34,851	32,989
— Between 2 and 5 years	64,387	48,275
— Over 5 years	10,848	2,585
	175,713	138,124

26 TRADE PAYABLES

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

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

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

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

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
RMB	191,183	137,304
USD	100,325	62,147
Others	31,533	5,939
	323,041	205,390

As at June 30, 2022 and December 31, 2021, the fair value of trade payables approximated to their carrying amount.

27 OTHER PAYABLES AND ACCRUALS

	As at June 30, 2022	As at December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Salaries and benefits payables	176,832	251,276
Other tax payables	33,777	43,261
Professional service fee payables	15,580	16,092
Payables for investments (Note a)	9,018	17,343
Others	3,213	13,606
	238,420	341,578

As at June 30, 2022 and December 31, 2021, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

- (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, 2022, the Group paid RMB8.32 million of the consideration.

28 CONTRACT LIABILITIES

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

	As at June 30, 2022	As at December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Contract liabilities	276,215	206,642

28 CONTRACT LIABILITIES (Continued)

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue recognized that was included in the contract liabilities balance at the beginning of the period	195,564	128,546

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 12, 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 as at June 30, 2022.

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

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

29 CONVERTIBLE BONDS (Continued)

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

If the 2021 Convertible Bonds were fully converted, 34,308,715 ordinary shares will be issued as of June 30, 2022.

30 DIVIDENDS

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

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

In April 2021, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a dividend of USD20 million was approved and paid, USD7 million (equivalent to RMB45.30 million) of which was paid to non-controlling shareholders.

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

31 SHARE-BASED COMPENSATION EXPENSES

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

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

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

31 SHARE-BASED COMPENSATION EXPENSES (Continued)

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

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

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

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

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

31 SHARE-BASED COMPENSATION EXPENSES (Continued)

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

	Six months ended June 30, 2022 RMB'000 (Unaudited)
Cost of revenues	710
Selling and marketing expenses	285
Research and development expenses	31,704
General and administrative expenses	7,581
	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, 2022 and December 31, 2021. The Group has commitments to make the following future instalments under non-cancellable game purchase agreements are as follows:

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Game licenses	8,483	38,193

(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, 2022 and December 31, 2021 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, 2022 and 2021.

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
Shanghai LinkedTune Culture Communication Co., Ltd	Associate
Xiamen So Funny Information Technology Co., Ltd.	Associate
Mr. Dai Yunjie	Shareholder and director
Jiexin Holdings Limited	Shareholder
Happy Today Holding Limited	Shareholder
Shanghai Maichuang Network Technology Limited	Associate of Mr. Dai Yunjie's spouse

(b) Significant transactions with related parties

(i) Sales of service

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Gamecores (Beijing) Culture Communication Co. Ltd.	166	—
Shanghai Bianyue Culture Communication Co., Ltd.	—	5
Shanghai Fantablade Network Science and Technology Co., Ltd.	—	1
	166	6

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Xiamen So Funny Information Technology Co., Ltd.	235,253	109,572
Gamecores (Beijing) Culture Communication Co. Ltd.	3,449	—
Shanghai Bianyue Culture Communication Co., Ltd.	3,019	4,943
Shanghai Fantablade Network Science and Technology Co., Ltd.	2,621	2,839
Shanghai Maichuang Network Technology Limited	654	5,127
Others	1,028	585
	246,024	123,066

(c) Period end balances with related parties**(i) Prepayments to related parties**

	As at	As at
	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Shanghai LinkedTune Culture Communication Co., Ltd	—	572

33 RELATED PARTY TRANSACTIONS (Continued)

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

(ii) Other receivables from related parties

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Jiexin Holdings Limited	250	238
Happy Today Holding Limited	9	8
	259	246

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

(iii) Trade payables to related parties

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Xiamen So Funny Information Technology Co., Ltd.	100,882	44,245
Shanghai Chatie Network Science and Technology Co., Ltd.	6,257	18,481
Shanghai Fantablade Network Science and Technology Co., Ltd.	2,735	1,107
Others	976	406
	110,850	64,239

34 CONTINGENCIES

The Group did not have any material contingent liabilities as of June 30, 2022 and December 31, 2021.

35 SUBSEQUENT EVENTS

There is no material subsequent event occurred during the period from June 30, 2022 to August 31, 2022, the approval date of these consolidated condensed financial statements by the Board.

11

DEFINITIONS AND GLOSSARY

DEFINITIONS AND GLOSSARY

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Audit Committee”	the audit committee of the Company;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“battle arena game”	a subdivision of ACT and where gamers are usually break into different teams consisting of equal number of team members and team members within one team have to cooperate with each other to compete with other teams;
“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;
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise;
“Director(s)”	the director(s) of the Company;
“Group”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“IFRS”	International Financial Reporting Standards, which include standards and interpretations as issued from time to time by the International Accounting Standards Board;
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

“MAU(s)”	monthly active user(s), which refers to the number of users who log into a particular game or all of our games, as applicable, in the relevant calendar month for games, and refers to the number of users who access the TapTap mobile app in the relevant calendar month for TapTap, both of which include multiple accounts held by one single user. Average MAUs for a particular period are calculated by dividing the aggregate of the MAUs during that period by the number of months of that period;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
“MPUs”	monthly paying users, which refers to the number of paying users in the relevant calendar month in our games;
“PRC” or “China”	the People’s Republic of China, but for the purposes of this report only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan, China;
“RMB”	Renminbi, the lawful currency of the PRC;
“RSU(s)”	restricted share unit(s);
“RSU Holding Entity”	Heart Assets Limited, a company incorporated in the British Virgin Islands holding our Shares pursuant to the RSU Scheme on trust or on behalf of the grantees of our Company;
“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;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;
“USD” or “US\$”	the lawful currency of the United States of America; and
“%”	Percentage.

